

“Umbrella Society” and Ancient Chinese Industrial and Commercial Management

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The “umbrella society” has been of the main features of China’s social structure. The “umbrella” relationship between government and business operators is not only a major social substructure but also an important method of resource allocation. This relationship has existed for a very long time. In ancient times, the three most important business management systems in China (government-run business, contractor-run business and private business) were all more or less under government control. In view of different levels of government participation in different operating systems, the government implemented corresponding protection policies for these business operators. In general, the government provided “paternal protection” for official businesses, “relative protection” for contracted businesses, and “friendly protection” for private businesses. This kind of differential protection had a profound impact on the pattern of business development in ancient China.

Keywords: business management, umbrella society, official business, contracted business, private business, resource allocation

SIGNIFICANCE OF THE RESEARCH

John King Fairbank, one of the most famous Sinologists in the 20th century United States, put forward a “Fairbank question” in his *The United States and China*, that is, “Why were Chinese enterprises always dependent on the government?” (Fairbank 1999:46) He did not give an answer to question and he did not know that this had been the economic and social structure of China. Since ancient times, the economic system has always been dominated by the state, with many economic activities having been directly operated by the government, i.e. a key player “in a critical position” in the social economy of China. The three business systems—government-run, contractor-run and private-run—complemented one another and constituted the main characteristics of the industrial and commercial structures in ancient China.¹ In fact, there is a certain historical inheriting relationship between the three industrial and commercial management systems in ancient China with the government-managed, government-supervised/merchant-

managed systems (官督商办) during the Self-Strengthening Movement (1861-1894) in modern times and the public-owned, public-private partnerships (公私合营) and privately owned management systems in contemporary China. An exploration into the connections and differences between the three industrial and commercial management systems is not only helpful for understanding the developing characteristics of industry and commerce in ancient China, but also for analyzing the different historical origins of the enterprise management systems between modern China and Western countries, which is of both important historical and practical significance for today.

THEORETICAL PREPARATION AND ANALYTICAL FRAMEWORK

Since the Reform and Opening Up in the late 1970s, China's academic innovation has taken on a vigorous trend. Li Peilin proposed the theory of "social structural transformation" in 1992, that is, the theory of "another invisible hand". He observed that since the Reform and Opening Up, China's social structure had manifested a considerable flexibility in change. When the pattern of interests and operation mechanism underwent structural changes, huge and potential energy would be generated, deeply affecting the allocation of resources and thus promoting social development.² The theory of "transformation of social structures" can be regarded as a Chinese version of the "structure-function" theory, which could be regarded as an innovative development upon the Western classical "structure-function" theory (Zhang, 2016:5-14). Under this theoretical framework, Zhang Jijiao proposed the concept of an "umbrella society" in 2014, by pointing out that, in today's society, where political system reform lags behind economic reform, the relationship between government and enterprises is still of an "umbrella style", with the former providing "shelter" and the latter "being sheltered". This "umbrella relationship" has played an important role in the allocation of resources and social economic development. According to the "umbrella society" theory, three main protection models have been practiced for enterprises in China nowadays: "paternal protection" for public-owned enterprises, "relative protection" for public-private partnership enterprises, and "friendly protection" for private enterprises (Zhang, 2014:54-61). In fact, these three protection models between the government and business entities have existed since very ancient times, and there is a certain inheriting relationship between China's ancient industrial and commercial business structure and the "umbrella" pattern in today's social and economic structures.

Since the founding of the People's Republic of China in 1949, economic history has been a focus in academic research, with reference mainly to the influence of ancient governments on economic activities. For example, Qi Tao carefully discussed the official industry and commerce in his *Economic History of Ancient China*, and, on this basis, he sorted out the development of China's ancient industrial and commercial monetary policy (Qi, 1999:353-441). Liu Qiugen emphasized that, in ancient China, there was no question of whether the government intervened in the economy but rather the question of how much intervention there was and whether the intervention methods were appropriate. Overall, these studies focus on the description of historical facts and academic achievements from the perspective of a "structure-function" analysis of China's ancient industrial and commercial development. Therefore, related issues still need to be further expounded on.

"UMBRELLA SOCIETY" AND THE EMERGENCE OF THE INDUSTRIAL AND COMMERCIAL SYSTEM AND THE TRANSFORMATION OF THE BUSINESS ARENAS

China has been an "umbrella society" (Zhang, 2015:1-13) led by the government since ancient times. Government-run industry and commerce had been directly related to the operations of the government, and contracted businesses under the supervision of the government. On the other hand, in many cases, private industry and commerce with a low government participation were also under the control of the government.

The Emergence of Three Industrial and Commercial Management Systems in Ancient Times and Their “Umbrella” Relationship with the Government

Chinese historians have defined government-run industry and commerce as “handicrafts and commercial activities conducted by artisans and merchants under the direct control of the government” (Qi 2001: 395). In the Xia-Shang-Zhou Era (2070 B.C. - 771 B.C.), government-run industry and commerce were the main forms of industrial and commercial operations. No matter whether in the Central Kingdom or in the surrounding vassal states, there were a large number of craftsmen and merchants engaged in industrial and commercial operations under the control of the monarch (Leng, 2002:19-24). Friedrich Engels believed that, before livestock became special property, the exchange of goods between clans or tribes was mainly conducted through clan chiefs (Friedrich, 1972:156). Chinese scholars further observed that the phenomenon of the government monopolizing industry and commerce during the Xia-Shang-Zhou Period was an aftermath of the clan chiefs wielding the right to trade goods on behalf of the collectives in those times (Zhu, 2004:139-144). The authors here agree with this view. At that time, the commodity economy was not yet developed, and government-run industry and commerce were sufficient to meet the daily needs of the aristocracy and countrymen so that industry and commerce were practically monopolized by the government, and “there was only a narrow space for private operation” (Wu, 1981:12). Therefore, there was no need for the government to intervene in the development of private industry and commerce.

Later, private industry and commerce prospered, giving rise to many social problems (more on this point in below), and government-run businesses were endowed with more economic interventional functions (Qi, 2001:395). Generally, there were two main types of government-run industry and commerce in ancient times: one was related to national security and the market order, which were basically monopolized by the government, such as coinage and weapons manufacturing.³ The other was related to meeting the needs of the ruling class, such as the official textile institutions that provided clothes and quilts to the ancient imperial court (Wei, 2005:14). Regardless of the type of government-run industry and commerce, the government set up special institutions responsible for the operations, not only by directly assigning craftsmen and transferring the workforce, but also by directly distributing property through administrative means, basically covering all the operational resources of government-run industry and commerce. Therefore, the authors believe that government-run industry and commerce in ancient times reflected a “paternal protection” scheme.

After that, the commodity economy began to develop. By the period of the Spring and Autumn and Warring States (770 B.C.-221 B.C.), private industry and commerce began to prosper and gradually had a major impact (Yang, 1996:148-156). In the Spring and Autumn periods, the negative role of private industry and commerce was not yet prominent. In addition, there were many princely states, which all wanted to accumulate wealth and urgently needed the support of domestic private businessmen. Therefore, the government’s protection of private industry and commerce was no less than that of government-run industry and commerce. For example, Zi Chan, minister of the Zheng state, resolutely resisted the order of Han Qi, minister of the Jin state (Han Qi presided over the league of vassals and was extremely powerful) to buy jade rings from Zheng merchants in a forceful manner, to protect the interests of private industrialists and businessmen of the state (Yang, 2009:1378-1380). However, with the expansion of the scale of private industry and commerce, the social shortcomings of this method became increasingly prominent. For example, powerful profiteers hoarded food in famine years, selling it to people at prices several times higher than the cost, exploiting the people and disrupting the order of the markets. Additionally, as power expanded, well-capitalized private businessmen formed a centrifugal force in society, resulting in the problem of “the wealth of the country belong to the businessmen” and “the monarch could do nothing about it”, and the social dilemma of “there was another power group consisting of rich businessmen except the monarch” (Li, 2004:1264 & 1462).

As a result, each princely state issued certain decrees to regulate and restrict private industry and commerce. For example, Li Kui, minister of the Wei state, cracked down on private hoarding behavior by letting the government intervene in the food trade (Zheng, 1974:28-38). In addition, Shang Yang, minister of the Qin state, not only emphasized that “the government has the monopoly on the production of

mountains, forests, rivers and marshes” but also advocated a state monopoly on grain trade (Yan, 2011:108-111). In short, the prosperity of private industry and commerce ran counter to the government’s desire to dominate the national economy under centralized power, and ideas that restricted the development of private industry and commerce gradually took over. Although subsequent dynasties still issued a number of decrees to support private industry and commerce, they were mostly intended to reflect the government’s care for the “ordinary people”, and the government rarely deliberately allocated resources to them. In general, the government imposed a “friendly protection” on private business.

The contractor-run system is a management system under the supervision of the government and operated by licensed merchants. Compared with government-run and private systems, its operation mode is more complicated. Under this system, the government generally stipulated that certain goods were patented, and monopolized the supply, and only specific merchants with government permission could participate in the operation.⁴ The contractor-run system had characteristics of both the government-run and private systems, and its predecessor was a public-private partnership and a profit-sharing system. It is recorded that when Guan Zhong was the administrator of the Qi state, the government smelt iron, according to “measuring the output, people get seven out of ten and the monarch three out of ten” (Li, 2004:1448). Obviously, the operation mode of iron smelting was a public-private partnership.

However, since the Qin Dynasty, the concepts of “emphasizing agriculture and restricting business” represented the mainstream government attitude toward industrial and commercial operations. Against this background, it was difficult for the government to adopt a “cooperative” approach and to jointly run businesses with private forces, which was why the contractor-run system was practiced instead of the government-business partnership system throughout Chinese history. Even during the Self-Strengthening Movement at the end of the Qing Dynasty (1861-1894), the government-business partnership was, in reality, unique (replaced by government-supervised and merchant-managed operation).⁵ The authors believe that the contractor-run system was a result of the government absorbing private management forces to participate in operations and that it should develop later than private industry and commerce. Chen Zhi, Yang Jianhong, Chen Changhua and others believe that the reason why the Qin government obtained “twenty times more profits than before” from salt boiling, iron smelting and other industries was because of the implementation of the contractor-run system.⁶ According to the policy implemented by the Qin Central Committee, the supply of salt and iron was monopolized by the government, and conditions were indeed available for the implementation of the contractor-run system.

However, the contractor-run system had not yet been promoted before the Tang Dynasty. The real popularization of the Chinese contractor-run system occurred after Liu Yan reformed the salt law during the Tang. Before that time, the government mostly monopolized the salt trade from production, transportation and marketing and adopted the government-run mode of operation. Under “paternal protection”, the government often forcibly collected transportation vehicles from the common people and distributed the collection and transportation to them, resulting in constant complaints from the latter (Wu, 2004:269). In view of the shortcomings of the times, Liu Yan adopted the method of “the government buys salt from salt producers, then resells it to merchants and no longer regulates its sale,” which coordinated the interests of the government, salt producers and businessmen, aroused the enthusiasm of producers and operators, and reduced government expenditures, thereby increasing the profits of the salt administration. After Liu Yan, the contractor-run system became popular. In the Song Dynasty (960 A.D.-1279 A.D.), this system expanded to tea, salt, incense, aluminum and other products (Yin, 2008:89). In the Yuan Dynasty (1271 A.D.-1368 A.D.), it further expanded to vinegar and mineral products (Jin, 2006:90-95). Historically, the commodities operated by contractors, such as salt and tea, were mostly items with high profits and closely related to the daily life of the people, so the operation of contractors was closely connected to government finances. Although it did not directly participate in operations, the government paid great attention to mobilizing the enthusiasm of producers and operators through financial incentives and subsidy policies. Generally, the government’s degree of protection for contractor operations was between the government and the private sector, which can be regarded as “relative protection.”

Fei Xiaotong, a well-known Chinese social anthropologist, once proposed the theory of “the differential mode of association.” believing that Chinese interpersonal relationships were quite like ripples caused by stones thrown into the water, with the self-centered being pushed farther and farther outward, and the relationship getting weaker and weaker (Fei, 2007:27-28). The “umbrella” phenomenon in the field of industrial and commercial management in ancient China was precisely an embodiment of the difference in the degree of closeness between industrial and commercial business entities and the government.

The Transmutation of the Industrial and Commercial Business Field under the Three Systems

In ancient China, the government adopted distinct business administration policies, which were mainly manifested in the growth and changes of different industrial and commercial management systems and management fields in different periods. Government-run industry and commerce gradually developed into two major business categories: one related to national security and market order, and the other to the life and work needs of the ruling class. This had undergone a long historical process. Before the Western Zhou Dynasty (1046 B.C.-771 B.C.), government-run industry and commerce monopolized almost every aspect of social life, and, later, private industry and commerce flourished, which had a great impact on government-run industry and commerce. How to reasonably define the arenas of government-run and private business had long been explored by rulers. In the Qin Dynasty (221 B.C.-207 B.C.), the government implemented a policy of comprehensive state control over the economy, which restricted the development of private industry and commerce. After the fall of the Qin, the Han government regarded the economic policies of the Qin as a lesson in maladministration; in contrast, the Han would not only “allow people to operate local salt and iron freely” but also delegated the right to mint coins to the common people, which, however, soon caused chaos (Liu, 2008:39-43). And the chaos caused by the decentralization of minting power in the early years of the Western Han Dynasty (202 B.C.-8 A.D.) proved that industries related to national security and market order were best operated by government monopolies. As a result, during the reign of Emperor Wu of the Han Dynasty (202 B.C.-220 A.D.), the central government withdrew the civilian right to mint coins. Since then, successive governments had paid great attention to the control of the mining industry, which was no less than government control over the weapons and minting industries.⁷ Regardless of government-run industry and commerce, which served the daily lives of rulers and were products of the classed society, the state’s monopoly on coinage, weapons manufacturing and other industries through the government-run system was reasonable and conducive to maintaining social stability. Not only in ancient times, but also during the Self-Strengthening Movement, military enterprises adopted official operations, the central bank reserved the right to issue modern banknotes, and the national defense industry adopted a nation-controlled system; these arrangements were all due to security and stability considerations.

Returning minting rights to the central government did not seem to be a settled decision, and the government had been uncertain about what system should be adopted for the management of highly profitable industries, such as salt, iron and wine, which were closely related to state finances. In the pre-Qin period, these industries were opened to private forces, which promoted social and economic prosperity and created a group of wealthy merchants, but they also caused problems of social centrifugation (Yang, 1996:148-156). After the establishment of the Qin Dynasty, most of these industries adopted the system operated by the government or contract businesses (Yang, 1989:80-92). After the establishment of the Western Han Dynasty, the government learned a lesson of maladministration from the Qin Dynasty’s industrial and commercial policy, allowing people to trade freely and private forces to become involved in related business fields. In addition, the government-run and private forces jointly engaged in the salt and iron businesses on a relatively equal footing, and private businessmen once again accumulated significant fortunes. During the reign of Emperor Wu of the Han Dynasty, the state attacked the Xiongnu people and promoted construction within the state, which caused a serious financial crisis. However, the large merchants only cared about their own interests and “did not meet the urgent needs of the state,” which resulted in “the plight of the common people” (Sima, 1982:1452). Therefore, Emperor Wu of the Han implemented a prohibition policy, stipulating that salt, iron and wine were government

monopolies. The private forces, represented by large bureaucracies, opposed such lucrative industries becoming state monopolies and refuted the government-run system policies through the courts and other means. After Emperor Cheng and Emperor Ai, the prohibition was “relaxed again and again,” and in the Eastern Han Dynasty (25 A.D.-220 A.D.), a laissez-faire policy regarding salt and iron was finally in force again (Qi, 1999:367-384).

During the Wei and Jin periods (220 A.D.-420 A.D.), with frequent wars, the fiscal revenue was related to the rise and fall of the country. Even so, the salt and iron official policy was “sometimes popular and sometimes abandoned” and did not last long (Jin, 2006:90-95). From the Sui Dynasty (581 A.D.-618 A.D.) to the middle of the Tang Dynasty (618 A.D.-907 A.D.), such industries were open to the private sector. During this long era, the government even exempted salt taxes for a long time, until the outbreak of the “Rebellion of An Lushan and Shi Siming,” after which the Su emperor of Tang, out of the need to suppress the rebellion, once again adopted the government-run system in operating such industries.⁸ Before the middle of the Tang period, the experience in business administration had not yet been sufficiently accumulated and the government had not clarified the specific operations in the salt and other industries. Thus, the long-term competition between public and private forces in related fields affected the stability of industrial and commercial policies.

After Liu Yan reformed the Law of Salt, the official and civilian forces were no longer antagonistic, and the division of the labor system was used to jointly operate related industries, which not only protected state finances but also safeguarded the interests of private operators. Since then, industries closely related to state finances, such as the salt industry, had operated as contractors. To a certain extent, the “rise and fall” of the former government-run prohibition system and the stable implementation of the system of contracted merchants after the middle of the Tang proved that neither the government nor the private sector was the ideal management system for the salt and other industries.⁹

Private industry and commerce were important supplements to China’s industrial and commercial operation system. There were clear complementarities and trade-offs between the businesses and the government-run and contractor business operation systems. As noted earlier, at the beginning of the rise of private industry and commerce, business fields were very extensive, and even important industries such as coinage allowed private forces to operate. However, private industrial and commercial owners mostly pursued their own selfish interests and rarely considered the good of the public and common people, so the government needed to regulate those businesses. During the reign of Emperor Jing of the Western Han Dynasty, the government began to ban private coinage, and Emperor Wu of Han even took the right to mint coins back to the central government. Since then, civil forces had rarely been involved in this field. Before the promotion of the contractor-run system, private forces relied on the large bureaucrats in power in the government to repeatedly compete with the government-run forces in the salt and other industries. However, after the promotion of the contractor-run business, although private industrial and commercial forces were introduced into the related fields, the private system was basically excluded from such industries.

The authors believe that the growth and shaping of the three types of businesses of government-run, contractor-run, and private systems are the result of historical choices, and their own rationality. Weapons and coinage related to national security were monopolized by the government, which contributed to national stability.¹⁰ The adoption of the contractor management system in industries related to state revenue and expenditure was conducive to easing the confrontation between the official and civilian industrial and commercial forces. Some bulk trade industries and minor industries that did not need to be run by government or contracted merchants were run by the private sector, which was conducive to invigorating the market economy and protecting people’s livelihoods.

THE “UMBRELLA SOCIETY” AND THE ALLOCATION OF INDUSTRIAL AND COMMERCIAL MANAGEMENT RESOURCES IN ANCIENT CHINA

The theory of “umbrella society” is extremely concerned with the allocation of resources under the “umbrella protection” structure between governments and enterprises today (Zhang, 2014:54-61). In

ancient times, the influence of the government on economic life was greater than that of today, and its leading role in the field of social resource allocation was more significant.

Resource Allocation of Government-run Industry and Commerce under the Government's "Paternal Protection" Model

As noted above, government-run industry and commerce were either closely related to national security or to the daily life and official needs of rulers. Thus, successive rulers attached great importance to it.

First, the government's "paternal protection" model for government-run industry and commerce was reflected in the allocation of labor. Some scholars have noted that labor resources were one of the most important means of production in ancient times, and successive governments attached importance to influencing the economic structure and its operation through the allocation of labor resources (Wu, *et al*, 2012:46). In ancient times, the government took various measures to recruit labor to maintain the huge production and operation needs of government-run industry and commerce. Artisans were high-quality practitioners in government-run industry and commerce, and there were official and private workers. To ensure that official and private craftsmen could serve the government for generations, the ancient government compiled a separate register for each of them so that their positions could be passed on from generation to generation. For example, the Northern Wei government stipulated that workers must "do what their father and brother have done," and those who violated it would be put to death (Wei, 1976:97). Once the apprentices in the Tang Dynasty government-run workshops became craftsmen, they "were not allowed to do other jobs" (Li, 1992:222). In the Ming Dynasty (1368-1644), if a craftsman who "was born to be a craftsman" tried to escape his obligations, not only would he be punished with eighty strokes of the rod but the official who allowed him to do that would also be punished (Li, 1989:2277). Through the artisan system, the government controlled a large number of official and private craftsmen and assigned them to the production of government-run handicrafts. In addition to artisans, the daily operation of government-run industry and commerce required much labor, and the government often met its business needs by using prisoners and official slaves and recruiting soldiers and strong men. In the Han Dynasty, "more than one hundred thousand workers have been employed to iron casting and melting every year." To meet the needs of the labor force, iron officials sent prisoners to obtain copper and iron from the mountains (Ban, 1962). In addition, in the Tang Dynasty, there were many slaves in the official departments to meet the needs of government-run industry and commerce (Song, 1989:2656). In the Yuan Dynasty, "conscripts" were also placed by the government in the smelting, government-operated agriculture and public water conservancy projects (Li, 1986:166). Besides hundreds of craftsmen and soldiers, there were also more than 1,000 "civil servants" in the Zunhua Iron Factory (遵化铁厂) in Suzhou during the Ming Dynasty (Li, 1989:2640).

Second, the government's "paternal protection" of government-run industry and commerce was reflected in the supply of property. The government-run handicraft industry had a large scale of production and craftsmanship, which was quite complex and required considerable amounts of money. For example, in the Han Dynasty, the annual expenditure of the three handicraft sectors (三工官) under the government, which was in charge of the management of the private finances and affairs of the royal family alone, amounted to 50 million (Ban, 1962:3075). Without national forces, it was difficult to maintain such large-scale production and operations. The government provided strong support for government-run industrial and commercial production through taxes and material and wealth collected through local tributes. In addition, the government also met the natural resource needs of government-run industry and commerce by seizing mountains, forests and rivers. For example, 168 metal smelters were under the control of the Tang government (Ouyang, 1975:1383). However, it was still not enough to meet the needs of government-run industry and commerce, so the government "allowed people to exploit the mining privately." However, "if people cast copper and white wax themselves," they had to sell those to the government to meet the needs of government-run workshops first (Li, 1992:749).

In addition to giving priority to ensuring the needs of government-run industrial and commercial operations in terms of workforce and material supply, the government had also set up special management

institutions to coordinate the operations of government-run industrial and commercial enterprises (Zhang, 1988:278-280). Besides, for certain special industries related to national security, the government often adopted a monopoly to operate and strictly prohibited private forces from participating in the operation. It was precisely through the care and support of the government that the ancient Chinese government-run industry and commerce maintained their prosperity for thousands of years.

Resource Allocation for Contractor-run Industry and Commerce under the Government's "Relative Protection" Model

The contractor business industry was highly profitable and closely related to state finance. Therefore, although the government did not directly participate in the operations, it managed things through the adoption of economic and political measures to safeguard the interests of operators, thus promoting the development of related industries.

The government's protection of contractor enterprises was mainly reflected in the economic support it provided to producers and sellers. In the Qing Dynasty (1636-1912), to increase the labor enthusiasm of salt producers, the government repeatedly exempted them from paying taxes. In addition, in the years when salt production was limited because of the weather, the government also postponed the payment of money and grain taxes until the production was stable. Moreover, to prevent poor salt producers from being controlled by others due to borrowing, the government allowed them to turn to the government for loans and goods and to repay the loans without raising interest rates (Wu, 2014:201-202). Monopoly merchants had a closer relationship with the government than the salt producers, and the government supported them more economically. To solve the problem of a shortage of funds for monopoly merchants, the ancient government introduced a policy of giving goods instead of money. For example, the Tang Dynasty once stipulated that "merchants who take silk for salt benefit will add 200 coins per wisp" (Ouyang, 1975:1378). The government of the Ming Dynasty also allowed merchants to exchange certificates for salt by delivering grain preferentially (Chen, 2013:101).

In addition to giving preferential treatment in the conversion of money, the government also used financial policies to regulate the economic interests of industry and commerce. In the Qing Dynasty, the central government stabilized the price of salt. To avoid "merchants being disappointed" due to the low price of salt, the government deliberately stipulated that the interest of each coupon could be increased by two or three coins (Qinchuan, 2006:3092-3095). Furthermore, the government also paid attention to maintaining the monopoly position of merchants. For example, in the early days of the founding of the 13th Circuit in the Tang Dynasty (十三巡院), its main responsibility was to "arrest people who sell salt privately" (Ouyang, 1975:1378). In the early Ming Dynasty, the government even strictly forbade bureaucrats from "letting their family slaves to encroach on salt merchants' interests" (Li, 1989:626). In the Qing Dynasty, it was also strictly forbidden for unemployed people to shoulder salt more than 40 catties (Wu, *et al*, 1878:16-17).

In short, the government attached great importance to the development of industry and commerce operated by contractors and supported their development through the implementation of a series of economic and political measures.

Resource Allocation of Private Industry and Commerce under the Government's "Friendly Protection" Model

Some scholars have pointed out that in ancient China, the term "business" with an "emphasis on agriculture and suppression of business" refers to private industry and commerce (Xue, 1872). The authors agree with this idea. However, successive governments understood that the strength of government-run and contractor-run operations alone was not enough to meet the daily needs of the government and common people, so private industrialists and businessmen were needed to make up for the shortcomings of the operations of the former.

Artisans and merchants were an important part of the ancient "scholar, farmer, artisan and merchant" system. Out of the consideration of caring for the common people and protecting business, ancient rulers introduced a number of policies to benefit workers and merchants. For example, the government of the

Western Han Dynasty stipulated “relaxing the law for merchants” and “lifting the ban on mining” (Sima, 1982:1418&3261). In the early Tang Dynasty, the resources from mountains and rivers that the government did not expropriate were allowed to be collected by people privately (Li, 1992:749). In the early Song Dynasty, the government emphasized that “the taxes of the market and the expropriation governed by administrator” should be “lenient and simple” (Ma, 2000:145). The Qing Dynasty government also stipulated that officials were “not allowed to make additional demands” on business in addition to the regular taxes (Yun, *et al*, 2011:305). In addition, the government aimed at cracking down on counterfeiting and creating a good market atmosphere. As early as the pre-Qin period, the decree contained stipulations that equipment like military wagons (vehicles transporting military goods), and cloth that “did not meet the prescribed standards” could not be sold in the city (Zheng, 1999:372). The Tang government stipulated that those who sold “indiscriminate” and “poor quality” goods were punished with “sixty rods” (Yue, 2013:425). The Song government also had a relevant decree “prohibiting the manufacture and sale of substandard goods” (Liu, 2014:7742). In addition, the ancient government also “detailed the scaling law” to prevent illegal traders from affecting the fairness of market transactions through “increased or decreased measurement” (Han, 2005:725).

However, the government’s “shelter” effect on private business was even greater, embodying the image of the “fraternity” of ruling for the public. Private industry and commerce did not have an advantage in obtaining social resources, and even if the government “allowed people to exploit privately,” it was mostly for “meeting the purchase needs of the government” (Li, 1992:749). Therefore, in ancient times, to obtain more resources, private businessmen often sought a “protective umbrella” from those in power. In the pre-Qin period, Lü Buwei befriended Zichu, the prince of the Qin state, so that Zichu could one day become his protector (Hong, 1996:75-80). The reason Deng Tong in the Han Dynasty was able to become rich was related to Emperor Wen of the Han’s allocation of “the copper-producing Yandao mountain (严道铜山)” to his management (Ban, 1962). In *Jin Ping Mei*, one of the most famous Chinese novels in the Ming Dynasty, the reason for Ximen Qing’s becoming a successful businessman after having been bankrupted was also inseparable from the protection of those in power (Cao, 2006:22-27).

Although some private businessmen had obtained many resources due to the success of “finding protective umbrellas,” this did not represent an overall picture of the development of private industry and commerce in ancient times, because private industry and commerce were only a supplement to the government-run and contractor-run systems, and the government did not pay enough attention to their development. In addition, the support for resource allocation to private business was far less than that of government-run and contractor business.

THE INFLUENCE OF THE “UMBRELLA-STYLE RELATIONSHIP” ON ANCIENT CHINESE INDUSTRY AND COMMERCE

In any period, resource allocation is an important factor that restricts economic development. The disorder in resource allocation caused by the government’s “umbrella protection” had a significant impact on the development of industry and commerce in ancient China. Wei Mingkong pointed out that “the government has taken a series of measures to ensure that the government-run industry would have relatively sufficient quantities of workforce and raw materials first,” which, to a great extent, explains why “the government-run industry has been relatively developed from the beginning to end” in ancient China (Wei, 2005:14-15). Indeed, as he said, the allocation of resources under the government’s “paternal protection” model maintained the operation and development of government-run industry and commerce. If the ancient government-run industry and commerce system only involved industries related to national security and market order, the government’s bias toward the allocation of resources in this respect would undoubtedly have contributed to national stability. Unfortunately, in classed societies, government-run industry and commerce, which were closely related to the lives of the rulers, were also beneficiaries of resource allocation, and such industries were dominated by the production of luxury goods. For them, rulers often emphasized too much the use value of products and ignored their commercial profits, thus not

only breaking the relationship between government-run industry and commerce and the market, but also resulting in a great waste of human and material resources (Qi, 1999:15).

The government-arranged “paternal protection” model certainly created thousands of years of prosperity in government-run industry and commerce, and the monopoly of industries related to national security also helped to maintain social stability. However, excessive pursuit of the use value of certain products, regardless of the workforce and material costs, and the encroachment on nongovernmental management resources hindered the overall development of China’s ancient industrial and commercial industries (Zheng, 1988:285).

The operations of contractor businessmen were manifested in the government using the funds and management talents of private businessmen to obtain wealth for the government itself, while businessmen used the political and economic privileges granted them by the government to monopolize rights to operate industries and allot excess profits to the government (Liu, *et al*, 1988:23-30). After the implementation of the contractor system, the government’s fiscal revenue in related fields increased sharply, reflecting the huge energy behind the rational transformation of the social structure.¹¹ Under this system, franchised merchants relied on various privileges to control a large number of business materials and easily captured significant amounts of wealth. Most of the famous merchants after the middle of the Tang Dynasty had a franchised status. The excessive concentration of wealth also led to the problem of the excessive waste of resources. Although the major businessmen would give back part of the profits they earned to the society in the form of relief during famines, building roads and bridges, and caring for orphans, they used more of their wealth for luxury and squandering (Yu, 2014:273). In addition, the exclusive status of businessmen was achieved by government support; their business status was not independent but was rather highly dependent on the government, making it difficult for the latter to initiate a reform of industrial and commercial operations (Liu, 1998:23-30).

Compared with government-run and contractor businesses, private industry and commerce did not have an advantage in obtaining resources, and their development was also the bumpiest. Although in some historical periods, the government formulated a number of policies to benefit industry and business, reflecting an attitude of supporting the development of private industry and commerce, in practice these policies often deviated from their original intention in the process of their implementation. For example, in ancient times, the policy of He Mai (和买) and He Gu (和雇), in which the government buys people’s goods in advance and employs people as workers, originally reduced the burden of local tributes and military service for the common people. However, this gradually degenerated into a policy of plundering nongovernmental human and material resources, and many dynasties followed this maladministration.¹² Good governance evolved into tyranny in the process of implementation, and in some dynasties, the government even openly plundered private property and resources. For example, in the middle and late Ming Dynasty, the government not only used the system of compradors and pawns to plunder merchants but also collected money excessively through heavy taxes, resulting in a rapid decline of private industry and commerce in the late Ming period (Wu, 2004:848-852). Although in ancient times there were a number of successful private owners who “benefited from the protective umbrella” and obtained some resources by becoming acquainted with powerful people, under the situation of “every new sovereign bringing in his own courtiers,” their business position could not be permanently guaranteed. For example, Deng Tong of the Western Han Dynasty was favored by Emperor Wen and was granted the Yandao mountain filled with copper. The copper coins made by Deng Tong accounted for nearly half of the currency in circulation. However, after Emperor Jing of the Han took the throne, Deng was deprived of this mountain and soon went bankrupt (Ban, 1962). Therefore, some scholars conclude that Chinese private industry and commerce were oppressed and restricted in many aspects in ancient times and never truly developed independently (Zhang, 1988:285).

CONCLUSION

The “umbrella relationship” between the government and business entities influenced the industrial and commercial managing structure in ancient China. The government implemented a “paternal

protection” for government-run industry and commerce, basically arranging all the resources needed for their operations, and creating the unusual prosperity of government-run industry and commerce. The government implemented a “relative protection” for contractor operators and mobilized the enthusiasm of producers and operators through a series of preferential policies, providing strong guarantees for the development of industry and commerce operated by contractors. The government implemented a “friendly protection” for private business, and strove to create a relatively fair business environment by formulating many policies conducive to the development of private industry and commerce. However, it was difficult for private industry and commerce in ancient China to obtain an effective guarantee of sustainable development, and most of the few large businessmen were successful in “seeking a protective umbrella,” and their affluence did not represent the overall picture of private industry and commerce.

The long-term coexistence of the three industrial and commercial management systems in ancient China has been the result of historical choices. Important industries related to national security were run by the government and contributed to social stability. Industries related to the state revenue adopted the contractor management system, which not only protected government revenue but also safeguarded the interests of producers and operators. It was difficult for bulk and secondary industries related to people’s livelihoods to conduct business via the power of the state or by a few businessmen alone and, adopting the private system in these fields was a means of convenience for the people. The authors believe that different “umbrella-style” shelter patterns of the government helped maintain national security and market order, but they also created the problem of an unbalanced allocation of resources. The lessons related to this are worthy of further reflection.

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ENDNOTES

1. The “government run” industrial and commerce refers to industry and commerce controlled by the government rather than by bureaucrats. Some bureaucrats also participate in industrial and commercial operations. This kind of behavior is mostly for their own interests, which is very different from the “government run” industry and commerce. See Guokai Song, A Sociological Analysis of the Tang Dynasty's Policy of Banning Official and Commercial Convergence, *Journal of Hebei Normal University* (Philosophy and Social Sciences Edition), No. 3, 2004, pp. 121-122.
2. Peilin Li’s basic proposition on “the theory of social structural transformation” is mainly embodied in three papers entitled “three theories of social structural transformation”: The other invisible Hand — Social Structural Transformation (*Chinese Social Sciences*, No. 5, 1992), Revisiting the “Other Invisible Hand” (*Sociological Research*, No. 1, 1994), The Impact of China’s Social Structural Transformation on Mode of Resource Allocation (*Chinese Social Sciences*, No. 1, 1995)
3. The salt and iron industries, which were closely related to fiscal revenue, adopted the form of official operation on several occasions (mainly when the state was in a financial crisis), but since then, the Tang China had mostly adopted the method of contractor business. Saeki et al., Research on the History of Chinese Salt Politics, *Studies in the History of the Salt Industry*, No. 3, 1990

4. For the definition of the “contractor-run business”, see Zhi Chen, Three Systems of Tuntian Mining and Minting from the Historical Materials of the Qin and Han Dynasties, *Historical Research*, No. 6, 1955, p.100.
5. Only Jilong Coal Mine (基隆煤矿) planned to implement a government-business joint operation which was not adopted in the end. See Xiaoyan Wang, Commenting on the Enterprise System of the Foreign Affairs Movement, *Journal of Northwest University for Nationalities* (Philosophy and Social Sciences Edition), No. 1, 1996, p.32
6. See Zhi Chen, Three Systems of Tuntian Mining and Money Minting from the Historical Materials of the Qin and Han Dynasties (p. 100); Jianhong Yang, Some Problems of Handicraft Industry and Commerce in the Qin Dynasty from the Perspective of Yunmeng Qin Jian (*Jiangnan Archaeology*, No. 2, 1989, p. 91); Changhua Chen, Questioning Business Suppression—and On the Taxation System in Ancient China (*Shi Lin*, No. 2, 1995, p. 134)
7. See Shichang Ye, The Guiding Ideology of Monetary Management in Ancient China (*Social Science Research* No. 2, 1988). Since the pre-Qin Dynasty, successive governments have monopolized the weapons casting industry, according to Zhaochun Wang, The Evolution of Military Engineering and Technology Management Institutions in Ancient China (*Engineering Research — Engineering in an Interdisciplinary Perspective*, No. 3, 2010).
8. See Ruize Xue, *Economic Research on the Heluo Region (河洛地区) between the Han and Tang Dynasties* (Xi'an: Shaanxi People's Publishing House, 2001, pp. 379-381); Liu Yufeng, *A Treatise on the Form of Industry and Commerce in the Tang Dynasty* (Jinan: Qilu Publishing House, 2002, pp. 147-150, 160-162).
9. Some scholars have pointed out that the contractor-run system was an important management system in ancient China. However, most academics regard the contractor business model as a government-run system. Considering that there is a strong historical inheritance between contractor-run, government-supervised, merchant-managed and public-private partnership business models, the author believes that they should be separated and regarded as an industrial and commercial management system parallel to the government and private enterprises.
10. The government-run industry and commerce that served the ruler's life and public affairs embodied the characteristics of industrial and commercial operations in the classed society, and their impact in modern government bureaucracy and contemporary state-owned industry and commerce is not as obvious as that of coinage and weapon minting.
11. After Liu Yan reformed the salt law, the income of the salt administration was once higher than that of the agricultural tax. It was recorded in history that “the world pays the tribute and the salt benefits are half of it”, and the government clothing, military salaries, and expenses of hundreds of officials “all depend on salt taxes”, according to Xiu Ouyang, *New History of the Tang Dynasty*, Beijing: Zhonghua Book Company, 1975, p. 1378.
12. See Renwu Tang, *On the He Mai and He Gu of the Tang Dynasty* (*Journal of the Graduate School of the Chinese Academy of Social Sciences*, No. 5, 1995). Not only in the Tang Dynasty but also in subsequent dynasties, such as the Yuan Dynasty “the material needed by the capital for a year” mostly came from “the county column bought from the people”, but the government often defaulted on the people, according to Youren Xu, *Zhizheng Collection (至正集)*, Xinwenfeng Publishing Company ed. Yuan Humanities Collection Rare Book Series vol. 7, Taipei: Xinwenfeng Publishing Company, 1985.

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