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## A Confucian Case for Economic Freedom

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### Introduction

The current economic and geopolitical rise of China and its East Asian neighbors is a crucial watershed moment in world history, representing an eastward shift of power and influence with little precedent in modern history. Unlike the various Western powers that have risen and fallen in prominence over the last several centuries, the nations of East Asia are steeped in independent and heavily Confucian traditions that remain distinct from the philosophical, political, and economic heritage that has framed the development of Europe and its cultural offspring. What remains to be seen is how effectively these rising nations will integrate the practices and institutions of market-driven and industrialized economics with the deeply rooted and remarkably resilient sets of values that continue to shape the lives and attitudes of the vast population of the region—a process that has already begun, but which is far from complete.

Rooting the political, legal, and economic reforms necessary to sustain growth, prosperity, and friendly trading relations in the ideas and language of existing regional norms is likely to provide a smoother and more sustainable method of guiding this transition than attempting to impose Western values and institutions from the top down. With special attention given to foundational Confucian texts, this paper responds to the challenges at hand by demonstrating that the basic principles of economic freedom underlying the 21<sup>st</sup> Century economy find support within the core values that already characterize the Confucian worldview.

Specifically, there is a strong case for the key principles of freedom of exchange, basic property rights, and the mutually binding nature of contractual obligations through the lens of the Confucian emphasis on the necessities of benevolent governance, human dignity and self-cultivation, and the reciprocal nature of human relationships. By developing a proper understanding of the relationship between these principles, we can facilitate more effective and meaningful discussions about education and policy formulation both within East Asia and with respect to bilateral political, cultural, and economic interaction between East Asian nations and those of Europe and the Western Hemisphere.

*“He, who by revising the old knows the new, is fit to be a teacher.”*  
*Analects 2.11<sup>1</sup>*

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<sup>1</sup> *The Analects of Confucius*. Trans. Simon Leys. New York: W. W. Norton & Company, 1997. Print. p.7

## **China's Rise**

Western scholars, leaders, and citizens are gradually beginning to recognize one of the reasons why the economic and geopolitical rise of China and the other East Asian nations within its historical sphere of influence is a crucial watershed moment in world history. For the first time since the dawn of the Industrial Revolution, the global flow of power and interaction is adjusting to restore proportional influence to a part of the world that presents a cohesive cultural and philosophical alternative to the ideas, values, and institutions of the West. In both conscious and subconscious ways, the paradigms of East Asia remain deeply rooted in a Confucian cultural context, and this 2500-year-old backdrop has consistently resisted any and all attempts to erase it or to replace it, instead proving itself to be both resilient and amenable to further development and adaptation to changing circumstances.

In a 21<sup>st</sup> Century economy that relies on division of labor, market based trade, and the ability of the individual to independently acquire and utilize economic resources, it is absolutely essential that we successfully integrate the ideas and institutions of economic freedom with the cultural context in which well over one billion human beings—in some of the world's most powerful and productive nations—live and work every day.

This is not an impossible challenge. It is certainly true that current ideas and values regarding economic and political theory, and individual rights and liberty, have developed in a particular Western historical context. However, exploring the values, ideas, and writings of Confucian thought over the last two and half millennia shows that it is also fully possible for economic freedom to survive and thrive in societies permeated by Confucian thought. In the process of exploring the connections and principles involved, we may find inspiration for understanding how laws and institutions in East Asian nations may continue to be improved and how the nations, businesses, and peoples of both East and West can more successfully interact and grow in the 21<sup>st</sup> Century.

The range of ideas related to economic freedom is broad, the range of ethical and political perspectives within the Confucian tradition equally so. Given this, we must begin the conversation by narrowing the playing field to certain fundamentals. For the purposes of this essay, it would not be appropriate to argue for or against specific formulations or ways of institutionalizing economic systems and policies.

Instead, we will lay a foundation by more generally considering the basic roots of economic freedom in terms of three principles: 1) the right of individuals and groups to engage in free, honest, and voluntary exchange of goods and services that they have to offer; 2) the right of individuals and groups to acquire and dispose of material resources as they please, providing they do not infringe on the rights of others to do the same (i.e., by means of forcible coercion or fraud); and 3) the recognition of the fundamental validity of contractual agreements related to the voluntary exchange of goods and

services as mutually binding on all parties, provided that these contracts meet the requirements of the preceding principles.

Western treatments of these ideas are typically rooted in a rich tradition of social contract theory and natural rights theory that is in many ways quite different from the classical Confucian worldview, but this paper will show that they can find alternative support within a Confucian framework as well—a sort of convergent evolution of ethical and political ideas. For the time being, we can set aside questions of structure and implementation (such as whether there are particular forms of commercial activity that should be specifically prohibited, how these principles should be enforced, etc.), saving such issues for later discussion and debate. At present, we can focus on the basic challenge of relating these principles of economic freedom to the Confucian tradition, and we can do so by focusing on Confucian values of benevolent political structures, human dignity and cultivation, and relational norms of loyalty and reciprocity.

*“The Governor of She asked Confucius about government. The Master said: ‘Make the local people happy and attract migrants from afar.’”*  
*The Analects 13.16<sup>2</sup>*

### **Benevolence and Economic Reality**

Despite their roots in a political and economic climate dominated by feudalism and despotism, Confucius and his students came to advocate a radical position based on the premise that power is and must be rooted in morality rather than force, and that the core of this moral justification was the pursuit of the well-being of the people in their care by those in control of political institutions. Roughly two millennia before the European Enlightenment, the Confucian theorist Mencius had already taken this idea to justify the removal and potentially even the execution of incompetent and tyrannical rulers.<sup>3</sup> Regardless of how well or how poorly it has been applied in various times and places throughout history (certainly the associated rhetoric of the “Mandate of Heaven” has regularly played some part in dynastic transitions), the essence of the Confucian idea of effective leadership and good governance is the pursuit of the interests of the citizenry.

We find ample evidence of this in Mencius, who explains to a ruler that if he “practices benevolent government towards the people”<sup>4</sup> it will set him on the road to military victory, draw skilled immigrants and political influence into his hands,<sup>5</sup> and otherwise benefit him. Mencius makes the question of benevolent governance even more fundamental in an early rebuke to the ruler, asking “what is the point of mentioning the word ‘profit’? All that matters is that there should be benevolence and rightness.”<sup>6</sup>

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<sup>2</sup> *The Analects of Confucius*, p.63

<sup>3</sup> *Mencius*. Trans. D. C. Lau. London: Penguin Classics, 1970. Print. p.22 -23

<sup>4</sup> *Mencius*, p.7-8

<sup>5</sup> *Mencius*, p.13

<sup>6</sup> *Mencius*, p.3

In the apparently moralistic admonition just mentioned, we seem at risk of running into a snag—Mencius is dismissing the notion of profit, but isn't profit what economic activity and market exchange are all about? In fact, this is where the "ought" of moral theory meets the "is" of the empirical sciences—in the increasingly inescapable fact that economic freedom plays a crucial role in promoting efficient allocation of resources, creativity, and economic growth, thus generating higher standards of living and improving the lot of the population relative to the poverty generated by the crude exploitation of feudalism or the disastrous inefficiency of top-heavy command economies.

It should not surprise contemporary readers, for example, to note that modern empirical research shows a strong correlation between economic freedom and prosperity.<sup>7</sup> In fact, however, such economic realities were not entirely lost on Mencius himself, in light of his emphasis on general prosperity as a goal and sign of successful benevolent governance, as seen in his confident pronouncement that "when those who are seventy wear silk and eat meat and the masses are neither cold nor hungry, it is impossible for their prince not to be a true King."<sup>8</sup>

Even Xunzi, representative of a more pessimistic and coercive strain of Confucian thought, lists the need "to govern fairly and to love the people" among the three great obligations of a ruler,<sup>9</sup> suggests that it is characteristic of a true king that "his benevolence is the loftiest in the world,"<sup>10</sup> and—crucially—claims that "a king enriches his people"—this being what distinguishes him from a mere dictator or the head of a failed state.<sup>11</sup>

It is hardly radical to argue that safeguarding freedoms that visibly improve the health and happiness of the public is in harmony with a political philosophy that emphasizes the moral responsibilities of the government toward the public. Indeed, this is implicitly (and sometimes explicitly) recognized in East Asian political discourse today, particularly in China itself as it has increasingly opened up its domestic economic policies in the midst of a gradual transition away from the central planning approach that held back economic growth for much of the Twentieth Century. Moreover, we see this explicitly grappled with by classical Confucian thinkers within the framework of benevolent governance already discussed.

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<sup>7</sup> Readers looking for a more focused treatment of this particular issue may find the following article interesting:

Williamson, Claudia R., and Rachel L. Mathers. "Economic Freedom, Culture, and Growth." *Public Choice* 148.3-4 (2011): 313-35. Print.

<sup>8</sup> *Mencius*, p.6

<sup>9</sup> Xunzi. *Basic Writings*. Trans. Burton Watson. New York: Columbia University Press, 2003. Print.p.39

<sup>10</sup> Xunzi, p.43

<sup>11</sup> Xunzi, p.40

As early as these ancient writers, we find Mencius (caught between a more laissez-faire approach over some issues and a tendency toward favoring regulatory intervention over others) advocating low taxes and low tariffs in order to encourage economic activity.<sup>12</sup> All the while he is struggling to simultaneously advocate avoiding interference in productive activity on the one hand alongside imposing regulations to address what are still grappled with as potential market failures today on the other.<sup>13</sup> Similarly, Xunzi chimes in with his own explicit and decidedly laissez-faire recommendation that “goods and grain shall be allowed to circulate freely, so that there is no hindrance or stagnation in distribution” amongst his proposals for regulations and tax policy.<sup>14</sup>

Certainly, this vigorous position in favor of benevolent governance is neither new to current readers nor unique to the Confucian tradition, and there are times when Confucian writers seem at odds with the kind of social mobility and freedom of exchange that characterize contemporary free market economies. However, an attentive reading of the classical Confucian texts does show that the language and principles of this kind of good governance, a pragmatic approach to pursuing public well-being, and an awareness that economic prosperity is a crucial component of this process are all strongly present within the tradition.

As the preceding analysis of these principles and the correlation between the institutional safeguarding of economic freedom and the growth of economic prosperity shows, connecting our increased knowledge about how economies function with Confucian principles provides a strong case that government support for freedom of exchange can be rooted in a Confucian moral framework.

That said, there are two other ingredients in the basic recipe of economic freedom, and both are necessary to allow freedom of exchange to function properly in practice. The two pieces remaining are respect for (and legal recognition of) property rights and the legitimacy and binding nature of the contract, and both concepts can find backing in the writings and values of the classical Confucian writers as well.

*“A gentleman seeks harmony, but not conformity. A vulgar man  
seeks conformity, but not harmony.”  
The Analects 13:23<sup>15</sup>*

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<sup>12</sup> Mencius, p.37

<sup>13</sup> Mencius, p.5-6

<sup>14</sup> Xunzi, p.45

<sup>15</sup> *The Analects of Confucius*, p.64

### Property and Human Dignity

Although Confucian values are usually understood to be more collectivist than individualistic in nature, this is actually something of a faulty caricature of the Confucian moral framework. Rather than seeking the benefit of an abstract collective “society”, Confucius and his disciples articulated their views through a consistent focus on tangible relationships between individual human beings. Through a relational perspective that in many ways bridges the gap between individualistic and collectivist moral thought, the early thinkers of the Confucian tradition were able to harmonize a focus on group interests and obligations with a view of individual cultivation and flourishing. Part of the bedrock for this connection lies in a deeply held appreciation for human dignity, and it is this key notion that provides the next anchor point between Confucian norms and economic freedom.

As with many ideas and values within Confucian thought, a great deal more about human dignity is implied by the context of and relationship between different passages than is explicitly stated, but we do find key passages and points of emphasis that make apparent just how important the concept is to classical Confucian writers. One of the most striking passages in Mencius, for example, is that amidst wide-ranging discussions of governance and the common good, he cites one of the key similarities between the admirable trio of Po Yi, Yi Yin, and Confucius himself as being that despite their extraordinary leadership bestowing them with the ability to effectively govern the Chinese Empire, “had it been necessary to perpetrate one wrongful deed or to kill one innocent man in order to gain the Empire, none of them would have consented to it.”<sup>16</sup>

Far from the rhetoric of a collectivist meat grinder willing to sacrifice the individual to a greater cause whenever necessary, this is the voice of a teacher who places great value on the individual—and without this recognition it would be impossible to make sense of the concrete relational terms of Confucian ethics, or of its emphasis on self-cultivation and the nature of the “gentleman”—the most common Confucian depiction of what a person should strive to be.

Indeed, we see Confucius and Mencius regularly delving into individual improvement, Xunzi devoting entire essays to topics such as “Encouraging Learning” and “Improving Yourself”, and perhaps the greatest split between Mencius and Xunzi focusing on competing views of human nature and its implications for both individual self-improvement and social institutions. That said, what do property rights have to do with human dignity and wellbeing? In fact, what *are* property rights?

In their most basic form, setting aside details of legal codes, taxation, and land titles, property rights are the institutionalization of the freedom of each individual to choose how to dispose of the goods produced by or acquired through his or her own labor or

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<sup>16</sup> *Mencius*, p.35

voluntary exchange. It is a simple protection from the coercive usurpation of control over an individual's labor or over what an individual has acquired through non-coercive activity himself. Property rights are nothing more than a concrete way of establishing a fundamental recognition of self-determination, precisely because an individual must be free to apply his labor as he chooses and dispose of the output of his labor as he chooses in order to have any meaningful control over the activities and circumstances of his life.

Without such control, the individual would lack the material means to pursue self-cultivation, to respond to the duties of interpersonal relationships, or to otherwise effectively engage in the virtuous and benevolent activities esteemed so highly by Confucian thinkers. Indeed, some more recent writers working in Western traditions, such as the Aristotelian Liberal theorists Douglas Rasmussen and Douglas Den Uyl, argue that human predispositions and capacities—and therefore human modes of self-cultivation and flourishing—are so varied that these goals can never be met without securing the freedom of individuals to direct their own resources toward their own ends.<sup>17</sup> This seems to be a consideration of as great a level of potential significance to Confucian thought as to any other framework.

With these factors in mind, it seems that yet again, even where we lack a clear general theory of the concept within the writings of the classical Confucian thinkers, it is hardly an unusual leap to suggest that the institutionalization of property rights fits comfortably within the classical Confucian positions on moral autonomy and cultivation, the obligations of direct human relationships, and the connection of these concepts to individual dignity and moral worth. Indeed, just as genuine freedom of exchange is impossible without a notion of property rights to clarify who can exchange what with whom, it seems difficult in a modern economic environment to make a case for benevolent government (at least one that recognizes the individual as having distinct moral worth) that does not protect such rights as a means of securing individual freedom of action against coercion and de facto enslavement. The centrality of human dignity to Confucian relational ethics and the practical impact of property, labor, and exchange on human agency thus dovetail quite well with the previous discussion of the connection between economic freedom and benevolent governance.

*“The Master said: ‘Shen, my doctrine has one single thread running through it.’*

*Master Zeng Shen replied: ‘Indeed.’*

*The Master left. The other disciples asked: ‘What did he mean?’ Master Zeng said:*

*‘The doctrine of the Master is: Loyalty and reciprocity, and that’s all.’”*

*The Analects 4.15<sup>18</sup>*

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<sup>17</sup> Rasmussen, Douglas B., and Douglas J. Den Uyl. “Making Room for Business Ethics: Rights as Metanorms for Market and Moral Values,” *The Journal of Private Enterprise* 24.2 (Spring 2009): 1-19; Rasmussen, Douglas B., and Douglas J. Den Uyl. *Norms of Liberty: A Perfectionist Basis for Non-perfectionist Politics*. University Park, PA: Pennsylvania State UP, 2005. Print.

<sup>18</sup> *The Analects of Confucius*, p.17



### **Contracts and Freedom of Exchange as Loyalty and Reciprocity**

Contracts, like freedom of exchange, are not simply a Modernist idea, nor are either of these norms that should necessarily be deemed either essentially Western or facets of atomistic individualism. Rather, each is fundamentally the expression (and protection) of an idea about how human beings relate to one another. In fact, the ideas of freedom of exchange and the binding nature of contractual agreements are best understood as positions on how people should properly relate to one another in economic affairs, and the nature of these ideas enables their adaptation to the norms of Confucian society and philosophy more readily than is sometimes assumed. The basis of Confucian ethics is arguably its emphasis on different kinds of human relationships and the necessarily reciprocal expectations and responsibilities that characterize each possible relationship.

Just as with property rights, the connection of contracts to Confucian thought requires a definition of a contract. In basic terms, a contract is a voluntary agreement that *establishes a relationship* between two or more parties, outlining their rights and responsibilities within that relationship, as well as the nature of the relationship itself. Perhaps here more than anywhere else, the link to Confucian norms is easy to see.

The importance of human relationships, the duties they involve, and their role as the concrete context for learning and moral action have always been among the most prominent (arguably *the* most prominent) pillars of Confucian thought, and they are considered central to any discussion of humanity, morality, or society. Xunzi succinctly states “The correct relationships between ruler and subject, father and son, elder and younger brother, and husband and wife begin and are carried through to the end, end and begin again. They share the order of Heaven and earth, they last for ten thousand generations. They are what is called the great foundation.”<sup>19</sup>

Although they may sometimes be more limited in duration and content, is it a tremendous leap to envision the correct relationships between employer and employee, buyer and seller, and partners in a business venture as being, in their own way, equally important spheres of moral obligation, serving as the “great foundation” of economic enterprise and general prosperity?

A contract is nothing more or less than a document that creates a relationship and outlines the roles and duties of the parties within that relationship, forming a context all too familiar to a student of Confucian thought. Just as we can see the link between open economic policy, freedom of exchange, prosperity, and benevolent governance, and just as we can understand property rights—or freedom to choose and direct one’s economic activity more broadly—as a condition of the kind of human dignity upon which Confucian ethics of relationships and self-cultivation are built, we can understand contracts as a means of bringing the Confucian emphasis on the ethics of relationships—

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<sup>19</sup> Xunzi, p.47

characterized by loyalty and reciprocity—into the dynamic conditions of the economic sphere.

In fact, it may be a crucial means of binding economic behavior to the broader context of human life and moral consideration.

Recognizing that economic freedom is essential to material welfare, that property rights are inextricably connected to the human agency and dignity that make genuine relationships possible, and, finally, that economic exchange is an expansion of the playing field for Confucian relational ethics (rather than an inherent threat to such an approach) makes the compatibility between classical Confucian thought and the institutionalization of economic freedom appear much more natural than our first intuitions might have suggested.

Perhaps, despite the gulf in time and space, many of these Confucian principles aren't quite so foreign to the Western world of today as they may have seemed at first glance.

*“The Master made use of four things in his teaching: literature;  
life’s realities; loyalty; good faith.”  
The Analects 7.25<sup>20</sup>*

### **Finding Points of Understanding**

To claim that Confucian thought is naturally or necessarily market friendly would be both crude and divorced from a thorough reading of both Confucian writers and broader Chinese history. However, the Confucian tradition consists of a complex and adaptable set of theories, values, and ideas, rather than a rigid and static dogma.

Throughout this paper, I have demonstrated how Confucian ideas can respond in a constructive and supportive manner to new information and changing economic realities, by developing connections between fundamental Confucian values and the fundamental institutions of free economies. By exploring these connections and their implications for public policy, education, and behavior in the marketplace, an increasingly resurgent China and its cultural neighbors can find a way to remain true to their heritage while adapting in order to peacefully integrate with—and continue to excel within—the modern global economy.

Indeed, just as Western companies eagerly explored the possibilities of Japanese ways of doing business in the latter part of the Twentieth Century, by successfully applying ideas found in the Confucian tradition to the environment of free market economics, the Twenty-first Century may see Chinese individuals and institutions develop new ways of approaching business, theory, and policy that will provide food for thought for those of

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<sup>20</sup> *The Analects of Confucius*, p.32

us in the West. The kinds of social, political, and moral concerns that Confucian thought has grappled with for two and a half millennia are not alien to modern economic theory and behavior—they are at its very core. By setting aside the idea that the two must be at odds, we open the door to begin considering what this rich and vibrant tradition has to say about the economic questions that concern us all. It is my hope that this paper will inspire others to recognize and take up such questions in the years to come.

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