

The Tao of Laissez-Faire

(Ken McCormick, *Eastern Economic Journal*, Volume 25, Issue 3, 01 July 1999)

In the history of economics, different writers working in different places have sometimes independently reached the same conclusions. Perhaps the most famous example of this was the independent development (by William Stanley Jevons, Carl Menger and Leon Walras) of the idea that the value of a commodity depends upon its marginal utility. This paper is about another such example, one far more disparate in terms of both time and place. Specifically, this paper is about the independent advocacy of a policy of laissez-faire by both ancient Taoist philosophers and Classical economists. Recognizing the independent development of this idea has not only intrinsic historical interest but also provides the doctrine of laissez-faire with another substantial philosophical leg on which to stand.

The existence of the doctrine of laissez-faire in Taoist philosophy is mentioned only briefly in the economics literature [Spengler, 1964; 1980; Young, 1996]. These authors, however, are not primarily interested in the Taoists. Spengler [1964] and Young [1996] focus primarily on the great Chinese historian Sima Qian,¹ while Spengler [1980] is largely concerned with Confucianism and the Legalists. The Taoists are mentioned more or less in passing. Hence, no attempt has been made in the economics literature to explain the philosophical foundations of the Taoist view of laissez-faire. No one has examined why the Taoists advocate laissez-faire.

This paper examines Taoist philosophy in order to answer this question. I show that the vision of a spontaneous and harmonious natural order that lies at the heart of Taoist thought is conceptually very close to the natural order envisioned by Classical economics. Taoism, at its core, is a practical philosophy. Like many other philosophies, it involves a search for truth and, in some versions, even contains an element of mysticism. Its primary goal, however, is to help us live in the here and now. Taoism offers individuals a strategy for everyday living, though its broader purpose is to provide insights into how to create and maintain harmony within society as a whole. Indeed, the I-wen Chih² defines Taoism as "the method of the ruler on his throne" [quoted in Fung, 1952, 175]. Taoism's most famous work, Lao Tzu's *Tao Te Ching*,³ has been described as a "guide to the art of rulership" [Graham, 1989, 170].⁴ This social aspect of Taoist thought is of special interest given the focus of this paper. However, one must first examine Taoist philosophy in general before one can understand its social implications.

Fundamentals of Taoist Philosophy

The "Tao" is often translated as the "Way" or the "Path." A central idea in Taoism is that the exact meaning of the Tao must be grasped intuitively rather than logically. The first few lines of Lao Tzu's work remind us of this by telling us that:

The way that can be spoken of

is not the constant way;

The name that can be named

is not the constant name. [1]5

Fundamentally, the Tao is "the Way behind all ways, the principle underlying all principles, the fact underlying all facts" [Cleary, 1988, xi]. In this sense, the Tao refers to the original unity, "the One," the nameless and ineffable which existed before the creation. The Tao is also the source of creation. As the source of creation, the Tao is sometimes described as "Nothing," as when Lao Tzu writes, The myriad creatures in the world are born from Something, and Something from Nothing. [40]

Like all other words, "Nothing" is inadequate to describe the Tao, but it has the advantage of not being bounded. In other words, "Nothing" implies the absence of "Something," and "Something" refers to the myriad finite manifestations of creation. The elements of creation, each being finite, are bounded and therefore limited; being limited, they can be named. Hence, the Tao, being "for ever nameless" [72], cannot be described as "Something." By default, the Tao must therefore be referred to by the paradoxical word "Nothing." Taoist thought emphasizes the value of this "Nothing." The Tao is not only the source of creation, but it is also the power that sustains it. It is important to recognize this because acting in harmony with the Tao allows us to thrive and to succeed. Acting contrary to it leads to conflict and destruction.

Of course, acting in harmony with the Tao requires close study to discover its nature. This study must emphasize the intuitive, not the rational aspects of our minds, because the Tao must be considered in its totality, not piece by piece. Knowledge obtained through rational thought is always partial at best. Because the finite "Somethings" which we study are infinite in number, we cannot possibly see how all the pieces of the puzzle relate to each other. Worse yet, such knowledge, being partial, can often lead us into error. Chuang Tzu⁶ illustrates this brilliantly in the section of his work entitled "The Secret of Caring for Life":

Your life has a limit, but knowledge has none. If you use what is limited to pursue what has no limit, you will be in danger. If you understand this and still strive for knowledge, you will be in danger for certain. [Chuang Tzu, 1968, 50]

The point is not to abandon all hope for enlightenment, but to seek it intuitively. In this regard, Taoism is similar to many other Eastern philosophies. Lao Tzu writes, "I do my utmost to attain emptiness; I hold firmly to stillness"[16]. This is the key to enlightened behavior. Through "stillness" one harmonizes with the Tao. Harmonizing with the Tao, one can accomplish anything because the Tao acts through and guides the individual. This is the doctrine of inaction, called "wu wei" ("not doing"), which is a central tenet of Taoist thought. Lao Tzu emphasizes this idea repeatedly, as when he writes,

In the pursuit of learning one knows more every day; In the pursuit of the way one does less every day. One does less and less until one does nothing at all, and when one does nothing at all there is nothing that is undone. [48]

It must be emphasized that this type of passivity must not be mistaken for resignation. The non-action associated with Taoism is a means to channel power.⁷ The Tao itself is dynamic ("the Tao is never static, it is moving all the time, it knows no rest" [Suzuki, 1959, 18]), but we must make ourselves still to be receptive to it. As Barrett writes,

When the individual follows the Way, he becomes naturally empty. He does not live directly, but "lets himself be lived" by existence. This is why Lao Tzu insists on non-doing, which is not idle inertia, but a total receptiveness to that which wells up from within the heart of hearts. This place within the individual is in communion with and one with existence. This state, "the stateless state," is often described by Lao Tzu as female, as purely receptive. Always we find the same theme -- don't force, be natural and in harmony [1993, 48].

In modern televised sports, one may occasionally witness an athlete whose performance is so superlative as to be almost unbelievable. On such occasions, an excited announcer may exclaim that the athlete is "in the zone" or simply "unconscious." What is meant is that the athlete is not thinking, not consciously directing his or her actions; the implication is that some other force is in control. A Taoist would suggest that such a state is achieved precisely because the athlete is not thinking about what (s)he is doing, and any attempt to analyze it will immediately result in the end of the extraordinary ability. As Yogi Berra is reputed to have said, "How can you think and hit at the same time?"⁸

As already mentioned, the way to attune with the Tao is to make one's mind still and receptive, to become "empty." The usefulness of emptiness is emphasized repeatedly in Taoist thought, as when Chuang Tzu writes that "The Way gathers in emptiness alone" [1968, 58]. Taoist philosophy is full of apparent paradoxes. This is epitomized by the doctrine of wu wei: The most effective way to act is to not act. Other paradoxes include the association of usefulness with emptiness and power with passivity. This manner of thinking is the essence of the passive or indirect approach which is characteristic of Taoism.

Taoism and Laissez-faire

The reason for the Taoist support for laissez-faire is now apparent. Laissez-faire is simply an extension of the doctrine of "wu wei" to government policy. Harmonizing with the Tao, which is universal and whose power extends everywhere, even to the social realm, allows a beneficent natural order to emerge. Moreover, this natural order is superior to any order which humans could create because human knowledge is partial and fragmented. In order to take advantage of this natural order, the ruler must seek stillness. By following a course of non-action, the natural order will emerge on its own, with beneficial results for the society.

Lao Tzu is explicit in his advocacy of laissez-faire. To cite just one example, he writes:

I take no action and the people are transformed of themselves; I prefer stillness and the people are rectified of themselves; I am not meddlesome and the people prosper of themselves; [57]

Lao Tzu also emphasizes the connection between non-action and the natural order: The best of all rulers is but a shadowy presence to his subjects..... When his task is accomplished and his work done, the people all say, 'It happened to us naturally'. [17]

Chuang Tzu is equally clear in his support for a policy of laissez-faire. The following passage is from a chapter entitled, "Let It Be, Leave It Alone," which is virtually synonymous with "laissez-faire:"

I have heard of letting the world be, of leaving it alone; I have never heard of governing the world. You let it be for fear of corrupting the inborn nature of the world; you leave it alone for fear of distracting the Virtue of the world. If the nature of the world is not corrupted, if the Virtue of the world is not distracted, why should there be any governing of the world? [1968, 114]

This "hands off" approach to government is central to Taoism. There is no question at all that the major Taoist figures believe that the doctrine of wu wei is as valid in the social realm as it is everywhere else. There is a natural harmony in the social order which can be achieved only by a policy of non-interference. Passivity on the part of the ruler allows the Tao to bring about harmony and prosperity.

Deviations from this approach, no matter how well intended, can only disturb the natural harmony and lead to trouble. Every attempt to improve things by direct action or involvement on the part of the ruler will disturb the beneficent natural order. Direct action replaces Nature's infinite power with our own limited, insignificant power. The very idea that we can improve upon Nature is evidence of the worst form of hubris. Lao Tzu writes,

Whoever takes the empire and wishes to do anything to it I see will have no respite. The empire is a sacred vessel and nothing should be done to it. Whoever does anything to it will ruin it; whoever lays hold of it will lose it. [29]

The more taboos there are in the empire The poorer the people; [57]

Chuang Tzu, reacting to the notion that the government ought to establish a wide variety of social standards, argues that these standards will only impose suffering [Fung, 1952, 2281. Not only will they interfere with the natural order, but even a well intentioned ruler's standards will reflect only one person's definition of proper conduct. To force other people, with different natures, to conform to a single standard is in itself harmful. As Chuang Tzu poetically expressed it,

The duck's legs are short, but to stretch them out would worry him; the crane's legs are long, but to cut them down would make him sad. What is long by nature needs no cutting off, what is short by nature needs no stretching. [1968, 99-100]

Allowing people to follow their own natures is the route to a happy society. Interfering with nature, forcing people to adopt someone else's nature, is folly.

LAISSEZ-FAIRE AND WESTERN ECONOMICS

The doctrine of laissez-faire in Western economics is well known, so an extensive discussion of it here is unnecessary. Nevertheless, a few remarks are needed in order to emphasize its similarity with Taoist ideas. The fundamental point is that both views presuppose a natural order which is beneficial to us if we act in harmony with it. In this discussion, the primary focus will be on Adam Smith because "for all practical purposes, the Natural Law Outlook becomes part of the preconceptions of economic theory through the work of Adam Smith" [Clark, 1992, 35].

One important influence on Smith's vision of natural law was the work of Isaac Newton. Newton's idea that there is an order in the universe independent of humans but discoverable by humans is very powerful, and his impact on the major figures of the Enlightenment "would be hard to exaggerate" [Clark, 1992, 36]. Newton's effect on Smith is evident from the tribute he pays him in his *History of Astronomy*. Smith writes that Newton's system is "the greatest discovery that was ever made by man" [Smith, (1795) 1982, 105].

The ancient Stoics were a second, and perhaps more fundamental, influence on Smith's view of natural law [Raphael, 1979, 87]. Newton proved that there is an order in nature, but it was the Stoics who insisted that this order was beneficent. Stoic philosophy is rarely far below the surface in Smith's work, and it "fundamentally affects his economic theory" [Raphael and MacFie, 1976, 5]. Smith summarized the Stoic position by saying,

The ancient Stoics were of opinion, that as the world was governed by the all-ruling providence of a wise, powerful and good God, every single event ought to be regarded, as making a necessary part of the plan of the universe, and as tending to promote the general order and happiness of the whole: that the vices and follies of mankind, therefore, made as necessary a part of this plan as their wisdom or their virtue; and by that eternal art which educes good from ill, were made to tend equally to the prosperity and perfection of the great system of nature [(1759) 1976a, 36].

Latent in nature are forces working toward "prosperity and perfection." All one needs to do is allow them to operate, to not get in their way. These forces are so powerful that they can even "educe good from ill." This is the point of the famous invisible hand. If we follow a policy of laissez-faire, even selfish behavior on the part of individuals will result in prosperity for the society. Moreover, for Smith, as for the Taoists, conscious intention hinders rather than helps. In the famous passage in *The Wealth of Nations* about the invisible hand, Smith writes,

By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the publick good [(1776) 1976b, 456].

Human knowledge and reason are woefully inadequate when compared to the power and beneficence of Nature. What we intend is rarely what happens. This point is an essential element

in Smith's attack on Mercantilism, as he argues that human direction of economic forces is counter-productive.

Smith also argues that when the mercantilist system of preferences and restraints is removed, "the obvious and simple system of natural liberty establishes itself of its own accord" [ibid., 687]. The system establishes itself, and is not established by the sovereign. It is a natural system, and all one has to do to obtain its benefits is to not act, to let the system arise spontaneously. Every system which attempts to take conscious, direct action does positive harm. The parallel with Taoism is obvious. There is a benevolent, spontaneous natural order which can function only if the ruler practices "stillness".⁹

Not surprisingly, both Smith and the Taoists have a deep suspicion of individuals who claim to be able to improve upon the Natural system. Neither eighteenth century Britain nor ancient China had a shortage of those wanting to impose rules and restrictions so as to "improve" the functioning of the economy. Smith argues that the more convinced a person is that he can improve things, the more damage he is likely to do:

The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could only safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it. [ibid., 456]

Lao Tzu's suggestion regarding such self-proclaimed "wise" individuals is even blunter: Exterminate the sage, discard the wise, And the people will benefit a hundredfold [19].

Clearly, neither Smith nor Lao Tzu would be surprised by the utter failure of centrally planned economies in this (or any other) century.¹⁰

Countless other Western proponents of laissez-faire could be considered along with Smith, but one who deserves special mention is F.A. Hayek. Hayek writes,

To understand our civilisation, one must appreciate that the extended order resulted not from human design or intention but spontaneously: it arose from unintentionally conforming to certain traditional and largely moral practices, many of which men tend to dislike, whose significance they usually fail to understand, whose validity they cannot prove, and which have nonetheless fairly rapidly spread by means of evolutionary selection...[1988, 6, italics in the original]

The "Fatal Conceit" of socialism is the erroneous belief that the product of this spontaneous order can be improved upon by the application of human reason. The similarity to the Taoist view is striking. Like the Taoists, Hayek is convinced that human reason cannot possibly even begin to grasp the nature of the whole. Our understanding is quite limited while creation's complexity is infinite. Hence, attempts to replace the spontaneous order with human design can lead to dire unintended consequences. As Chuang Tzu put it, "If you use what is limited to pursue what has no limit, you will be in danger" [1968, 50]. Rejecting the efficacy of human

reason in designing and controlling human civilization, both Hayek and the Taoists view laissez-faire as the only tolerable option.

THE TAOISTS AND SMITH ON WEALTH ACCUMULATION

A common complaint about the Taoists from an economic perspective is that they do not support material economic progress [Hu, 1988, 208-11]. For example, the Taoists advocate reducing one's material desires in order to find contentment because happiness cannot be found in material wealth. Yet arguments along these lines miss the point. As will be shown, Adam Smith shares the view that wealth does not bring happiness. The fact that both Smith and the Taoists do not think that wealth brings contentment does not change the fact that neither one advocates a policy to stop people from pursuing what they want. Wise people will learn on their own that riches do not bring contentment. The fact that other people may not understand this does not justify economic restrictions. One cannot force people to be virtuous".

Smith's views about wealth are made clear in his Theory of Moral Sentiments. For example, he writes:

Power and riches appear then to be, what they are, enormous and operose machines contrived to produce a few trifling conveniencies to the body,.... They keep off the summer shower, not the winter storm, but leave him always as much, and sometimes more exposed than before, to anxiety, to fear, and to sorrow; to diseases, to danger, and to death. [(1759) 1976a, 182-3]

Despite this belief, Smith does not oppose the accumulation of wealth. Everyone should be allowed to follow their nature. In fact, his famous metaphor of the invisible hand depends on people being fooled into believing that wealth will make them happy. Moreover, when these people do pursue wealth, the invisible hand sees to it that they "thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species" [ibid., 183-5].

While Smith himself does not believe that wealth will make people happy, he also believes that we must not interfere with the natural order of things. This is also the view of the Taoists. Despite their view that wealth does not bring happiness, they were also insistent that one should not interfere with nature. As Kuo Hsiang¹² writes,

A good driver must let the horse exercise the full of his ability. The way to do so is to give him freedom. Some people train the horses with artificial means and use them to an extent beyond their ability. In this way the horses are exhausted and die. If we let the horses do what they can do, compelling neither the slow horse to run fast nor the fast ones to walk on slowly, though we may travel through the whole world with them, they rather enjoy it. Hearing that horses should be set free, some people think that they should be left wild. Hearing the theory of non-action, some people think that lying is better than walking. These people go too far, and misunderstand Chuang Tzu's philosophy [Quoted in Fung, 1991, 125].

Everything has its own nature to follow. It is not proper to force people to oppose their own natural inclinations.

In reading either the Taoists or Smith, one must not confound their moral arguments regarding proper individual behavior with their policy recommendations. Both advocate standards of personal conduct which are often at odds with the materialism associated with economic development. Yet the weaknesses of humankind are also a part of the natural order. Given their deep-seated belief in the power and goodness of that order, it follows that both Smith and the Taoists believe that people must be given the freedom to find the way on their own. The best the ruler can do is to be virtuous, and hope to lead by example.

CONCLUSION

The fact that the doctrine of laissez-faire was discovered in both China and the West does not, of course, prove its validity. After all, tyranny was developed in both places as well. Nevertheless, it is significant that the idea of laissez-faire was independently developed in China, in such a different culture, time and place.

One reason this is significant is because those interested in a theoretical defense of laissez-faire can now call upon another, quite powerful, philosophical tradition for help. Adding the arguments of Lao Tzu and Chuang Tzu to those of people like Smith and Hayek should give even the most ardent detractors of laissez-faire pause. Taoism has existed for more than two millennia, and is not a philosophy which can be easily dismissed. It offers an independent interpretation and explanation of Smith's and Hayek's contention that human reason is far too limited to comprehend, let alone direct, the course of human existence. Taoism provides another warning about the dangers of hubris. In addition, one cannot argue that Taoism was created to justify or defend the capitalist order, or that it is "tainted" by Western materialism. It is a tradition which is unmistakably different from Classical Liberalism, but on the very important subject of the propriety of a policy of laissez-faire, there is complete agreement.¹³

The recent ascendance of free-market ideas around the world probably owes more to the practical historical success of those ideas than to the persuasiveness of any theory or philosophy. Yet one might speculate that the startling success of economic liberalization in the People's Republic of China might in part be explained by the fact that the idea of free markets is embedded in the culture. In fact, the Confucianism that long dominated China was actually a synthesis of competing schools of thought, including Taoism [Graham, 1989, 6; Spengler, 1980, 51-52]. This synthesis "sustained a spirit of laissez-faire in Chinese social thought" [Spengler, 1980, 5114]. Hence, while laissez-faire has frequently been absent from Chinese practice, it is not at all alien to Chinese culture. The recent free-market reforms in China might therefore be interpreted not so much as an importation of a foreign ideology but as a reawakening of a home-grown concept.

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Footnotes:

The author would like to thank two anonymous referees and the editor of this Journal for helpful comments on an earlier draft.

1. Young [1996] argues that Sima Qian directly influenced Adam Smith, going so far as to contend that Smith's concept of the "natural order" was "imported from China" [Young, 1996, 140]. The alleged connection was the Physiocrats, who influenced Smith and were knowledgeable about China. (For an example of the extent of Francois Quesnay's interest and expertise on China, see Quesnay [(1767) 1946]). However, this argument must be dismissed because Smith's vision of the natural order was already well developed in *The Theory of Moral Sentiments* which was published in 1759, seven years before he met the Physiocrats [Chiu and Yeh, 1999; McCormick, 1999].

2. The *I-wen Chih* is "the first extant Chinese bibliography, compiled by Pan Ku (A.D. 32-92)" [Fung, 1952, 412].

3. *Tao Te Ching* means "Classic of the Way and Potency." The *Tao Te Ching* is not only the most translated work of Oriental literature [Kaltenmark, 1969, 5], but is also one of the world's most translated books [Barrett, 1993, 10]. "Lao Tzu" means "Old Master." One tradition holds that he was an older contemporary of Confucius (551-479 B.C.). Others question this date, pointing out that there is no hard evidence of the existence of his book until 250 B.C. Lao Tzu may have been a recluse named Li Erh who attributed his ideas to Lao Tan, a legendary "vast perfect one of old." What is likely is that the *Tao Te Ching* has been edited and rearranged so much that it really cannot be said to be the work of one individual [Fung, 1952, 172].

4. An anonymous referee correctly points out that while Taoism was available as a guide to the ruler, in practice Chinese rulers tended to be Confucians, not Taoists. Hence the reader must understand that this paper is about Taoist ideas, not about actual Chinese policy.

5. The *Tao Te Ching* is divided into 81 stanzas. In this paper, the numbers following quotations from it refer to the number of the stanza.

6. Chuang Tzu is credited with writing another major Taoist text called the *Chuang Tzu*. He was probably a contemporary of King Hui of Liang (370-319 B.C.) and King Hsuan of Ch'i (319-301 B.C.) [Fung, 1952, 221]. Yet it is doubtful that the *Chuang Tzu* was written by a single person. The *Chuang Tzu* is divided into three parts. The first part, called the inner chapters, is considered "the heart of the *Chuang Tzu*" [Watson, 1968, 14], and appears to be largely the product of a single author. The second part (the outer chapters) and the third part (the mixed chapters) appear to be the work of subsequent thinkers.

7. It is significant that many martial art forms draw on the philosophy of Taoism. As Graham points out, "Japanese Judo (the Way of Weakness) is named straight from the terminology of Lao Tzu" [Graham, 1989, 234].

8. Or, as Bruce Lee tells his young student near the beginning of the movie *Enter the Dragon*, "Don't think!"
9. The similarity of the Stoic and Taoist views regarding the benevolence and harmony of Nature has been recognized by Fung [1991, 21].
10. Of course, as an anonymous referee pointed out, Smith did advocate a limited role for the government. He was not a radical Libertarian.
11. Smith argues that of all the virtues, only justice can be extorted by force [(1759) 1976a, 79]. The idea of forcing people to behave "correctly" is also alien to Taoism, and is a point of contention with other schools of thoughts which insist on the observation of traditional rites. Lao Tzu says, "A man most conversant in the rites acts, but when no one responds rolls up his sleeves and resorts to persuasion by force. Hence when the way was lost there was virtue; when virtue was lost there was benevolence; when benevolence was lost there was rectitude; when rectitude was lost there were the rites" [38].
12. Kuo Hsiang (?-312 A.D.) wrote a famous commentary on the Chuang Tzu.
13. It must of course be recognized that, unlike Smith, the Taoists did not trace out the precise implications and effects of their system. They did not invent a science of economics; that was not their objective.
14. The respected historian Sima Qian should also be mentioned as another proponent of laissez-faire of some influence [Spengler, 1964; Young, 1996].

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