

# THE MERIT OF MISFORTUNE: TAIPING REBELLION AND THE RISE OF INDIRECT TAXATION IN MODERN CHINA, 1850S-1900S

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## SCENARIO SETTING: Political Disorder and Fiscal Capacity with Evidence from Late Imperial China

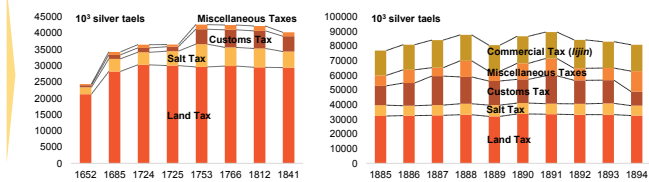
**The Making of a Modern Fiscal State**

- **Public Financial History:** Schumpeter (1954), Dickson (1967), Ormrod et al. (1999), Bonney (1999)
- **New Institutional Economics:** North and Weingast (1989), Fratianni and Spinelli (2006), Drelichman and Voth (2008), Dinco (2009)
- **Historical Sociology:** Brewer (1988), Tilly (1992), Downing (1992)

**Why a Comparative Perspective?**

- **Constructive but Controversial Elements of a Fiscal State:** power consolidation, bureaucracy, monetarized taxation, indirect taxation, credit tools, etc. (Brewer, 1988; O'Brien and Hunt, 1999; Epstein, 2002)
- **Non-European Evidence in Various Historical Contexts:** Gardner (2012), He (2013), Frankema and Van Waijenburg (2014), Ko et al. (2018)

## Why the Chaotic 19<sup>th</sup>-Century China? Radical Fiscal Transitions Reflected in Changing Government Revenue Structure



## RESEARCH FOCUS: The Role of Taiping Rebellion in the Rise of the Indirect Taxation in Late Imperial China

**Question:** Besides international wars, what was the role of the domestic chaos in the Late Qing fiscal transitions?

**Taiping Rebellion (1851-1864)**  
The largest internal war in Chinese history

12 provinces occupied    171M silver taels of military spending    14 years for suppression    70M casualties

**Mechanism**

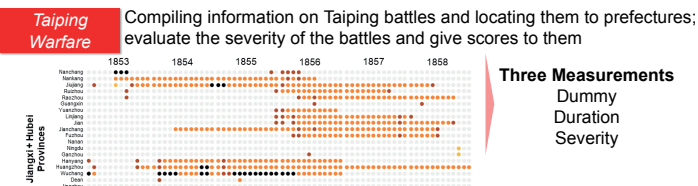
The central government, given the scarce fiscal resource and the inability to suppress the rebels, had to delegate its power to local governments by encouraging their private militias.

To finance the militias, local governments started levying commercial tax (lijin) from local trade; the lucrative taxation persisted even after the suppression of the Rebellion and made the local fiscal systems highly autonomous.

**Hypothesis:** There is a positive link between military conflicts during the Taiping Rebellion and the rise of local indirect taxation (lijin) as an autonomous fiscal resource that persisted locally in a long run.

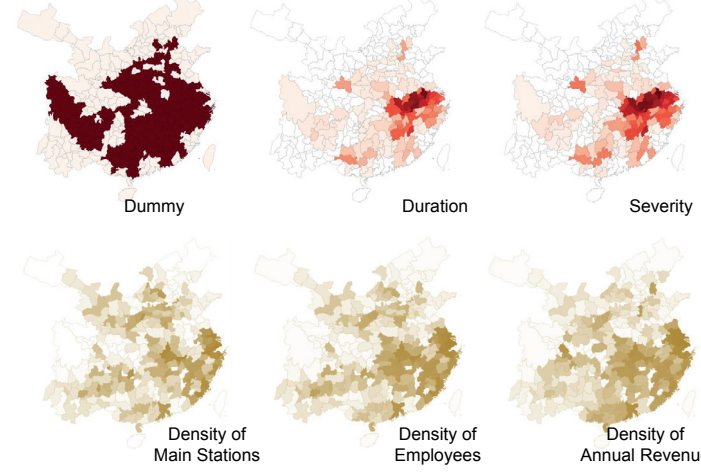
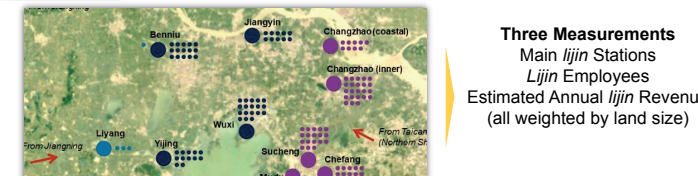
## EMPIRICAL EVIDENCE: Cross Sectional Data and OLS estimates for 266 prefectures in China

### Cross Sectional Data for 266 prefectures



### Lijin Taxation

Compiling information about lijn stations, staffing and revenues from provincial financial reports of 1908 Fiscal Reorganization Campaign

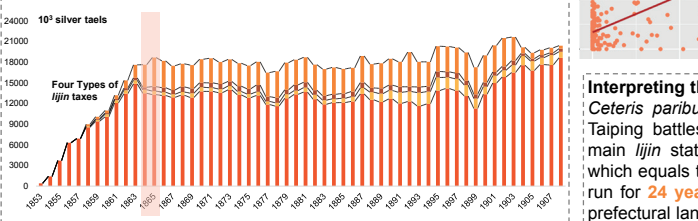


### Empirical Strategy

$$Lijin Taxation_i = \beta_0 + \beta_1 Taiping Warfare_i + \beta_2 Controls_i + \epsilon_i$$

**Controlling other factors that affected lijn taxation:** geographical / demographic condition, pre-1850 fiscal condition, post-1850 shocks, etc.

**Why cross-sectional data?** 1. Persistence of lijn taxation from 1860s to 1900s; 2. High data quality only for the 1908 surveys



## MECHANISMS AND IMPLICATIONS: More Identification Strategies and Discussions on Long-Term Economic Consequences

1. Using Panel Data for a DiF-in-Dif Specification

2. Linking Indirect Taxation to Local Industrialization with Taiping Warfare as an IV

• **Relevance:** strong correlation between the Rebellion and the scale of the indirect taxation

• **Exclusive Restrictions:** exogeneity of the Rebellion – no impact on local industrialization via other channels

Density of Enterprises by 1910

Key References (1) Chen, F., 2015, 晚清财政说明书 (Compilation of Late Qing Financial Reports), Hubei People's Press. (2) First Historical Archives of China (FHAC), 1996, 清政府镇压太平天国档案史料 (Archival Materials for the Suppression of the Taiping Rebellion by the Qing Government), Social Sciences Literature Press. (3) Guo, Y., 1989, 太平天国历史地图集 (The Atlas of the Taiping Rebellion), China Maps Press. (4) Liang, F., 1980, 中国历代户口、田地、田赋统计 (Statistics on Household, Land and Land Tax for China's Dynasties), Shanghai People's Press. (5) Luo, Y., 1936 (2010), 中国厘金史 (The History of Lijin in China), Commercial Press.