



Tax System Reform and Its Impacts in the Middle and Late Tang Dynasty. Take Two-Tax System and Commercial Tax System as Examples

Lihua Chen(✉)

Business School, The University of Sydney, Sydney, Australia
lche6518@uni.sydney.edu.au

Abstract. The taxation system during the Tang Dynasty in China has always been an important part of academic research of Chinese ancient history. The Rebellion of An and Shi (755–763) divided the development of Tang Dynasty into two stages, and the later reform of the tax system had profound impacts on politics, economy and culture of the middle and late Tang Dynasty. With the archaeological discoveries and the deepening of research topics, the research method and results of the tax system have become more sophisticated. This article intends to review the research results of academic papers on the reform of two-tax system and the commercial tax system in middle and late Tang Dynasty in the past ten years (2011–2021). These research results show that although the two-tax system assisted the central government to expand its fiscal revenue and social stability, it became one of the important reasons for the demise of the Tang Dynasty. The commercial tax reform directly promoted the development of commodity economy and met the corresponding social needs. However, the commercial tax system also accelerated the demise of the Tang Dynasty because it damaged the interests of businessmen and farmers. This paper will provide important references for the study of the history of the Tang Dynasty.

Keywords: Two-tax System · Commercial tax system · The Tang Dynasty

1 Introduction

Since the taxation system of the Tang Dynasty was superior to the reforms of the Northern Wei Dynasty and Sui Dynasty and had inspired China's taxation system for hundreds of years and even today, the taxation system of the Tang Dynasty has always been a major topic of research and attention. This paper takes the taxation reform of the Tang Dynasty after the outbreak of the rebellion of An and Shi as the research object which mainly focus on the farmers' taxation and commercial taxation, and briefly classifies, reviews and summarizes the research papers and their research results in the past decade, from 2011 to 2021.

This paper is mainly divided into two parts to introduce the research status of farmer's taxation and commercial taxation respectively. The first part is the taxation of farmers, which takes two-tax system (also known as Two Tax Law and Three Allotments) as the example. In the second section, the commercial taxation is divided into three specific parts based on their commodity classifications and social importance. Hence, this section will summarize the research results of the past decade from three aspects of salt, tea and wine. From each aspect, the background of the tax reform, the development, implementation, effectiveness and impacts of each tax will be expounded respectively.

The primary significance of this paper is to integrate and review the research papers on the two-tax system and commercial tax in the middle and late Tang Dynasty in the past decade, comprehensively evaluates the reform method and its advantages and disadvantages from different perspectives and research methods, and further analyzes both positive and negative impacts of this taxation system and the reference significance for future generations.

2 Two-Tax System

Two-tax system is a new tax form reformed by Yang Yan in the first year of Jianzhong (780) of Emperor Dezong, which is nearly 20 years after the end of the Rebellion of An and Shi. This system overturned the tax system before Tang Dynasty and established a new tax system according to the post-war social situation and the requirements of the court.

2.1 The Background and Establishment of Two-Tax System

In the early stage of the Tang Dynasty, the land equalization policy (*jun tian zhi*) built on the basis of the tax structure of the previous generation, and the *zuyongdiao* system were implemented nationwide. The basis of these two policies is the state ownership of land, and during this period, the land system of the Tang Dynasty was both state-owned and privately owned, which maintained the above two policies functioning normally [1]. However, the outbreak of the Rebellion of An and Shi caused the dramatic reduction of the population of the Tang, a large number of households were lost from their household registration [2]. This phenomenon had sharply reduced the number of taxpayers that the central government of Tang can control, which shrunk its centralization and fiscal revenue significantly [3]. Moreover, the regime of regional military governors and the prevalence of land sale and land merger resulted in the displace of peasants and the severed relationship between labor and land, and aggravated the social polarization between the rich and poor [4]. These social changes led to the destruction of the land-equalization system and the collapse of the function of *zuyongdiao* system, and increased the burden on peasants [1]. Hence, the old taxation system was unable to bring stable financial revenue to the court. Additionally, despite of the corruption of the court and officials of the Tang Dynasty, the political movement from mansion army system (*fubingzhi*) to conscription system expanded the fiscal expenditure of the central government of Tang Dynasty [3]. In this social situation, the necessity and desirability of tax reform is particularly prominent. The central government must establish a new tax system to balance its fiscal revenue and expenditure and also to maintain its stable rule.

In the third month of the first year of Jianzhong of Emperor Dezong (780), the prime minister Yang Yan absorbed and summed up the tax system of the previous generation and initiated the reform. According to the social and governmental requirements, he presided over the reform of the tax system and established the two-tax system which became the most important taxation of peasants in the middle and late Tang Dynasty. Although the two-tax system have been adjusted several times in details during its development and implementation process, its outline has hardly changed. The establishment of this tax system had a tremendous impact on the society and government.

2.2 Concrete Content and Its Relationship with the Central Government of the Tang Dynasty

The two-tax system was established according to the social background and the requirements of central government. Its content was enormously different from the taxation system of previous dynasties and even the early stage of Tang. Su and Zhu summarize the concrete content of the two-tax system from six specific strategies [5]. Furthermore, Cai summarizes the six basic principles reflected in the tax system [6]. Several research has proved that the customization of its content was significantly related to the demands of the central government of Tang Dynasty.

Due to the influence of land mergers and the rebellion of An and Shi, along with the weakening of centralization, the power of local governments and old nobilities increased [1]. These local separatist forces began to compete with the central government for financial power and refused to turn over the tax and revenues, which was also an important reason for the sharp reduction in the central government's fiscal revenue. As a result, the core power of the Tang Dynasty shifted downward [7]. In addition, the excessive tax burden on peasants sharpened the social contradictions, which shook the ruling foundation of the central government of Tang Dynasty [8]. Meanwhile, the post-war reconstruction also required a large amount of fiscal revenue as economic support [5]. Hou points out that since the expected value of the reform were far greater than the value of retaining the old taxation system, such as bringing significant fiscal revenue to the central government, redistributing central and local powers and interests and maintaining social stability [9]. Therefore, the government had implemented tax reforms, enacted two-tax system and divided the tax into three parts, namely tax retained by prefectures (liuzhou), tax retained by provincial governors (liushi) and tax transmitted to the central government (shanggong), in order to re-establish a harmonious central-local relations and stabilize social order.

The implementation of the two-tax system brought dramatic increase of fiscal revenue to the central government and alleviated the fiscal crisis caused by the post-war reconstruction of society, economy and various military operations. Additionally, in order to alleviate the tax pressure on peasants, the central government tried to maintain social stability and fiscal revenue through government purchases or tax exemptions (juanmian) [10]. The former mainly depended on the conversion of two-tax in kind (zhena). The central government would set a price higher than the current market price to exchange the tax money (shenggu) to protect the lower-class peasants. Even though this policy could minimize the cost of government purchase, it seriously damaged the interests of local governments which negatively contributed to the generalization degree

and substantial results were inappreciable [11]. The latter was the state's compensatory policy to private households, but the central government had delegated the power to exempt households from taxes to local governments, which reduced the controllability of the central government to this policy [7]. Consequently, the above two forms only fundamentally guaranteed the central government's fiscal revenue, but the preferable practical results of mitigating the social contradiction was unachieved.

However, scholars have come to different research conclusions of the two-tax system's impacts on the recovery and decentralization of core power of the central government. Ao and Fu state that the interests and power of central government are protected by the two-tax system, which strengthened the centralization [12]. Su and Zhu indicate that the relationship between the central government and the subordinate states was rebuilt in the process of adjustment and promotion of the two-tax system, which weakened the economic strength of regional military governors (fanzhen) and contribute to the centralization of power [5]. On the contrary, Huang believes that the formation of the two-tax system marked the clarification of the administrative power and financial power of the central government and local governments, which was a manifestation of the transformation from centralization to fiscal decentralization [1]. Zhu points out that this system legalized and expanded the power of regional military governors and surveillance commissioners (jiedushi), resulted in the prosperous of decentralization [13]. Zhao also indicates that the military power, financial power and some administrative power that the local governments won in the rebellion of An and Shi were legalized and incorporated into this new taxation system, which further weakened the power of the central government and also allowed the local governments to expand the ways of extortionate [7].

The two-tax system established in the tax reform were based on the needs of the central government. Its contents changed enormously from the past, which expanded the tax base of the government in the Tang Dynasty and increased its fiscal revenue. Nevertheless, whether this system has strengthened the centralization of the central government is still controversial, which is required for more in-depth research in the future.

2.3 Relationship with Local Government

After the establishment of the two-tax system, local governments had obtained more legalized and recognized powers, including financial power, military power and administrative power. Hou points out that the essence of this reform was a non-Pareto improvement. The central government recognized the local vested interests and gave up part of financial power in exchange for the maintenance of the central government by the regional military governors [9]. However, when the functions of local governments expanded and may exceed those of the central government, the uncertainty about the active role of the local government in developing the local economy would be more unstable [1]. As mentioned above, the central government had delegated the power of immunity to local governments, with the intention of compensating tax payers. Due to the imperfection of this policy and the weakening of the power of the central government, this system was extremely arbitrary and retreat under the control of local government, which caused only few taxpayers were able to obtain this compensation [7]. Moreover,

when implemented another compensation policy, which was the conversion of two-tax in kind, the local government may abandon the value set by the central government in the actual collection and converted it at the market price to earn the difference, which increased the tax burden of taxpayers and intensified the social contradictions [7]. In addition, due to the differences in the power of local governments, the implementation of the two-tax system in various places were also discrepant [14, 15].

After the formation of the two-tax system, the local government had obtained at least part of financial power, which was conducive to the local governments speculating to expand their own power and to develop the local economy. However, due to the different obedience of local governments to the central government, the implementation results of the new tax system were different.

2.4 Research Results Under the Sociological Model

DID model is a sociological model which usually used in econometrics to evaluate the effectiveness of a specific economic policy. Wang and He set population as explained variable, set the rebellion of An and Shi, war, whether to pay taxes to the central and natural disaster as control variables and set canal as the dumb variable to measure the convenience of local water transport to the central government and the distance from the regional military governors. By using the DID model, they point out that in the areas where the two-tax system effectively promoted the reform of the relationship between the central and local governments, the level of economic development and the population had both increased significantly. The positive economic effects of this system were based on the level of central control over the finance power of local governments. They also find out that the regional military governors that were higher independent can had a negative impact on the economic growth compared to the others [16].

2.5 The Impact of Two-Tax System on the Society and Economy

From the perspective of taxpayers, the current research mainly believes that the two-tax system realizes tax fairness in theory, but actually increases the burden of peasants. Wang highlights that under the two-tax system, dukes, ministers and all civilians need to pay taxes without preferential or exemption privileges, and the amount of tax should be determined by the amount of assets [4]. Ma suggests that this principle raised taxes on the aristocratic and landlord classes and lightened the burden on peasants, which made up for the long-term shortcomings of the previous tax system [17]. However, Jiang states that the imperfect asset assessment method resulted in the increase of impossibility of realizing the real average of tax burden in practice, and the miscellaneous taxes also made the burden on peasants heavier [18]. On this basis, Su and Zhu indicate that the acquiescence of land mergers in the two-tax system allowed this phenomenon to bloom freely, the living plight of peasants became more serious and the social contradictions became increasingly acute [5]. Moreover, the living burdens of peasants were unable to be alleviate and the phenomenon of tax evasion appeared in the society. Because the central governments intended to dispose of the escaped fields and apportioned the two-tax to ensure fiscal revenue, its policy formed a vicious circle and triggered social

contradiction, which became one of the prerequisites for the peasant uprising in the later period of Tang [19].

Additionally, the two-tax system required taxpayers to pay in currency also contributed to the change of social economy. Some research summarized that the monetization of tax collection had promoted the development of monetary economy [8, 20]. Wu believes that the collection of taxes in the form of currency met the phased requirements of the development of commodity economy and ensured the government revenue [2]. From the peasants' perspective, in order to exchange money, farmers began to sell their crops on the market. Jiang believes that this phenomenon stimulated the recovery of rural economy. Moreover, the changes of farmers' business model and family structure led to the further development of economy in Jiangnan area and promoted the commercial prosperity in the middle and late Tang Dynasty [18]. However, due to the shortage of national coinage and the difficulties in the circulation of currency, this system objectively exacerbated the devaluation of goods, especially agricultural products, and created opportunities for businessmen to seize the opportunities to force peasants to suffer the losses [7].

The establishment of the two-tax system and the theory of the average tax had a certain progressiveness [8]. The system of paying taxes with currency had promoted the development of the rural economy and commerce. However, due to the excessive pursuit of economic interests by the central government and local governments, the lives of peasants were unable to be guaranteed, which became a major reason for the demise of the Tang Dynasty.

3 Commercial Tax

Commercial tax is established in the middle Tang Dynasty to expand fiscal revenue. The central government aims to control necessities with little elasticity of supply and demand in life and increases its tax revenue by advocating its business operations and creating monopoly systems [21].

3.1 Ban System of Salt

In the middle of Tang Dynasty, land mergers prevailed, peasants lost from their household registrations and the agricultural taxes, which meant the *zuyongdiao* system was negatively impacted and the contradiction between fiscal revenue and expenditure became increasingly prominent. After the rebellion of An and Shi, the imperial court urgently required funds to support its military operations. Ji points out that as the most important commodity of life, salt became the first and preferable choice of the monopoly system [22].

The first year of Qianyuan of Emperor Suzong (758), Diwu Qi founded the salt law, use the state power to implement a strict ban system of salt (*queyan*) [6]. Under this system, privately owned salt industry and private sale of salt were inadmissible. In this stage of reform, this system alleviated the extremely tension of the financial situation of the central government, and the powers of salt production, transport, storage and selling salt were all belonged to the government. Due to the appointment of a

large numbers of officials that led to the redundancy of management organizations, the abundant cost negatively affected the fiscal revenue [22]. Then, from the first year of Dali of Emperor Daizong to the first year of Jianzhong of Emperor Dezong (766–780), Liu Yan carried out a second reform of the salt system. He reformed the sale of salt from direct selling by government to selling salt through merchants. Moreover, he canceled the expropriation of merchants in exchange for their support of official salt, and cracked down on the transportation and sales of illegal salt, which was privately-operated salt. He also used the above policy to protect official salt at the same time [21]. This reform streamlined the redundant officials of the salt administration and organization, and improved its administrative efficiency, which had been implemented since the completion of the reform.

As for its impacts, from the political perspective, Ji points out that the ban system of salt increased the fiscal revenue, but it became a tool for the exploitation of the people, which intensified social contradictions and hid dangers for the dominate of Tang Dynasty. From the economic perspective, this system re-organized and managed the social and economic operations, transform the private salt into a state salt monopolized by the central government, which served the fiscal revenue. However, it destroyed the normal development of the salt industry and private economy, which led to the loss of the optimal allocation of resources under the regulation of the market economy [22].

3.2 Tea System: Tea Tax and Tea Monopoly

Compared with the salt system, the system of tea tax was established after the government obtained abundant profits from the ban system of salt. The establishment of the tea tax system had gone through the following stages: (1) during years of Jianzhong of Emperor Dezong, the first tea tax was levied, but then abolished in the first year of Xingyuan of Emperor Dezong (784) [23]; (2) the ninth year of Zhenyuan of Emperor Dezong (793), Zhang Pang reformed tea tax, which had single tax objects (tea), designated taxpayer (merchant), clear commercial behavior and its long-term enforceability was recorded [24]; (3) the ninth year of Taihe of Emperor Wenzong (835), Wang Ya established a tea monopoly system (quecha) which only official tea was allowed [21]; (4) at the same year, Linghu Chu changed the tea system back to the old system [21].

Li analyses the reasons for tea monopoly system failure [24]. Shao highlights that the government frequently revised the tea system proved that the dependence of the central fiscal revenue on the economic interests of tea and the appetite of governments to protect this revenue [25]. As for its impacts, the tea tax system expanded fiscal revenue of the government and laid the material foundation for the development and dissemination of Chinese tea culture [24]. Meanwhile, the development of tea tax system and the further commercialization of tea extended tea production areas and promoted tea studies [23].

3.3 Wine Administration

Due to the development of grain industry, the reduction of brewing cost and the progress of brewing technology, the development of wine industry in Tang Dynasty had a solid foundation, which reflected by the extensive social stratum of drinking wine [26]. For the research on the wine administration in the early stage of Tang Dynasty, Liu states

that the government had issued several wine prohibitions which proved the tightened wine administration [27]. On the contrary, Li stated that the national capabilities were powerful and prosperous and its economy was stable, which promoted the development of market commodity economy and showed wine administration was relatively loose [26]. However, the fundamental core of the government's implementation of wine tax policy was consistent with the requirements of expanding the tax base and the demands of increasing the fiscal revenue by governments [26, 27].

It can be seen from the development process of wine administrations that the central government made frequent adjustments to the wine tax system shows that the wine tax became one of the important taxes for fiscal revenue, and improvement of the enthusiasm of wine merchants by adjusting policies was aimed to achieve the goal of stabilizing its fiscal revenue [26]. From the perspective of the impacts of tea tax system, the development of grain processing industry, the prosperity of the wine industry, the production of wine vessels and the development of wine culture and commercial culture were promoted by this system [26]. Despite of these advantages, by comparing with other dynasties, Xie indicates that according to the *Wen Xian Tong Kao*, due to the loose of the wine administration and the imperfect law of wine tax system, most of the wine tax were collected by local governments instead of the central governments. She also points out that this phenomenon negatively affected the stability of the rule of the court [28].

4 Conclusion

Through the review of the research result from 2011 to 2021, it can be concluded that the establishment of the two-tax system was aimed to expand the fiscal revenue and to maintain the stability of the rule of the central government. This tax reform also consisted with the development of the commodity economy and the expansion of the power of regional military governors. Compared to the previous tax system, the policy of two-tax system changed significantly: first, it was a relatively advanced theory to determine the tax based on the amount of assets, which had an enlightening effect on the theory of average taxation; and the form of monetary tax payment promoted the development of the currency system. However, due to the growth of the power of local governments and the difference degree of control of the central government over local area, the promotion of this system in each local area was conspicuously different and the goal of average taxation was unachieved. Moreover, the difficulty of currency circulation caused deflation, which increased the burden on peasants. Hence, although this system expanded the fiscal revenue of the central government and adapted the development of economy, it also became a reason for the demise of the Tang Dynasty.

From the commercial tax perspective, the development of commodity economy and considerable social demands became the reasons for their high profits. In order to expand fiscal revenue, the central government increased taxes on these commodities and implemented an official system to control their production and sales. These systems were adjusted slightly with political and social circumstances, but the core purpose remained the same. Although these policies guaranteed the fiscal revenue and promoted the development of commercial culture, they harmed the interests of merchants and peasants and additionally expanded the financial power of local governments, which accelerated the demise of the Tang Dynasty.

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