<Abstract>

The Schumpeterian tax state evolved slowly and was established in stages in Korea since around the fifth century when confederated states were transformed into territorial states. An early modern tax state emerged after the enforcement of daedong system in the seventeenth century, by which land tax overwhelmed poll tax, the tax structure became simple and fair, and fiscal institutions improved. However, it had a narrow and rigid tax base, and creative skills of acquiring revenues were not developed. The fiscal history of Korea reflected its long history of a unified political entity, low level of external trade and financial markets, and Confucian culture, fundamentally affected by the geopolitics of East Asia.
1. Early Modern Period in Korea

It is not difficult to divide between modern period and pre-modern period in Korean history. The port opening to the modern world including Western countries in 1876-1883 signified a turning point toward open system in terms of trade, capital movement, and personal exchange.

It is difficult to confirm the middle period and the early modern period in Korean history, however, because the history of Korea exhibited stronger continuity like that of China than those of Western Europe and Japan. It experienced neither the dramatic socio-political change like the feudalization of society and Renaissance, nor the dynamic economic development comparable to those of the early modern Europe and Japan. Nevertheless a few scholars tried to confirm the early modern period in Korean history. Before explaining the early modern Korea, it seems necessary to survey its pre-modern history briefly.

The cultural influences from China during the first millennium BCE helped Korean states to form early. The first ancient state of Korea, Old Joseon resisted to be incorporated into the Chinese world, and was destroyed by Han China in 108 BCE. This event, as well as the subsequent dynasties of Korea, is shown in Table 1, with Chinese dynasties appended for reference. After the fall of the Chinese colonies, the Korean peninsula was divided among the three states of Goguryeo, Paekche and Silla. “In the Sui period, only one of China’s neighbors, Goguryeo had any claim to be a ‘state’ with a mainly sedentary populations and stable institutions (Franke and Twitchett 1994: p. 4).”

After Tang China and its ally Silla managed to destroy Paekche in 663 and
Goguryeo in 668, Korea has remained a basically unified country. “In the whole world only China among existing nations can claim a clearly longer history as a unified political entity (Fairbank, Reischauer and Craig 1978: p. 287).” Three successive dynasties, Silla (-935), Goryeo (918-1392) and Joseon (1392-1910), had very long reigns.

The state institutions developed gradually in the long and continuous political history of Korea. The early Three Kingdoms all represented the jointing together of a number of walled-town states. These confederated kingdoms were transformed into territorial states around the fifth century (Lee 1990, pp.28-31). The separation process of bureaucracy from aristocracy began, when the Goryeo dynasty introduced the Chinese civil service examination system, and used it to some extent in selecting its bureaucrats. The early Joseon dynasty established a centralized bureaucratic state comparable to the contemporary Chinese state. ¹

Han (1983) argued that the early Joseon was an early modern state in the sense of political development. The early Joseon state was definitely more developed than the Medieval European states in state institution and political integration like late-imperial Chinese state (Wong 1997). However, it had limitations to get a title of an early modern state. The separation process of bureaucracy from aristocracy was not complete because of the hereditary social status system until the Reform in 1894. There was no representative institution to check the arbitrary power exercise of king, to represent people’s will, or to protect property right.

It cannot be said that there was no institutions to restrict the arbitrary power exercise of king and to protect people’s property right, however. The Chinese institution of the Censorate was particularly well developed (Fairbank, Reischauer and Craig 1978:
p. 304), and the balance of power between king and bureaucrats were maintained during the Joseon dynasty. And the Joseon dynasty achieved a high level of legalism among pre-modern societies. The literati elites of new dynasty set to work compiling a statutory code that would define the structure and functioning of Joseon government, finally producing the *National Code* (*Gyeongguk daejeon*) promulgated in 1471. They continued to publish new editions revised and enlarged. Bak (1996) argued that the early Joseon dynasty had an early modern level of legal institutions.

The most serious problem why I hesitate to call the early Joseon period as an early modern one was the underdevelopment of markets, however. Private international trade was nearly absent or very small owing to very restrictive policies. The urbanization ratio was low, and commercial or industrial cities other than administrative centers were absent. Silver money and local markets disappeared in the late fourteenth century. The early Joseon society was primarily agrarian, with most production coming from self-sufficient peasant families who produced grain and clothes mainly for subsistence and taxes.

Interestingly, the underdevelopment of markets had something to with the early development and long duration of territorial state. All the pre-industrial Korean states preferred official international trade to private international trade, and often suppressed the latter, because the pre-industrial rulers had incentives to administer international trade and monopolize trade gains. This tendency was strengthened by the incorporation into the Chinese tribute system which that subordinated trade to diplomacy. Because bureaucratic states developed earlier than markets in China and Korea unlike in Europe, the forces to restrict trade caused by the non-economic factors exerted stronger influence on its trade policy than the forces to promote trade caused by
the growth of market (Lee and Temin 2005). The early Joseon state consolidated state finance in kind or redistribution in Karl Polanyi’s sense, which had a crowding-out effect on market.

Yoshida (1988) called the late Joseon as early modern period. The basis of the argument was the growth of market and the tremors in the Yangban status system. Local periodic markets increased to be more than a thousand in the middle eighteenth century. The era of metallic money began in the seventeenth century. The main reason for the market growth was population increase. Population in Korea was roughly estimated as more than five million around 1400 and about eighteen million around 1800 (Kwon & Shin 1977). The growth rate of Joseon Korea was not so low among pre-industrial societies. Another important reason was the growth of international trade. A large quantity of silver was imported from Japan after the middle of the 16th century. Korea exported it to China, in return importing silk which was re-exported to Japan. Korea earned big gains from the intermediate trade. The total sum of silver imports during the peak period of 1684-1710 amounted to 189 metric tons, and the value was 58% of total imports from Japan (Tashiro 1981). The cessation of silver importing around the middle of the eighteenth century reduced private trade with Japan and China. The cultivation of ginseng that grew wild in Korea then rose to sustain private trade with China after the late eighteenth century. However, markets and private finance in the late Joseon dynasty were at much lower level than those of Europe, China, and Japan in the early modern period.

An early modern period of Korea may be confirmed in the sense of state finance, because the tax state in Schumpeterian sense emerged and consolidated, which will be explained in the next section. The evolution of tax state was related to political and
economic developments.

2. Evolution of Tax State

When the early Three Kingdoms were the confederated kingdoms jointing together of a number of walled-town states, tribute from the walled-town communities was the main source of revenues. The first stage of Korean states was a tribute state.

Territorial integration was regarded as the essential precondition for regular taxation in the early modern Europe (Schulze 1995). It was realized in Korea around the fifth century when the Three Kingdoms were transformed into centralized aristocratic states.

The first stage of the territorial state in Korea had the elements of patrimonial, domain, and tax states, because power was concentrated in the king and institutions to check king’s arbitrary exercise of power were underdeveloped, because state land and royal estate were accumulated through the conquest and annexation of walled-town states, and because territorial integration helped the Kingdoms to collect tax from people directly. A unified tax structure had been established before the Goryeo dynasty.

Crown land had a declining trend after disintegration of the Silla dynasty, almost disappeared at the early Joseon dynasty (Song 2000), and increased during the middle Joseon dynasty. The land owned by the state including crown land occupied a considerable portion during the Silla dynasty, and also had a declining trend from the late Silla dynasty to the early Joseon dynasty. Though it increased in the middle Joseon dynasty, it occupied 3% of total arable land in 1918 when the colonial government measured it accurately for the first time.

The Goryeo dynasty was not a domain state, because the arable land owned by the
state and royal house occupied only a small portion of the whole arable land, and the rest was private property, though private property rights were still immature.

The system of tax-collecting or tax-exempt prebendal land allotments provided financial support for the ruling class, officers, and professional soldiers during the Goryeo dynasty. It contradicted and abolished in the early Joseon dynasty. Joseon established a principle to put all the financial source of land under state’s firm control in 1445. It meant that the state collected taxes directly and distributed the tax revenues to the royal house and bureaucrats. The private property rights of peasants were restricted by the system of prebendal land allotments. The abolition of the prebendal system made the private property rights mature.

The tax state consolidated during the Joseon dynasty. The Joseon bureaucrats tried to control king’s revenues and prevent him from treating the public exchequer as his private treasure house, with significant, but not complete, success. Because Joseon Korea is the most Confucianized society in world history, the influence of Confucian culture on the Joseon’s state finance was not insignificant. Confucian bureaucrats demanded that king did not need his private treasury, because he represents the state and “the royal court and the government is one body.” This ideology demanded the royal finance to remove any private nature. As a result the royal finance of Joseon dynasty was highly institutionalized in pre-modern standards.

The royal finance consisted of the offering of daily goods, the tax-collecting land, the royal estate, loans, tributes from nobi, etc. As the system of offering daily goods to the royal house was established, the royal estate decreased and almost disappeared in the early Joseon dynasty. After establishing the principle in 1445, the tax-collecting land distributed to the royal family was incorporated into the public finance of
government. As the royal house had difficulty in financing consumption expenses of its families and donations to Buddhist temples, it relied heavily on interest revenues. The loan of the royal house was finally abolished in 1516 because of the criticism of Confucian bureaucracy. As the royal house could not rely on loans, it increased the offering of daily goods from tribute tax, and demanded the tax-collecting land and tried to obtain the estate. (Song 2000) The bureaucrats tried to check the royal demand, and to institutionalize the land distribution to the royal family, such as the size of distributed land, and the amount of tax or rent. As shown in Figure 1, the tax-exempt land owned by the royal house and the tax-collecting land distributed to it were around 30-40 thousand kyeol during 1776-1883, which comprised 2-3% of the total arable land surveyed by the government.

Though the bureaucrats checked the power of king, institutions of the Joseon dynasty were not sufficient for blockading king’s arbitrary power exercise, because the king was the last decision-maker, the parliamentary assembly was absent, and legalism was not mature. Most Joseon kings tried to observe the Confucian moral and the law, however, because they thought and were educated that it was the fundamental way to stabilize his position and the dynasty. As a result most of the tensions between king’s demand to increase his private treasury and bureaucrats’ checks could be settled. The Joseon dynasty had stronger moral checks in king’s power than the contemporary Chinese dynasties thanks to the strong Confucian culture. King’s abstinence from arbitrary exercise of power was a rational choice, because it contributed for realizing the aim to stabilize his position and the dynasty, and it lessened the demand for representative institutions to protect property rights against the king.

The institution of taxation developed gradually in Korea. The Three Kingdoms
seemed to introduce the Chinese tax system that was basically composed of poll taxes. The tax imposed based on the land product became one of the major taxes around the ninth century (Jeon 2006, pp.260, 278-9), and the founder of the Goryeo dynasty revived land tax of one-tenth the harvest. Goryeo and the early Joseon were tax states, but they cannot be called as early modern states, because the fiscal institution was immature, and state finance had little connection with market.

Before the enforcement of daedong system in the seventeenth century, there were three main types of taxes. The first was land tax. Both Goryeo and Joseon set the tax rate at one-tenth the harvest. After the promulgation of the Tribute Tax Law in 1444, the rate was lowered to one-twentieth, and became lower later. The decrease in land tax rate reflected the interests of landholding elites, though it was justified for the well-being of peasants. The low rate of land tax provided a favorable environment for the rise of landlords who extracted half the harvest from tenants.

The second was the tribute tax in kind. It was levied on products indigenous to a particular locale, and it met a wide range of government needs. It was based on the notion that subjects should present local products to their king. It was basically, but not entirely a poll tax, because it was assessed on households considering their financial ability. Because there was no legal provision on the exact amount of tribute tax of each household, the arrogance and corruption of the tribute-collecting officers intervened easily. Instead of the decrease in land tax, the tribute tax increased. The important reason was the increasing demand of royal house that could not rely on land and usury.

The third was the obligation of military and corvée labor service. The tax unit on which the service levy was based was the able-bodied male. Military service was
performed in a rotation basis. Corvée labor included construction work on palaces, royal tombs, and town walls, mining and other resource extracting. As corvée service levy was institutionalized in the early Joseon dynasty, the legal code stipulated that for each eight kyeol units\(^1\) one corvée laborer was to be made available for no more than six days in a year. In reality, however, corvée drafts could be mustered whenever the government saw fit.

There were also miscellaneous taxes. One category of them was comprised of revenues derived from industrial and commercial source.

The major tax sources were land and able-bodied males. In order to grasp them well, general survey of the land and population was carried out periodically. The results were recorded in land registers and household registers. It was prescribed that the cadastral survey be carried out in every twenty years, and the general survey of population be carried out in every three years. The rule about cadastral survey was observed only in the early Joseon dynasty, and the household registers included less than the half of the population. The state paid little attention to the sources of miscellaneous taxes.

Counties comprised the basic tax collecting units. Though there were lesser functionaries in charge of tax collection, the tax collection organization was not separated from the local administrative organization until the end of the Joseon dynasty. Korean states appointed local elites as local offices and let them in charge of collecting tax before the early Goryeo dynasty. This system was different from tax farming, because legal tax burden was defined by the state, though local offices arbitrarily levied surtaxes. The similar form of tax farming was indirect payment of tribute tax by merchants. Peasants often depended on it, because tribute-collecting officers were

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\(^1\)The unit of weight in ancient Korea.
oppressive or tribute items were not produced in their region. The central government criticized it, and endeavored to get rid of it. Local governments sometimes let gaekju, the merchants engaged in consignment selling, farm commercial tax or toll in ports. The central government did not approve it, but connived.

The Joseon state endeavored to observe the fiscal principle that the state expenditure was determined after measuring state revenues. National Code promulgated in 1471 prescribed that the state expenditure should be spent in accordance with the provisions of Hoenggwan and Gongan. The budget of royal house was also included in these books. Sometimes it was not observed by the king. The budget of local government seemed not to be specified in them.

Since the sixteenth century the fiscal administration faced intractable taxation problems, which induced fiscal reforms. Because tribute tax became the most onerous burden in the sixteenth century, taxes for tribute and corvée service were merged into land tax creating the daedong system. The daedong system converted the tribute tax in kind into land tax to finance market purchases of goods by the tribute middlemen (gongin). It was adopted in the seventeenth century on a piecemeal basis, overcoming oppositions of the landed interest. After introducing the system, land tax constituted the largest item of state revenues. It was assessed in rice.

The daedong system was the most important fiscal innovation in pre-modern Korea. First, tax structure became simple, distinct, and fair. Second, land tax came to overwhelm poll tax. Third, the system contributed to the growth of market, because it substituted commodity money such as rice and cloth for tribute tax in kind, and also substituted hired labor for corvée labor. Fourth, the planning power of state finance became enhanced, because the numerical calculation of state revenues was possible. It
seems safe to say that an early modern tax state was established by the enforcement of *daedong* system. The system had coherent provisions and paved the way for its success in the year 1652. Contrary to the proclamation of *daedong* Law, however, various surtaxes revived in the eighteenth century. This revealed the weakness of fiscal institutions such as the immaturity of legalism.

After the enforcement of *daedong* system, military service levy was the most onerous burden of peasants instead of tribute tax. ¹¹ Military service became another tax in the middle Joseon dynasty. Peasants paid two bolts (*pil*: about 2 by 40 feet) of cotton cloth, and could be exempted from the military service obligation. This substantial burden was imposed mainly on the poor commoners to make the farm villages impoverish. In 1750, the king decreed that the cloth tax lowered from two bolts to one and the loss in revenues to be made up by taxes on fish traps, salt production, and private fishing and trading vessels, and by land surtax.

After the reform in 1750, the grain loan (*hwangok*) system became the most onerous burden of peasants. The loan was made to poor peasants from government stores in the lean spring months and was to be repaid at harvest times with a “wastage” charge of ten percent. The central government absorbed part of the charge since the seventeenth century. Since officials forced the peasants to borrow more than they needed, the system was converted into an instrument for making usurious loans. When they exacted the charges without the loans, it became tax. The stock of the grain loan increased to one million *seok* of unhulled rice in the late eighteenth century. It provided a major fund for public relief in times of bad harvests, and an important financial source for many offices in times of good harvest.
3. Quantitative Survey of Economy and State Finance in the Early Modern Korea

If utilizing statistics and statistical estimates of the early twentieth century, we may survey economy and state finance in the early modern Korea quantitatively. The country size of Korea since the sixteenth century is 220 thousands ㎢, of which the arable land occupied about 20%. As shown in Table 2, the total number of kyeol did not change much in the Joseon period. Almost all the arable land under pre-modern technology had been cultivated already in the early Joseon dynasty, and the Joseon state grasped the total amount of land fairly well. Though population estimates have variations, it may be safe to estimate the population in the eighteenth century as around sixteen or seventeen million. The early modern Korea developed an intensive agriculture and achieved a high density of population.

The arable land was about ten million acres, of which paddy field occupied about 30%, around 1800. All the paddy land was 529 thousand kyeol, which occupied 36% of the total kyeol, in the land register in 1807. It may be safe to assume that all the paddy land cultivated by 1800 was 500 thousand kyeol, if including the unsurveyed land as well. The production of unhulled rice was about twenty million Japanese seok, or about thirty five million Korean seok around 1800.\(^1\)\(^2\) It is estimated that 1 kyeol yielded about 70 Korean seok of unhulled rice. 1 Korean seok was 15 du, and 1 seok of unhulled rice was 0.4 seok of fully hulled rice that could be accepted as tax. Therefore 1 kyeol paddy land yielded about 400 du of hulled rice. The value of dry field products was a little more than half that of paddy field product of same size.

It is possible to estimate the tax burden after the introduction of daedong system. The land taxes prescribed by the law were 19~21 du of hulled rice per kyeol of paddy land and 18~19 du of hulled rice per kyeol of dry land. They occupied only about 5%
of the rice product of paddy land, and about 8% of the main product of dry land. However, the amount of land surtaxes was twice that of legal land taxes. Some of surtaxes were approved by the central government, and total land tax per kyeol was often said to be 40du of hulled rice. If the burden of hwangok is included, when it was the largest, the total burden occupied about 20% of the rice product of paddy land, and about 30% of the main product of dry land (Bak 1962, chap. 15). The real tax rate was lower than the above rough estimates, because there was land cultivating more than one crop a year. Peasants had additional revenues from livestocks, handicrafts, hired labor and so on, but had to pay the cloth tax converted from the military service obligation. These burdens were very heavy to tenants who also paid half the harvest to their landlords, and to ordinary peasants in time of bad harvests. The land tax system had a grave problem that very diverse surtaxes undefined by law occupied a major portion.

As shown in Table 2, the taxable land currently under cultivation was about one million kyeol, of which about 200 thousand kyeol were exempt from tax to provide financial supports for government offices and the royal family. Part of the latter was the state land, and its rent was about 200du of unhulled rice per kyeol. Most of the latter was private property, and its tax levy was about 100du of unhulled rice per kyeol. The state seemed to absorb about 4 million seok of hulled rice, or 10 million seok of unhulled rice. It occupied about half the total rice product. If all the usurpations were included, the burden of people was much heavier. And some part of land tax was converted into cloth or coin. After the decree in 1750 the cloth tax for military service was 500 thousand bolts. It amounted to 200 thousand seok of hulled rice. Land tax occupied a dominant portion of state revenues after the enforcement of daedong system.

State revenues from commerce and industry were meager. They were trivial in the
early Joseon dynasty, but increased to become an important tax item after the seventeenth century. The military tension in the seventeenth century let the military offices extract the surpluses from mining. Since the military tension weakened in the late seventeenth century, mining tax was appropriated for diplomacy with China (Yu 1993). Because mineral resources were not ample and the government suppressed mining in order to protect agriculture, the mining tax was not large. Profits from official international trade were appropriated for diplomacy expenditures and king’s present. The government began collecting taxes from private international trade since the seventeenth century when it was approved. The tax amount varied depending on trade volume and tax rates. Its annual average was roughly estimated to be 100 thousand yang of coin (Yu and Lee 2002), which amounted to 20 thousand seok of hulled rice from the late seventeenth century to the early nineteenth century. Salt monopoly was sometimes enforced, but did not last long because of concerns about side ill effects. The revenue from taxes on fish traps, salt production, and private fishing and trading vessels, which appeared after the decree in 1750, amounted in total to 100 thousands yang of coin (Kim 1984, chap 1). And there were exactions from urban shops, and taxes from commerce in periodic markets and ports. The total tax amount from industry and commerce were roughly estimated to be 500 thousand yang of coin (Kim 1984, chap 1), which amounted to 100 thousand seok of hulled rice. It occupied only about 2% of the total tax revenue. Only commercial taxes were indirect tax.

The fundamental reason for the low level of taxes from industry and commerce was that the Korean society was primarily agrarian until the nineteenth century. The main reason for the underdevelopment of market must be sought in international trade. Though Korea has the advantage of being a small peninsular country, it had a small
foreign trade for the most part of its pre-modern history.\(^4\)

Even considering that the Korean society was primarily agrarian, tax revenues from industry and commerce were too small. It was largely because the Joseon government never considered foreign trade and industrial production as essential elements of public finance, as Ming government did (Huang 1998, p.145).

The strong Confucian culture was unfavorable to the exploitation of revenues from industry and commerce and the promotion of bureaucrats’ entrepreneurship, while it helped to check the arbitrary power exercise by the royal house, during the Joseon dynasty. Confucians feared that flourishing commerce would harm the aim to establish a harmonious and stable agricultural society. They were also afraid that policies increasing state revenues would result in increasing people’s burden, and accordingly demanded that the state should not compete with people for seeking profit. As a result, Confucian bureaucrats were very passive in absorbing commercial and industrial taxes, or indirect taxes. And the long time of external peace and internal stability weakened the incentive for bureaucrats’ entrepreneurship and fiscal reform.

Tax for military services was poll tax. The burden of land loan system had the double nature of poll tax and land tax. When tributes were collected in kind, poll tax occupied the dominant portion. Since the enforcement of *daedong* system, however, it occupied less than 20%. However, the Korean tax structure had not developed beyond the traditional systems with their limited ranges of poll tax and land tax until the nineteenth century unlike the seventeenth century Britain (O’Brien 1988).

The central government seemed to absorb about 70% of legal land taxes, less than 10% of land surtaxes, about 80% of tax for military services, less than half the revenue from the grain loan system, and more than half the tax from commerce and industry in
the late Joseon dynasty. The portion of tax revenues concentrated in the central government must be less than half, because the land surtaxes were the biggest item, and local governments absorbed most of informal or illegal taxes.

The annual expenditure of royal house was 73 thousand seok of hulled rice around 1800 (Kim 1997, p.30). The salary of bureaucrats was about 40 thousand seok of hulled rice. The low salary incited corruptions. Side incomes were bigger than the regular salary for local officers. After establishing the army of paid recruits during the Japanese invasion in 1592-8, government expenditures to raise military forces increased to about 500 thousand seok of hulled rice. The diplomacy expenditure was 100~200 thousand seok of hulled rice (Kim 1984, pp. 147-154). The Joseon government was small in the public revenue and military expenditure.

Table 3 shows how state revenues were distributed in 1820. Local government revenues and most of miscellaneous taxes were not included. Ministry of Finance (Hojo) was set to take charge of state finance, but the state revenue was not concentrated into the Ministry until the Reform in 1894. Although the state established the principle to put all the financial source of land under its firm control in 1445, only land tax, called Jo that supplied salaries for bureaucrats was concentrated in the Ministry. The land tax converted from tribute tax that supplied expenditures of royal house was concentrated in Seonhyecheong. These were two major government finance offices, and each absorbed 26.3% and 44.8% of state revenues. Other major finance offices were military ones. Ministry of War (Byeongjo), Military Training Command (Hunryeondogam) that commanded about 5,000 paid recruits, and the other three major military offices absorbed 2.7%, 2.3%, and 7.7%, respectively. Almost every government office had to raise part of operational funds by themselves, which did not
enter into the central accounting process. Thus, they competed to capture the miscellaneous taxes. The establishment of a single Treasury was not realized until the Reform in 1894.

After the policy to circulate copper coins bore fruits since 1678, taxes were increasingly paid in coins. The Joseon government endeavored to circulate coins through the commutation of taxes. The amount of coins in circulation was estimated about 5 million yang in 1700, 9 million yang in 1800, and 14 million yang in 1860. Its ratio to GDP was roughly estimated as 2~3% in 1700, and 4% in 1860 (Lee 1999). The government minted only small denominations of good quality coins, and realized price stability until the early nineteenth century. It refrained from deficit financing through alloy-manipulation, though it sometimes raised funds for relief by coinage in times of bad harvest. It minted large denominations to raise funds for the construction of palace in 1868 for the first time. This deficit financing project through coinage failed, as revealed in Figure 2, imposing a heavy burden on the state finance.

Gold, silver and copper coins occupied about 36% of the total revenues and expenditures of Hojo and Seonhyecheong in 1807 (An 1975, p. 113). Copper coins occupied about half the state revenues in 1820, as shown in Table 3. Other important tax items were rice and cotton cloth, which functioned as commodity money. As shown in Figure 2, major financial offices stored half of the funds in forms of gold, silver, and coin, and the rest were cereals and clothes. On the basis of the conversion of various taxes into land tax, and the commutation of tax and service obligations into coins, local governments converted all the various burdens of peasants into land tax, and collected the payment in coins. This dokyeol diffused, though legally allowed commutation of tax was not advanced, in the nineteenth century.
During the Goryeo dynasty individual aristocrats, the state and the monasteries operated granaries and made profits from lending grains at high interest rates. Some granaries were established to provide support for Confucian students or monks, and others for poor relief. As mentioned earlier, the royal house once relied heavily on the interest revenues in the fifteenth century. There were more than 500 places to lend, and total lending fund was about one million seok of unhulled rice, in the peak time. This business was criticized by Confucian bureaucrats, because the loan was apt to be forced, and because it was not considered rightful for the royal house and the yanbans to seek profit through interest-bearing loans in the Joseon dynasty.  

In the late Joseon dynasty, state lending revived, as the growth of market and the circulation of coins brought out the growth of loan, and local governments had difficulty in financing. After copper coins were circulated widely from the end of the seventeenth century, they became the main medium of state loan instead of grains. Local governments engaged actively in lending. For example, interest revenues occupied 7% of the county revenues of Jeongpyeong in the nineteenth century. The interest rate was usually 20%. Because the loan was apt to be forced, people considered it as another tax (Oh 1086). The interest revenues of loans to merchants were considerable in counties where commerce was vigorous. Financial or military offices actively engaged in lending to the activities of international trade since the late seventeenth century, because private international trade grew and was approved by the state. According to Table 4, the average loan per embassy to China was 22 thousand yang of silver money during 1714-1726 when the state loan to international trade was active.  

There were on average three embassies to China per year during the late Joseon period. The loan of Ministry of War, 5 Military Offices, and Military Office of
Pyeongando occupied 62% in total. Ministry of Finance and Office of Pyeongando in charge of diplomacy expenditure occupied 36% in total.

Influential merchants issued bills of credit and those of exchange in the late Joseon dynasty. The Joseon State also used bills of exchange for remittance, but did not issue bills of credit. It disliked merchants to intervene financial activities to pay taxes or to make remittance (Bak 1992). Though loans between government offices were active, the state had no idea to borrow from the private sector, because territorial states were established before financial markets and there was no international financier around Korea. Moreover, the Joseon dynasty suffered only two big wars before the port opening. It was only during the longest war with Japan in 1592-8 that the Joseon state needed a huge fund that was difficult to procure with the existing financial system. However, the state did not resort to borrowing. One reason must be that there was no big private financier or banker.\(^2\)\(^1\)

As shown in Fig 2, the financial situation became worse in the nineteenth century (Bak and Bak 1982). The decrease in productivity of paddy land must be one important reason. Other important reasons were the problem of financial institutions and the lack of bureaucrats’ entrepreneurship. The proliferation of various surtaxes, unfair burdens of military tax, and the abuse of hwangok became severe problems in the early nineteenth century. But there was no fundamental fiscal reform comparable to the daedong system until the Reform in 1894, though minor reforms were made. And creative skills of acquiring revenues were not developed. The bad financial situation, the narrow and rigid tax base, and the lack of bureaucrats’ entrepreneurship gave difficulties in responding to Western impact after the port opening.
4. Characteristics of Tax State in Korea and Its Backgrounds

The tax state evolved slowly and was established in stages in Korea since around the fifth century when confederated states were transformed into territorial states. An early modern tax state established itself after the enforcement of daedong system in the seventeenth century, by which land tax overwhelmed poll tax, the tax structure became simple and fair, and fiscal institutions improved. However, it had a narrow and rigid tax base.

The state finance in Korea was similar to that in China, because Korea introduced state finance institutions and Confucianism from China, and political and social systems of two countries were similar. There were some differences, however, because of different geopolitical situations and internal conditions. For example, the state finance of the Joseon dynasty had lower dependency on markets and stronger moral checks in king’s power than the contemporary Chinese dynasties owing to the lower level of market economy and the stronger Confucian culture. The strong Confucian culture was unfavorable to the exploitation of revenues from industry and commerce, and the promotion of bureaucrats’ entrepreneurship, while it helped to check the arbitrary power exercise by the royal house, during the Joseon dynasty.

Compared to other early modern civilizations, Korea’s long history as a unified political entity was favorable to the gradual evolution of tax state, but its low dependency on international trade, mainly owing to the incorporation into the Chinese tribute system, was unfavorable to the growth of commercial revenue and public credit. Though the taxation institutions developed since formation of the territorial states in Korea, creative skills of acquiring revenues were not developed until the end of the last Korean dynasty because of underdevelopment of financial markets and the lack of...
bureaucrats’ entrepreneurship.

Compared to the early modern West Europe, Korea had weak points in their state finance, which was unfavorable to modernization. First, the lack of parliamentary assemblies was unfavorable not only to the development of institutions to protect property rights but also to the flexible change in tax burdens. Second, while military revolutions of the sixteenth and seventeenth centuries led the innovation of state finance in Europe, this sort of ‘military revolution’ did not happen in Korea. Though the Joseon state succeeded in alleviating military expenditure, it failed to strengthen military power. It was mainly because of East Asia’s geopolitics where the dominance of a huge and advanced state, China weakened military competitions. Third, there was no public debt because of different statecrafts and underdevelopment of financial markets. Though interest-bearing loans have never been prohibited, states did not borrow from the private sector, in Korea. Tensions of military competition and relative autonomy of private finance overcame the culture hostile to interest-bearing loans in Europe.

The fiscal history of Korea reflected its political, economic, and cultural situations, as Schumpeter(1954) observed. The fundamental factor to explain the evolution and characteristics of tax state in Korea seemed to be the geopolitics of East Asia.
References


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Yu, Seungju and Lee Cheolseoung, History of Trade with China in the Late Joseon Period (in Korean) (Seoul: Gyeonginmunhwasa, 2002).


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Table 1 Korean dynasties

<table>
<thead>
<tr>
<th>Korean dynasties</th>
<th>Chinese dynasties</th>
</tr>
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<tbody>
<tr>
<td>Old Joseon</td>
<td>~108BCE</td>
</tr>
<tr>
<td>Three Kingdoms</td>
<td></td>
</tr>
<tr>
<td>Goguryeo</td>
<td>37 BCE?-668</td>
</tr>
<tr>
<td>Paekche</td>
<td>18 BCE?-663</td>
</tr>
<tr>
<td>Silla</td>
<td>57 BCE?-935</td>
</tr>
<tr>
<td>Goryeo</td>
<td>918-1392</td>
</tr>
<tr>
<td>Joseon</td>
<td>1392-1910</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Han</td>
<td>206 BCE-220</td>
</tr>
<tr>
<td>Six Dynasties</td>
<td>222-589</td>
</tr>
<tr>
<td>Sui</td>
<td>581-618</td>
</tr>
<tr>
<td>Tang</td>
<td>618-907</td>
</tr>
<tr>
<td>Song</td>
<td>960-1279</td>
</tr>
<tr>
<td>Khitan Liao</td>
<td>947-1125</td>
</tr>
<tr>
<td>Jurchen Chin</td>
<td>1122-1234</td>
</tr>
<tr>
<td>Mongol Yuan</td>
<td>1271-1368</td>
</tr>
<tr>
<td>Ming</td>
<td>1368-1644</td>
</tr>
<tr>
<td>Qing</td>
<td>1636-1911</td>
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Table 2  The number of kyeol in land register during Joseon dynasty

<table>
<thead>
<tr>
<th>Year</th>
<th>Total number of kyeol</th>
<th>number of kyeol Currently cultivated</th>
<th>number of paddy land kyeol</th>
</tr>
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<tbody>
<tr>
<td>The late 16c</td>
<td>1,515,594</td>
<td>865,537 (56.3)</td>
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</tr>
<tr>
<td>1635</td>
<td>1,537,494</td>
<td>819,070 (53.4)</td>
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</tr>
<tr>
<td>1683</td>
<td>1,312,860</td>
<td>1,042,850 (72.5)</td>
<td>528,990 (36.3)</td>
</tr>
<tr>
<td>1776</td>
<td>1,438,714</td>
<td>1,045,342 (71.8)</td>
<td></td>
</tr>
<tr>
<td>1807</td>
<td>1,456,592,</td>
<td>1,007,050 (70.1)</td>
<td></td>
</tr>
<tr>
<td>1894</td>
<td>1,435,916</td>
<td>1,049,664 (73.1)</td>
<td></td>
</tr>
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</table>

Source: Rhee(1999), pp. 141, 144.

Note: Percentage of the total number of kyeol in parentheses.
Table 3  The composition of state revenues

<table>
<thead>
<tr>
<th>Offices</th>
<th>Quantity</th>
<th>coin</th>
<th>Rice</th>
<th>upland rice</th>
<th>bean</th>
<th>cotton cloth</th>
<th>hemp cloth</th>
<th>Sum</th>
</tr>
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<tbody>
<tr>
<td>Hojo</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Quantity</td>
<td>474,624</td>
<td>123,269</td>
<td>2,355</td>
<td>43,566</td>
<td>97,602</td>
<td>12,230</td>
<td>1,428,968</td>
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<tr>
<td></td>
<td>Value</td>
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<td>616,345</td>
<td>9,420</td>
<td>108,915</td>
<td>195,204</td>
<td>24,460</td>
<td></td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>33</td>
<td>43</td>
<td>1</td>
<td>8</td>
<td>14</td>
<td>2</td>
<td></td>
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<tr>
<td>Seonhyecheong</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Quantity</td>
<td>1,311,627</td>
<td>161,071</td>
<td>760</td>
<td>10,070</td>
<td>135,777</td>
<td>7,863</td>
<td>2,432,477</td>
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<td>Value</td>
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<td>25,175</td>
<td>271,554</td>
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</tr>
<tr>
<td></td>
<td>%</td>
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<td>33</td>
<td>0</td>
<td>1</td>
<td>11</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Byeongjo</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Quantity</td>
<td>77,750</td>
<td>1,891</td>
<td>38</td>
<td>10</td>
<td>29,179</td>
<td>2,705</td>
<td>145,308</td>
</tr>
<tr>
<td></td>
<td>Value</td>
<td>77,750</td>
<td>9,455</td>
<td>152</td>
<td>25</td>
<td>58,358</td>
<td>5,410</td>
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</tr>
<tr>
<td></td>
<td>%</td>
<td>54</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>47</td>
<td>2</td>
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<tr>
<td>Hunryeondogam</td>
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<tr>
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<td>Quantity</td>
<td>55,454</td>
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<td>38</td>
<td>10</td>
<td>29,179</td>
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<td>Value</td>
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<td>9,455</td>
<td>152</td>
<td>25</td>
<td>58,358</td>
<td>5,410</td>
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</tr>
<tr>
<td></td>
<td>%</td>
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<td>47</td>
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<tr>
<td>Three major military office</td>
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<td>%</td>
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<td>44</td>
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<td>Others</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Quantity</td>
<td>662,970</td>
<td>19,064</td>
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<td>31,489</td>
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<td>Value</td>
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<td>11,732</td>
<td>52,250</td>
<td>62,978</td>
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<td>11</td>
<td>1</td>
<td>6</td>
<td>7</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Sum</td>
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<td></td>
<td></td>
<td></td>
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<tr>
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<td>Quantity</td>
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<td>74,546</td>
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<td>3</td>
<td>13</td>
<td>1</td>
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</tr>
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</table>

Source: An (1975), pp. 111.

Note: The unit of cereals amount is seok, and that of clothes amount is bolt.
Table 4  Average silver loan per one embassy to China, 1714-1726

<table>
<thead>
<tr>
<th>Offixe</th>
<th>Silver loan (yang)</th>
<th>Proportion (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance</td>
<td>4.112.5</td>
<td>18.5</td>
</tr>
<tr>
<td>Ministry of War</td>
<td>2162.5</td>
<td>9.7</td>
</tr>
<tr>
<td>5 Military Offices</td>
<td>8450</td>
<td>38.0</td>
</tr>
<tr>
<td>Pyeongando</td>
<td>7125</td>
<td>32.0</td>
</tr>
<tr>
<td>Others</td>
<td>400</td>
<td>1.8</td>
</tr>
<tr>
<td>Total</td>
<td>22250</td>
<td>100</td>
</tr>
</tbody>
</table>


Figure 1  The composition of total number of kyeol

Source: Chosensotokufu Chushuin (1940).
During the most part of Joseon period, over 90% of high officials had passed the civil service examination (Duncan 2000). Although the Joseon state created much broader opportunities for advancement than before, birth into a yangban family enabled individual members to pass the examination, gain the high positions in the state bureaucracy, and receive privileges or exemptions from certain rules of punishment and service both civil and military. The yangban class occupied about 5% of the population. Below the yangban was a relatively small and legally undefined class which has been
called the *chungin* or “middle people.” The bulk of the population was made up of commoners (*yangmin*), who were the main class burdening tax and military service. The lowest class was called the “base people”(*cheonmin* or *nobi*). They were sold like slaves, but came to have legal rights comparable to serfs of Medieval Europe during the Joseon dynasty (No 1998). They increased to occupy about 30% of the population in the sixteenth and seventeenth centuries, but decreased drastically in the eighteenth century.

2 *Yangbans* moved out from the local administrative center to settle in the rural villages in the early Joseon dynasty, and were primarily rural and agricultural elites, which must have something to do with the rise of Confucianism. This was unfavorable to urbanization.

3 The early Joseon Korea achieved impressive scientific developments, however. Advancements occurred in new astronomical instruments, a rain gauge, large-scale printing by movable type, the invention of excellent phonetic system and so on.

4 There were serious setbacks of trade. The formation of the Three Kingdoms shrunk external trade among local powers in the Korean Peninsula, so the consolidation and extension of state power had transformed open-trade system into administered trade system (Yi 1998). It seemed that the maritime ban was implemented. Private trade prospered during the 9th century, but the Goryeo government also came to prohibit private maritime trade independent of the emissary traffic, and implemented a maritime ban. The Joseon dynasty prohibited all the private trade with China at first. Such a strengthened policy against private trade can be explained by the attitude of Ming China and the rise of Confucianism. Pre-modern Korea was more passive in pursuing gains from foreign trade and more restrictive in foreign trade policy than China since the tenth century. This restrictive foreign policy was more harmful to economic development in Korea than in China, because Korea’s internal markets were small compared to China. The Korean pre-modern economy had several ups and downs, resulting in a very slowly growing market trend. Private trade was connived since the fifteenth century, and allowed in the seventeenth century. But the maritime ban was not abandoned until 1882.

5 For most of the pre-industrial period, Korean states had to accommodate Chinese foreign policy due to Korea’s geopolitical location. China was a big, strong, and culturally advanced state that claimed universal rule, and Korea, as one of the smaller neighboring states, naturally accepted the Chinese tribute system and its own inferior position.

6 Weber (1968) conceptualized the traditional domination based on the arbitrary exercise of king’s power beyond the extra-patrimonial domain as the patrimonial state. It is not easy to define the concept of patrimonial state concretely, or to analyze the history of state finance by the concept.

Schumpeter(1954) observed the significant step from the medieval domain state to the modern form of tax state in Europe. As the sixteenth century witnessed the triumph of the national or territorial ruler in Europe, the portion of domain revenue declined, and taxation had been established as the only mechanism for running the state and paying for a bureaucracy and an army. This is a decisive stage in inauguration the modern tax state (Schulze 1995). Schumpeter’s theory has a strong analytical power in explaining
the country that experienced historical changes from the medieval feudal society to the early modern society. But it has limits in explaining the country that experienced gradual evolutionary changes in political structure since the formation of ancient state like China and Korea. Territorial states appeared in China around the fourth century BCE, and in Korea around the fifth century, while Europe witnessed the triumph of territorial ruler in the sixteenth century.

But we have no alternative theory to explain the evolution of state finance in Korea. Besides, the first stage of the territorial state in Korea seemed to be near to the concepts of patrimonial state and domain state. The Silla society was dominated by the lineage groups of royal house and queens’ family (Lee 1990, pp. 31, 51). Goryeo relied on aristocrats from many different clans to govern unlike Silla where the royal lineage had been at the center of the political process. Bureaucracy developed with the adoption of civil service examination. There was a debate whether the Goryeo dynasty was a patrimonial state, which did not settle (Bak 1992).

During the Unified Silla dynasty, the portion of land owned by state and state rulers was considerable, and the state limited the property rights of private land. It seemed that seigneurial rights existed in the early stage of Korean dynasties, and weakened gradually. Heavily burdened with taxes in kind and with obligations to provide labor services to the state, Korean peasants around the third century was regarded by the Chinese as being exploited in the manner of agricultural slave (Lee 1990, p. 51). Property rights exited, though in an immature form and limited scope, in the Unified Silla period, and grew gradually in scope and depth thereafter.

7 Joseon Korea is called as ‘a model Confucian society’ (Fairbank, Reischauer and Craig 1978: p. 300).
8 The patrimonial nature of state never disappeared until the end of the Joseon Period (Kim 1997). Royal finance was separated from governmental finance completely by the Japanese government that put Korea under the firm control after the victory in Russo-Japanese War of 1904.
9 “If the emperor so wished, he could, at any time, order the Minister of Revenue to transfer funds from its treasures to his private treasury in the imperial palace.” (Huang 1998, p. 116)
10 The first rate of 1 kyeol is 2.4 acres, and the size of the sixth rate kyeol is four times of the first late kyeol. The same magnitude of kyeol demanded the same amount of land tax. It is a fiscal unit. The major factor determining the grade of kyeol was fertility.

There were two types of soldiers in the Goryeo and the early Joseon dynasties. There were special and professional military men, whom the Goryeo state granted land assigned two supporting households to cultivate it, and the Joseon state gave salaries instead of land. Most of the soldiers were adult males liable for military service who were divided into duty soldiers who rotated on and off duty and support taxpayers who paid taxes to support the on-duty soldiers. Using ordinary peasants had the advantage of eliminating the expense of paying for a professional force of soldiers during peacetime and the bother of rounding up recruits whenever war broke out (Palais 1996, pp. 46-7). This military system got out of order, and failed to cope with the Japanese invasion in 1592. A system of paid recruits became the
predominant means by which army’s ranks were filled. The method of troop organization based on the 
corporation and integration of musketeer squads with arches and spearmen had spread throughout the 
army and the need for cannon, gunpowder, ammunition, and fortifications increased military expenditure 

1 Japanese Seok = 180 liters = 1.5~2 Korean Seok.

Considering the estimates of national accounts in the 1910s’ Korea, the total production of rice was 
roughly estimated to be about 25% of GDP around 1800.

According to the general survey of the households during 1909-1910, those engaged in agriculture, 
commerce, industry, and daily labor were 86.3%, 6.3%, 0.8%, and 2.5%, respectively (Lee 1997). Most 
of industrial production still came from side jobs of peasants. About 25% of agricultural products went to 
markets (Lee 1990). Though the density of periodic markets was high, the urbanization rate was low. 
The total populations of all cities with at least 5,000 inhabitants is estimated to be about 540 thousand 
around 1800, which occupied about 3.2% of the total population (Lee 2006b).

The ratio of trade to GDP might have exceeded 1% after the late sixteenth century, reached at the 
maximum level of around 2.5% during the late seventeenth and the early eighteenth centuries, and was 
around 1.5% afterwards. Before then, it might have exceeded 1% only in the ninth century (Lee 2004).

Kim(1984, chap. 1) estimated the state revenue and its composition. The revenue of local 
governments was underestimated much more than that of the central government.

There is a big gap between the estimated amount of revenues and the estimated amount of 
expenditures, which needs scrutinizing. One reason must be the difficulty to estimate expenditures of 
local governments.

In the fifteenth century the state propelled the policy to circulate silver money and paper money that 
were used in a limited sphere during the Goryeo dynasty, but with no success. Hemp cloth functioned as 
money before the early fifteenth century, and cotton cloth did after the middle fifteenth century. Since 
Ming China sent troops with silver money to expel the Japanese invasion in 1592, the circulation of silver 
money revived. The increase in silver import from Japan promoted the circulation, and the decrease and 
cessation of silver import withered and ceased it in the eighteenth century.

1 yang was one hundred copper coins, and could buy about 5 seok of hulled rice in the capital city 
before the early nineteenth century.

East Asia did not have the notion that lending at interest was contrary to all nature or was a sin. 
Therefore interest-bearing loans have never been prohibited. But the moral economy of pre-modern 
Korea induced the government to set just interest rates and to prohibit the amount of interest payments 
above the principal sum. The Goryeo government set the legal annual interest rate as 33%. The Joseon 
government set the legal annual interest rate of public loan as 10%, and that of private loan as 20%. But 
the restriction on the interest rate and the sum of interest was often violated. The annual interest rate of 
public loan became around 20%, that of royal loan was usually 30%, and the private annual interest rate
was usually about 40~50%. This high interest rate revealed the underdevelopment of financial markets.

1 yang of silver money was equivalent to about 2 yang of copper coins during the period.

The Royal Family Bureau borrowed at very high interest rates in the early 19th century (Park 2005). It seemed that some offices had to borrow from private financiers in time of short-run deficit. The high interest rates more than 4% per a month revealed that the underdevelopment of capital market was unfavorable to the growth of public debt.

Korea did not have distinct the era of brokerage mainly depending on mercenaries or that of nationalization depending on the universal conscription system in Tilly’s term (1990) before the nineteenth century.

China also seemed to have the same weak points. Chinese states need not borrow from private sector, because China was a huge empire. Because Japan also learned state institutions from China, its state finance had similarities with China and Korea. For example, land tax was the major tax in Tokugawa Japan. However, rulers of Tokugawa Japan borrowed from private financiers and were active in acquiring revenues like those of Europe. This reflected the feudal political system and a small world economy that were similar with European political and economical situations.