

Is China's Market Path a Road to Socialism?

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I. Preface

The authors hold that everyone interested in building socialism as the dominant world system needs to study what has happened in China over the last quarter century, and consider what that historical experience means for constructing new paradigms of socialism for the Twenty First Century.

This is intended as our first look at the empirical data concerning this question. We definitely do not consider ourselves “China experts” or (at this point) even “semi-experts,” and our interest in what has happened in China comes directly from our interest in building socialism. Our investigation necessarily is influenced by our conception of what is important to socialism, but with that in mind we have attempted to look at the data relatively objectively and we have written conclusions that the data appeared to us at this point in our studies to imply. We believe that we need investigate the issue much more, we consider our conclusion preliminary based on what data we have considered so far, and we passionately ask for feedback, both agreeing and disagreeing with our conclusion. We hope in particular for feedback whose theoretical conclusions rest on a solid factual base that is presented in such works.

The authors expect, and even hope, that this paper will be controversial at its presentation in Havana among Cubans and supporters of the Cuban revolution. To initiate that controversy already with the second paragraph in this paper, we assert here that in our opinion capitalism has been restored in China. The intent of this paper is to support that claim.

This claim is being made in the frame that there will be many roads to building socialism, and there will even be many different concrete forms of socialism, just as there are many different concrete forms of capitalism. But in that frame, this paper asserts that the development path chosen by China for the last 30 years has not been a road toward socialism, but rather a road to capitalism.

As this paper is being given at a conference in Havana, and as Cuba is currently experimenting with a number of the same changes that China adopted at the beginning of its reform process in 1978, some readers may infer that this paper is a covert attack on the Cuban reform process. It is not.

First, we maintain that there are *essential* differences between both the Cuban Revolution and the Chinese Revolution on the one hand, and the nature of the leadership of the Cuban Revolution and the leadership of the Chinese Revolution (including in particular the leadership-people relation) on the other hand. While it will not be the topic of this paper, we maintain that those essential differences mean that the current reform process in Cuba, notwithstanding a significant number of similarities to the earlier reform process in China, will not inherently lead to the restoration of capitalism in Cuba, especially because of a number of essential differences. Of course that is a prediction about the future, and such a prediction rests on many unknown factors, including for example the future development of the world revolution. Nevertheless, we

maintain that a restoration of capitalism in Cuba is an unlikely result of the current reforms in Cuba.

Second, if we did intend to criticize the current reforms in Cuba as likely to lead to a restoration of capitalism in Cuba, we would say so very directly, and very loudly.

Again, to stress this point: this paper argues that, in the context of China and in particular the relation between the leadership and the people there, the sum of all the reforms that will be described in this paper constituted a change from a non capitalist to a capitalist economy. As a matter of logic it does not follow from this that if the same reforms occurred in a country with a different political nature that they would lead to a restoration of capitalism, and even less does it follow by logic that if some partial subset of the reforms in China occurred in a country with a different political nature that they would lead to a restoration of capitalism. This paper is about what actually happened in China over the last 30 years.

II. Introduction

At the Third Plenum of the Communist Party of China (CPC) in December, 1978, Deng Xiaoping¹ called for “socialist modernization” thorough the use of market forces. (H, 40) There were two central aspects to this call. The first was an explicit continued commitment to building socialism, a commitment still maintained to this day by the Chinese leadership, though they now refer to it as “socialism with Chinese characteristics.” The second central aspect of their position was that the key immediate task for building socialism in China was to raise the level of China’s productive forces, and further, that this could be done best by introducing the extensive use of both market forces and markets in China.

Specifically, the following reforms were the central ones in the original vision of increasing the use of market forces: decentralization (both giving more authority to regional and local planning bodies, and to state enterprise managers); encouraging the formation of more diverse types of enterprise ownership (cooperative and especially urban collective, joint enterprise, private, community such as the TVE, etc); the decollectivization of agriculture; the creation of a labor markets (including in particular the ability to fire workers replacing lifetime guaranteed employment, and increasing labor disciplinary measures); the ability for state enterprises to set (partially, in some cases) their own prices; and the ability for state enterprises to retain part of enterprise profits for self-selected investment and also for bonus funds. Over time, these remained the central issues in the marketization of the Chinese economy, and they expanded their scope.

Above all it must be stressed that at the beginning these reforms were presented as being subordinate to the continuation of central planning (40), and were intended to increase the efficiency of state run enterprises which were to remain the central pillars of the Chinese economy. (46) Four years after the initiation of the process indicated above, at the Twelfth National Congress of the CPC in September 1982, it was reaffirmed that central planning was to play the dominant role and market mechanisms a secondary role. (46) However, already by the third plenum of the Twelfth Congress in 1984 they had taken a big step to raise the theoretical acceptability of the *centrality* of markets by introducing the new concept of a “planned commodity economy.”²

1 who had consolidated his power as central leader in China only that Fall.

2 In a Marxist frame this is a nonsensical oxymoron, but the only point we are concerned with here is the process of the theoretical elevation of markets.

In the limited space available, this paper will consider three important indicators of the nature of the social production of a given society - the nature of the ownership and functioning of the means of production, the situation of the producers (the workers), and the nature of the distribution of the social product. This paper will argue that these three factors indicate a capitalist organization of social production.

III. The Nature of the Ownership and Functioning of the Means of Production

The economic reforms that began in 1979 changed the way productive enterprises operated in China. Above all, they made the pursuit of profit by each enterprise its central goal, as opposed to meeting human needs as part of a social plan of production. This occurred simultaneously on two tracks. On the one hand, they introduced many new forms of property in the means of production that all had individual enterprise profit maximization as their goal. On the other hand, they changed the goals and the way of functioning of the existing State Owned Enterprises (SOEs) and collective enterprises.

A word of caution concerning Chinese production. Both before and after the market reforms China had a lot of rural industrial production. In the discussion that follows sometimes one has a division of productive activity into rural and urban, and sometimes into agricultural and non agricultural (with manufacture a subcategory of non agricultural). These two divisions are very different and should not be confused.

A.) New Ownership Forms

Before the market reforms began, industrial enterprises had either state ownership or collective ownership (which meant ownership by villages or communities).³ (W, 4)

Fully private ownership was introduced immediately, but private enterprises were initially limited to employing seven employees (including family members). This restriction, seldom enforced, was abolished in 1987. Private employment grew rapidly, from .24 million in the late 1970s to 1.1 million in 1981 to 3.4 million in 1984. (H, 41) {What was the total workforce size then? - what sort of percentages are these?}

{Track this over 80s and 90s}

Urban collectives already existed as noted above, and the state encouraged their growth in the early 1980s. Contrary to what the name seems to suggest, the workers were strictly wage workers like those in SOEs. They had, however, less formal labor protection than SOE workers, and generally received lower wages. Their expansion was marginal, going from 21.5% of urban employment in 1978 to 26.0% in 1985 (and then continually declining down to 5.4% in 2001), (H, 123) but they contributed to the process of undermining the condition of the workers that is described in the next section. With the encouragement of the government they (generally) shifted more rapidly than the SOEs to adopting a fully profit maximizing orientation, and many of the new ones in particular were really private firms masquerading as urban collectives because that gained them better conditions for supplies, credit and taxes. (H, 41)

Foreign enterprises were considered very important in Deng's marketization agenda. He recognized it was unrealistic to think that SOE managers who had worked their whole life under

³ In urban areas in 1978, 78.3% of the employed worked for SOEs and 21.5% for urban collectives.

the old system could quickly shift to market thinking. Foreign enterprises were seen as important much more as schools for the whole nation on how to run a market enterprise than for their infusion of capital. Four special investment zones were opened on China's southwest coast in 1979. Foreign investment was originally limited to joint enterprises, and the zones were not very successful for the first 5 years. In response, in 1983 the restriction to joint ventures was eliminated and wholly owned foreign enterprises were allowed. The four original areas were enlarged in 1984 and 14 new coastal areas added. In 1985 additional large areas were opened, the Pearl, Min, and Yantze River Deltas (at which point basically the entire coastal area was open to foreign investment). In 1986 and again in 1987 the government increased the incentives for foreign investment and relaxed restrictions. In 1987 the general secretary of the CPC formally called for, in a document *Advance Along the Road of Socialism with Chinese Characteristics* approved by the CPC, an export oriented economy. {At this point, give the results of Whalley and Xin's paper}

Besides this official growth of private enterprises discussed above, there was another process that had an even larger numerical effect on China's working people, that was not officially privatization, but was effectively. In September 1980 China began a process to replace the commune-base of agricultural production with a family-base. By 1983 about 98% of peasant families worked under the new system. Legally the land was still public property, but in practice it quickly became the private property of the families who had a contract for its use. By 1984 contract holders could not only hire wage workers, but they could even rent out the land to a tenant farmer. By the end of the 1980s contract holders had full rights to not only rent it out, but to sell the contract or pass it on to their heirs. (H, 43-4)

As part of the dismantling of the commune-based agricultural system, the new constitution of 1982 turned over the political tasks of the communes to township and village governments that it created. These governments also took over the productive assets of the former communes, and many of these were then operated as township and village enterprises (TVEs). TVEs quickly grew to employ 1/5 of rural employment, and then in the 1990s to 1/4. {but need straighten out the birth of these, seems not presented quite right here, even though general idea is correct}. The TVEs were not structures empowering the producers, but rather resembled the urban collectives described above in many ways. Many of them were effectively private enterprises, with individual government leaders appointing managers and allocating earnings as they saw fit. In some cases they were joint ventures with foreign capital, which of course tended to actually run them. Workers again were not protected as in SOEs, with large numbers on temporary contracts and being subject to firing at will by management. Again, their wages were lower than workers in SOEs, to the point where the basic wage was sometimes below the minimum wage, and only piecework and overtime brought them up to the minimum wage. In fact, the minimum wage itself was set by the township government, and so it was not certain that making the minimum would be making a survival wage - the townships as both the employers and as the body that set the minimum wage clearly had a conflict of interest. Unions usually were largely or completely absent from these, and like urban collectives they did not have the same legal rights for workers as SOEs. As one would guess that meant they had poor records on health and safety practices. TVEs are generally held to be competitive with other enterprises in China only because the high unemployment in rural areas that followed the end of the communes resulted in extremely low rural wages.

The rapid growth of all these various other forms of enterprise under Deng's drive to marketize the economy resulted in workers in SOEs constituting only 40% of industrial workers by 1984.⁴ If one focuses on the politically disproportionately important urban working class, the decline of the SOEs was more protracted. They had 76.2% of urban workers in 1980, 70.2% in

4 Again, such figures include the significant amount of industry in rural China.

1985, 60.7% in 1990, 59.1% in 1995 and 31.9% in 2001. And since SOEs need state planning even if they have increased autonomy for price and quantity decisions (and hence the nature of the planning changes in some ways), this has meant a protracted and not precipitous process of weakening of planning in China and hence weakening of control of the economy by Chinese government.

B) New Operating Procedures for the SOEs. (Firing and other Labor Discipline - Setting Prices - Keeping Profits)

In 1979 China began a number of pilot programs in selected enterprises in selected urban areas for changing the operating procedures in SOEs. Three changes were key.

The first change in the direction of market-like operation of SOEs came immediately in early 1979. In pilot programs selected enterprises in selected urban areas were given the right to end lifetime employment contracts,⁵ and new labor regulations in state enterprises greatly increase the discipline of workers. Second, selected SOEs were allowed to set the prices of any output above their plan target, at whatever the market would bear. And finally, selected enterprises were allowed to retain part of their profits and use them as they saw fit, either for investment or bonuses.

The economic results of these initial steps in Deng's program were what one could have expected. SOEs started working to assure that as high a percent of their total output as possible was not part of their plan target so they could sell it at the higher market prices. This combined with the expanding production occurring outside of SOEs, that could be sold at market prices, meant that inflation appeared. This in turn undermined the real wages of workers in SOEs, and so the state provided additional money to SOEs for wages to quiet worker discontent. That in turn meant the government had to issue bonds for the first time since the early 1950s (thus crating a channel for people with money to earn money without engaging in any production, very much a part of contemporary capitalism).

⁵ Here we will make a point concerning all the changes discussed in this paper, that we will not reiterate for each. We are not arguing in this paper whether such a change in itself is something desirable for a transition to socialism. We believe, for example, that lifetime contracts are in general (and one needs look at the specific history of the process) are not appropriate for a transition to socialism. Under the socialist concept of right (see Campbell, 2008), workers should be paid in accord with their contribution to social labor. If enterprise management, which is responsible to all society for its share of the entire social production, feels a worker is not participating in production, they should be able to advocate that worker be transferred to some work the worker will participate in. The defense against unjust firings by management should rest with some workers group, enterprise councils or trade unions. A lifetime contract is an attempt at an *individual* solution to the problem, and the transition to socialism must develop class based *collective* solutions. Decisions over hiring and firing need to more and more, as a process, come under the control of the workers in the enterprise as part of developing worker self management, that is one essential part of socialism. But our point here, as with all the points we will consider in this paper, are what role the changes that actually occurred played in the restoration of capitalism. Eliminating lifetime contracts is a necessary component of reestablishing "labor markets," that are necessary for well developed capitalism.

By 1981 there was a significant opposition among urban workers to the reforms, particularly the attack on the lifetime work contracts, and a fear that the reform induced inflation would cause a fall in their real wage as soon as the state stopped trying to offset it. The state slowed some aspects of the reform process, and in particular it took back enterprise autonomy concerning selling and pricing. In 1982-3 the government slowed the marketization process. But by 1984 the measures taken in those years had stabilized things in the urban centers, and the successes in the rural areas was attributed to marketization,⁶ and so the urban marketization process was once again greatly accelerated.

The battle over setting prices that is a central need for capitalist markets was largely ended in October 1984. Most consumer and agricultural goods were allowed to have their prices determined by whatever the market would bear. Industrial goods also were to have their prices market determined, but within a range set by the state planners. Only a few prices of basic and essential industrial goods were still set by the state, for example oil, coal and steel.

A compromise of sorts was reached in the battle over lifetime contracts. People employed as of October 1985 (formalized as the Contract Law of 1986, which applied to both SOEs and collective enterprises) with lifetime contracts would maintain them, while new hires would receive limited time contracts. Further, new hires could be fired even during the life of their contract if the enterprise management thought they were not productive enough. In 1986 only 6 percent of the employees of SOEs were on these new contracts, while it had climbed to a quarter by 1994. The 1982 new constitution also contained another change in the situation of labor that was important to creating the market friendly labor markets desired: strikes were made illegal. This compromise (and the contract system generally, since contracts differed) of course increase the inequality within the working class. By 1987 the SOEs had about 7.5 million contract workers, which was about 8 percent of the entire industrial workforce.

With the resumption of the marketization of the SOEs a fundamental change was made in the way they functioned. Before, they had been more like departments in a single enterprise that constituted the entire Chinese economy - they received necessary inputs according to a plan and necessary operating funding from the state, and they sent all their output to designated entities and transferred all their revenue back to the state. Now enterprises were supposed to operate through after tax earnings, and if necessary from loans from the state banking system. There was interest on the loans, and so this (or the opportunity cost of retained earnings) was intended to make the enterprises use capital more efficiently.

The post 1984 renewed accelerated marketization led to the same problems as had emerged in 1981: inflation, declining real wages, government deficits (especially from trying to raise wages to offset inflation), and now additionally international trade deficits. The government responded as before, and nearly halted its marketization program in 1988. But things were already spiraling down, and the economy went into recession in 1989. TVEs which had relied heavily on bank loans were especially hard hit, rural unemployment began to rise faster, and with that migration to the cities in search of work. Protest by urban workers increased, and the government took a strong position to limit any social unrest (or even any news of any social unrest).

⁶ One could argue that the increased prices the government paid for agricultural goods and the increased government support of investment in rural industries were the real causes for the rapid increase in rural incomes that did occur from 1979 - 1984. By 1985 that increase greatly slowed. The government claimed in 1984, however, the increase was the result to the marketization of agriculture and rural industry, as part of its support for re-launching rapid urban marketization.

Again, the measures to stabilize the economy succeeded, and the government resumed its expansionary marketization policies in 1991. In 1992 Deng presented the shift in social thinking that had been behind the Chinese reform process with his famous statement, “as long as it makes money it is good for China.” (H, 51)

IV. The Situation of the Producers (Workers and Agricultural Producers)

V. The Nature of the Distribution of the Social Product

It has long been accepted by the socialist movement that socialism would be more egalitarian than capitalism. There was never a concept of “absolute equality” that socialism is often accused of by its opponents, since the concept itself is operationally meaningless.⁷ Marx’s vision⁸ of the increased equality was that every person would receive back from society goods that involved the same amount of labor that they contributed to social production. This of course would be vastly more egalitarian than the distribution of the social product under capitalism where capital ownership and wages determined by a market for labor both strongly skew the distribution of the social product.

{Figures on growing inequality in China}

{On distribution - p 2 in Wen}

{Health care - p 4, Wen}

{Education}

VI. Conclusion

⁷ Other than requiring everyone receive exactly the same amount of all consumption goods, which would contradict socialism’s central goal of the maximum human development of everyone.

⁸ Described in Capital, and more completely in The Critique of the Gotha Program {give pages}

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