

# Is China's Market Path a Road to Socialism?

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For presentation at the

4<sup>th</sup> International Conference - Karl Marx and the Challenges of the XXI Century

May 5 - 8, Havana, Cuba

## I. Preface

The author holds 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 my first look at the empirical data concerning this question. I definitely do not consider myself a “China expert” or (at this point) even a “semi-expert,” and my interest in what has happened in China comes directly from my interest in building socialism. My investigation necessarily is influenced by my concept of what is important to socialism, but with that in mind I have attempted to look at the data relatively objectively and I have written conclusions that the data appeared to imply to me, at this point in my studies. I consider my conclusions preliminary based on what data I have considered so far, and I passionately ask for feedback, both agreeing and disagreeing with my conclusion. I hope in particular for feedback whose theoretical conclusions rest on a solid factual base that is presented in the feedback.

The author expects, and even hopes, 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, I will assert here that in my opinion capitalism has been restored in China. The intent of this paper is to support that claim.

I must note that I am not alone in this conclusion, quite a number of other dedicated socialists have come to the same conclusion. To cite just two, there is a short piece summarizing the issues involved written by Greg Albo (A) just a month before this presentation, and a longer book length analysis written by Hart-Landsberg and Burkett (HB) in 2005.

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, I 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, I 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, 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, I maintain that as of the date of the writing of this paper, a restoration of capitalism in Cuba is a very unlikely result of the current reforms in Cuba.

Second, if I did intend to criticize the current reforms in Cuba as likely to lead to a restoration of capitalism in Cuba, I 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 there. 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 there. This paper is about what actually happened in China over the last 30 years.

## **II. Introduction**

At the Third Plenum of the 11<sup>th</sup> Central Committee of the Communist Party of China (CPC) in December, 1978, Deng Xiaoping<sup>1</sup> called for “socialist modernization” through the use of market forces. (HB; 40) There were two central aspects to this call. The first was an explicit verbal continued commitment to building socialism, a verbal commitment still maintained to this day by the Chinese leadership, although 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 (giving more authority to both 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 market (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 (ibid.; 40), and were intended to increase the efficiency of state run enterprises which were to remain the central pillars of the Chinese economy. (ibid.; 46) Four years after the initiation of the process indicated

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<sup>1</sup> who had consolidated his power as central leader in China only that Fall.

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. (ibid.; 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.”<sup>2</sup> (A; 1)

I want to avoid mixing the topic of this paper, the transformation to capitalism, with the always posed question of “if China is better off now.” I actually hold both that there were many serious unnecessary errors in the pre - 1979 economic policy, and that the performance was not bad by any reasonable comparative criteria. China’s national income grew five fold from 1952 to 1978, industrial output grew at 11.3 % per year, and the country was transformed from an agricultural country with only 3 million workers to a country with 50 million workers by the mid 1970s - including 28 million working in communal industries in rural area industrialization. More important, as poor as the country was, they largely eliminated hunger (except immediately following the disastrous Great Leap Forward), and industry had what came to be referred to as the “iron rice bowl” policy; lifetime employment, pension benefits, health care, housing, paid maternity leave and education for dependents. (W; 4) China’s rate of growth of GDP has averaged above that over the last 30 years, but many of the social benefits have been lost, and hence the poor in China are worse off in regards to basic survival than before. Beyond the effects just on the poor, inequality and the associated breakdown of social solidarity has mushroomed throughout the society. This one paragraph in this paper on the pre-1978 situation is included simply to reject the “so what if it’s capitalist, it’s better off” response by some readers as being much too simplistic. China was developing rapidly before 1978, and even if it would not have grown as fast without the reforms as it has over the last 30 years, it is far from clear that China as a nation is socially better off. That is a question that requires a complex and lengthy investigation. But again, an overall assessment of “better versus worse” is not the purpose of this paper, but rather to establish that the country has transformed to capitalism.

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 is necessary concerning Chinese production. Both before and after the market reforms, China had a lot of rural industrial production. In the discussion

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<sup>2</sup> In a Marxist frame this is an oxymoron, but the only point I am concerned with here is the process by the Chinese leadership of the theoretical elevation of the role of markets.

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).<sup>3</sup> (W; 4, 17)

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. (HB; 41) For many of the pro capitalist changes in China, the seeds that were sown in the 1980s only fully bloomed in the 1990s. In only 6 years between 1994 and 2000 private<sup>4</sup> employees grew from 21.3% to 54.9% of the urban labor force. (H; 22)

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. Expansion of employment in urban collectives 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), (HB; 123; H; 22) 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. (HB; 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 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. (HB; 42) 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, in a document *Advance Along the Road of Socialism with Chinese Characteristics* approved by the CPC, called for an export oriented economy. (HB; 48-9)

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<sup>3</sup> In urban areas in 1978, 78.3% of the employed worked for SOEs and 21.5% for urban collectives. (HB; 123)

<sup>4</sup> Here defined as all workers not in the state sector urban collective units.

The foreign enterprises, particularly at the beginning, were almost all located in Special Economic Zones (SEZs). These functioned as their counterparts around the world, giving a variety of tax advantages to both joint enterprises and foreign owned companies, thus representing another way the government actively promoted the growth of capitalist enterprises. Below I will discuss labor conditions in the SEZs. (W; 17)

Besides this officially supported growth of private enterprises, there was another process that directly affected an even greater number of China's working people. This was not officially privatization, but had many of the same results for the work process. In September 1980<sup>5</sup> 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. (HB; 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 non agricultural productive units the former communes, and operated many of them under the new name of township and village enterprises (TVEs). TVEs quickly grew to employ 1/5 of rural employment, and then in the mid and late 1990s to just over 1/4.<sup>6</sup> (HB; 44, 124: G; 4) 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. Again workers were not protected as they had been in the pre 1979 SOEs. Large numbers worked on temporary contracts and were subject to firing at will by management. 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 guaranteed that all local minimum wages were survival wages - 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 TVEs, 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 were 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. (HB; 44-5)

The rapid growth of all these various other forms of enterprise ownership under Deng's drive to marketize the economy resulted in workers in SOEs constituting only

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<sup>5</sup> Some aspects of the change began in a few places already in 1979, but the major universal change began in September, 1980. (W, 12)

<sup>6</sup> The percent peaked in 1996 at 27.6% of rural employment, which was 19.6% of total employment, reflecting how rural China still was 15 years in to the reforms.

40% of industrial workers by 1984.<sup>7</sup> (HB; 47) If one focuses on the politically disproportionately important urban working class, the decline of the SOEs was more protracted. They employed 76.2% of urban workers in 1980, 70.2% in 1985, 60.7% in 1990, 59.1% in 1995 and 31.9% in 2001. (HB; 123) And since SOEs need state planning even when they have increased autonomy of price and quantity decisions (and hence the nature of the planning changes in some ways), this meant a protracted and not precipitous process of the weakening of planning in China and hence the weakening of the control of the economy by the Chinese government.

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

In late 1979 China began pilot programs in several thousand SOEs in selected urban areas to change their operational goal to making a profit. In 1980 the program was extended to 16 percent of SOEs. In line with what we noted above, at the end of 1980 they suspended the program in response to a number of social and economic problems (discussed below), but then resumed their national marketization process in 1984. (W; 17)

Three changes were key to the new profit orientation. First, enterprises in the pilot program were given the right to end lifetime employment contracts,<sup>8</sup> and new labor regulations in state enterprises greatly increased 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. (HB; 40) As one would expect, some bonus and profit sharing schemes were tried in line with the logic of marketization in order to increase productivity and to reduce the strong

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<sup>7</sup> Again, such figures include the significant amount of industry in rural China.

<sup>8</sup> Here I will make a point concerning all the changes discussed in this paper, that I will not reiterate later for each change. I am not arguing in this paper whether such a change in itself is something desirable for a transition to socialism. I maintain, for example, that lifetime contracts are in general (though one needs look at the specific history of the process) not appropriate for a transition to socialism. Under the socialist concept of right (see C; 8), workers should be paid in accord with their contribution to social labor (as measured by time). 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 for that worker to be transferred to some work that 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, which is one essential part of socialism. But my point here, as with all the points I will consider in this paper, is only what role the changes that actually occurred played in the restoration of capitalism. In that frame, eliminating lifetime contracts is a necessary component of reestablishing "labor markets," which are necessary for well developed capitalism.

opposition of workers to the ending of the lifetime employment contracts, (W; 17) but as everywhere in the world these incentive schemes played a secondary role in the whole process.

The economic results of these initial steps in Deng's program were what one would 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 creating a channel for people with money to earn money without engaging in any production, very much a part of contemporary capitalism). (HB; 42-3)

By 1981 there was a significant opposition among urban workers to the reforms, particularly to 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. In 1982-3 the government slowed some aspects of the marketization ("reform") process, including in particular taking back enterprise autonomy concerning selling and pricing. These changes stabilized things in the urban centers by 1984. The government then used this urban relative stability and its claim that the successes of that period in the rural areas were due to marketization<sup>9</sup> to re-accelerate the urban marketization process.

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. (HB; 47)

The strong resistance to the right of (some) enterprises to terminate lifetime employment contracts led the government to "compromise" and end that enterprise right. 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 retain 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. (HB; 48; W; 17) The inevitable result of this "compromise" was obvious. The weight of workers with lifetime contracts declined (fairly rapidly) over time as just indicated, and by the mid 1990s the government felt it could now allow SOEs to lay off workers even if they did have a lifetime contract

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<sup>9</sup> This author argues that the increased prices that the government paid for agricultural goods and the increased government support of agriculture and 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. In 1984 the government claimed, however, that the increase was the result of the marketization of agriculture and rural industry, as part of its support for re-launching rapid urban marketization.

without igniting significant opposition.<sup>10</sup> (G; 4) This compromise (and the contract system generally, since contracts differed) of course increased the inequality within the working class (discussed further below). By 1987 the SOEs had about 7.5 million contract workers, which was about 8 percent of the entire industrial workforce. (HB; 41)

Another important change from this time that was part of the drive for marketization was that the 1982 new constitution made strikes illegal. (W; 18; HB; 47).

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 from their 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 from 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 that increased the migration to the cities in search of work. Protests by urban workers increased, and the government took a strong position to limit any social unrest (or even any news of any social unrest). (HB; 51)

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." (HB; 51)

In the mid 1990s another major change, directed at continuing to both reduce the role of the SOEs in the economy and to make those that remained act more like private capital, was to continue cutting government subsidies to them and now in addition to allow them to go bankrupt. (G; 4)

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

The previous section on changed forms of ownership already indicated much about the changed situation of the workers, of course, since the purpose of the changes was to 'increase productivity' and that was to be accomplished both by intensifying work and by increasing mechanization. I will divide the discussion here into two parts, the first focusing on the urban situation and the second on the rural situation.

##### *A. Urban Areas.*

The starting point for understanding the significance of the reform policies is to recall, as noted above, that before 1979 the stated goal of Chinese labor policy was to achieve full employment. (G; 3)

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<sup>10</sup> To lessen the opposition, Re-employment Centers were set up for these workers to help with retraining, job search and unemployment benefits.



A careful detailed study of employment in China by Ghose in 2005 focuses primarily on its structural change. This of course is an important contribution to our concern, the change in the conditions of labor, but the study is not focused on that directly. He does however note one important change and draw one conclusion that directly addresses our concern.

As mentioned above, one of the first concerns of the reform process was to create a competitive labor market. The system prior to 1979 had no such market. All workers registered to live in a given urban area were assigned to some enterprise in that area (again, there were only SOEs and collective enterprises at that time, no private enterprises). The enterprises had little control over who got hired or how much they were paid, which of course meant they had no ability to try to either drive down wages or increase work loads by reducing the labor force (and in fact, it is widely accepted that there was extensive overstaffing, “hidden unemployment”). It was on the basis of where one was registered that one had a claim on food rations, health and education services, and social security. Hence migration in pursuit of higher wages, or later after the reforms, just for the existence of a job at any wage, which is needed for labor markets, was basically not possible. Hence labor markets were created by (nearly) simultaneously i) allowing firms (SOEs, collective enterprises, the new private and joint enterprises, etc) to recruit workers, ii) allowing firms to set differing wages, at first through the use of bonuses and piece rate systems, iii) allowing workers to leave where they were working and accept job offers elsewhere,<sup>11</sup> iv) ending food rations and free education and health services, v) ending (in several steps) the lifetime employment contract system and pushing SOEs to shed labor (one did not need to push private enterprises to operate with the minimum labor possible, they already did that by their nature), and allowing unemployment and irregular employment to exist.<sup>12</sup> So a first observation by Ghose was that labor lost a number of the direct benefits which it had before. (G; 4, 13)

His second conclusion comes from his careful study of the relative growth of certain types of employment (he carefully defines how he uses terms like formal and informal, for example) and the decline of others. From this shift he concludes that, post 1996, “it thus appears that employment conditions in urban areas actually deteriorated.” (G; 6, 16)

Concerning the SEZs mentioned above, when they were first introduced enterprises in them generally were required to have labor conditions comparable to the SOEs (which recall generally had better conditions than other productive units in China) concerning pensions, health care, education for dependents, and subsidized housing, and the salaries were even a bit better than most SOEs. The reason for this favorable legal treatment was to generate a labor force quickly to launch this project of nourishing the growth of capitalism. Over time as SOEs declined both in their weight in the economy

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<sup>11</sup> For nearly a decade the government simply ignored the existing laws against changing registration and allowed it in practice, and only after that did it largely eliminate the legal restrictions, though a few legal restrictions still exist (and are often ignored in practice). (W; 4-5)

<sup>12</sup> Urban unemployment beyond frictional unemployment fully emerged and went on to become a major social problem after 1993. (G; 13) It rose from 6% in 1993 to 12% in 2000. (MGW; 1)

and their conditions of work, enterprises in the SEZs evolved exactly as one would expect, into the type of sweatshops one sees in such special zones throughout out the world. (W; 18)

### *B. Rural Areas.*

It is often held that conditions for labor in the country side improved more than in urban areas, or improved there even in the periods when they deteriorated in urban areas. Ghose for example concludes that while in urban areas employment conditions had significantly improved from 1990 - 1996, they then deteriorated for the second half of the period he studied, while rural employment conditions improved throughout the 1990 - 2002 period.<sup>13</sup> (G; 16) Rural employment consists of two parts - agricultural and non agricultural workers. The employment situation in rural non agricultural employment, starting from conditions generally worse than urban employment and in particular worse than urban SOEs, actually has improved rather continually over the course of the reforms. (G; 16) At present urban enterprises, and in particular foreign linked enterprises, are building rural enterprises into their supply chains to lower costs, and so conditions there can be expected to continue to slowly improve in rural enterprises in the short run. But the picture is very different for the large rural agricultural employment sector.

The myth of a constantly improving condition of labor in the agricultural sector under the reform process is based largely on the rapid growth of output in the agricultural sector from 1979 to 1984. That growth was attributed by the government (falsely, I argued above) to the decollectivization of agricultural production, and that interpretation was politically used to re-launch the marketization process in urban production in 1984 after the short hiatus.

A word is necessary on the situation in 1978. About 1/3 of the communes were doing very well, 1/3 had problems that seemed directly resolvable, and about 1/3 were doing very poorly. (W; 12) This suggests that reforms within the frame of the existing collectivization were certainly possible, and that the decollectivization of the entire commune system was an ideological decision, not an economically necessary one.

As noted above in the section on new productive organization structures, the government moved in September 1980 to replace the communal production system with a family based production system. Here to be concrete I will discuss four problems this caused for the working conditions of agricultural producers, though there are of course others.

#### i) Reduced Public Services

At an overall aggregated level, despite infrastructure investment increasing several fold in the reform era, infrastructure investment in rural China decreased from 10.6% in 1979 to 1.7% in 1994. One important aspect of this was the reduction in support for water works and flood/drought management, which have both worsened the life conditions of the agricultural workers and have been factors tending to reduce productivity. (W; 13)

#### ii) Health Care

80% to 90% of the rural population had access to medical care under the commune based system. The base of this system were the well-known "barefoot doctors,"

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<sup>13</sup> Particularly because employment at TVEs grew while irregular employment declined. (G; 16)

who had a strong focus on preventative measures as well as addressing small medical problems before they became large problems. A hierarchical system of clinics and then hospitals existed above the base. Following the reforms, both the system of barefoot doctors and the free rural clinics were terminated, and no alternative system was put in place. Given the rural health care catastrophe in the 1980s the government launched a few pilot programs in rural health in the 1990s. They were not particularly successful and were not reproduced on a wider scale. An important issue for the new health care system in China is that it is largely a for-profit system, and that brings with it the same problems such systems have around the world - a bias toward expensive treatments and biases both against preventative care and for working with individuals instead of with social groups (the commune). These biases have seriously harmed the health care of agricultural workers, both indirectly through the price channel that precludes the poor, and directly through the individualistic model of healthcare. (W; 14)

iii) The Condition of Women.

In the pre 1979 collective labor system, women's labor was officially valued and compensated directly on its own merits and not through a husband or some male family member. This in turn laid the basis for a large improvement in the social position of women from what it had been pre-revolution, including for example their greatly expanded participation in public affairs. With the introduction of the family contract system in the early 1980s, overwhelmingly a male family member was designated the contract holder. Hence the payment procedure in the family contract system has been a change directly tending to return women to a second class status in the family and therefore in society. (W; 13) Indirectly the great reduction of public spaces and activities (in favor of family spaces and activities) in the family contract system has reinforced the same result.

iv) Environmental Destruction.

China of course has a well deserved reputation today as a terrible source of environmental destruction. Here I will just mention two such problems that arose in the rural areas because of the liberalization process. With machinery now no longer collectively owned, much of it became prohibitively expensive for farmers, and so they replaced it by doing more physical labor. This additional work then caused them to have to try to reduce labor in other tasks, and some of those were the somewhat labor intensive good farming practices of using organic and green manure. This has been one contribution to the much discussed ongoing process of the deterioration of the soil quality in China today. (W; 13) A second harmful result came naturally from the focus on profits (even to survive). In that frame it was inevitable that, unless prevent by law, the new production units would run down assets that had been built up and accumulated under the communal system. In particular, they extensively cut trees planted over the previous 30 years as windbreaks, reducing them by 48% percent between 1985 and 1989. (W; 12) This contributed strongly to the much discussed issue of massive topsoil loss in China.

## **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.<sup>14</sup> Marx's vision of the increased equality was that every person would receive back from society goods that involved the same amount of labor time that the person contributed to social production.<sup>15</sup> 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.

It is widely known that China has dramatically decreased its poverty since 1980. The United Nations Country Team in China maintains that China has already achieved the Millennium Goal of cutting its poverty in half between 1990 and 2015. (O; 5, 8) Its data, however, is unclear concerning which of three poverty lines it uses for some of its claims, and when it is referring just to rural poverty. A number of recent technically more sophisticated studies paint a much less optimistic picture concerning recent and current poverty reduction. Several studies find that urban poverty has been growing since the late 1980s. (KGR; 297 ff.: H; 14-16: ZW1; 16: MGW; 2) China is still a predominantly rural country and its poverty is still majority rural. The overall improvement of rural income over the 1990s was noted above. But throughout the same period rural income distribution worsened. For the first half of the period, the effect of the rise of the average income outweighed the worsening distribution for the rural poor, and rural poverty declined. But by the mid 1990s with the rate of the rise in rural income slowed, the negative distributional effects came to dominate and rural poverty worsened. (ZW2; 19)

So poverty reduction occurred only at times and among poor groups where the average income increase outweighed the worsening income distribution. While that was the case for many of China's poor over the last three decades, the inevitable fall in future growth rates will lead to an explosion of poverty if distribution is not improved. But the effects of this worsening distribution on poverty are already massive: Ravallion and Chen calculate that with the growth that occurred, if the distribution in the rural areas alone had not worsened China would have 1/4 the poverty rate it has today. (3) And beyond poverty, a deteriorating distribution of income is a social problem in itself, and one that negatively affects many more than just the poor in society.

A first aspect of the growing inequality in China is often overlooked as people look at the growing income and wealth inequality. Before 1979 China provided many services essential to the socialist goal of human development free to the population. We have already discussed above how the formerly free services of health care, education and pensions have been largely eliminated. The result is that people with money have access to these while people who are poor do not. Hence the growing income and wealth inequalities in turn are causing great inequalities in a number of social goods and services that are essential to a basic decent and dignified human existence.

Two other much referred to major growing inequalities in China are between regions and between the rural and urban populations. (X; 1) Over the 1990s the urban-rural income ratio rose to an estimated 3 to 1. (O; 9)

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<sup>14</sup> Other than by requiring everyone receive exactly the same amount of all consumption goods, which would contradict socialism's central goal of the maximum development of every individual's human potential.

<sup>15</sup> Indicated in *Capital* (M; 172), and more completely in "The Critique of the Gotha Programme" (ME; 323).

Despite the extensive reduction in free social benefits described above, poorer members of society still receive some such benefits. These do still play a significant role in reducing urban income inequality. But growing market income inequality continues to outweigh all such equalizing effects of social benefits. Post-tax, post-transfer urban income inequality was higher in 2002 than it was in 1988. (Ga; 28)

Consider finally two of the standard inequality measures. The Gini coefficient rose from about .2 to about .45 from 1980 to 2005. (W; 21)<sup>16</sup> At .2 it was among the most egalitarian countries in the world, while at .45 it is among the least egalitarian, an incredible change in only 25 years.<sup>17</sup> A second standard measure indicates the same thing. The percent of the national income earned by the richest 10% or the population went from less than 20% in the early 1980s to 45% in 2005. The poorest 10% earned only 1.4% of the national income in 2005, and that was down from its value of 1.87% in 1995. Xiaolu's (X; 13) panel data model predicts increasing inequality in China over the coming decade.

## VI. Conclusion

This paper has argued that China, while carrying out its reforms under the name of improving the operation of its socialism, has in fact restored capitalism. On the most superficial (though certainly important) level, one can just look at the three decades of growth of private capital, foreign and especially domestic, a processes consciously promoted by the Chinese government. But this paper has tried to go beyond that in two ways. The first has been to point out how completely the enterprises that are still state owned now, unlike before, operate with the same goal as capitalist enterprises, and therefore try to mimic the latter's every behavior as much as possible.

The second way has been to go beyond the always important issue of property relations to look at the human relations and conditions they engender. In particular, this paper has looked at the conditions of labor and the distribution of the social product. Both of these have very characteristic patterns under capitalism, which have always been central pillars of the socialist attack on capitalism. Labor under capitalism has always been characterized by a labor market, a competition among workers that is central to lessening their power in relation to capital and from that their well-being. The distribution of the social product under capitalism has always been characterized by poverty amidst wealth, and great inequality, greater than the inequality in the type of non-capitalist system that China had before 1979.

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<sup>16</sup> The Gini values calculated for the earlier years vary significantly while the recent ones are more uniform. Ravallion and Chen (RC; 46) have them, with a cost of living adjustment (COLA), as .259 in 1981 and .395 in 2001 (respectively .310 and .447 without the COLA). Chotikapanich *et al.* break them into rural and urban as well as total, and calculate respectively .167, .299 and .282 in 1985 and .329, .334 and .402 in 2003. Xiaolu (X; 1) has it .320 in 1980, down to .257 for the average 1980 - 1984, then up to .355 in 1990 and .447 in 2001. Official statistics yield it as .33 in 1980 and .46 in 2000 (Ga; 1: HB; 67) (and HB argue most people think it is now .50).

<sup>17</sup> For a list of Gini coefficients of the countries of the world by the United Nations, see UNDP.

A work much longer than this would be needed to demonstrate more rigorously the capitalist nature of China by looking in detail at all the aspects of the process of capital accumulation. But this paper does take a first look at the Chinese economic system and sees central aspects characteristic of capitalism and not of societies trying to move beyond capitalism. Hence it makes sense to adopt as a first working hypothesis, to be investigated further, that we are looking at a capitalist system. Or to resort to the type of “standing-it-on-its-head” that Marx always liked so well, we could rephrase Deng’s infamous proverb and say “It doesn’t matter if it is a red or black, if it catches mice it’s a cat.”

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