

## **China: Market Socialism or Capitalism?**

**Global Studies Association  
DePaul University  
May 13, 2006**

### **I. What's Wrong with China?**

There's plenty wrong with China, as everyone knows.

- The income gap is large and widening--China's Gini coefficient, a standard measure of income inequality, is now larger than the U.S.'s.
- Unemployment is rising as large numbers of state-owned enterprises shed workers, before or after they are privatized.
- There are sweatshops providing the Wal-Marts of the world with cheap manufactured goods.
- Corruption is rampant.
- So is environmental degradation. Consider the comments of Pan Yue, China's Deputy Environmental Minister, made in a recent interview:

Our raw materials are scarce, we don't have enough land and our population is constantly growing. . . . Cities are growing, but desert areas are expanding. . . . Five of the most polluted cities in the world are in China; acid rain is falling on one third of our territory; half of the water in China's seven largest rivers is completely useless, a quarter of our citizens lack access to clean drinking water.<sup>1</sup>

With so many things wrong, China must be capitalist, right? Much of the Left thinks so, seeing China hell-bent on self-destruction, a trajectory that can only be remedied by a genuinely proletarian revolution. See, for example, Barbara Foley's "From Situational Dialectics to Pseudo-Dialectics: Mao, Jiang and Capitalist Transition," published in *Cultural Logic* (2002), or Martin Hart-Landsberg and Paul Burkett's "China and Socialism: Market Reforms and Class Struggle," a special issue of *Monthly Review* (July-August 2004) that was subsequently published in book form, or Robert Weil's "Conditions of the Working Class in China," a lengthy manuscript now circulating on the internet.

All these accounts present a grim picture, relentlessly grim. And yet--there are these strange "happiness" surveys:

A recent Pew Research Center survey finds China to be "the world leader in hope for the future"--the most optimistic of the 17 nations surveyed. Not only was personal optimism high, but China led the list regarding "satisfaction with national conditions. Fully 72% indicated satisfaction, as opposed to 19% dissatisfied. This compares with only 39% of the U.S.

population surveyed indicating satisfaction, 57% dissatisfied. That is to say, the percentage of people satisfied with the condition of their country is nearly double that of the U.S., whereas only a third as many are dissatisfied. (Poland came in last, by the way, only 13% satisfied, 82% dissatisfied; Russia wasn't much better. Less than a quarter of the Russians are satisfied, nearly three-quarters are dissatisfied.) It is noteworthy, too, that the young Chinese, ages 18-29, are the most optimistic of all, 78% anticipating a "very positive future."<sup>2</sup>

These results are consistent with a survey conducted by the Chinese Academy of Social Sciences indicating 70% of urban and rural workers reported feeling happy, and optimistic about the future, whereas only 10% indicated deep discontent.<sup>3</sup>

So what's going on? Are the Chinese people afraid to admit their true feelings? Does capitalism actually work? Are the Chinese people being duped?

Let's consider the capitalism question. The overwhelmingly dominant views these days, certainly in the mainstream, but also among large sections of the Left, is that China has gone capitalist. I think this is wrong. Let me say why.

Let's begin with a simple question. What is capitalism? Consider various plausible definitions:

- There's the structural definition. Capitalism is an economic system in which private ownership of means of production, wage labor and the market constitute the dominant economic institutions.
- There's the class-based definition: Capitalism is a society controlled by the economically-dominant capitalist class, this class usually defined as a class whose considerable income derives primarily from ownership of productive assets, not from employment.
- There are those definitions of capitalism that focuses on the dominant motivational orientation of the society. C. B. Macpherson, for example, singles out "possessive individualism," the drive to satisfy infinite desires for personal consumption.<sup>4</sup>
- One might prefer a macro-behavioral definition. Immanuel Wallerstein defines capitalism as an economic order that gives priority to the endless accumulation of capital.<sup>5</sup>

Now let us ask: Does China fit any of these definitions?

It doesn't fit the structural definition. Private ownership is not the dominant ownership form, nor is wage labor predominant. Half of the Chinese labor force is engaged in agriculture, and the land has not been privatized. In the industrial sector, state-owned enterprises contribute about as much "value-added" as do private-sector enterprises

Is the capitalist class in control? To be sure, there now exists a small capitalist class, but it is by no means in control of the economy or the society. This is a new class and it remains politically vulnerable.

Is China now dominated by possessive individualism? Certainly possessive individualism is far more pronounced than it used to be, but it's far from clear that this trait is dominant. There is much social unrest in China. Protestors often appeal to socialist values. According to the New York Times, in an article published last month, a high-level forum convened to advise senior Chinese leaders expressed anxiety about "the unprecedented controversy and dissent" among China's elite, with many participants expressing alarm over "the resurgence of socialist thinkers critical of the country's lurch toward capitalism."<sup>6</sup>

Does China give priority to the endless accumulation of capital? It's not clear that it does. China certainly wants to develop, and has been doing so at an amazing rate. But the current administration of Hu Jintao is now stressing sustainable, balanced development, and is openly critical of the earlier "get rich first," maximal-growth orientation of his immediate predecessors.

Well, if China is not capitalist, is it socialist? Again let's consider some definitions. If we define socialism, as Bertell Ollman does, as a planned economy where production for needs has replaced production for profit, then China is not socialist.<sup>7</sup>

If we define socialism as a society in which the working class is the ruling class, China is not socialist.

If we define socialism in ethical terms, as a maximally egalitarian society or a maximally democratic one, then China is certainly not socialist.

But are these definitions appropriate to the issue at hand?

Ollman's definition rules out "market socialism" by fiat, and won't even entertain the possibility that under conditions of scarcity efficiency considerations, both static and dynamic, might require the use of markets in order to avoid generalized poverty.

The second and third definitions, appealing to class and ethical values respectively, might make sense for a society making the transition from advanced capitalism to something better, but neither seem useful for evaluating those actual societies where Marxist parties have come to power, namely poor countries on the periphery of world capitalism. In none of these societies was the working class the majority class at the time of the revolution, nor had it attained a degree of educational or cultural development that would have made a meaningful mass political rule, i.e., political democracy, feasible.

Surely the appropriate question to ask is whether or not the political class in power is pursuing policies that are consistent with an evolution to a mode of production that embodies the ideals of the socialist tradition. Such a socialism would be a genuine *aufhebung* of capitalism, one that retains the strengths of capitalism, but eliminates or at least sharply mitigates its defects. More specifically, such an economic formation would be at least as efficient as capitalism, more rational in its growth, more egalitarian and more democratic.

But if this "transitional" definition is the appropriate one, it follows that we cannot make an intelligent pronouncement as to whether or not China is socialist, if we don't have a reasonably clear picture as to what an economically viable, advanced socialism would look like.

## II. Successor-system theory

The fact of the matter is, we do know what an economically viable, advanced socialism would look like--or at least so I have been arguing for a number of years now. This is a fundamental conclusion of what I call "successor-system theory."

Let me sketch very briefly the basic argument. In an important sense it follows from Marx's profound and still fully-relevant critique of capitalism.

Recall, there are fundamentally two parts to Marx's critique. Capitalism is based on alienated labor, which gives rise to anarchy of production

The first problem is rooted in the commodification of labor, the fact that workers must sell their ability to work on labor markets to those who own the means of production. The second has to do with the fact that the bulk of the surplus value exacted by the capitalism is not consumed, but must be reinvested if the system is to remain stable. But whether and how and where this reinvestment occurs is determined by profitability criteria, which engender irrational development and economic instability. That is to say, the problem lies with the investment mechanism, i.e., those capital markets.

This analysis suggests that "the market" is not a unitary structure, but one that has three essential components:

- A commodities market, wherein enterprises compete with one another to sell the goods and services they produce,
- A labor market, wherein workers compete with each other for jobs, and
- A capital market, wherein private savers and private investors interact, all parties trying to maximize their income flows

We see, therefore, that the fundamental problems with capitalism, at least for Marx--and I think he is right in this--derive, not from "the market" per se but from the two of its three constitutive markets: the labor market and the capital market.

This analysis points to a viable, non-exploitative alternative to capitalism. Keep the market for goods and services, but replace those labor and capital markets by other, more democratic institutions. In particular, replace wage labor with workplace democracy; replace capital markets with public control of investment.

I have argued extensively elsewhere that such a socialism, which I call Economic Democracy, would be at least as efficient as capitalism, and would be vastly superior to capitalism in terms of

developmental rationality, economic equality and democracy. I have also argued that it would be superior to any plausible version of non-market socialism.

If I am right about this, then several implications follow, regarding the question of China. (I realize that the "if I'm right about this" is a large claim, which I must ask those of you who have not considered the arguments that support it to take on faith, at least for the duration of this presentation.<sup>8</sup>)

If I am right about the viability and desirability of Economic Democracy, what are the implications for China? First some double-negatives:

- 1) The fact that China has given a large scope to the market in its economy does not mean that China is not a socialist society. Indeed, a viable, desirable socialism requires a suitably regulated market mechanism to allocate most goods and services.
- 2) The fact that there is considerable inequality in China does not mean that China is not a socialist society. If there are markets, there will be inequalities that have nothing to do with individual effort. Some enterprises will be luckier than others. Some will be better run. Within enterprises inequalities will persist, since financial incentives will be employed to attract and retain skilled technical and managerial personnel.
- 3) The fact that there are some very rich capitalists in China does not mean that China is not a socialist society. It may very well be the case that a viable, desirable socialism should include a capitalist sector--certainly a sector of small businesses, but perhaps even a sector of large, entrepreneurial capitalists. Entrepreneurial capitalists may have a useful role to play in fostering innovation and providing much needed employment, particularly in a developing country. It should not be presumed that such a sector will inevitably become the dominant sector, certainly not if wages and working conditions are regulated, these firms are unionized, and a large alternative sector of public firms exists.

Successor-system theory urges us to look for positive signs as well.

What about workplace democracy in China?

We observe that formal institutions are in place in many enterprises, backed by official rhetoric. The language of "democratic management" is widely used in China. The Chinese Constitution proclaims that "state-owned enterprises practice democratic management through congresses of workers," which are empowered to "decide matters concerning the well-being and benefits of the workers," and even to "elect the factory director or manager according to the arrangement of the competent governmental department."<sup>9</sup> Even non-public enterprises are supposed to be "conducive to developing democracy, giving voice fully to the workers' ideas and demands, and allowing the workers to take part in their enterprises' democratic management"--at least according to Politburo member Wei Jianxing<sup>10</sup>

This is not to say that "workplace democracy" is the norm in China. Far from it. Just a few days ago, the director of an institute under the Ministry of Labor reported that "In China, in particular

the non-public sectors, management has the absolute upper hand over laborers." The People's Daily Online article that quoted this director notes that "China's unbalanced industrial relations system is placing laborers at a disadvantage and eroding social justice." It adds that new laws are being created to redress this imbalance.<sup>11</sup>

I would argue that even if not yet effective, the fact that formal institutions are in place and supported by the prevailing ideology is not insignificant. A revitalized labor movement could well make use of them. There is class struggle going on in China right now--as Marxist theory would certainly predict. The exact nature of that struggle, however, is far from clear. In my view the fundamental struggle is between workers and the managerial strata, not workers and capitalists. (This is a large claim that I will pass over lightly right now. We can talk about it more during the discussion period, if you wish.) It is to be expected that managers will resist workplace democracy. Being accountable to the workforce makes their managerial tasks more demanding, and checks their ability to grant themselves income and other privileges--even if workplace democracy is more efficient in general than managerial authoritarianism.

What about social control of investment in China?

Again, formally, the situation is promising. Financial institutions in China are overwhelmingly public institutions. The Chinese government has control over its investment funds in ways that governments in capitalist countries do not. The most recent issue of the Far Eastern Economic Review confirms this assertion--while bemoaning it and urging neoliberal reform. Banks, which are virtually all public, control 75% of the capital of the country, as compared with less than 20% in "developed" countries. Stock and bond markets in China are among the smallest in the world--and these are used almost exclusively by state-owned enterprises. Strict capital controls prevent citizens from investing in foreign financial markets or securities.<sup>12</sup>

Of course there is much foreign investment in China right now, but as Joseph Stiglitz has recently pointed out, China does not need foreign capital. Given the mammoth trade surpluses with the U.S., it has huge dollar reserves. What China wants in foreign technology and managerial skills, and that it is getting.<sup>13</sup> The key question, of course, is in whose interests do these financial institutions operate. In whose interests will they operate? Here again class struggle enters the picture.

A final consideration concerning public control of investment: It is important to remember that China still plans. It still sets out, every five years, its plan for the next five years, and regularly sets goals for well into the future. And it commits resources to realize those goals. (What capitalist country does that?)

### III. Why China Will Not Go Capitalist

I have argued that China is not yet a capitalist country. Let me offer three reasons in support of the even stronger claim that heads this section.

China will not go capitalist because:

- 1) Capitalism cannot solve China's fundamental problems--and the ruling class knows this.

Chinese political class is not stupid. Singapore's long-time ambassador to the U.N., Kishore Mahbubani, remarked recently that "after more than a hundred years of anarchy and misrule, China has amassed the best governing class it has seen in generations."<sup>14</sup> One may or may not agree with this assessment, but it is certainly true that none of the problems I enunciated at the beginning of this talk--widening income inequality, environmental destruction, etc.-- is news to the Chinese. These are discussed incessantly in the press and debated at the highest levels of government. The Chinese ruling class is well aware that unbridled capitalism will exacerbate inequalities, create more unemployment, and wreak ecological havoc.

- 2) There is considerable pressure from below opposing the capitalist trajectory, pressure from workers and peasants who have ideology on their side. Chinese workers and peasants are far from passive. There were reportedly some 70,000 demonstrations last year, attended by some three million protestors. Although workers and peasants appear to hold the central government in high regard, there is deep discontent with local officials, who are often (correctly) perceived as corrupt, and bent on appropriating for themselves and their allies public lands and state assets.
- 3) This pressure generates deep concern about instability on the part of the political class, who are particularly sensitive to this issue, given the massive upheavals the country experienced during the previous century: anti-colonial struggles, civil war, Japanese occupation, a Communist revolution, the Great Leap Forward, the Cultural Revolution, Tianamin Square. The leadership knows that things can spin out of control. (Such concern, let us observe, is wholly absent in developed capitalist countries today. The political class may be worried about a variety of things, but worker insurgency is not one of them.)

This concern on the part of China's rulers is wholly understandable. Members of the political class want to preserve their own place in society. Such is the concern of every political class. But there is a second factor that is far from irrelevant. They want to preserve the collective accomplishments of China.

What they have accomplished, this reform-minded political class? Let me offer a list.

- A quarter of a century of nearly double-digit growth, and this in the face of huge obstacles: the world's largest population, most of whom are peasants, an acute shortage of arable land (China must feed 22% of the world's people with 7% of the arable land), and no powerful allies willing to help out (unlike, say, South Korea and Taiwan during their high-growth periods). As Singapore's UN ambassador remarked, "To watch the most populous society in the world experiencing the most rapid economic growth is like seeing the fattest boy in class winning the 100-meter hurdle."<sup>15</sup>
- This growth has translated into a huge increase in per capita income. Per capita annual income in China was \$168 in 1978; it has now exceeded \$1200. To be sure, the gap between town and country is large--as it was during the Maoist era-- but even rural incomes have tripled (to \$488).

- China has succeeded in lifting more people out of extreme poverty than any country has ever done, some 400 million since 1981--and this at a time when poverty is worsening in many parts of the world. As the 2005 UNDP Human Development Report noted, "If it were not for China, the world [over the past thirty years] would have regressed in poverty alleviation."<sup>16</sup>
- The same report notes that although China's economic advance has outpaced social development, it has made rapid progress in offering basic education, medical and social security to its people, allowing it to advance 20 places in the Human Development Index since 1990.
- A month ago it was reported that rural Chinese women living in abject poverty had been reduced to 12 million, down from 35 million in 1994.<sup>17</sup>
- Here's a statistic that will likely surprise you. According to an index developed by the World Economic Forum based on five factors--economic participation, economic opportunity, political empowerment, educational attainment, and health and well-being--China is now the most gender-equitable society in Asia, significantly better than Japan, South Korea, India or Pakistan (although significantly worse than OECD countries).<sup>18</sup>
- On a different front, the Christian Science Monitor reports, in an article headlined, "From Abroad, Challenges to US Role as Top Innovator," that by 1999 China ranked behind only the United States, Japan and Germany in publications on four emerging technologies. By 2004 China was third, and closing in on Japan in one of those fields, nanotechnology. This year 325,000 Chinese earned engineering degrees, as compared with 60,000 in the U. S.<sup>19</sup>
- As for those deeply disturbing environmental reports, it is notable that Greenpeace Global Executive Director, Gerd Leipold recently praised China for making great progress in its environmental protection. "Currently China has a much stronger environmental awareness among politicians, academics, journalists, young people especially students and the population in general. . . . China's environmental legislation compared with that of other countries is quite good, and the enforcement is also good." He added that "If China follows the old Western model of first getting rich by exploiting its environment and then using the wealth to make up for the damage, it will have disastrous consequences."<sup>20</sup>

Jorge Mora, who runs the Asian arm of the French environmental group Veolia, says that China is serious about its clean-up plans. "China is taking very harsh policy decisions to improve the environment," he says. "We're now working in 60 different Chinese cities, building sewage plants and cleaning up waste. The Chinese are serious about this, both at the national and local level."<sup>21</sup>

- Then there's Joseph Stiglitz's overall assessment of the recently unveiled Five-Year Plan. "To achieve its target, China needs to maintain the current direction, stimulate domestic demand, focus on innovation, continue to strengthen the educational system and develop technologies. Through its managed growth model, it can avoid the problems of poverty and economic

fluctuations that the United States faces under its policy of laissez-faire, maintain stability and benefit its citizens. I think those policies are totally correct."<sup>22</sup>

The Chinese accomplishments have been astonishing, but much more needs to be done. What are they are trying to accomplish--with this five-year plan and into the future? The goals have been spelled out. To achieve:

- A moderately well-off "harmonious society"
- A sustainable, "green" economy.
- A new socialist countryside.

A brief comment on the latter. The Chinese government is deeply concerned about the widening gap between town and country, which could trigger a truly massive migration from rural to urban areas. (Of course the current migration is "massive." Almost everything in China is "massive." But what is going on now could be dwarfed by what might come.) So plans are being made to forestall this, derived at least in part from a call frequently heard from the Chinese New Left for "an alternative conception of modernity," one that brings modernity to the countryside, rather than modernizing through urbanization. This, to my mind at least, is an extraordinary concept, one with world-historic implications--given that well over half of the world's poor are peasants.

Will China succeed in its various endeavors? Let me conclude by quoting from a very interesting article by environmental writer Bill McKibben, which appeared in the December 2005 issue of Harper's. It begins with the "mental image" of China he had in his mind as he embarked on his first-ever visit to the country:

China full of smog-blackened cities where people wore gas masks against clouds of coal smoke; savagely Dickensian factories where young women were paid slave wages; a heedless and rapidly expanding consumer class hell-bent on buying cars and appliances with no regard to the environmental costs of their consumption. I wanted to see it for myself in a kind of disaster tourism that makes one gaze agape at the sheer can't-take-your-eyes-off spectacle of it all, like visitors who flocked to Niagara to watch boats filled with zoo animals wash over the falls. And then come home with head-shaking cautionary tales about what this combination of heedless growth and ecological unconcern meant for the future of the world. That was the plan, anyhow.

After visiting factories, cities, small towns and rural areas, unaccompanied by official escorts, he concludes on a very different note:

On my last night in Shanghai, after about a month of touring the country, I ended up strolling the Bund, the strip of old European banking houses that faces the Huangpu River. On the other bank, in the Pudong District that China has made its great urban showpiece, huge towers rose in neon splendor --the Jinmao Tower, with the highest hotel on earth taking up its top thirty-four floors; the Oriental Pearl TV tower, its great kitchy

globes glowing pink against the sky; the Aurora building with its vast outdoor TV screen showing ad after ad. The vista was a little less grand than usual--the temperature had topped 95 degrees that day, so the government had decreed a power cut--but it was still enough to draw tens of thousands of spectators, content just to stand there in the dark and look. Many, perhaps most, were new arrivals from the countryside, in shabbier clothes and with ruddier faces than the city folk; they posed for pictures along the railing with the promise of the country glowing behind them.

I don't think in the end it's a real promise--I'm not sure China can escape the horrible environmental contradictions of its own growth. I'm not sure globalization makes sense for the globe, even if it makes sense for China. In fact I'm almost sure it doesn't. . . . But in moral terms I am completely sure that that vista across the Huangpu River is filled with a kind of hope for the people who nightly drink it in, and that that hope is, for now, essentially innocent.

The only neon spectacle I've ever seen that compares is Vegas, with its pyramids and dancing waters. But what is Vegas? It's the search for some kind of new stimulus for the jaded. Some thicker meat and pricier alcohol for those who have been packing away meat and alcohol for decades. Some attempt to find out what more might mean when you've already had too much. Whatever else it is, China is not like that at all.

Like McKibben, I'm not sure that China will succeed. If it does, it will have invented a new kind of capitalism--or, more likely, a new kind of socialism. In any event, we should wish them well--workers, peasants, and also those honest entrepreneurs, New Left intellectuals, social critics and non-corrupt Party members who are currently engaged in one of the momentous projects of our species, an attempt to creating moderately well-off, sustainable, harmonious society for a fifth of the world's population, a fifth that had been, barely a half-century ago, among the poorest on earth. Let's hope the fat boy doesn't stumble.

#### Notes

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