

**THE CONCEPT OF SOCIALIST MARKET ECONOMY:
A STUDY OF THE CHINESE DISCOURSE
DURING THE DENG PERIOD**

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DECLARATION

I declare that the dissertation entitled "THE CONCEPT OF SOCIALIST MARKET ECONOMY: A STUDY OF THE CHINESE DISCOURSE DURING THE DENG PERIOD" submitted by me for the award of the degree of MASTER OF PHILOSOPHY of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this or any other University.

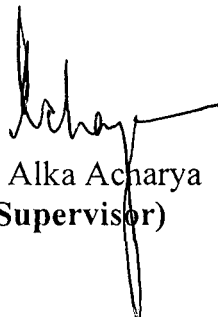

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CERTIFICATE

We recommend that the dissertation be placed before the examiners for evaluation.


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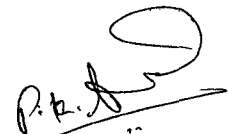

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P.K. Anand
New Delhi
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Dedication

To the Hundreds of Farmers, forced to commit suicides across India bearing the brunt of Neo-Liberal Economic Policies.....

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ABBREVIATIONS

CMEA	Council for Mutual Economic Assistance
COMINFORM	Communist Information Bureau
CPC	Communist Party of China
GATT	General Agreement on Trade and Tariff
GLF	Great Leap Forward
GPCR	Great Proletariat Cultural Revolution
HAPC	Higher Agricultural Producer Cooperative
FDI	Foreign Direct Investment
JV	Joint Venture
LAPC	Lower Agricultural Producer Cooperative
SEZ	Special Economic Zone
SOE	State-Owned Enterprise
MAT	Mutual Aid Team
NEM	New Economic Mechanism (adopted in Hungary)
PLA	People's Liberation Army
PRC	People's Republic of China

CHAPTER ONE: INTRODUCTION – THE ARGUMENT FOR MARKET SOCIALISM: A THEORETICAL DISCOURSE

The idea of Socialism has evolved over the years, thereby remaining as an important term in political connotations. Under the Marxist-Leninist theory, Socialism as a system became a viable alternative to the people. Especially in countries where this system was adopted under the leadership of the Communist parties, the concept was well-drafted in the overall theoretical framework. The economic patterns governing a Socialist system were created as clear alternatives to the inherent contradictions of Capitalism. The capitalistic model was critiqued on the grounds of being steeped in exploitation and leading to alienation of the fundamental classes of society, the workers and peasants. Capitalism's exploitive character was also made explicit by the 'trickle down theory' wherein the distribution was never in terms of equity and thus, led to the impoverishment of the lower strata of the population. In fact, under Socialism the conditions of ownership, system of production, character of labour and the overall trajectory of development are highly different from the Capitalistic framework. Though developed in strong theoretical terms, in praxis Marxist theory was developed in Soviet Union, where under the Bolsheviks, a revolutionary change was brought about replacing the centuries-old czarist despotism. Under leadership of Lenin, socialism was sowed and practiced, thus operationalizing the model articulated by Marx and Engels in concrete terms. "Marxist-Leninist political economy studies the various social modes of production in the sequence in which they follow one another, forming a social process of economic evolution of human society" (Kozlov, 1977). Frederick Engels wrote in 'Anti-Duhring' that "political economy in the broadest sense of the term was the science of the laws governing the production and exchange of material values in human society; thus, essentially being a historical science, it deals with material that was historical and had to undergo constant change".

Socialism was the first stage of communism and the "political economy of socialism studied the communist mode of production in its first phase and investigated the existing and developing relations of production of socialist society as well as the system of objective economic laws corresponding to them" (Ibid). "While the political economy of capitalism explained the contradictions of that system, leading to its

collapse and was the working people's ideological weapon in the struggle to overthrow capitalism to establish the dictatorship of the proletariat, the political economy of socialism was of immediate importance for consolidating and developing the socialist system" (Ibid). The theorists developing the scientific theory of socialism have stated that "capitalism gave rise, in the course of its development, to the material preconditions for the revolutionary transition of mankind to a new communist social and economic system, the first phase of which was socialism" (Ibid). Kozlov in his work *Political Economy: Socialism*, also put in that capitalist production that had attained a high degree of socialization objectively required a radical change in its goals and the character of its organization, whereby it needed to be subordinated to the objective of satisfying the growing material and cultural needs of the working people as fully as possible and had to be developed on the basis of science and technology in accordance with a plan drawn up in advance on a nation-wide scale. Kozlov also pointed out that "in addition to the material preconditions for the transition to socialism, capitalism gave birth to a revolutionary social force, the proletariat which, when guided by the theory of Marxism-Leninism would become a gravedigger of the old system and the creator of a new social system". Thus, the transition to socialism was termed as a historical process of development that was inevitable. Though Marx had articulated his theory, it was put into concrete practice in real terms in Soviet Russia for the first time. This followed from the idea that concrete praxis was the test for any theory. The Soviets worked on the fact that Marx had left no blueprint to advance his socialist theory. Therefore, Lenin through his deep study of the Marxist ideas developed the model that Soviet Union had to follow to move forward in economic development. The Soviets were faced with the situation of a backward agrarian country where the productive forces were never fully developed. This contradiction was glaring, as Marx had put in that revolutions were only possible in advanced, modern industrialized societies. But the lack of this aspect in the country led to the practitioners to evolve a new path. Thus, they also study this contradiction more closely and sought to advance the productive forces. This meant that they had to build the material base required to enhance the capitalist elements, whose advancement would result in providing the ideal ground for the growth of socialist conditions. This would set the stage for the transition to the next phase according to the teleological model. The People's Republic of China was faced with the same situation as Soviet Union at the time of its liberation. Therefore, the Chinese

also decided to follow the Soviet path in advancing itself¹. According to Lenin, the exploiting classes never gave up their power and economic dominance voluntarily, thus requiring a socialist revolution which could either be peaceful or violent depending upon the concrete conditions prevalent in each country. This was precisely what happened in Czarist Russia, where the revolutionary forces guided by Marxist theory brought about a major change with the communist party acting as the potent force and vanguard of the revolution.

The Socialist model, both in the Soviet Union and later in the People's Republic of China, adopted the planned development of the economy. "Planned development of the economy only became possible in conditions of a socialist society, in which power was in the hands of the working people and socialist ownership of the means of production had been established; in contrast to the capitalist ownership, public socialist ownership of the means of production did not divide people, but united them and gave rise to a community of their interests and objectives" (Ibid). Planning was central to the socialist economy. It involved the drawing up of various plans and assignments for developing the economy as a whole and individual industries and enterprises, economic areas and republics. Kozlov articulated that "production, distribution, exchange and the consumption of material wealth were organized according to the plan along with education, health service, science and other spheres of the socialist society being developed in planned way". The system in socialist countries "presupposed the existence of a central planning authority known as the State Planning Commission, which had five specific tasks" (Wilczynski, 1982). These tasks were:

- Determination of the criteria of economic calculation underlying planning decisions;
- Determination and quantification of the targets to be reached in the planning period;
- Co-ordination of the targets to ensure the internal consistency of the plan;
- Determination of appropriate methods to ensure plan fulfillment;

¹ Later, when relations worsened between both Russia and China, the latter responded to the criticisms of the former by stating that the country was only emulating the path charted out earlier by the Soviets.

- Current revision of targets according to changing conditions.

The “period for which a given plan was constructed was called the planning horizon, which largely determined the purpose and content of the plan; long-term or perspective plans were primarily concerned with long-term problems of structural changes on the national scale, technology, training of labour and the like” (Ibid). Then “there were also medium-term plans (usually covering five years) concerning mostly with changes in the capacity and rate of production of different industries and enterprises, as well as short-term plans or operational plans (covering twenty four, twelve and four months) concerning current production tasks and problems of equilibrium” (Ibid). The details of the plan were worked out after elaborate deliberations and close collaboration with different ministries. As the system developed, Wilczynski argued that decentralization also became visible in planning, wherein the central plan was based on contracts between virtually independent enterprises; such contacts were co-ordinated and in some cases supplemented by the State Planning Commission to provide for developments of long-run macro-economic importance.

But over the years, this method of command planning ran into problems and acquired structural defects. Bottlenecks cropped up in the economy, whereby gigantic planned models created massive imbalances in the economy, with increased bureaucratic control leading to stifling of interests and enthusiasm of the people. “One set of problems was that of information, whereby the modern industrial economy was simply too complicated to be planned in detail and too difficult to determine, what people wanted, how badly and in what quantities as well as qualities” (Schweickart, 1998). The “production capacity of plants was insufficiently known when central authorities issued mandatory targets for costs, finance, investment, production, domestic and foreign sales; in consequence, they cannot know whether plants were doing well or badly regardless of whether they act in accordance with or in contravention of plans” (Schuller, 1988). Also “there are problems concerned with incentives like enterprises having little incentives to expend resources or effort to determine and to provide the real wants of the consumers, and inclination of enterprises to understate their capabilities and overstate their needs; also if planning board was responsible for the entire economy, it had little incentive to close

inefficient units since that would either contribute to unemployment or necessitate finding new jobs for the displaced workers” (Schweickart, 1998). Schweickart also noted that the command planning led to political problems as the planners had enormous powers and there were always inherent dangers of corruption, as a well-placed bribe allowing for a quota reduction or price rise could do a company far more immediate good than careful attention to the product quality or the development of a new product line, or the introduction of a new production process; as, planning had increasingly become a complex process, there were also the fears of the coming up of many barriers between planners and workers or consumers. Thus, it made amply clear that adjustments to satisfy one group of constituents may impact adversely on other groups, causing them to clamor for change. Schweickart also articulated the entrepreneurial problem in his critique of the planned model, as he pointed out that there was a severe lack of innovation in economic terms, as very few new products or new production techniques could be traced to the centrally planned economies. As a result, managers and planners in centrally planned economies tended to be conservative². There were also problems in the planned process pointed out by Alfred Schuller, wherein he cited the tendency to imbalance in the co-ordination process, whereby one-sided growth targets usually turned out to be wholly unrealistic against the background of bottle necks in the supply of materials, follow-up investment and labour, worrying gaps in the co-ordination appearing between the favoured sectors and rest of the economy; this resulted in serious disproportions with perennial supply bottle necks, costly investment ‘ruins’ and a reduction in labour productivity. “The overarching bureaucratic control of the planning process also meant that their domination in the decision-making was absolute leading to the practice of the policy of preventive subordination, thus obstructing innovation, competition and daring initiatives” (Schuller, 1988). Further the “planned approach also resulted in wasteful management of outlays along with the division of functions in the state ownership of the means of production leading to an insoluble problem of control over the enterprise managers of state property” (Ibid).

² Mistakes were more easily recognized and these greatly threatened the careers than being innovative successes. Also, risks were generally avoided unless the high-risk ventures originated at the top, in which case one was reluctant to criticize even a bad idea. Schweickart, David (1998), “Market Socialism: A Defence”, in Bert Ollman (ed.) *Market Socialism: A Debate Among Socialists*, New York: Routledge.

Moreover, exchange of commodities was also spoken about in the socialist economy. Thus, the role of market was enhanced within the socialist paradigm. In fact, market has been put forth as “certain aggregate of the buying and selling of commodities or the sum total of the commodity circulation in a country, economic area, etc” (Kozlov, 1977). The concept of Market has always been considered as being alien to the system and is in fact mostly associated with the Capitalist system. Market forces have been generally portrayed as existing under capitalist system and therefore the free market concept was also put under the rubric of capitalist framework. However, it is crucial to note that markets have also been visualized under the Socialist paradigm. The view that the market approach was deviating from the socialist principles came in for sharp critique from economists and intellectuals. Market Socialism was a new mode of thinking, which sought the re-orientation of the dominant model of the planned approach. The proponents of this approach pointed out that market was not alien or in sharp deviation from/opposition to the socialist principles. Hence, there was a contradiction in what Marx had articulated and in fact, commodity circulation was something that had to be looked into more carefully. Before approaching the concept of Market Socialism, it is necessary to articulate the arguments being put forward in favour of the ‘market’ within the Marxian paradigm. A complex modern economy cannot be run effectively from a single command centre and thus a decentralized system of decision-making was required. “Marx and Engels are said to have enshrined this matter in the Communist Manifesto arguing that a post-revolutionary society, was mainly concentrated not on the political relations of force between the proletariat and the bourgeoisie, but on the evolving socio-economic conditions, thus approaching the entire issue on a step-by-step basis” (Lawler, 1998). Thus, what was proposed was a post-revolutionary programme of the transformation of the bourgeois society on the basis of primarily evolving economic conditions of a market society. Lawler has argued that the importance of market principle was also found in the work, *The Principles of Communism* by Engels, wherein it was stated that “Proletarian revolution was not to bring about a regime of forcible confiscation of bourgeois property. It would introduce a progressive tax system and eliminate ‘unearned’ wealth through inheritance taxes, with which there would be the purchase of enterprises as well as their creation”. Lawler also forcefully argues that the proletarian revolution did not immediately do away with market, and the socialism that it initiated was a market socialism or a state market socialism wherein though a certain amount of

property needed to be acquired by the proletarian state, the state enterprises had to continue to operate on market principles competing with non-state, privately owned enterprises. Socialism was the qualitative break from capitalism and thus arguments of the market socialists was that markets could not be negated. In fact, it was argued that markets under socialism were essentially different from those under capitalism. It was also strongly asserted that capitalist market system was only one stage in the history of market-related production and was market production of a particular kind; market relations preexisted capitalism and so it was conceivable that they would continue in some form beyond capitalism. "The immediate goal of the proletarian government was not the elimination of competition per se; it was the elimination of competition between workers over the price of their labour and Marx had later described this competition between workers, employed and unemployed as riveting the labourer to capital more firmly" (Ibid). The "kind of market initiated by the proletarian state was no longer strictly speaking a capitalist market; thanks to the conscious management by the proletarian state, the market began to work against the bourgeoisie and for the proletariat" (Ibid). Lawler also stated that contrary to the capitalist model, the market was no longer the blind elemental force in which the interaction of isolated producers took place as if it were an external power of nature. He further argued that the rational or conscious element of planning transformed market production, rather than simply replacing it; thus, expressing the interests of the workers, a socialist market came into existence. Lawler's arguments also pointed towards the scientific character of Marxism-Leninism, as the analysis of capitalist development by Marx and Engels was more than just a purely negative refutation of capitalism as an intrinsically contradictory system. "Marxism was not a form of nihilistic socialism and it did not take a purely negative stance towards capitalism regarded as something wholly evil, to be destroyed or summarily replaced by a fundamentally different entity; in Marx's dialectical socialism, the new society was seen as emerging from the old one" (Ibid).

"The socialist economy implied commodity production organized according to plan; and a market representing the sum total of economic relations connected with the sale of goods and with the transfer of these goods from producers to consumers, was an essential component of any political economy" (Konnik, 1966). Thus, "the socialist economy included a market mechanism directed not only by the law of value, but also

by the entire system of the economic laws of socialism” (Ibid). The “basic feature of the market is that the productive decisions are made not by some authority, but by the producer himself, with a view to selling to potential customers who had no obligations to buy from the former; the producer decided what was to be produced, from what materials, in what quantity” (Miller, 1977). Thus, the “consumer decided between the alternate ways of allocating their resources and both the producers as well as the consumers wanted to maximize their returns; also, the commodity prices were fixed by the operation of supply and demand, not authoritatively or according to ethical criteria” (Ibid). The concept of market was increasingly being propagated within the socialist planned model whereby it was sought to be integrated into the plan. This was the formulation under the concept of Market Socialism. Put forward by the economists in East Europe, this concept analyzed the defects and inherent problems of the planned model that slowed down economic growth. This formulation was later adopted by the Chinese in the post-Mao era. The concept of Market Socialism is also to be seen in the context of the Stalinist model that was prevalent in all the socialist economies of East Europe in the 1950s and 1960s. A “market socialist economy eliminated or greatly restricted the private ownership of the means of production, and substituted for private ownership some form of state or worker ownership; it retained the market as the mechanism for coordinating most of the economy, although there were usually restrictions placed on the market in excess of what was typical under capitalism” (Lawler, 1998). “It may or may not replace wage labour with workplace democracy, wherein workers got specified shares of an enterprise’s net proceeds and not a contracted wage” (Ibid). According to Lawler, all advocates of market socialism agreed on four points:

- The market should not be identified with capitalism.
- Central Planning was deeply flawed as an economic mechanism.
- There existed no viable, desirable socialist alternative to market socialism, thus meaning that market was an essential mechanism for organizing a viable economy under conditions of scarcity.
- Some forms of market socialism were economically viable and vastly preferable to capitalism.

“Though the whole idea of market socialism was first put forward by Oskar Lange in the 1930s, it was further developed and improved by people among others like Włodzimierz Brus of Poland, E.D.Kaganov of USSR, and Ota Sik of former Czechoslovakia” (Wilczynski, 1982). In the earliest stages, economists and thinkers like Karl Polanyi of Austria had also put forward the forms of market. Polanyi was increasingly critical of the Austrian school of economics for failing to be realistic with the changing times. Janos Kornai of Hungary was also cited a reform economist, even though he did not fully favour the idea of market socialism. Sik had argued that ever since its inception, “the planning system had prevented a highly efficient investment development, not only because of slow technological progress, but also because it rendered impossible the selection of the most profitable investment projects from among a great number of substitution process, which were very numerous in a free market economy; also, the planning system from the start prevented consumers from influencing the development of production through the market, and from assessing the performance of individual enterprises with the help of market selection” (Sik, 1991). Ota Sik also articulated an alternative model christened as the ‘Third Way’ whereby there was the need for the market mechanism to function as perfectly as possible. He further called for the market to not only function as a commodity or labour market, but also as a capital market which required the existence of joint stock companies particularly in the field of large enterprises. “In essence, market socialism represented the peaceful coexistence and, indeed, the complementary and harmonious cooperation of the mechanisms of plan and market” (Wilczynski, 1982). It has been argued that “identification of market with capitalism was a pernicious error and hence, the need was to look closely at how the market might work when embedded in networks of property relationships different from capitalist relationships” (Schweickart, 1998). The “fundamental difference between the socialist market and the capitalist market was that the latter was dominated by a free play of prices and the former was not; also the socialist market, being an integral part of the planned economy, was subordinated to the latter’s regularities and in turn, influenced in a planned manner, the entire course of socialist reproduction through the mechanism of national economic planning” (Konnik, 1966). The “chief elements of socialist market conditions namely consumer demand, commodity supply and prices were determined chiefly by the socialist state directly in the process of centralized national economic planning”

(Ibid). "The extension of the market's role in the plan process was mainly due to three reasons" (Wilczynski, 1982):

- First, being based on Marxian ideas, the socialist economies had traditionally concentrated on macro-economic issues, but failed at the microeconomic level. A substantially free operation of the market mechanism was a device to overcome the undesirable consequences of central planning in the micro sphere of production and consumption not lending itself to remote central control in order to produce the best results. The delegation to the market of the working out of microeconomic details also relieved central planners of unnecessary routine work, thus making them concentrate on long-run macro problems.
- Second, the operation of market mechanism was necessary for the continuous verification and correction of planned decisions. It was essential for a real market to function as a continual criterion and correction of erroneous decisions in planning.
- Lastly, the market provided a salutary discipline in the form of competition, so that production and distribution were constantly adapted to buyers' preferences and hence, this could be done in a more efficient manner.

The market mechanism "could take various forms depending partly on the level of economic development and partly on political decision; the units of production could be families, firms employing wage labour, or cooperatives, with the units of consumption being individuals (or households), but there might also be lesser groups" (Miller, 1977). The version of market under socialist principles meant that "the means of production were owned by the state but leased to groups of workers in such a way that each worker got productive resources of roughly equal value" (Ibid). David Miller went on to examine the objections often raised from the Left circles, with regard to the concept of market, especially when brought under the socialist paradigm. These were:

- The market was socially unjust. This was not necessarily true. Under socialist market, no group of workers was allowed to get into a position to exploit other

groups. This was done through a combination of progressive taxes on profits and antimonopoly laws. Even though in an obvious sense, it may be true that the market did not distribute goods according to need, for a worker's income depended on the profits of the cooperative he worked for, which in turn depended on the cooperative's success in the market. However, Miller offered two mitigating factors. First, the state raised funds by taxation and distributed some of the proceeds on the basis of need through the welfare system. Second, it was possible for the members of each cooperative to distribute the proceeds of that cooperative among themselves in proportion to need.

- The market engendered acquisitiveness. Miller refuted this by pointing out that the market was an efficient allocator of resources, whereby it regulated production in such a way that the largest number of consumers' demands was satisfied. The market gave each production unit an incentive to create additional demand among potential consumers. After reaching the maximum sale, if the producers of a particular commodity wanted to expand further, they needed to either lower the price, switch to a new line of production or increase demand. Producers would therefore indulge in demand creating activity like persuasion and advertising, thus making the wants to increase.
- The capitalist market alienated individuals from the products of their labour, over which they could exercise no control once the process of production was completed. In a more general sense, individuals were subjected to the impersonal laws of market, which governed their actions and over which they had no influence. This situation was also considered to be similar in the socialist market. But Miller begs to differ and offers some corrections. In an obvious sense, any product because of it being subjected to natural laws could not be fully under the control of its producers. In a communist society, a person may contribute his products to a common pool from which everyone drew according to their needs. Miller pointed out that the idea of a social order which was both transparent and wholly subservient to its members intentions were chimerical.
- Despite the claims that market made every man an enemy to every other, whereby individuals meeting as buyers and sellers were trying to further their

own interests at the expense of others, the defenders of the market have stated that the whole purpose was to make the private interests and social interests coincide. Thus countering the claims of the market destroying altruism and human community, it was argued that market ensured that each person could only benefit by supplying others the goods they wanted. Since self-interest and public interest were indissolubly connected, it made no sense to contrast selfish and altruist intentions. Producers in the market who tried to behave altruistically would simply go out of business and benefit nobody. In market socialism, there were two institutions which fostered the feelings of altruism and community, namely, the state and workers' cooperatives. The state could be regarded as a mechanism, whereby the members of the whole society could express their solidarity by guaranteeing the satisfaction of everyone's needs. Within the cooperatives, various forms of mutual aid could be practiced and common funds could be distributed according to need. The constant assertion of self-interest in the market place made it impossible.

In the market mechanism, "prices played a very significant role, whereby they served as the chief tool for exerting an economic effect on the reproduction process through the market. The advantage of the socialist market was the conscious and purposeful changing of the prices in the interest of stimulating commodity supply and market demand, influencing their structure and improving their proportions, accelerating commodity circulation and consequently improving the efficiency of social production on the whole" (Konnik, 1966). Konnik also argued that the supply and demand mechanism as a specific and immanent form in which the regulatory role of the law of value is manifested in the market, is preserved in the socialist economy because only this mechanism objectively guarantees establishment of an interconnection between production and consumption in conditions when this interconnection takes place on the basis of commodity-money relations. He also stated that the supply and demand mechanism operated under the influence of the entire system of the economic laws of socialism, whereby supply and demand mechanism served the interest of establishing optimal proportions in the national economy. Konnik's formulations also meant that the socialist economy could utilize in a planned manner the market mechanism of supply and demand in various ways, depending on the concrete national economic conditions; in order to regulate demand

and supply in planned manner and to correlate the plan and market, better coordination of the development plans for foreign and domestic trade was essential as well as more extensive use of the international socialist division of labour in order to guarantee adequate proportions in the development of the socialist countries' national economies. The "operation of the supply and demand mechanism in conditions of a planned growth of the socialist economy presupposed a broad maneuverability in the sphere of price formation, with consideration for the operation of the entire system of the economic laws of socialism; with this, the planned regulation of market conditions was secured and the spontaneous influence of market conditions on the national economy and on the workers' level of material well-being was eliminated" (Ibid).

"In socialist production, it was important to give the law of value, a leading role, that of being the regulator. The objection being raised to this was that such a role of the law of value led to the priority development of certain industries as the most profitable ones and making the process of the planned socialist reproduction on an expanded scale quite impossible" (Ibid). However according to Konnik, this argument did not hold water for several reasons. According to him, the law of value in the system of economic laws of socialism does not function automatically or spontaneously, but is realized on the basis of government planning of the national economy; the very planned utilization of this law precluded the possibility of the spontaneous formation of national economic proportions. Konnik also added that with centralized planning of the bulk of capital investments, the market mechanism of the law of value could not determine the main national economic proportions, although it was used as an instrument for determining the optimality of these proportions. Also, "even if people believed that the law of value was capable of automatically regulating socialist production on the basis of the difference in profit levels of certain industries, nothing prevented the socialist state from using the mechanism of planned price formation in order to raise the profit level of these industries and thus to create favourable conditions for their priority development. The fundamental distinction in the operation of the mechanism of the law of value under capitalism and under socialism was that while under the former, the law of value and the market regulated production in a spontaneously automatic way, under the latter production was regulated on the basis of a conscious and a planned utilization of the law of value and of the market mechanism" (Ibid). "Under capitalism, the law of value was

indissolubly connected with the law of production of surplus value, with the general law of capitalist accumulation and with other economic laws of capitalism” (Ibid). “Under socialism, the law of value regulated production in unity with the basic economic laws of socialism, the law of planned proportional development and other laws of socialism” (Ibid). Konnik also pointed out that the unity of plan and market was a major condition not only for guaranteeing operative proportionality in the development of the national economy, but also for forming optimum proportions. Adding further, he also put forth that the unity of long-term and current planning and economic incentive by resorting on a large-scale to economic levers, was based on the unity of plan and market both as regards the individual enterprises and on the scale of the entire national economy; only this unity guaranteed the really planned and proportional development of the national economy, the improvement of the efficiency of the entire social production and of individual enterprises, the implementation of the economic policy of the truly scientific basis of consciously utilizing the whole system of the economic laws of socialism.

China undertook the reform path under the guidance of Deng Xiaoping after the death of Mao Zedong. Following the incremental strategy or step-by-step approach, the economists and policy makers in China drew upon the experiences of the East European countries of the socialist bloc, which had adopted the Stalinist model of command planning. However due to the inherent problems of such a massive and complex bureaucratic model, these countries sought to remodel their economic trajectory to accelerate growth and development in the late 1950s and early 1960s. The “economic reforms in Eastern Europe were a series of different attempts to steer out of the planning system which tried, albeit without great success, to control all details of economic activity” (Hussain, 1983). In fact, Włodzimierz Brus, the Polish economist had pointed out that “while the planning centre had also in the future to decide upon net investments for reasons of growth, structure, stability and employment, it could and should be freed from the day-to-day management of the economy; the centre should concentrate on what only it could do while enterprises would decide upon their day-to-day operations on the basis of profit-oriented market criteria, leading to planned economy with a built-in market mechanism” (Sutela, 1990). “There was an incessant re-patterning of the governmental organs and redistribution of the responsibilities between them, which was a permanent feature

among socialist economies; there was also a change in the status of enterprises in East Europe, with massive mergers and creation of conglomerations” (Ibid). In East Europe, “side by side with state enterprises, there existed cooperatives in agriculture and in the service sector; a number of East European countries also overcame the aversion to joint marketing and production agreements between enterprises and capitalist firms” (Ibid). In certain sectors, FDI were also allowed. Thus, market forces were increasingly brought into play and great attention was given to raise the material well-being of the people. In the later stages, the “East European economic reforms were in a process of transition towards a mixed market economy with a dominant non-state sector, market pricing and freedom of entry and exit for foreign capital” (Sutela, 1990). The state was an important factor in the reform process, thus leading to a strong linkage between politics and economics in the entire exercise. This led to the assessment that “a strong state was flexible and responsive to changing circumstances in a way that could enlist the cooperation of the populace” (Miller, 1996). This has been made amply clear by the experiences of both Russia and later, China. Even in the Soviet Union after the death of Stalin, there was a paradigmatic change in the approach for the economic development, thus leading to the economic revival through reforms. Especially “Nikita Khrushchev sought to shift the administration of the national economy from the central government and central departments to regional governments; later Kosygin succeeded Khrushchev and in 1965, initiated new reform featuring the easing of planning control, expansion of enterprise autonomy, and the systematic introduction of economic accounting” (Wu, 2005). “But these could not prevent the sliding of the Soviet economy into fifteen years of stagnancy from the early 1970s due to the intrinsic defects of the planned economic system” (Ibid). Later Gorbachev assuming office in 1985 put forward his formulations of *Glasnost and Perestroika* to add new energy to the economy and rekindle the sagging spirits³.

While the Chinese drew inspiration from East Europe in general, they were mainly influenced by the reforms in Hungary to a large extent, as well in a minor way from

³ But these reforms proved to be too radical, as the massive USSR collapsed leading to the formation of different independent republics, thus concomitantly pushing the world from bi-polarity to unipolarity. Analysts have argued that the collapse of the Soviet Union marked the end of the Cold War in official terms.

Yugoslavia⁴. Before turning to study both these countries in detail, it is pertinent that a glance is taken at the other East European countries that had undergone transition from the overarching command system to the opening up of the market forces.

1. **Poland** – New problems arose in the economic and political life of the country with the completion of industrialization and agricultural collectivization in the mid-1950s. Since, then Poland attempted four rounds of reform. According to Wu Jinglian, the first was in 1957-58, when the reform focussed on power delegation and profit sharing. Next attempt “came in the mid-1960s, when with the rising economic tensions Wladyslaw Gomulka, leader of the Polish communist party, the country launched the second round of reforms though it did not achieve the desired results” (Ibid). In this second stage of reforms “Poland employed the market mechanism to gradually establish a pricing system in which the market forces of commodities correctly reflected the relation between supply and demand” (Chen, 1988). The “outline was that the government would ensure that state-run enterprises were really independent and that co-operatives had management freedom; the government would encourage the development of private enterprises, especially retail businesses, restaurants and other services” (Ibid). The “third round of reform was launched in 1973, with a ‘high-speed development strategy’ as its guideline, which in fact led to the overheating of the economy; the fourth and final stage of reforms in the country was started in autumn of 1980 with the organization of an economic reform committee” (Wu, 2005). It is “interesting to note that Poland was the first East European country with an institutionally pluralist political system but with less marketization when compared with Hungary” (Sutela, 1990). However, the “Polish case demonstrated that reforms were often attempted only when the economy was already in such a crisis condition that the costs of transition were overwhelmingly heavy” (Ibid), as the ‘shock therapy’ under which reforms were driven through, had led to economic overheating and thus the spiralling consumer indices, that meant rise in inflation.

⁴ The Yugoslav federation as of 2008 has been fragmented into different independent states, thus breaking up the country. Right in the heart of the Balkans, ethnic nationalities reinforced their demands and also invigorated by the economic reforms, the dominant Serbians were challenged. Through different ethnic strifes, Yugoslavia has split into Macedonia, Serbia, Croatia, Montenegro and Bosnia-Herzegovina.

2. **Czechoslovakia** – Increasingly guided by the formulations articulated by Ota Sik, the reform economist and Vice-Premier launched market reforms in a thorough manner. Though the conservative leadership within the Czechoslovakian communist party sought to turn the heat off the reform process due to the fears of losing power, the people of the country staged a democratic pro-reform movement known as Prague Spring in 1968. This had highly alarmed the Soviets and they invaded the country thus leading to the negation of the reforms which further stagnated the country's economy. This process turned out to be irreversible and the political system ultimately collapsed in 1989. Analysts like Kornai have argued that the reforms in the country were mainly in words rather than in deeds. However, "within the political leadership there was open criticism of the existing traditional system, whereby they also talked of an economic reform, of a transition to 'economic' instead of 'administrative' methods of management as well as of a price reform" (Ibid).
3. **Bulgaria** – Substantial progress in its reforms were made, whereby the major distinguishing feature was the "government's announcement that it would turn state-run enterprises over to labour collectives to manage and administer, based on the theory of separating ownership from managerial authority; there was also the expansion of the economic independence of the production team, transmission of property through contracts drawn up at a meeting of the enterprises and signed by the representatives from the council of ministers or the executive committee of the provincial people's assembly" (Chen, 1988). "The labour collectives then became the managers of the socialist enterprises" (Ibid). Abolishing several pillars of the traditional economic system, "Bulgaria since 1987 had envisaged the use of world market prices-mostly CMEA prices-as the basis of domestic prices; there was also the abolition of enterprise-specific taxation and subsidies as well as the creation of a two-tier banking system" (Sutela, 1990).
4. **Yugoslavia** – Yugoslavia was expelled from the Soviet bloc by the COMINFORM in 1948 due to its deviations from the socialist path. Seeking support amidst complete isolation, Yugoslavia under Marshal Tito broke away

from the Stalinist model in the early 1950s and started the independent development of self-management socialism. Yugoslavia's transition was essentially encompassed in three phases. First was from "early 1950s to early 1960s with the emphasis on expanding 'enterprise autonomy' which motivated the initiative of the leaders and staff in enterprises, thus accelerating economic growth; the second phase was from early 1960s to early 1970s, when the government successfully lifted planning control over wages, investment, foreign trade and prices" (Wu, 2005). The "enterprises were thus completely free to decide their product mix, supply and marketing, income distribution and investment; however, there subsequently arose underdeveloped and chaotic markets with a lack of effective macroeconomic control and market regulation, which led to intensified inflation, rocking unemployment, widening income disparity and consequently, social unrest" (Ibid). Thus the technocrats were pushed aside and "in the third phase of reforms in the country from early 1970s to 1988, there was the practice of 'contractual socialism', with the 1974 Yugoslav Constitution stressing concepts like associated labour, self-management agreement and social contracts" (Ibid).

5. **Hungary** – Under leadership of Janos Kadar, a senior communist leader, Hungary launched the New Economic Mechanism reform on January 1, 1968. Preceding this year, since revolution of 1956, Hungary was undergoing some sort of transition during which "pioneering personal mechanisms were introduced whereby production and marketing by private, collective and state farms became integrated as well as the collective and state farms were gradually permitted to set up entrepreneurial ventures in industry, construction and the services" (Marer, 1989). Modest reforms were also carried out in the industrial arena, "with the mergers of many industrial enterprises and establishment of large trusts to improve the functioning of the traditional centrally planned system, as larger units were given additional powers to make decisions, thereby leading to the implementation of limited administrative decentralization without changing the planning mechanism" (Ibid). Marer argued that under the NEM concept, though the central planning was not abandoned, its scope was reduced and its instruments changed. He also stated that direct planning in the micro sphere was to be limited to investments in

infrastructure, larger investments in high priority sectors, the administrative regulation of defence industries, the supervision of domestic supply responsibilities for key products such as consumer goods, and the fulfillment of CMEA trade obligations. He went further whereupon to fulfill macro objectives, the centre had to rely on a combination of market forces and government adjusted economic indicators like prices, exchange rates, interest rates, taxes and subsidies. The uniform application of the regulators was to be achieved gradually over a period of five to ten years. Marer also put in that the NEM proposed an open character to the plans, with the plan targets being given as ranges and this could be revised during implementation; instead of compulsory plan directives to enterprises, firms were to formulate their own plans in the context of the national economic plan and the regulators they faced and discuss them with their superiors. But the plan fulfillment was not necessary. Soon, enterprises became profit-oriented, and current production decisions by enterprise management became more flexible. Though managements were told to increase profits, controls remained in many areas like price and wage determination, foreign trade, and investments. The reforms also led to the delegation of many decisions to enterprise managers on issues regarding inputs and outputs as well as some decisions concerning personal compensation and investments. However, there was increased pressure on the economy due to many domestic and international political developments like disinterest of the trade unions, and explosion of the world market prices, leading to a slowing down of the pace of the NEM. However, the NEM was brought back on track in 1979 and these reform measures continued till 1988. According to Paul Marer, these measures included:

- Cutting the size of the central bureaucracy;
- Breaking several trusts and large enterprises into small units;
- Establishing new or easier procedures for founding small and medium-sized business ventures in the socialized sector;
- Enlarging the scope and easing the restrictions on the legalized private sector;

- Introducing some competition between Hungarian firms in foreign trade;
- Creating new financial intermediaries and instruments like commercial banking; and
- Establishing new methods for appointing or selecting enterprise managers.

The principal reforms in the economic regulators, as argued by Marer, involved changes in the price system, in the wage system and in the regulation of enterprise income. The country also invigorated the market forces, whereby it had to be under the rubric of the central plan. The policy makers were very clear in their analysis on the need to employ market-type instruments to guide enterprises, thus displaying their unwillingness to effect a radical break with the past, leading to non-relinquishing of central planning. The economists were also aware of the anarchy and pernicious competition that encapsulated a free market economy.

Hungary pioneered the reforms in the CMEA, which was impressive in the backdrop of the difficult times that the country had to endure in the early years. “The most fundamental lesson of the Hungarian experience was to reveal how difficult and time consuming it was to transform a traditional Command Planned Economy into an efficiently operating socialist market economy; the examples of Hungary also showed that market and incentive oriented reforms worked better in agriculture than other sectors of the economy⁵” (Ibid). As the Chinese had largely followed in the footsteps of Hungary while seeking to enunciate reforms within the country and to free itself from the shackles of the command economy, it is important to analyze the views of the Chinese theorists on the economic trajectory followed by Hungary. Su Shaozhi “pointed out the lessons Hungary offered to China” (Su, 1989), which were:

- The leadership of Hungary had a clear and fairly correct objective for the economic reform, whereby they first made a scientific and critical analysis of the problems and mistakes that existed in the old system. Their goal of the reform was to switch the command economy over to a regulated market

⁵ This was also later proved in China with the success of the Household Responsibility System, where the peasant households were the basic units of production.

economy, meeting consumption requirements of the people and with main aim to raise efficiency.

- A relatively comprehensive programme to reform the economy had been worked out, with the intention of the reforms being fundamental and principled, having long term significance.
- The implementation of the reform was carried at a steady pace, with the approach being gradual. A substantial amount of time was spent on the preparation of the strategy accompanied by timely legislation and education.

But the reforms carried out in East Europe in general and Hungary in particular were not without serious problems and concerns. These included the price mechanism among others. Even though there were regular attempts to undertake price reforms, they never found the desired results. Despite having different price tiers, the problems used to pile up. As demands increased with the concomitant supply due to scarcity, the pressures were felt by the economy as inflation climbed to new heights. Also, there was at times devaluation of the currency to correct the negative imbalances of trade. Further, these economies were subjected to frequent pressures, resulting in slowdown of the pace of reforms which in turn led to scaling down of the reform measures and created bottle-necks for growth. Thus, there was a case of lack of proper consistency. However, despite such problems, the East European market-oriented reforms, especially that of Hungary was sought after by the Chinese to chart out their own path of growth and development. Under the leadership of Deng Xiaoping, the country's economists and policy makers invigorated by the change of domestic conditions with the passing of the Mao era were increasingly drawn towards the New Economic Mechanism model of Hungary. An in-depth study and analysis of this model was carried out by the Chinese to bring about a shift of focus in their approach. The centralized planned model, which was also the chief characteristic of the Chinese economy, had reflected its internal contradictions, and thus, the policy makers wanted to experiment with the market model in the economic framework.

The following chapters analyze the growth of the market mechanism within the larger economic paradigm of the country. The present introductory chapter has dealt with the classical Marxist theory of socialism and has also put in detail the market reform

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strategy adopted in many East European countries that was a shift from the planned approach. The second chapter analyzes the strategy of development practiced under the leadership of Mao that provides insights to his theoretical contributions. While the third chapter talks of the economic reforms carried out by Deng Xiaoping which replaced the Maoist strategy, the fourth chapter presents the model of Socialist market Economy as understood by the Chinese. This chapter studies the theoretical debates in the CPC, which led to the adoption of the market model in China. The fifth chapter goes into the critique of the Market model in China, as voiced within the Party as well as the opinions of the intellectuals and economists. After a brief overview of the country's economy since the establishment of the PRC in 1949, the study would look at the Maoist period as the precursor and then move to the Dengist period, where the market forces played a prominent role. Studies would also be made to theoretically comprehend the Socialist Market Economy, which is referred to as "Socialism with Chinese Characteristics" as well as its critique from academic and political quarters. From this, the dissertation would also attempt to examine the question of socialism and market in terms of their compatibility as to whether both these concepts were antithetical or complimentary. It would also sketch the implications of this entire model and approach in the existing political-economic debates within China. The conclusions would be derived through answers to the following questions:

1. How did the CPC's orientation towards 'Market' Evolve?
2. What are the ideological, political, economic and social aspects of the concept of Socialist Market Economy?
3. How do we understand the debate within the Party and Polity on Plan and Market in China?
4. What was the nature of the departure of Deng Xiaoping from the Maoist paradigm?
5. What was the impact of the initial implementation of Market Reforms on Socialist construction, specifically the impact on the concepts of the 'Iron Rice Bowl' and Egalitarianism?

6. What was the nature and extent of the opposition to the reforms within and outside the Party?

CHAPTER TWO: MAOIST STRATEGIES

The Chinese Revolution of 1949 is unarguably a historical turning point in Chinese history, wherein the people had to wage a long protracted struggle to crush the forces of imperialism and feudalism to usher in change and break the bonds that had crippled them for ages. The struggle to overthrow these vestiges had been fought under the leadership of the Communist Party of China. The CPC was ably guided by the leadership of Mao Zedong, whose theoretical and political discourses galvanized the Chinese masses into working together, to make the Revolution possible. In fact, Mao had often recounted the tale of 'the Foolish Old Man Who Moved the Mountains'⁶ to inspire confidence among the masses to wage relentless struggle in pursuit of their liberation. Mao had laid great emphasis on struggling on two fronts, against the forces of Feudalism that were internal and the forces of Imperialism, that were external. Through this, he implied the main domestic opposition, the Kuomintang party under Chiang Kai-shek and the Japanese respectively. In fact, the classes of landlords and bourgeois were part of the feudal framework supporting the Kuomintang, thereby being oppressors of the peasants and the working classes who formed the Proletariat. The massive success of the Chinese Revolution also has to be attributed to the visions of Mao, which was put into concrete practice throughout the struggle by the Communists; a struggle that finally culminated in the formation of the Peoples' Republic on October, 1949. Mao Zedong had been able to systematically put forth the Marxist-Leninist principles, which were combined with the concrete realities of the Chinese conditions and situation. Therefore, it was not a 'mechanical application' of Marxist theory or the application of a concept that was already in practice elsewhere. Hence, Mao was able to chart out an altogether different course for China and its developmental strategy. Many of these formative experiences were reflected in Mao's later policies, after the Revolution. The CPC which was largely concentrated in the urban setting of Shanghai, later under Mao shifted its attention towards the interior heartlands of the vast country. Thereby, he sought to identify the revolutionary potential of the Chinese peasantry. In fact, in the preparation of his revolutionary

⁶ Mao Zedong used the metaphors of the Two Mountains in referring to the forces of Imperialism and Feudalism that had been weighing the masses down, and that had to be broken down. Zedong, Mao (1945), "The Foolish Old Man who moved the Mountains", *Selected Readings from the works of Mao Zedong*, Lucknow: Rahul Foundation.

report on the conditions of the peasants in Hunan, Mao had a first-hand account by his stay with them. This work published in 1925 re-oriented the Party's overall outlook towards the peasants, who turned out to be the critical support group of the Party in the later years. Mao's guiding visions and formulations thus, had a critical effect on China's developmental course planned out after the Liberation.

Having been guided by the Marxist-Leninist framework, the CPC had its goal of establishing of Socialism, which would later transcend to the final stage of Communism. Socialism can be understood as "a process of basic societal transformation, a historical period of planned transformation from Capitalism to Communism undertaken by the society ruled by a Communist Party" (Van Ness and Raichur, 1983). In this Mao "consistently emphasized the stifling economic effects of the class structure that was dominated by landlords and compradors" (Howe and Walker, 1977). These classes had been highly oppressive and had garnered a lion's share of the resources, thereby depriving the masses and driving them to subjugation. So, according to Mao, only the "removal of these classes and dissolution of their domestic institutions and international links would release new economic energies" (Howe and Walker, 1977). Mao thus felt the need of the new administration in China to concentrate on the immediate job at hand, which was essentially concentrated in the rural areas, where it was necessary to overthrow the landlords and redistribute land to the tiller. This was part of the experience of the Yen-an period. The Yen-an period was a laboratory, for testing many practices and policies which were later initiated after the establishment of the PRC.

The CPC embarked on its policies in this direction by making the Agrarian Reform Law of 1950. "The primary objective of the programme was to eliminate the feudal-landlord system in the countryside, improving the life of the poor and developing agricultural production" (Gurley, 1976). The Land Reforms also meant that the draught animals, farming implements and grain, along with land were redistributed. However, Mao was highly cautious and pragmatic in evaluating such a programme for he was careful not to be 'too radical'. This flows out his analysis of the Soviet Union and the effects of the policies undertaken there, which had its own internal contradictions. Therefore, he advocated a step-by-step approach instead of the 'shock therapy' approach. This was also driven by Mao's fundamental understanding at the

initial stage that the conditions in China were that of high backwardness, wherein the country lacked the material base needed to advance the production and move towards the next logical stage after Feudalism. This stage was the Capitalist stage and hence the immediate task of the Party was to build Capitalism. Thus, “he developed the ‘concept of New Democracy, which was the Maoist version of the Marxist concept of bourgeois-democratic revolution’” (Meisner, 1977). He was also guided by the fact that the Japanese imperialist aggression had led to the need for maximum unity on the part of the Chinese people. Hence, he advocated for the alliance of the Peasants, and Workers, with the Petty Bourgeoisie and the National Bourgeoisie although he was well aware of their vacillating character of the latter for which he asked the people to remain vigilant. Hence, under the Land Reforms, as Riskin has shown, Mao clearly divided the peasantry into the following different classes:

1. **The Landlords**, who were the owners of land and depended on exploiting labour for their income which was not only land, but also interest and profit;
2. Next came the **Rich Peasants**, who generally owned land, but might rent in all or part of it. They generally owned better means of production but derived most of their livelihood from the exploitation of hired labour;
3. Then came **Middle Peasants** who might own either all, some or none of their land, some of their tools and depended wholly or principally on their won labour for living. They generally did not exploit others, but might do so in a minor way. They in turn might also be exploited on a small scale via rent on land and loan interest;
4. **Poor Peasants** might own some tools and part of their land. But they generally had to rent land. They might also be exploited through rent, interest and profit on their labour for others; and
5. Last in the rural society came the **Workers**, including Farm Labourers who neither had land nor tools. They depended wholly or mainly on wage labour for their living.

In this entire classification under the Land Reform programme, landless peasants and the poor peasants stood to gain the most, while the middle-peasants and rich peasants stood to lose some of their benefits, but not in absolute terms, as efforts were undertaken to cushion any impact. But Landlordism was abolished and that was a remarkable achievement. However, total elimination of landlords was also not visualized by Mao. "Mao's agrarian reforms did not set out to totally annihilate large segments of the population but rather to win over the great majority, thus being consonant with the bourgeois-democratic stage of the Chinese revolution" (Gurley, 1976). However, the programme had a lasting impact. "The landlord class was eliminated, the material conditions of the poorer strata of peasants improved and organizationally tempered local peasant cadre oriented towards the Communist Party was developed" (Riskin, 1987). The "poor peasants gained the most with their share of ownership of cropland from under a quarter to almost half, while the landlords lost heavily with their ownership share dropping from almost 30 per cent to only 2 per cent" (Riskin, 1987). But the land reform did not necessarily mean egalitarianism or full economic equality. According to Carl Riskin, "the chief significance of land reform was in creating the political and social conditions for change in the direction planned by Mao and the Party towards a collectivized and ultimately industrialized agriculture." Cooperatives were gaining ground in the country, with the small size of the lands and their fragmentation causing problems in falling productive outputs. Mutual Aid Teams (MATs), along with Lower and Higher Agricultural Producer Cooperatives (LAPC & HAPC) formed an integral part of this Co-operative system. The "MATs consisted of a limited number of households that were banded together during the heavy farming seasons and compensated for shortages of manpower, draft animals and farm implements" (Wheelwright and McFarlane, 1970). The "LAPCs and HAPCs were the more advanced teams consisting of much more households on a permanent basis which held some property such as tools and animals in common, and combining their efforts in farm production and subsidiary occupations all the year round" (Ibid).

Before proceeding to the industrial segment of the economy, which was highly essential for the development of a strong industrial base, it is pertinent that a closer understanding be made of the ideas and philosophy of Mao Zedong. Such a study would be helpful in gaining a deeper insight into the policies Mao pursued including

those of Great Leap Forward and the Great Proletariat Cultural Revolution. Mao Zedong always emphasized on the need to apply politics in any arena including Economics. This was in sharp contrast to the theory that gained ground that the economic arena should have its own autonomy and have no external interference. Mao believed that the “political authorities namely political, clan, religious and masculine are the embodiment of the whole feudal-patriarchal system and ideology” (Gurley, 1976). The peasantry was bearing these four ‘ropes’ for quite long and these had to be cut apart. Only correct political understanding by raising the consciousness of the masses would help in achieving the tasks set out by the Party in eliminating the class contradictions and herald the arrival of the advanced stage of Socialism and thus, effectively Communism. Mao also foresaw the existence of Capitalist vestiges or elements in a Socialist society, and therefore evoked the need for a Continuous Revolution. This idea of a Continuous Revolution can also be seen from the vantage point of the Great Leap Forward whereby the masses have to be mobilized on a continuous basis and be assigned specific tasks, so as to retain their revolutionary zeal and fervor. In Mao’s own words, “our revolutions are like battles. After a victory, we must at once put forward a new task. In this way, cadres and the masses will forever be filled with revolutionary fervor” (Riskin, 1987). This would also act as deterrent for the ruling forces to be always on the toes, for any wrong ‘deviations’ could be identified and checked in an effective manner. In this context, it is important to mention that Mao’s entire focus was on the common masses in general and the peasantry in particular. Mao constantly focusing on the peasant class was not surprising since they had stood steadfast behind the Party at many crucial junctures and had proved to be a vital base for the Party.⁷ Here it is important to mention the ‘Mass Line’ strategy, as an effective means of mobilizing the people.⁸ Mao constantly reminded that “Class Struggle was supreme and was by no means over, as long as contradictions continued to exist in society, even under Socialism”(Avakian, 1979).

⁷ In fact, even today the scholars and analysts in China confidently assert that serious challenges to the regime, would be mainly from the Peasants and hence, the vast countryside would prove to be critical in many respects for the Party and Government. Going further, one could even see the Chinese rural society as the ‘barometer’ to gauge the situation in the country.

⁸ Mass Line strategy evolved by Mao during the Yen-an phase was by placing the masses at the centre and was a sort of guidance for the Party. The primary understanding was that the people were more revolutionary than the Party. It was essentially “From the Masses” and “To the Masses”, wherein the Party cadre had to maintain a lively contact with the masses by being their eyes and ears. It was often termed by Mao as ‘a fish in water’, for that was the duty of a Party cadre, to be among the masses, thus shedding away any sort elitist or privileged status.

Hence, Mao was constantly stressing on the need to politicize all arenas, thereby raising the consciousness of the people to new levels and thus keeping all deviational tendencies under vigil. Though such aspects kept raising their heads, Mao always declared his line of the people being supreme on whom he could always fall back, in times of need and also when opposition within the Party against him rose in a substantial manner. Thus, the need to combine both Theory and Praxis was imbibed by Mao, which meant that there was a strong need to maintain the right balance. He noted that “only through a combination of theory and practice can new ideas become potent forces in the everyday lives of the people” (Gurley, 1976). By striking this correct balance, the masses can strive to “sweep away the old ideas, habits and customs. Maoists believe that to raise labour productivity, correct ideas and correct methods of work are just as important as the specification of tasks to be accomplished”(Gurley, 1976). As mentioned earlier, all these ideas and philosophical thoughts put forth by Mao found their reflection in the economic policies that were adopted under his leadership. Mao’s approach was also one of constant review and reformulation. After every major policy initiative, he would conduct a proper analysis of that particular mode of action before further moving forward. This was visible in most of the economic and developmental frameworks, which continuously had to undergo a process of churning. Such churning has also come to mark the trajectory of China’s developmental where constant fine-tuning was undertaken to evolve the most optimum approach.

The path of development of any country wherein a vanguard Communist Party has taken power, is one wherein prominence is given to the industry and that too Heavy Industry. China after the revolution had to come out of the backwardness engulfing her due to the lack an industrial base. In this, she looked forward for help from the fraternal countries and the only major country till then, where a successful Socialist Revolution had occurred was the Soviet Union. Here Mao adopted the policy of “Leaning to One Side”, whereby Mao led the Chinese to side with USSR⁹, and also chose to adopt the Soviet model of development in this context. The Soviet model was based on the planned model of development, where the Central Command Planning occupied an important place. The “Soviet model of Planning was adopted

⁹ Though the Sino-Soviet relations had deteriorated at a later stage, the initial links were quite strong. In fact, Mao’s only two trips abroad were to Moscow.

gradually in China and the National Economic Planning had to await the establishment of an elementary infrastructure, including Planning and Statistical capacities” (Riskin, 1987). “The chief organ of Planning was the State Planning Commission established in 1952, placed under the State Council when the latter was made the supreme executive body by the 1954 Constitution. At the same time, State Construction Commission was organized to oversee capital investment under the Plan; and later in 1956, a State Economic Commission was established to take over short-term plan responsibilities leaving the State Planning Commission to concentrate on long term and perspective planning” (Ibid). Riskin states that the method Central Planning adopted based on Soviet experience was that of ‘material balances’ according to which tables were prepared indicating how the output of each industry or sector is distributed along with a final demand to achieve targets that were set. He further points out that until 1957, China’s Planning System was highly centralized, with a large number of targets of different kinds fixed and their fulfillment directly supervised from the centre for an originally small but rapidly growing number of goods. Riskin also elaborates that the First Five Year Plan had set three tasks namely:

- (a) To build 694 specific large-scale industrial construction projects, especially 156 Soviet-aided projects;
- (b) To foster growth of farm and handicraft co-operatives; and
- (c) To bring the bulk of private industry and commerce into the orbit of state capitalism.

The “Soviet Union had agreed to provide in the course of three Five Year Plans, about 300 modern industrial plants of all kinds and to train the Chinese to run them; By 1957, 68 of these projects had been completed and by 1960, when the Soviet technicians withdrew 154 had been finished” (Wheelwright and McFarlane, 1970). Also “some 10, 800 Soviet and 1,500 East European technicians and specialists went to China in the 1950s, about 8,000 Chinese engineers and skilled workers trained in the USSR, and more than 7,000 Chinese students received instruction in Soviet schools and research institutes” (Riskin, 1987). However, the Plan did not essentially focus on Agriculture and closely replicating the Soviet model had focussed primarily

on Heavy Industry, based on the rationale that industrialization was a pre-requisite for agricultural development. “The First Plan was ambitious not only in the scope of its capital construction projects, but also in its projected growth rates of output, especially that of modern industry. It also had an ambitious geographic dimension, whereby it sought to shift industry inland from its locus along with the eastern coastline by committing 55 per cent of all industrial investment to inland regions” (Ibid).

However, this sort of Command Planning had its own problems. Though it had high targets and was nevertheless ambitious, there were several internal contradictions. The lack of attention and prioritization for agricultural sector notwithstanding, the whole approach was problematic. In fact, the agrarian sector was besieged with problems of output rates dipping to new lows. Mao though had initially supported following the Soviet model, later had doubts regarding the Plan itself. The Plan which was highly centralized and bureaucratic did not find favour with Mao, for he was vehemently against the bureaucracy. Also, Mao was largely in favour of ‘De-Centralization’ as against the tight leash kept through overt centralization in the plan. The Plan was thus highly cumbersome according to Riskin. “The Soviet model which focussed on Heavy Industry had a bureaucratic system where the workers had no flexibility and had to function under the rigorous control of the Enterprise Manager. This stifled their enthusiasm and initiatives along with leading to low rates of capital and labour productivity” (Van Ness and Raichur, 1983). Managerial bureaucracy was against the principles advocated by Mao. For him, “Human Knowledge and capability to transform nature had no limit; to achieve socialist construction must work in the unknown to discover those laws of transformation which apply in the particular conditions of any country” (Van Ness and Raichur, 1983). Van Ness and Raichur further stated that according to Mao, socialist transformation is not achieved by anyone’s imposing a system, for transformation by definition is anti-system. Such rampant Command Planning also produces sectoral imbalances and leads to bottlenecks in the economy. Bob Avakian also noted that, with the cadres now a vital part of the production process and most of the factory managers being Party members, there was a danger of the formation of a ‘red bourgeoisie’ coming to occupy greater privileges that could alienate the common workers who formed a critical base for the CPC. Also, Mao was now beginning to understand the errors committed by the

Soviets, wherein “even though Stalin had initially stressed on socialist construction, there were signs of him shifting focus to concentrate more on the Productive Forces and thereby underrating the role of the Productive Relations. Such an understanding was largely developed by the bourgeois economists, for whom the ultimate question or contradiction was between the Forces of Production and the Relations of Production, wherein the importance lay with the former rather than the latter” (Avakian, 1979). For the Maoists, it were the Production Relations that were paramount and they believed that the Productive Forces, would be augmented if the former were on the right path. “Mao had also serious differences regarding the mechanical copying of other models into China, even if it was from a fraternal country” (Ibid).

In this context, “Mao’s speech at the Political Bureau of the CPC’s Central Committee in April, 1956” (Mao, 1956) on the ‘Ten Major Relationships’ acquire interesting dimensions, which also puts across his view points on the need to chart out a different course. Here, he gave greater emphasis on the relationship between Agriculture and Industry as well between Heavy Industry and Light Industry. The prominence soon was given to Agriculture and Light Industry, as of immediate priority and then later focus on Heavy Industry. This also laid the basis for an important policy formulation by Mao, the Great Leap Forward. The Great Leap was necessitated by numerous factors; but the prime issue was to break the shackles of extensive and rigorous bureaucracy. The Great Leap thus sought to eliminate distinctions like between town and countryside, mental and manual labour and workers and peasants. Mao increasingly also harped on the need to ‘de-centralize’ and ‘focus on self-reliance’. Self-reliance as a concept had developed during the Yanan phase when Mao had formulated and tested policies, which could be further put to use in China after the Liberation. It “has been prominent when the Party was inward-looking rather than oriented towards foreign trade and aid; when pre-occupation was more with the countryside rather than urban coastline” (Riskin, 1987). Self Reliance meant “full utilization of domestic resources including labour and skills; rejection of indiscriminate imitation of foreign methods in favour of accumulating indigenous experience suited to Chinese conditions” (Riskin, 1987). Also it meant “reliance upon domestic saving to finance capital accumulation and establishment of a comprehensive industrial system in China” (Ibid). He “advocated the need to enlarge

the powers of the provinces and localities and also called vaguely to increase the powers of the individual enterprise” (Riskin, 1987). “As a consequence of his speech, many problems of coordination, control and motivation were revealed as consequences of excessive centralization” (Ibid). Through the decentralization, Mao also articulated the need for social mobilization and intense propagation of correct ideological values that would ensure appropriate distribution, effective incentives, the right use of local powers and therefore adequate central control. Mao also saw the Great Leap “being a process of struggle: struggle against forces of nature, struggle against social forces and struggle against ideas” (Howe and Walker, 1977). Full collectivization was soon underway and this formed an important part of the Great Leap. The Leap called for all-round growth focussing on quantitative increases at a much faster rate. Mao also “reiterated the need to improve wages and working conditions as production increases, in order to avoid the Soviet example of squeezing the peasantry and ensure 90 per cent peasants get more income each year in which production grows” (Riskin, 1987). Mao Zedong linked both Agriculture and Industry, by marking out grain and steel as the key products in both the spheres; so, the increase in their quantities would raise the output and thus, China would be able to overtake Great Britain in Steel production. An increase in steel production would also send out clear messages that China was well on course of industrial expansion, since Steel was an important aspect in gauging one’s industrial capacity. In the Great Leap, the major emphasis was on the need to increase production and hence, the term ‘mass’ came to occupy greater prominence. Such “an approach was also a bias towards initiatives from ‘bottom up’ rather than from ‘top down’, thus towards region than centre” (Ibid). By being emphatic on the need for mass participation, Mao was also arguing for the Chinese “to shed the conservative notions of cutting back and hobbling like ‘a woman with bound feet’; he was calling for massive upsurges, aiming higher, bigger and better results.” (Gurley, 1976). The Great Leap under Mao was also under his understanding that “to achieve large gains in the productive forces, mass participation in production campaigns was indispensable, not only by workers and peasants, but also by the army and everyone else. Each group needed to be self-reliant and become proficient in several tasks at once” (Ibid). Such massive production and mobilization of the people had adverse impact on the Planning structure, and the aim of Mao to reformulate the command approach of Planning was having its effects. However, the major hiccup was that such these effects went to the extent of damaging the orderly

administration too. The Great Leap also had the Chinese “now adopting the policy of ‘Walking on Two Legs’, focusing on the simultaneous development of both capital-intensive, large-scale, modern production units and relatively labour-intensive, small-scale and technologically backward units, thus enabling China to make productive use of all resources, however crude, scattered or unskilled” (Riskin, 1987). This also has to be seen in the background of “the abundance of human labour power and relative scarcity of capital in the country” (Wheelwright and McFarlane, 1970). The Great Leap also saw the “experiment known as the ‘Two Participations, One Reform and Triple Combination’ or ‘2-1-3’ System of Management; Two participations refers to participation of the workers in management and cadres in labour, while ‘One Reform’ meant the reform of irrational rules and regulations and ‘Triple Combination’ refers to technical work teams, consisting of workers, technicians and administrative cadres, that personified the combination of leadership with masses, labour with technique and technical theory with production practice” (Riskin, 1987). “This was not only aimed at social stratification and bring management into contact with the problems of the working areas, but also to provide expertise and skill needed by the small groups in carrying out their new management tasks” (Ibid).

An important feature of the Great Leap Forward Movement was Rural People’s Commune System. “The Communes were part of the Maoist vision to eliminate distinctions between city and countryside, worker and peasant, mental and manual labour; by attacking these distinctions, Mao believed that massive productive energies of the people would be released” (Ibid). The Communes were an institution according to Riskin, which brought industry, commerce, education and culture to the countryside. The “Communes also established community dining rooms, nurseries, crèches, etc and thus socialized household work, thereby freeing women to participate in labour outside the home” (Ibid). Thus, the Communes also acted as an emancipating force. The increasing attempts by Mao were to bring people as close as possible by having the countryside as the base of all activities, thereby working towards realizing their full potentials and putting their labour to effective use. According to Riskin, the Communes could be divided in to mainly three tiers:

1. **Production Team** – Being the basic accounting unit, the team carries on independent accounting, is responsible for its own profits and losses, organizes

production and distributes income. The teams owned their own land, were entitled to dispose their own labour forces and had the right to manage production and distribute grains. Most of the team income came from crops, but some was earned by raising livestock and fish as well as from sideline activities like sericulture, fodder cutting and native crafts.

2. **Production Brigade** – They consisted on an average of 7 teams and 171 households, thus being the intermediate level of authority in the Commune. They supervised the teams and were the lowest level of administration with a Party branch. It distributed important inputs to the team, including power, irrigation water, and usage of larger machines. The brigades had their own enterprises especially those which could offer tangible support to agriculture like farm machinery, chemicals and fertilizers.
3. **Communes** – They were a hybrid organization combining government and co-operative into one; the economic activities of the commune were regarded as collective. Their functions included grain management, and tax collection offices as well as a supply and marketing co-operative. They also established clinics, hospitals and ran secondary schools. Another important sight of the Great Leap was the large scale water conservation projects, which were also undertaken by the communes. They also owned large scale agricultural machinery, such as tractors, threshers and trucks which were rented for a fee by the sub-units. They were also responsible for public security in the countryside.

Steeped in the need to have a mass character and to go for higher growth, the Great Leap was also a consequence of Mao's analysis of the Soviet Union. He had already identified erroneous lines and deviating tendencies which were being undertaken by the fraternal ally. Mao was also, possibly looking for assuming a leading role within the Socialist bloc. Hence, he argued that the Great Leap would advance the industrial base through China's unique developmental paradigm, thereby facilitating the "leap" towards the final stage of Communism. However, what was begun with high expectations and targets soon turned volatile, with the situation growing out of control. "The use of 'politics in command' to override objective constraints meant

that almost any desirable goal could, with correct attitude, be quickly accomplished, regardless of objective conditions; also, the Great Leap glorified output quantity per se without any regard for quality or variety” (Riskin, 1987). Riskin also points out that “there were also problems of incentives which ranged from the initial confiscation of personal property and the military organization of labour and commandism of cadres, to the elimination of private plots and overcentralization of commune organization” (Ibid). The “mechanization of agriculture visualized by Mao could not achieve the fixed targets as the decentralization had also led to lack of sufficient resources with the brigades and communes to sustain large farm machines with the Tenth Plenum of the CPC in 1962 after the GLF to demote the farm mechanization” (Riskin, 1987). The Soviet Union was highly critical of the Great Leap and saw this as a deviation from the traditional Marxian understanding of trying to ‘jump over stages’. The upsurge demanded in production led to another feature that has come to be permanently-and negatively-associated with the Great Leap, which were the ‘Backyard Steel Furnaces’. This saw massive production of steel which was however of inferior quality. Numerous peasants moved away from their regular labour or even added this extra task to their labours.

Such massive mobilization of resources and people also strained the economy, thereby leading to sectoral imbalances. With the cadres being enthused to produce more and more, production increased to massive proportions. However after the initial surge, the levels began to drop. There were also cases of cadres eager to earn work points, projecting higher output rates, even though the same were falling in real terms. Such human errors were also compounded by the natural disasters like floods and massive rains. This not only resulted in the deaths of thousands, but also caused famines. The food shortages were highly acute, going to the extent of even severe crunch in draught animals, which too were slaughtered in massive numbers to feed the population during the Great Leap. There was a realization later that if adequate importance was given to economics, such acts could have been averted. The Great Leap also eroded the Planning system, which lost its highly centralized bias. However, despite the set backs wherein the Second Five Year Plan never took shape due to the dawning of the Great Leap, the planning process was resurrected. The Lushan plenum of the Party in 1959 saw many people in the Party severely attacking the entire movement and its architect, Mao Zedong. “The criticism by Defence

Minister, Peng Dehuai was much more severe, for he had undertaken a tour of the interior areas and prepared a detailed report which was placed before the Plenum. However, while Mao was defensive to begin with, he nevertheless defended the Leap and spoke in strong terms of the country needing it at such a critical time” (Meisner, 1977). “He was able to put forth his thoughts and even purge Peng Dehuai who was termed as a ‘Soviet agent’, for he had just returned from Moscow and had then undertake his tour in China” (Ibid). Hence, his motives were viewed with suspicion by Mao.

After the Great Leap, Mao increasingly moved away from the responsibilities, and Liu Shaoqi took up the reins of administration. He along with economists like Chen Boda and Xue Muqiao were advocating the need for a much more flexible approach. He “amalgamated Soviet experiences with independent industrial management systems and western corporate management methods” (Riskin, 1987). His “basic objective was to create powerful professional units of management that would pursue technical and economic efficiency free of daily interference from the party and government, which would – (1) have monopoly power in their respective industries (2) be free to obtain raw materials and market their products (3) strive to increase their profits (4) be self-supporting (5) be free of local political interference (6) promote specialization and standardization (7) use material incentives to motivate workers and managers” (Ibid). Planning was back on track with minor changes. Now Enterprise Management gained prominence, wherein the bureaucratic system regained significance. They had been increasingly speaking of the need for China to adopt the ‘Yugoslav model’, which called for ‘Market Socialism’. This was to give a good leverage for the market forces to operate, with liberalization in agriculture and industry. To increase the efficiency and management of the enterprises, competition was visualized and this in turn brought into focus the concept of ‘Profit’. Hence, the need was to raise the material incentives for the people to prosper. The price system also had to undergo reforms. Complete egalitarianism was opposed by them since not all inequalities in economic terms could be resolved with any policy. In fact, these economists have argued that Mao’s formulations underlying socialistic construction development was seen by many, as measures towards overcoming high inequality prevalent in the country. This, according to them, was a case of misunderstanding for Mao never put forward his theories in that particular direction.

However, Mao and his supporters believed that the concepts mentioned above were part of “the Capitalist model of development which only produced a ‘trickle-down’ effect” (Gurley, 1976). The Maoist trajectory of development rejected the profit motive and while, “it was important to raise the level of material welfare of the population, this could only be done within the context of the development of human beings, encouraging them to realize their manifold creative powers” (Ibid). Marxist dialectics of contradictions put forth by Mao focussed on the need to constantly identify the contradictions and keep overcoming them. However, for Liu Shaoqi there was a different reading of the primary contradiction, which was between advanced productive forces and a backward economy like China. Mao also argued that “such ‘bourgeois-capitalist tendencies’ negated distributional aspects and focussed only on production; the historical relativity of economic laws were also ignored by these people” (Wheelwright and McFarlane, 1970). This would “lead to the degeneration of the Socialist economy, according to Mao” (Ibid). These deviations also negated the importance of people who were merely seen as objects. For Mao, “economic development can only be promoted by breaking down specialization, by dismantling bureaucracies and by undermining the other centralizing and divisive tendencies that gave rise to experts, technicians, authorities and bureaucrats remote from and manipulating the masses” (Gurley, 1976). Mao said that “individuals were engaged in a fierce class struggle and each person needed to be devoted to the masses; he de-emphasized material incentives, for these were the very manifestation of a selfish, bourgeois society” (Ibid). In fact, he quoted Marx to state that “specialization and bureaucratization were the very antithesis of communism; together, selflessness and active participation would form the ideal combination” (Ibid). On the whole, it can be thus summarized that Mao placed great importance on the Ideology of Marxism-Leninism, which he made relevant for the Chinese conditions by including his own analysis, which has since come to be known as Mao Zedong Thought. While the successors of Mao did speak of adhering to the ideological moorings, it was never in the same manner as Mao did. For Mao, Ideology formed the crux of all human actions and any deviations from ideology would only serve to strengthen the hands of the very same forces, against which the Party had been waging a long struggle. Moving away from the ideological path, according to Mao would also be antithetical to the visions of Marxism-Leninism, that China had used as the base to march forward to construct its own developmental paradigm. Thus, Mao’s principles mounted a severe

attack on Capitalism. He had in fact gone on to argue that such Capitalist tendencies had to be fought against, even if the overall framework was Socialist. Thus, Class Struggle was necessary even under Socialism. He had identified the top echelons of the leadership in the Party as being adherents of the Capitalist Road and termed them as 'Capitalist Roaders'. He goaded the masses to be stringent against such leaders, by waging a principled struggle to overthrow them. This was thus termed as the 'Two Line Struggle' within the Party, which also found its echo outside. Here Mao also was very emphatic in his articulation whereupon he said that "Planning was not merely a technical question nor does it involve simply contradiction between ignorance and knowledge; it also involves class struggle in the ideological realm" (Avakian, 1979). While sections within the party resisted such measures of Mao, he formulated the Social Education Movement in 1963 as a precursor to the Great Proletariat Cultural revolution (GPCR). The GPCR started in 1966 and ended in 1969 aiming at ending the 'Four Olds' namely Old Customs, Old Practices, Old Culture and Old Ideas, with Mao involving students and the People's Liberation Army (PLA). While this saw the purge of many Capitalist Roaders including Liu Shaoqi and Deng Xiaoping, the movement, like the Great Leap, got out of hand with red volunteers taking to the streets. Utter chaos and anarchy prevailed for days, forcing Mao to call in the Army to stabilize the situation. It was from such high disorder and anarchy that China had to move forward, thereby charting out yet another developmental trajectory.

CHAPTER THREE: DENG'S ECONOMIC POLICIES

In the aftermath of the Great Proletariat Cultural Revolution, China was in a flux. The period of the GPCR was described by analysts like Harding as the 'lost decade' (1966-76), wherein the country was engulfed in chaos and confusion. The young generation had come out in large numbers onto the streets upon the call of Mao and there was also the mobilization of the army on a big scale. It was a case where enormous amount of forces were unleashed into the scene to 'correct' the capitalist roaders, and later to stabilize matters, the army had to be called upon. Hence, the political atmosphere in China after the GPCR was one of 'limping back'. Towards the end of Mao's regime, China was also witness to the domestic, political tribulations caused by the Gang of Four, which included Mao's wife, Jiang Qing. The Gang of Four had come to play a major role in politics and were continuously engaged in polemics stressing the need to reactivate the struggle against the remnants of the 'capitalist roaders' still present within the Party and the Government. It was in such a situation when Mao passed away in 1976. Mao's death also saw a new struggle to claim his legacy with the Gang of Four playing a critical role. With this background of chaos and uncertainty, Deng Xiaoping embarked on his efforts to revitalize the party. Deng Xiaoping was one of the leaders to have been purged during the Cultural Revolution after being termed as a 'capitalist roader' along with Liu Shaoqi, and he had to wage lengthy struggles to get back the authority he once commanded. After Mao's death, Hua Guofeng through a letter or a sort of 'will' signed by Mao himself, claimed to have inherited Mao's legacy and thus rose to occupy his place. He also vigorously propagated the policy of 'Two Whatever's', whereby "the Chinese should resolutely defend whatever policies Chairman Mao had formulated and unswervingly adhere to whatever instructions Chairman Mao had issued" (Harding, 1987). This conceptualization was later corrected by Deng through his own variations. Deng categorically stated that "the Chinese should not mechanically apply what Comrade Mao Zedong said about a particular question to another question, what he said in particular place to another place, what he said under particular circumstances to other circumstances; When we say we should hold high the banner of Mao Zedong Thought, we mean precisely that we should study and apply Mao Zedong Thought as an ideological system" (Deng, 1984). He reactivated the Four Modernizations concept

put forward by the late Zhou Enlai in the late 1960s wherein the emphasis was to target the four key sectors of the economy namely Agriculture, Industry, Science and Technology and Defence. These four areas had to be targetted for massive modernization and thereby fully invigorate the country's fledgling economy.

Deng's efforts reaped success in the historic Third Plenum of the Eleventh Central Committee of the CPC, which replaced Hua and brought Deng in control. Deng's accession is also seen as move to push the country's economy forward. Before moving to analyze China's economic reforms, there is a need to look at Deng Xiaoping's persona and his leadership which served as the catalyst to surge ahead in the Reform path. While the need for reforms has been widely debated and deliberated upon in China both within the party and outside, for Deng Xiaoping it was a case of absolute priority. Stability was an important factor for Deng Xiaoping and he strongly argued to strengthen it. In the chaotic times during the Cultural Revolution, Deng believed that the country's stability had eroded. In fact, his thoughts in this regard find their echo in his speech at the closing session of the Central Working Conference on December 13, 1978 titled "Emancipate the Mind, Seek Truth from Facts and Unite as One in looking to the Future", which was a kind of prelude to the historic Third Plenum. His speech spelt out his understanding of the errors of the Cultural Revolution and the need to overcome them by adopting the correct perspective. He said that stability and unity were of prime importance. To strengthen the unity of the people, the need was to first strengthen unity throughout the Party and especially within the central leadership. He further added that the party's unity was based on Marxism-Leninism and Mao Zedong Thought. Deng's proposition was no doubt a strong effort to adopt a critical approach towards the errors of the Maoist era and this historic speech also contained several other references to reorient the Party towards the re-hauling and re-vitalizing of the economy, thus seeking to evolve a new developmental strategy altogether for the country. He strongly condemned dogmatism, and as he put, "once people's thinking became rigid, they would increasingly act according to fixed notions; people whose thinking became rigid tend to veer with the wind, thereby not guided by Party principles, but adjust their words and actions according the directions of the wind" (Deng, 1984). He further stated that "once people's thinking became rigid, book worship divorced from reality became a great malady, and those who suffer from it dare not say a word or take a step that is

not mentioned in books, documents or speeches of leaders” (Ibid). This was clearly in the context of the ‘rigidity’ in the Maoist principles that the party had to overcome to chart a way out. He had also stated that “Comrade Mao too had admitted that he had made mistakes and hence, there was never a person whose statements were all correct or who was absolutely right” (Deng, 1984). He then also put forth “the 70 percent correct and 30 per cent wrong” understanding regarding Mao and his policies. Hence, his entire concentration in the speech of ‘Emancipating the Mind.....’ was to formulate a new thinking and clear a new pathway for the party as well as the Chinese people to internalize in their realization towards the goal of growth and development. This was further articulated by other reformists, who adopted an entirely new approach towards Marxism-Leninism as well. This began with the reading of Marxism as a Science as “development of science was not a continuous process of accumulation of knowledge but a discontinuous and revolutionary one in which earlier conceptions and theories were falsified, rejected and replaced by new theoretical constructs” (Misra, 1998).

Deng’s approach in the initial years was to concentrate on the Four Modernizations programme put forth by Zhou Enlai. Large-scale production was the target and Deng called upon the Chinese people to put in the utmost efforts towards Modernization. These efforts help in overcoming “the backwardness of the country’s production technology and management” (Deng, 1984). Deng also made clear that “it was only through highest political consciousness and the strongest sense of discipline, that the Chinese people could play a leading role in the present day economic, social and political progress” (Ibid). He further added that “the drive for Four Modernizations would get nowhere unless rigid thinking was broken down and the minds of the cadres and of the masses were completely emancipated” (Deng, 1984). Deng also spelt out a framework for the smooth success of the Four Modernizations viz, the ‘Four Cardinal Principles’. These four principles served as the guiding light for the CPC in realizing economic recovery and reform. In his own words, Deng stated that “to accomplish modernization of a Chinese type, it was pertinent that the four Cardinal Principles were upheld ideologically and politically. These were, to keep the Socialist Road; to uphold the dictatorship of the Proletariat, uphold the leadership of the Communist Party and uphold Marxism-Leninism and Mao Zedong Thought” (Deng, 1984). Thus, Deng had put in all efforts to move forward with his Reforms.

Reforms in China were propagated by both the moderates and radicals. The moderates led by Chen Yun “emphasized on preserving an equilibrium in the management of the Chinese economy, thereby a balance between revenues and expenditures, exports and imports and between supply and demand for major commodities” (Harding, 1987). The radicals on the other hand, led by Hu Yaobang and Zhao Ziyang “argued for much greater role for the markets in almost all factors of production, whereby it was paramount and Plan was only secondary” (Ibid). However, according to Harding, Deng often leaned more close to the radicals. He also adds that Deng also stressed upon a strong sense of consensus among the senior leadership of the party before embarking upon his policies. The arguments also point to a pragmatic approach adopted by Deng, and it has been said that “his goal was to pre-empt and co-opt potential criticism so that a consensus for reforms could be developed or preserved” (Ibid).

However, even while agreeing to the leadership role of Deng, there have been other opinions that have been voiced on the need to not exaggerate his role altogether. It has been argued that “though Deng was clear sighted, his visions were not his own as they were either broad generalities or simple restatement of points made by others” (Naughton, 1993). Even earlier under Mao Zedong, Deng was basically an ‘organizational man’ as Harding described him, carrying out all the responsibilities he was assigned. His pragmatism has been termed as not applying to economic problems themselves, but where “he let other top leaders to define the economic problems and then confined his skills to the implementation of policies they had established” (Ibid), Barry Naughton further states that Deng was ably guided by the advice of Chen Yun in the initial stages and later by Hu Yaobang and Zhao Ziyang. In his initial days under Mao, he could be “exemplified as an efficient bureaucrat, accepting a delegation of authority from above and carrying out tasks with greater responsibility” (Ibid). Deng’s conception of the economic reforms was thin and abstract; but despite this fact, he had a strong vested interest in seeing that the overall programme of economic reform succeeded. Mao had also spoken of the need for non-intervention of the Party in the production process and other economic institutions. While he argued for strong centralization measures, Deng had stated that the Party should be less involved in economic decision making, especially within enterprises. “Deng had been willing to adopt policies of non-intervention and thereby allowed economic

developments to unfold without constant interference from the Party or Government; Deng displayed a personal talent for *laissez-faire*, thus mastering the ruler's act of non-acting" (Naughton, 1993). Thus, many have vehemently put it across that Deng had highly de-politicized the economy, which was a decisive break from the Maoist era. Hence, under Deng it was 'Economics in Command', which contrasted with Mao's 'Politics in Command' as pointed out by Harding.

The Reforms enunciated under Deng Xiaoping have been termed as something remarkable and also according to the need of the hour. China's economy was undergoing turbulence according to the reformists. The output in both agriculture and industry had dropped by considerable means. For Deng and other reformists of the time, the greatest emphasis was on the need to develop the Productive Forces. The Productive Forces occupied the central role in the party debates on economic development. In fact this was a carry over from the times of Liu Shaoqi when the contradiction was identified as between the Productive Forces and a backward economy lacking the material base. This was recognized by Mao himself earlier, as result of the historical conditions that China had to undergo in the efforts to establish the socialist forces. However, Mao's major focus was on the Productive Relations rather than the Productive Forces, which was given a secondary role. In this context, there was sharpening of the 'Two Line Struggle'. In fact, "modernization as a goal meant that the transformation of productive forces was seen by many political leaders to be a pre-condition for transforming social relations by first raising the income levels" (McFarlane, 1984). Material Incentives that were earlier emphasized by Liu Shaoqi were now again pressed upon by Deng. In a talk with Czechoslovak Premier Lubomir Strougal on April 26, 1987, Deng had unambiguously stated that "to build Socialism, it was necessary to develop the Productive Forces; Poverty was not socialism and to uphold socialism, a socialism that is to be superior to capitalism, it is imperative first and foremost to eliminate poverty" (Deng, 1987). He further put forth his arguments in a talk with the Japanese delegation to the second session of the Council of Sino-Japanese Non-Governmental Persons on June 30, 1984 that "Marxism attaches importance to the development of the Productive Forces and the superiority of the Socialist System is demonstrated in the final analysis by faster and greater development of those forces than under the Capitalist system" (Deng, 1984). Also, "Socialism meant eliminating poverty; Pauperism was not Socialism and still

less, Communism” (Ibid). Thus, great emphasis was placed on the advancement of the Productive Forces, which was also stressed upon in various deliberations of the Party at most of the Congresses after 1978.

In adopting the Reforms as mentioned earlier, China was greatly inspired by the reforms that were undertaken in the East European countries, which were earlier within the Socialist bloc. The reforms and the opening up of the countries like Hungary, Yugoslavia, Czechoslovakia and Poland in the late 1960s had great impact upon the economists and the leadership in the country to herald the arrival of new policies. The “fundamental theme for China’s reform was the transition from a centrally planned economy to a market economy” (Wu, 2005). However, this “market orientation was gradually established in the late 1980s” (Ibid). China adopted “the policy to keep the state sector running and switched its main effort to non-state sectors for new growth” (Ibid). The Chinese reforms were also incremental in character, whereby a ‘step-by-step’ approach was adopted. This was also called the “strategy of ‘outside the system’ preceding the ‘inside the system’, whereby instead of taking major reform measures in the state sector; China focussed its reform effort on non-state sectors aimed at establishing market oriented enterprises so as to let them drive the growth of the economy” (Ibid). This was described termed by Deng Xiaoping as ‘crossing the river by groping for stones’. This incremental nature meant that “the easier problems could be solved first, where the gains were likely to be rapid and where the benefits would outweigh the costs; this helped in developing and maintaining a popular base for the reform programme” (Harding, 1987). Two vital decisions accompanied the adoption of such a gradual approach. “Rather than applying a shock therapy, the Chinese method ensured that priority could be given to other sectors as well, with the best example being agriculture, which allowed the inefficient system of politically organized and controlled communes to be superseded by family businesses carrying a high level of their own responsibility and giving those businesses the opportunity to sell part of their produce on a free market” (Bohnet, 1997). Also, this approach meant that “there was partial, cautious opening of China’s economy to the world market” (Ibid). However, at this stage it is important to mention the need in economic terms for the initiation of such a model for growth and development by China. The major causal factor was the Stalinist model of Central Planning that China had adopted after its liberation in 1949. Though taken up with

great enthusiasm by the government, it had within it inherent contradictions and structural imbalances. Hence, this model had to undergo a crucial change. Taking references also from the experiences of the East European countries where too this model was adopted, China analyzed and understood its structural anomalies. The “drawbacks ranged over both macroeconomic and microeconomic aspects of the economy; the microeconomic aspects were that the inefficiencies of State enterprises being deprived of almost all decision-making powers relating to production and management” (Ishikawa, 1984). Such an “over-centralized, administrative nature of the economic management system meant that it encouraged dictatorial concentration of authority at the top” (Riskin, 1987). Also, “rate of utilization of fixed assets in state enterprise was very low, and that ordinary levels of maintenance and repair of these assets were neglected; enterprises had no incentive to use the transferred assets economically” (Ishikawa, 1984). Again, in the macroeconomic sense, there prevailed “inefficiency of investment allocation that arose due to technical reasons; centralized planning brought about a tendency of ministerial autarchy, preventing horizontal cooperation” (Ibid). “Imbalances within heavy industry were highly serious whereby the processing capacity had grown much faster than raw and semi-finished materials supplies” (Riskin, 1987). Shigeru Ishikawa also emphasizes that in agriculture, the strict procurement and production plans for food grain were imposed on the production teams without any adjustment of the procurement prices; with the changed price-cost relationships, larger the increase in production of food grain, the poorer the production team and family members became. “Underdevelopment of agriculture was due to overemphasis on heavy industry, which in turn led to the inadequate rise in consumer goods production and standard of living” (Riskin, 1987). Also, “there existed along with structural problems which were referred to as short-to-medium term problems as well as systemic problems that were termed long term; these systemic problems included flaws in planning, management and incentive systems” (Ibid). “Altogether there existed high urban unemployment, stagnating levels of food consumption, deteriorating urban housing conditions, falling real wages, widespread rural poverty and sluggish productivity growth were the reflections that one could find in the background as China grappled with the need to reinvigorate itself” (Ibid). Thus, the outmoded Stalinist path that had developed imbalances and bottlenecks had to be remodelled and new perspectives of the economy had to be drawn. This led to the reforms that touched almost all aspects of the economy. These were:

1. Agriculture: To begin with, Deng decided to focus his attention on the agrarian and rural sector. This was also guided by the fact that the reform process introduced by the new regime had a drastic effect on the urban areas, with economic over-heating also occurring and leading to inflation. Hence, following the incremental approach, the agricultural sector gained priority and also proved to be testing ground for the reform process as a whole. The stress was to initiate measures aimed at Decollectivization, thus dismantling the Communes. "For Collectivization had created problems for the country's economy whereby low level of technology that existed meant that the amount of land available was restricted; the Collectivization also impacted labour productivity adversely due to the rival attraction exerted by the private sector as well as the use of collectives to siphon output away from the producers where allocation of a considerable portion of the output was on the basis of 'needs' rather than 'contributions'" (Ellman, 1986). The earlier existing Commune System owing to its overarching character had failed to mitigate rural distress and due to the rigid control of the party apparatus, discouraged experimentation, thus failing to inculcate technological and management expertise. The new enthusiasm was also "due to the severe drought that hit the Anhui province in 1978, with the rainfall below normal" (Fewsmith, 1994). The provinces were also blowing the winds of change, with a 'bottom up' approach being encouraged. Deng was also in the forefront to encourage initiatives from below, which was made clear by his efforts to delineate authority. He genuinely believed that "real decentralization of authority was essential in order to achieve the mobilization of the initiative he sought; he also realized that the existing system stifled creativity and only economic and administrative reform of a fairly radical character could ever resolve the problem" (Naughton, 1993). "He was also able to listen to good advice and willing to allow specialists in economic policy-making to make economic decisions without much interference on his part" (Ibid). He "not only removed 'political correctness' being the criterion to guide overall policy making in the economic arena, but also removed that criterion in appointment and promotion within the system" (Ibid). Hence, the most visible policy of the Household Responsibility System in agriculture after dismantling the Communes was practiced provincially, which was later, carried on a national scale. Thus, experimentation by the provinces was largely encouraged by Deng. This Responsibility system was experimented in the provinces of Anhui and Sichuan under the guidance of the Party

Secretaries Wan Li and Zhao Ziyang respectively where it was a resounding success¹⁰. This Responsibility system according to Joseph Fewsmith was termed a 'Single Plank Bridge'. It is also noteworthy to note that Deng had articulated the need for such a system in the heyday of Mao. In what is now the famous quote that has been associated with him, Deng in addressing the seventh plenary session of the Third Central Committee of the Chinese Communist Youth League had stated that, "*Comrade Liu Bocheng often quotes a Sichuan proverb-it doesn't matter if it is a yellow cat or a black cat, as long as it catches mice*"¹¹. Hence, Deng had clearly spoken for the need to give masses the option of choosing whatever mode they deemed fit.

But formally it was on January 1, 1982, *Document No.1* was adopted as basis for adopting the Household Responsibility System. It was declared that the "household responsibility system would be a form of production responsibility system within the socialist collective economy" (Fewsmith, 1994). David Zweig has specified some of the popular types of responsibility systems namely,

- (a) **Short-Term task rates** – In it, there were fixed amounts of work points awarded for a set job. Here, the tasks varied from field construction to harvesting grain and these were given to work groups, individuals or households.

- (b) **Specialized Fixed Tasks** – These were primarily used for sideline production such as fishery, forestry and animal husbandry, where special skills were impertinent. This system involved the signing of contracts with individuals, households or specialized work groups. Here, the peasants received a fixed number of points for meeting a production quota and a bonus for surpassing it. It suited the needs of wealthy or densely populated localities where narrow divisions benefitted production.

¹⁰ This encouragement is also reflected in the fact that both Zhao Ziyang and Wan Li were promoted by Deng at the central level as the Premier and Head of the Rural Work respectively, Naughton, Barry (1993), "*Deng Xiaoping-The Economist*", *The China Quarterly*, September, No.135: 491-514.

¹¹ Liu Bocheng was a native of Kaixian in the Sichuan province and was the Chief of the general staff corps under the CCP Frontline Committee during the Nanchang Uprising and had served in different capacities in the party.

- (c) **Linking Output to the group, or the individual** – Here, the team divides its fields into strips, and individuals or groups contract to meet fixed production quotas. Peasants were paid in work points and bonuses and fines were administered depending upon the output.
- (d) **Household Contracts** – It consisted of two types. One which had a unified team management and involved fixed investment, work points and output levels, plus a bonus. Therefore it was called “three fixes and one bonus”. The other system was the “Household Quotas with Full Responsibility” that resembled private farming closely. Here, the land was divided among households who agree to fulfill the obligations previously belonging to the team; the households pay the state Agricultural Tax, meet the minimal compulsory sale and contribute money to a fund for needy villagers. Peasants also give money to the production team for developing collective enterprises.

Under the Household Responsibility System, the individual households became the primary unit of the production process. “With the farm production being returned to peasant families and with agricultural surpluses increasingly regulated by the market rather than by the State bureaucracy, the rural communes lost most of their economic functions and were dismantled by the local governments. Under this system, though the State technically owned the land, it was now leased to the peasants on a per capita basis; the length of the land varied, but the government advocated a 15 year lease with the understanding that the longer the land tenure, the more willing peasants would be able to make long-term capital investments in the land” (Huang, 1994). “Once every three to five years, adjustments were also made in the amount of the land leased, mainly to accommodate the changes in family composition like addition of a daughter-in-law or birth of a child” (Ibid). Also along with the farmland, all other farm related operations like collectively owned livestock, vegetable gardens, fruit orchards, pastures, fish ponds, etc were either leased out to individual families based on an open, competitive bidding system or auctioned off for cash. “Similarly, agricultural implements including hand operated tools, farm machinery and draft animals were either sold for profits adding to village coffers or divided up among all residents on a per capita basis” (Ibid). The remuneration system within the system

also needs to be looked in. "At first, there was the replacement of the moral incentives with 'task rates'" (Zweig, 1983). A standard of quality was also added to the job and the team leader was responsible for evaluating the quality of the job. The key aspect with regard to the Remuneration system was the question of whether the level of output rather than the quality of output was needed to determine income. The Third Plenum in December 1978 authorized a bonus for work groups who surpassed the output quota. Also, "there was a stage when the contracting unit no longer had to turn over any fixed agricultural quota, but just the State Agricultural Tax, Compulsory Sale and a donation to the collective; the rest of the produce was for free disposal, in which they were free to choose their mode" (Ibid). As regards the size of the work unit at which the income was determined, "the team's net income was divided by the number of work points distributed to the peasants each year and this resulted in the basic work point value; the total work points each peasant accumulated by the year's end determined his share of the Collective's year-end distribution" (Ibid). "In early 1978, output quotas were also established for sideline work like fishery, forestry and animal husbandry; output quotas were also established for cash crops like cotton, rapeseed and hemp because these crops were secondary to grains and vegetables" (Ibid).

The State also increased the procurement prices in 1979-80, whereby "the State paid farmers for their agricultural products and in addition quotas for mandatory deliveries to the State were frozen, allowing farmers to sell an increasing share of their annual output at their higher price paid for the above quota production" (Harding, 1987). These reforms also "intended to absorb most of the surplus labour created in the countryside by population growth and greater productivity, thus restraining the large migration to the cities" (Ibid). Finally, the mandatory quotas were done away with. The aim of the government "was the reduction in the burden of agricultural subsidies by the procurement contract system, thereby reducing the amount of produce purchased by government agencies" (Ibid). The "reform also opened the way to the development of a private sector, including private merchants, industrialists and private firms" (Kojima, 1990). "96 percent of the peasantry in the country were involved in the Household Responsibility System by 1984" (Goldman and Goldman, 1988). The impact of these reforms were enormous whereby the "agricultural production went up from 305 million tonnes in 1978 to 407 million tonnes in 1984 as well as the average

rural income in the same period from 134 to 355 yuan per capita” (Fewsmith, 1988). The “average annual rate of growth was 10.5 percent between 1978 and 1986 compared to 4.0 percent in the late 1960s and early 1970s” (Harding, 1987). “Village and township manufacturing and trade enterprises also emerged, with annual output increasing at 20 percent a year” (Goldman and Goldman, 1988). The “farmers in China were also much freer of arbitrary domination by State and Party officials” (Riskin, 1990). Also there was reduction in the rural-urban gap with regard to incomes. In fact in the countryside, the people remarked that “Chairman Mao led us to stand up; but Deng Xiaoping allowed us to fill our bellies” (Naughton, 1993). This is interesting because “it was largely said that Deng did not take much interest in rural reforms” (Ibid). However, these reforms also meant that “neither the State nor the Collective, nor the individual peasant family invested capital in agriculture at the requisite level” (Ibid). Harding further points out that despite increased incomes and rural savings, the peasants were spending little of the increase on productive investment. This according to him was also due to the uncertainty prevailing over the long term fate of the Household Responsibility System. “In absolute terms, the State invested 20 percent less in agriculture during 1981-85 than it had during 1976-80” (Riskin, 1990). After the initial rise, agricultural production began to stagnate. This meant that a chain reaction was possible “whereby decline in agricultural output would adversely affect the Light Industry, which survived on agrarian raw materials, and that in turn affected the Heavy Industry” (Fewsmith, 1988). Peasants were also increasingly now turning their attention towards the cash crops, thereby leading to falls in grain output. There were also opinions that the “Dengist model in agriculture was turning to acquire Capitalist forms” (Chossudovsky, 1986). The rise of private entrepreneurs was also viewed with suspicion and with the dismantling of communes, the rural health care and education sector also bore the brunt, thus making them unaffordable for the poor.

2. Enterprises: After the success of the rural reforms, the Third Plenum of the Twelfth Central Committee of the Party shifted its focus towards the urban reforms. This was also one of main areas of interest for Deng, and it was also widely believed that modernization in real sense meant urban reforms. China moved forward from Enterprise autonomy in the late 1970s, to develop a theory called ‘Theory of Socialist Commodity Economy’, with its leading exponents being senior economists like Xue

Muqiao, Du Runsheng, Yu Guangyuan and Liao Jili. It essentially meant that “the current socialist economy in China was a commodity economy in which public ownership of the means of production dominates and diverse economic sectors co-exist; the principle and direction of China’s economic reform should be to uphold the dominant position of public ownership of the means of production and to consciously develop the law of value in accordance with the requirement of developing commodity economy” (Wu, 2005). “In contrast to the former socialist countries in Central and Eastern Europe, China did not privatize its state-run enterprises in the first instance. The justification lay in the Marxist framework of the superiority of socialist ownership of the means of production” (Bohnet, 1997). This was a sensible decision due to the fact that “rapid privatization of the government enterprises would not only have created an immense call on financial resources to modernize plant, facilities and production methods, but would also have triggered a steep increase in urban unemployment” (Ibid). Under the reforms, there were considerable breaks with the Mao era. The “role of the market in guiding output and motivating producers was to be expanded” (Riskin, 1987). Whereas earlier, the “Enterprise manager did not have enough powers curtailed, the post-Mao economic reforms gave managers greater independence in running their enterprises, the ability to retain more financial resources and decide on their use, and more responsibility for their enterprises’ profitability” (Harding, 1987). There “was an increase in the operational autonomy of State Enterprises” (Ibid). However, Harding also admits that promotion of greater autonomy in Enterprise management was the most difficult of reforms to be implemented successfully. He further adds that since 1984, the Enterprises have been granted greater power over the production, pricing and distribution of above-quota or nonplanned output and over the hiring, promotion, remuneration and dismissal of their workers. The “stress was increasingly on the role of Centralized Economic Planning and the role of Profit as the criteria for judging an enterprise’s economic performance and for raising output and productivity” (Andors, 1980). “Profits were not made the sole purpose of the enterprise, but they were viewed as the most comprehensive and important index of performance; though there were eight mandated targets the enterprises had to meet, the chief incentive was the profit target” (Ibid). The “other mandated targets concerning output were: quantity, variety, consumption of materials, fuel and power, labour productivity, cost and use of working capital” (Riskin, 1987). The “Enterprises also had the right to retain and

utilize part of their own profits, and keep a percentage of their profits for investment, for welfare benefits and for reserves” (Ellman, 1986). The “Enterprises remained under the obligation to fulfill their production plans; similarly they were given the right to sell a proportion of their output freely to customers of their own choice, including overseas customers” (Ibid). “Considerable authority over budgetary revenues and expenditures was handed down to provinces and localities with a view to linking their expenditures to their revenues and thus arousing their initiative” (Riskin, 1987). “The practice of budgeting all fixed and circulating capital free of charge was to be replaced by the use of repayable bank loans bearing interest” (Ibid).

Profit was stressed upon in such a vigorous manner because the “level of profit was to determine the size of bonuses that would now be given to an enterprise for distribution to managerial cadres and to workers; in short, bonus fund was linked to the profit target” (Andors, 1980). Stephen Andors also mentions that failure to meet the bonus targets entailed economic sanctions whereby no bonuses would then be available, and in certain cases when there were losses reported, fines could be levied as well as salaries could be reduced. He further adds that those enterprises which fulfilled or over-fulfilled the profit index would be given preferential treatment in the form of raw materials and energy supplies allocated by central planners, while those who fared less well were given lower priority. Thus factory managers were subjected to increased pressure and faced economic punishments if they failed to rise above expectations. Thus, it was contractual arrangement that was visible in the Enterprises reforms. “While the State continues to retain control over the ownership of industrial and commercial enterprises, it makes arrangements to lease or contract the operation of these enterprises” (Goldman and Goldman, 1988). “This leasing system which began in 1982 was something where the lessee pays taxes and rent for the use of the shop or parts of the factory, but like in the West after the payment of a specified amount, the lessee keeps what is earned or absorbs the losses if the enterprise fails” (Ibid). Goldman also regards the lessee as an individual, family or cooperative group; this arrangement was used primarily for small, often failing enterprises. “The Contract system was for large and medium sized State Enterprises” (Ibid). “While the Enterprise managers came to occupy a subordinate status within the enterprises in the Maoist era, even the ushering in of reforms did not in real terms give great amount of autonomy to the factory them as they were under the supervision of the Enterprise

Party Committee” (Harding, 1987). However, this was subsequently weakened in later years and genuine efforts were undertaken to grant autonomy to the enterprise managers. This must also be seen in the context of the assertions of Deng wherein he believed that delegation of power must not come with hidden strings and decentralization meant that real authority also had to be given to the Enterprises to take decisions as well as implement them. Thus, the “Enterprise Manager was made answerable to the State; while the Party Committee continued to implement general principles and carry out ideological and political education, the Enterprise manager/director had to direct production, recruit personnel and manage the enterprise” (Goldman and Goldman, 1988). “The idea was to separate ownership from management” (Ibid). The “Enterprise Manager also had the right to recruit, promote, demote both cadres and workers as well as the power to sack workers on disciplinary grounds, and to determine their pay and incentive systems” (Ellman, 1986). This measure was adopted to break the ‘Iron Rice Bowl’ concept, where there was guaranteed permanent employment and other benefits. This was also termed by the Chinese as ‘eating from the same pot’. In 1981, there was the “policy of moving closer towards ‘economic responsibility systems, which was analogous to the responsibility system in the agricultural sector, whereupon there was a contract between Enterprise and relevant State body stipulating the enterprise’s responsibility for its profit and loss and for payment system within enterprises” (Ibid). The “major tasks thus formulated were reorganizing enterprises’ top management bodies; strengthen economic responsibility systems; consolidation of basic management work as well as practising overall economic accounting and quality management; strengthening labour discipline; strengthening democratic management, and strengthening financial and economic discipline” (Ibid). There existed “Workers’ Congresses consisting of elected representatives of the employees of an enterprise whose main powers were to scrutinize the production plan and budget drawn by the director; to discuss and decide on the use of the enterprise’s funds for work safety, welfare and bonuses; to decide about any proposed changes in the structure of management, the payment system or training; to supervise leading cadres, reporting on them to higher authorities as necessary, and to arrange the elections of leading cadres” (Ibid). However, Ellman feels that despite such powers, these Congresses functioned merely as an annual general meeting of any company. It is also important to mention that “while private ownership was most common in retail and service

enterprises, it expanded in the mid-1980s to include manufacturing and transportation, with some enterprises employing over 100 workers, and in the lower Yangtze region, as many as 1,000 workers; in 1986, while private enterprises accounted for only 16 percent of total sales, they constituted over 80 percent of the total number of commercial and service entities” (Goldman and Goldman, 1988). “After obtaining a constitutional guarantee in 1988, this non-state sector was to become the real engine of the Chinese economy, and has also overtaken the State-owned sector in terms of value of its output” (Bohnet, 1997).

It is also important here to note that a successful enterprise system also highly depended on suitable Price system that was also rational. “The October 1984 ‘Decision on Economic Reform’ put Price Reform at the top of the agenda” (Riskin, 1987). “China’s traditional price system with its stress on stability, the distributive functions of prices, cost plus and determination of prices by State organs at long intervals was not suitable for this role” (Ibid). In late 1982 Party General Secretary Hu Yaobang in his report before the 12th Party Congress called for “a tripartite price system that would combine fixed prices for certain key products, flexible prices for a wide range of products and free market prices for non-staple food products and a variety of other items” (Ibid). According to Ellman, “there were also efforts carried on to bring prices in line with costs; reduce subsidies and expand the rights of enterprises in the field of price formation” (Ibid). While the Enterprise reforms were characterized as the most decisive phase of the reform process in China, it also went through its own structural difficulties. Inflation crept in, which was termed inevitable in the backdrop of the market orientation prevailing in the country. Increased liberalization in the Enterprise Management impacted heavily on the issues of wages and employment. The ‘Hire and Fire polices’ under the control of the enterprise managers/directors had serious implications for the workers who came to increasingly be under the constant scanner of the managers/directors. With competition and profits being brought in through the reform process, the country’s economy was seeing a transition from the overall Maoist framework.

3. Opening up of the Economy and its Integration with the World Economy: In contrast to the autarkic development advocated in the Maoist era, the Dengist period saw much more closeness and openness in adopting methods that brought the

economy closer to the outside world, especially with that of the Capitalist and liberal West. This approach of Deng was also based on his thinking of being closer to new methods and ideas. "Deng had no problem acknowledging outstanding foreign performance; during his visit to Nissan in Japan in 1978, he was impressed by the modernization there" (Naughton, 1993). "He also remarked that there was a need to learn from the diligent, valiant and intelligent Japanese people" (Ibid). The Cultural Revolution had a drastic impact on China's foreign trade and it had fallen very negatively. But the 1970s witnessed rise in the trade volume, with the "Hua Guofeng interregnum seeing the trade passing \$20 billion in 1978, more than 40 percent higher than it had been only three years earlier" (Harding, 1987). Decentralization and liberalization measures had impacted in opening up the commercial and trading sector. "There has been an expansion in the number of channels by which products were exchanged with the outside world and through which producers and consumers could meet; the number of State trading agencies had also increased" (Ibid). The liberalization also meant that the "Ministry of Foreign Economic Relations and Trade lost the direct managerial authority over the State trading companies it once enjoyed; its responsibilities now were to issue plans for China's foreign economic relations, conduct international market research, administer China's sinking foreign aid programme and conduct formal trade negotiations with foreign countries" (Ibid). Also, "to give enterprises and localities greater incentives, they were allowed to retain a portion of the foreign exchange they earned through foreign trade" (Ibid). These were all the result of the new regulations announced in 1984 in this sector. "The reforms of China's foreign trade have also produced big shifts in the composition of the nation's exports and imports, with the share of consumer goods in China's imports going down drastically along with that of foodgrains due to the impact of the rural reforms; however the imports of durable consumer goods have increased noticeably" (Ibid). China's exports also increase dramatically, with her energy resources being a major component. Textiles, agricultural products, clothing and footwear formed the bulk of exports; the rest of the exports included chemicals, machinery, metals and minerals, and handicrafts. In another remarkable break, "China's trade had a shift in international direction, the foreign trade was heavily oriented towards non-communist countries; the trade was also shifting from Atlantic towards the Pacific, with drop in Western Europe's share and rise in the same of East Asia, South-East Asia and North America" (Ibid). The "two-way trade almost quadrupled in value between 1976 and

1984; by 1984, total trade came to \$50 per capita, as compared with well under \$10 just a decade earlier” (Riskin, 1987). The key to implementing the Open policy was “an increased use of foreign funds and imported technology, to increase foreign exchange earnings through exports” (Ellman, 1986). However, moving ahead China also had to face negative trade imbalances as “there was an alarming surge in imports as against exports” (Harding, 1987). This was attributed to the “deliberate measures to increase the purchase of foreign consumer goods, along with the loss of central control over imports and also slowdown of exports” (Ibid). The “slowdown of exports was due to devaluation of the currency, and also lack of adequate attention to quality controls as well as willingness to meet foreign specifications” (Ibid).

There was also an increase in Foreign Direct Investment in the country. This according to Deng “was aimed at helping in absorbing foreign capital, attract advanced technology, and market export products” (Ibid). According to Harding, this was also termed some by some as ‘State Capitalism’, as the freedom of action of foreign investors were constrained by the decisions of the Chinese State Enterprise, and by regulations and policies formulated by the government at the central level. Joint Ventures (JVs) were promoted as the flagship for foreign investment projects. “As soon as joint ventures were approved in China, there was an immediate response from within the country as well as from without; in 1980, there were two JVs, but by mid-1987 the number had grown to over 7, 800 Sino-foreign JVs” (Goldman and Goldman, 1988). It is also important to note that “80 percent of the Chinese JVs are with Hong Kong and overseas Chinese who want to help their motherland modernize as well as help themselves” (Ibid). “Virtually every part of China was eligible for Foreign Investment, restrictions fell gradually” (Harding, 1987). “Well known areas for Foreign Direct Investment were luxury hotels, glass manufacture, coal mines and offshore oil drilling” (Ellman, 1986). However, the FDI in China also faced significant chronic problems. According to Harding, these include high costs of many important inputs like land, housing, and labour; poor training and discipline of the Chinese workers; low quality of Chinese components, incomplete legal system; and difficulty in obtaining loans in Chinese currency to cover local operating costs. Despite all this, “the Chinese have taken steps to attract more investments with measures like reducing land use fees, taxes, and costs of inputs; improved access to crucial inputs like water, electricity, communication and transportation; ad also to

improve efficiency of the bureaucracy in approving foreign investment projects” (Harding, 1987). However, the “most fundamental issues with regard to the Foreign Investments of access to the domestic Chinese Market and repatriation of the resulting profits earned in Chinese currency were not resolved, thereby forming bottlenecks in this arena” (Ibid). Along with these, there were also significant Chinese investments abroad.

Special Economic Zones (SEZs) formed a critical part of the Chinese Open Door policy. This experiment was a Chinese innovation, and it was later adopted in many other parts of the globe, especially in the developing countries. These were “experiments to attract foreign investment and put into practice a variety of production arrangements; they were originally intended primarily as export zones comparable to those elsewhere in Asia” (Ibid). In 1979, four areas along South-East coast were designated for the purpose of establishing the SEZs. They were Shenzhen (across the border from Hong Kong), Zhuhai (across the border from Macau), Shantou (in Guangdong province) and Xiamen (in Fujian province). “They were similar to the export processing zones similar in Taiwan, South Korea and other developing countries in 1960s and 1970s” (Ibid). “The government would build a modern physical infrastructure, provide a well trained labour force and other preferential tax rates, exemptions and holidays” (Ibid). According to Harding, these SEZs were ‘laboratories’ in which new management techniques and economic policies could be tested before being adopted in China; ‘filters’ that could screen out those aspects of foreign technology and culture that were not considered appropriate for Chinese needs, and ‘lubricants’ to facilitate the reunifications with Hong Kong, Macau and even Taiwan. “SEZs also served as mechanisms for the introduction, study and absorption of technology in a wider range of industries; the zones were to be also the centres of services, agricultural processing and tourism as well as manufacturing; these areas were also designated to absorb advanced technology for capital-and technology-intensive industries” (Ibid). Also, the SEZs “were also meant to be arenas for testing economic and social reforms considered too radical or too experimental for the rest of China” (Ibid). The “most successful SEZ was Shenzhen, having attracted about 60 percent of all foreign investment in 1979-84 and about half of all foreign investment in China over the same period” (Ellman, 1986). Shenzhen also proved to be the testing ground for new wage systems and labour regulations. On similar lines,

the Chinese also set up “14 Coastal Open Cities along the Hainan island, where tax incentives were like that in SEZs; these Open Cities were encouraged to establish economic and technical developmental zones with all the sops to attract investors” (Harding, 1987). Also, “three ‘developmental triangles’ were identified in South-Eastern and Central China namely the Pearl river, Min river and Yangtze river deltas, as trade and investment promotion zones” (Ibid). Though the SEZs no doubt opened up the economy, it also brought to the fore debates on the very strategy. The major tax sops and high regulation of labour opened up debates against such rampant neo-liberalism. Also, “many high technology businesses stayed away from the SEZs” (Ellman, 1986)

Along with all these, foreign credit was an important feature in the reform era. Increasingly, China was warming itself upto the international financial institutions. She joined the International Monetary Fund, Asian Development Bank and World Bank, along with negotiations at an improved stage for GATT¹². Every conceivable route was explored for acquiring foreign credit, accruing to Harding. “China also welcomed credits from foreign governments in the form of official development assistance and government backed-export credits” (Harding, 1987). “The borrowing by China was heavy in the form of soft loans, and also acquired substantial foreign reserves, thereby seeking to invest them wisely in both short-term financial instruments and long-term resource investments” (Ellman, 1986). “Due to these reserves, good repayment record, careful borrowing programme and favourable debt ratio, China has a good credit rating” (Ibid). The intensification of the market model also meant that there was “reopening of the Shanghai Stock Exchange closed since 1949; stock exchanges were also opened in many other cities in the country” (Goldman and Goldman, 1988). Trading of shares also began; “however the stocks issued could not exceed 30 percent of the total capital stock of any enterprise” (Ibid). Another important aspect of the strategy of Opening Up was the massive Technological exchange, with China hoping to access high technology. “Unprecedented numbers of students and scholars were dispatched by China for training and research abroad; out of the 38, 000 such students and researchers between 1978 and 1985, half of them of them were sent to the United States and more than 90

¹² The GATT later became WTO, which China joined formally after lengthy negotiations in 2001.

percent were pursuing studies in science and technology” (Harding, 1987). “The Chinese investments overseas also served as training grounds for Chinese managers as channels of access to foreign technology and as sources of raw materials abroad” (Ibid).

It is now important to assess the overall reform process. While “it ensured that the latitude of free expression of ideas widened, the personal incomes of the people also increased rapidly bringing more advantage to suburban and developed commercialized regions” (Riskin, 1990). Also, “the incidence of poverty also markedly declined, even though new forms of poverty had begun to arise among those who could not take advantage of the new market conditions; people’s lives were also improved by the opening of free markets for private production, trade and services” (Ibid). Riskin also states that “a shift in plan priorities also made more consumer goods available to both urban and rural population” (Ibid). There was high economic growth on a stable basis, “with annual rate being 9.2 percent during the 1979-88 period; the overall industrial structure also underwent changes in the 1970s with the aim of generating unabsorbed surplus labour force in the countryside” (Kojima, 1990). However, there also existed problems in these reforms. It resulted in Sustained Economic Overheating which was “generally considered to be a phenomenon caused by an excess of gross demand over gross supply¹³” (Ibid). “The expansion of the investment opportunities was caused by the reforms in the Banking sector, that led to the local governments exerting more pressure on the banks to extend loans for promotion of economic activities in their jurisdiction” (Ibid). This led to an overheating in investments. “There was deficit budgeting by the government due to the liabilities of the Cultural Revolution and raise in purchase prices for agricultural products, leading to structural defects and burdening the government; the resultant revenue shortages led heavy borrowings from the banks in turn leading to the inflow of foreign currency and spiraling the inflation” (Ibid). As noted earlier, there existed trade imbalances with imports of foreign consumer goods leading over the exports, leading to a trade deficit and to meet this crisis, China had to devalue her currency

¹³ Gross demand consists of consumption, enterprise investment, government spending and exports. Due to increase personal consumption, the government is forced to bring in economic policies that inadvertently lead to hyperinflation or economic overheating. Kojima, Reetsu (1990), “Achievements and Contradictions in China’s Economic Reform 1979-88”, *The Developing Economies*, Vol. 28, December, No. 4: 363-389.

yuan. Then there was “stagnation in agricultural output after the initial boom, especially in 1985 and this continued for the next five years” (Ibid). Kojima also termed the population explosion in the urban areas as being a serious bottle-neck, with the stratification¹⁴ of the residents, and this turned out to be a very discriminatory structure. However, despite all these problems China had embarked on a new developmental strategy through the Reform process and Deng’s reforms served as a focal point of attention. In fact, Deng had termed Reforms as ‘China’s Second Revolution’.

An important point that needs a great deal of attention is the fact that the reforms focussed on the evolving of the market paradigm. Increasingly, China came to engage itself with the market forces, though “it was only during the Third Plenary session of the 14th Central Committee of the CPC in 1993 that the Establishment of the Socialist Market Economic system was adopted” (Wu, 2005). China till the reforms was following a Centralized command economic model, where Planning was the only method for advancing development. However, increasingly mandatory planning was sought to be replaced with guidance planning, thereby visualizing a greater role of market in the economy. The adoption of a Dual Track approach in prices and planning also was towards this direction. The market model was also the subject of lengthy discussions and debate among the economists and leadership of the country. Though primacy was given for the planned approach, it was sought to be integrated with market mechanism at various levels. Though Deng Xiaoping had given stress earlier on the Plan, he had later come around to arguing in favour of the Market model. This was also a characteristic of Deng, who was always cautious in adopting policies, which were constantly reviewed and updated after a thorough stock taking. There was a need to constantly be abreast with the ever changing situation, with each reform measure also having its consequences. There were also periods of disruption and shift back to the conservative logic due to various circumstances. An appropriate example would be the spiritual pollution movement that was also called the ‘anti-bourgeois liberalization movement’ aimed at arresting the influence of bourgeois liberal forces

¹⁴ The first strata consisted of long term registered as such, given jobs by the government and provide low-rent housing and price subsidies; the second strata included those permitted to migrate to small cities of 100,000 or so population, and not as secure as the first strata; and then there was the third strata composed of ‘floating people’ who had moved illegally to the cities and were totally excluded from the welfare system. Kojima, Reetsu (1990), “Achievements and Contradictions in China’s Economic Reform 1979-88”, *The Developing Economies*, Vol. XXVIII, December, No. 4: 363-389.

that had come to occupy greater prominence due to reforms and opening up to the world economy. Another instance of the disruption was the Tiananmen Square incidents in 1989.

According to Deng, Market was not inimical to the Chinese economic system. He said that “both Planning and Market are the means for developing the productive forces, and as long as they serve the purpose, they should be used” (Deng, 1994). In an interview to an American delegation organized by Time Inc. in 1987, Deng responding to a question stated that “there was no fundamental contradiction between socialism and market economy; the problem was to find ways to develop the productive forces more effectively”. He further added that “the country’s long experience over the years had proved that having a totally planned economy hampered the development of productive forces to an extent. If planned economy was combined with market economy, the Chinese would be in a better position to liberate the productive forces and speed up economic growth”. The right approach according to him was to “open to the outside world, combine a planned economy to a market economy and introduce structural reforms”. Deng also felt that such an approach was not in contradiction to Socialism, as the primacy of the public sector was maintained and through the development of the economy, the goal was to seek common prosperity.

CHAPTER FOUR: CHINESE CONCEPTIONS OF MARKET ECONOMY

The reforms ushered in with the Third Plenum of the 11th Central Committee, of post-1978 have been widely termed as historic, leading to a break from the Maoist policies initiated since the liberation of the country since 1949. The Reforms, “described as the ‘Second Revolution’ by Deng Xiaoping marked the new shift within the Chinese Communist Party, which categorically accorded priority to the development of productive forces in the economic strategy” (Deng, 1985). This new shift was a reorientation of the vision of the leadership. The policymakers advanced theoretical justifications for the need to reinvigorate the economy. In fact, the economic reforms since 1978-79 have been described as leading to new breakthroughs in economic theory, whereby “the achievements of socialism were now to be evaluated according to the level of the forces of production; this moves beyond the old practice of abstractly explaining the principles of socialism without considering the level of productive forces” (Wang and Chen, 1987). While the different Party Congresses after 1978 have accorded the utmost urgency to the development of the productive forces, the economists also played their role in arguing for the need to make growth and efficiency in economic development as the fundamental goal. Arguing that Marxism was a Science that needs to undergo constant change, it was said that “development of science was not a continuous process of accumulation, but a discontinuous and revolutionary one in which earlier conceptions and theories were falsified, rejected and replaced by new theoretical constructs” (Misra, 1998). Going beyond the classical Marxist model, the reformers were “also eager to adopt other Marxists analyses such as the Yugoslav conception of Socialism or those of theorists like Bettelheim, Sweezy and Mandel” (Ibid). The “theorists continued to broaden the terms of the debate by analyzing and disseminating the wide array of Marxist and non-Marxist writing available outside China, which included Althusser, Lukacs, Gramsci, Frankfurt School, Rudolph Bahro, Kant, Locke, Montesquieu and Milton Friedman” (Ibid). Furthermore, reformist intellectuals exhibited a keen awareness of this when they pointed out repeatedly that “once a theory becomes incapable of answering the challenges of real life and dissipating the ideological doubts of the masses, it will inevitably be cold shouldered by them and lose its prestige” (Ibid). In

his opening speech at the 12th Party Congress in September, 1982, Deng addressing the delegates stressed on the need to look closely at China's realities in following the modernization path. As cited in the Beijing Review that was published immediately after the Congress, Deng added that in both revolution and construction, the Chinese needed to learn from the foreign countries and draw on their experience; but mechanical copying and application of foreign experience and models would get them nowhere.

Hu Yaobang while presenting the report at the 12th Congress as the General Secretary of the Party stated that "the Chinese had resolutely shifted focus of the work of the Party and the State to economic construction, eliminating the 'Left' mistakes that persisted in their economic work over the years, had conscientiously implemented the correct principle of readjustment, restructuring, consolidation and improvement" (Sharma, 2003). The arguments placed a critical and entirely new perspective on the question of Class Struggle, which was continuously upheld by Mao. The 12th Party Congress instead put forth the view that correct understanding and handling of the class struggle that exists in China today is the key to guaranteeing the democratic rights of the overwhelming majority of the people and exercising effective dictatorship over the handful of hostile elements. The Congress further noted that "with the elimination of the exploiting classes as such, most contradictions in the Chinese society did not have the nature of class struggle, and class struggle no longer constituted the principal contradiction; it was wrong, in a socialist society where the system of exploitation had been abolished and exploiting classes been eliminated, to declare and act on the principle of taking class struggle as the key link" (Ibid). The Report at the 12th Congress also argued that "the party and the people in China needed to be careful in distinguishing and handling contradictions between the enemy and the people so as to avoid repeating the past mistake of enlarging the scope of class struggle" (Ibid). The 13th Party Congress had further elaborated the understanding, when Zhao Ziyang in his report had admonished the erroneous understanding of the class struggle and failure on the part of the Left adventurists to see the changing situation in the country. The report of Zhao in the Congress put forward the ideas that the Chinese "must discard historical idealism, which deals with socialism in abstract terms without any consideration of the productive forces, and make a fundamental distinction between scientific socialism and all forms of utopianism" (Zhao, 1987).

Enormous stress was placed on the need for China to chart its own course and formulate a unique trajectory of growth and development. This was termed as 'building Socialism with Chinese characteristics'. This flowed from the understanding and conclusions reached after the 13th Party Congress in 1987, where an assessment was made regarding the historical stage of Chinese society. The finding was that China was then 'in the primary stage of Socialism'. While China had to "preserve Socialism and never deviate from it, there was a need to proceed from reality and not jump over this stage; to believe that it was possible to jump over the primary stage of Socialism, in which productive forces were to be highly developed, was to take a utopian position on the question and that was the major root of left mistakes" (Ibid). The report stated that "attaching conditionalities to the adoption of the Socialist road with the prerequisite of the Capitalist development was termed mechanical, and the need was to have patience and stick to the path of development" (Ibid). This was essential because the productive forces were lagging behind as a result of the semi-colonial and semi-feudal society in the country. This meant that China had to be under the Primary stage of Socialism for a long time. Also, the "relegation of the task of expanding the productive forces to a position of secondary importance, with class struggle as the key link" (Ibid) was a classical 'Left' error. The Primary Stage of Socialism also meant that the "principal contradiction was between the growing material and cultural needs of the people and backward production; to resolve this contradiction, there was the need to vigorously expand the commodity economy, raise labour productivity, gradually achieve the modernization of industry, agriculture, national defence and science and technology, and to this end, reform such aspects of the relations of production and of the superstructure as are incompatible with the growth of the productive forces" (Ibid). Thus the crux was to put an effective end to poverty and backwardness. The "tasks for building Socialism with Chinese characteristics included concentrating on modernization; persisting in comprehensive reform; adhering to the open policy; vigorously developing a planned commodity economy with public ownership playing a dominant role" (Ibid). Zhao Ziyang placing the report in the Congress underlined that "the basic line of the party in building socialism with Chinese characteristics during Socialism's primary stage was to lead the people of all nationalities in the country in a united, self-reliant, intensive and pioneering effort to turn China into a prosperous, strong, democratic, culturally advanced and modern socialist country by making economic development, the central

task while adhering to the Four Cardinal principles and persevering in reform and the open policy” (Ibid).

The most vital point of emphasis by the party in the Reform period was the need to acknowledge the role of the Market Forces in the paradigm of economic development of the country. Market as a factor had come to play an increasing role in the country’s economic debates. In western economics, “the term market denotes the mechanism of free supply-demand interactions to allocate resources-products, labour, capital funds, foreign exchanges, and the like; hence the terms ‘product market’, ‘labour market’, ‘capital (or money) market’ and ‘foreign exchange market” (Hsu, 1991). “The Chinese conception of market till late 1970s was generally that of a limited product market that excluded capital goods” (Ibid). The “Soviet model adapted by the Chinese after the declaration of the People’s Republic was in essence a Stalinist model” (Meisner, 1977). The Planned model had mandated targets to be fulfilled, which placed great pressure on various sectors of the economy. This model, criticized even by Mao himself after its initial years of implementation had its own set of inherent contradictions that led to a kind of reaction towards the entire model. Though this was later reformulated, the aim was to remodel the basic approach to industrialization. Mao’s analysis was that the Stalinist command planning had led to heightened bureaucratism and rise of privileged groups within the Party, thereby stifling the creativity and enthusiasm of the masses. However, Mao never called for the Plan to be replaced by Market model. He was not in favour giving any manouvering space to a model, where economic leverages like credit policies, rational price and wage reforms as well as enterprise autonomy would have much more defined space. For him, these features were anathema to the very cause of the Socialist upsurge in the country. However, in the Deng’s regime, this model got. The debate ranged from having both Plan and Market together with either of them having an edge, or Market completely replacing the Plan. Deng supporting the integration of the market model into planning had stated that “planning and market are both means of developing the productive forces. So long as they serve that purpose, they should be made use of; if they serve socialism they are socialist; and if they serve capitalism they are capitalist. It is not correct to say that planning is only socialist, because there is a planning department in Japan and there is also planning in the United States” (Deng, 1987). On the whole, both planning and market regulation were means of controlling the economic activity.

This debate was perhaps the most critical and path-breaking in China's economic development. The constant debates were finally crystallized into concrete shape in the Third Plenary session of the 14th Party Congress of the CPC in 1992, when the country adopted the '*Decision on Issues Regarding the Establishment of a Socialist Market Economy System*'.

Before proceeding further, it is of utmost importance to analyze the need for enlarging the role of Market in Chinese economy, which also requires a deeper study of the debates among the economists in the country on the need to embark on such a process. The unwieldy structure of the central command planning had burdened the state with its set of internal contradictions, and the growth rate in the country was also on a downward spiral. With the economic indices dipping, the need was felt to have a fresh look. Hence, the Market option came to be increasingly juxtaposed alongside the Plan. Inspired by the experience of the East European countries like Hungary, Poland, Czechoslovakia and Yugoslavia, the Chinese were focusing on the works of the liberal economists there, with the aim of adapting them to the country's situation. The Chinese concept of market was also based on the decentralized model of Włodzimierz Brus, the Polish economist. Decentralization in keeping with Deng's articulation for 'power delegation in real terms', was to have a renewed relevance in micro-economic decision making. With central planning entirely focusing on the macroeconomic management, the other aspects were not given higher priority. The model proposed by Brus, a Market Socialist, advocated the need for 'combining plan with market mechanism' or having 'a centrally planned economy with regulated market mechanism'. "Brus divided economic decision making into three tiers, with the first tier standing for macro-economic decision-making, the second tier being enterprise decision-making involving local issues and the third tier being decision-making regarding economic activities of households and individuals" (Wu, 2005). From the "experiences of the reforms in East European countries, the decision making in the first tier was centralized, and the other two tiers had decentralized decision-making procedures" (Ibid). Thus, the "central plan was confined to the macroeconomic determination of the national saving and investment ratios, the allocation of national investment among the major sectors, the outputs of major commodities and some other major economic and financial variables" (Ishikawa, 1984). "The Government exerts mainly indirect influence upon decisions made by the enterprises and

individuals, using the instruments of price policy, taxation policy and interest rate policy” (Ibid). Elaborating further, Brus suggested the combination of plan with market, besides giving emphasis to the decentralized model. He laid down a “division of the three tiers, whereby the top tier had two functions namely, to set prices of the means of production and to distribute the social gains (rents and profits) from utilizing the state-owned production resources and making investment decisions” (Wu, 2005). “The second tier comprising the Enterprises had to produce according to the economic parameters like prices, wages, loans and taxes set by the Central Planning Commission, to pursue maximized profits while maintaining among themselves free contract relationships between buyers and sellers via the market” (Ibid). Wu also points out that Brus mandated that the third tier, comprising the households could freely choose their jobs and dispose of their incomes. According to Brus, “the decentralized model not only fully utilized market mechanism under state regulation, but also kept the development of the national economy under the plan; regulated markets would not weaken the planned economy, but rather improve the plan” (Ibid). His model, thus “did not alter the ownership structure dominated by state ownership and maintained control of central planning over investment decisions; it allowed the market to affect enterprises’ decision making, but the influence of the market forces was limited to short-term decisions of enterprises” (Ibid).

The 13th Party Congress had laid this out in clear terms. Under the sub-heading of “*Speeding up the establishment and improvement of a socialist market system*”, the report stated that “the socialist market system should not only include a commodity market for consumer goods and for means of production, but also markets for other essential factors of production such as funds, labour, technology, information and real estate” (Ibid). The Party Congress also viewed that the socialist market system needed to be competitive and open, for a monopolized, closed market provided no incentive for commodity producers to raise their efficiency, and a self-enclosed market promoted neither rational division of labour at home nor international trade. The report also pointed out that to establish a socialist market system, the need was to energetically and steadily pursue reform of the pricing system, rationalizing the prices of commodities and of the essential factors of production. The argument was to have a system where the State would set the prices for some important commodities and services, while leaving the rest to be regulated by the market forces. There was also a

call to change the ownership pattern whereby even while stressing on macro-economic control, there was a need to loosen up. The State could not be expected to have a control over the enterprises for long and the management authority had to be given to the enterprises in real terms. "There was also a need to deepen reform in the monetary system, strengthen the position of banks and their role in the system of macro-economic control and exercise proper control over the volume of credit and over the amount of currency provided in accordance with sound practice relating to currency circulation" (Zhao, 1987). Similarly, there was a need to bring drastic changes in the tax system. The report also stresses that while public ownership had to be paramount, other sectors of the economy like co-operatives, individual and private also had to be encouraged. There was also scope provided for joint ventures with foreign firms and also exclusively foreign owned enterprises. Also, in accordance with the new breakthrough in the country's economic thought and trajectory, "different forms of socialist ownership may coexist, thus superseding the dogmatic theory that only public ownership was permissible in China" (Wang and Chen, 1987). Thereafter, "the coexistence of different forms of ownership were permitted, with state ownership playing the dominant role; a certain amount of private ownership and other non-public forms of ownership were allowed to exist and develop" (Ibid). In fact, in the non-agricultural sector, China made substantial strides in removing obstacles to entry for new private enterprises and by October 1992, 150, 000 private enterprises and 14 million individual enterprises were established that led to the rise of the share of private sector in GNP from 2 percent in 1978 to 10 percent in 1991" (Chai, 1994). Thus, enough ground work was done within the 13th Congress to herald the implementation of the market system in China's economic growth and development.

The Integration of Plan and Market is also based on Chen Yun's earlier conception of 'Bird and Cage', wherein the bird was the market and cage being the Plan. According to the formulation of Chen Yun, even though he did stress the need to give space for the market model, the predominant role was still given to the planned approach. Thus, market was subordinated to the Plan. "Chen Yun had in fact proposed as early as in 1956, a two-sector model whereby three forms of management were put forward namely, one, state planning and control of the bulk of industrial and agricultural products; two, a free market for articles of daily use under various degrees of state

guidance; and three, free markets for minor local products, with no state control” (Hsu, 1991). He used the “term market in two senses, namely as the totality of production and distribution and also as the mechanism of supply-demand interaction that determines the production and distribution of specific products, which essentially meant that planning could be supplemented with the market as the regulatory mechanism of the economy” (Ibid). According to the Chinese, there were several advantages in having the market in the role of a regulator. “Direct access to the market makes possible a closer relationship among producers and users, which in turn speeds up the distribution of the means of production; having the State alone in the allocation process mean that the consumers faced difficulties in getting the much needed machinery while the producers had to cope with huge inventories of unallocated goods” (Zhou, 1982). Here, “the enterprise also had the freedom to negotiate with its suppliers to obtain the kind of machinery and equipment, raw materials and semi-processed goods; from the producer’s point of view, direct access to the market could solve the excess inventory problem” (Ibid). Another advantage of the market as a regulator was that “in speeding up the circulation of producer goods, the market also speeds up capital construction; with producer goods coming into the market, many projects no longer had to wait for supplies of material and equipment” (Ibid). The third advantage of the market was “in the creation of competition that forces enterprises to improve the quality and variety of their products and consumer service; with competition, those who produce quality goods were flooded with orders and those who produced inferior goods were in trouble” (Ibid). The improvement of quality was given a fresh lease of life, in attempts to eliminate shoddy products finding their ‘markets’. Efficiency and competition were aimed at correcting the negative influences of bureaucratism. However, “this competition was to be subjected under the plan, for it could neither be anarchic and spontaneous nor should it adversely affect the plan’s targets; otherwise, there was the impending danger of the market competition degenerating into pernicious competition” (Hsu, 1991). According to Zhou, the utilization of market had improved management, wherein competition forces enterprises to make full and efficient use of their human and material resources. This was another advantage of the market system. Finally, “regulation through the market also encouraged enterprises to set up different types of joint economic ventures; with competition, enterprises had come to see the advantages of association as a better way to develop technique and strengthen their

competitiveness. To survive in competition, enterprises needed to increase their productivity, which in turn required improvement in the division of labour through specialization, coordination and integration” (Ibid). In a market economy, “competition is the ideal and therefore, it is imperative to delineate the proper scope of competition in terms of state guidance and the prevention of anarchy; the Chinese conception of market is narrow in scope and flexible in what was to be exempted from it” (Hsu, 1985). “In the late 1970s and early 1980s, the Chinese economists accepted and promoted market competition as an integral part of the market mechanism to spur enterprise efficiency, wherein they paid some attention to the legal and informational requirements of market competition” (Hsu, 1991).

The “market economy was a resource-allocation mode most suitable for the modern economy and also it is not ineluctably being incompatible with Socialism” (Wu, 1994). The “notion of irreconcilability of planning with the market in socialist economy not only brings harm to practice, but is also groundless in theory” (Liu et al, 1979). An “economy with planned development does not preclude all relations with market, and it is spontaneity and anarchy in production that the economy opposes” (Ibid). “What is incompatible with market is not planned economy, but natural economy in which there exists no commodity-money relations but the distribution of physical things; market economy is characterized by the prerequisite of social division of labour and coordination” (Ibid). Also, “it was not necessarily spontaneous and anarchical, and also depends upon the system of ownership it operates under; with socialist public ownership, markets could be controlled by people self-consciously in the service of socialist economy” (Ibid). Thus, the economists Liu Guoguang, Wu Jinglian and Zhao Renwei put forward two traditional concepts that needed to be broken down, i.e. ‘to equate market with spontaneity’ and ‘to muddle planned economy with natural economy’. The “new market forces broke the stagnation in the natural economy and promoted the rapid development of the productive forces; they also hastened the collapse of the feudal manor system” (Wu, 1994). Under the planned system, information mechanism of the resource allocation is defective, whereby often the information obtained may prove to be inadequate too. “The relative prices for resources that have been formed through market competition carry information concerning relative scarcity of resources; if members of society have crucial information concerning relative prices, they could make correct decisions and

therefore, the cost of information can be greatly reduced” (Ibid). Also, “as every participant in market activities are constrained by both competition and property rights, the cost of supervision could be greatly reduced; this saves transaction costs and is an efficient way for allocating resources” (Ibid). By having stock holdings through shares in the State-Owned Enterprises (SOEs), there is an increasing space for corporatization, whereby a reorganization of the original companies ensure representation of the masses as corporations. Through such corporate organizations, two problems are addressed. One, “they enable the assets in the SOEs to become independent from other publicly owned assets and together with the assets of other share holders, become corporate assets” (Ibid). Two, “they make it impossible for government administrative organs to directly interfere in the property rights of enterprises, laying the foundation for separating the right to own and the right to control property” (Ibid). Wu argues that the stock company system with public ownership broke down the traditional thinking that an enterprise can only practice state ownership or private ownership, thus offering a new organizational form for developing the market economy under socialism.

In the Maoist era, labour was never considered as a commodity under socialism, wherein according to the Marxist thought “it was believed that labourers were the masters of the means of production and where the employer-employee relationship no longer existed” (Hsu, 1991). But since 1985-86 many reformist economists argued otherwise, as “Hu Wei of the People’s University, Beijing stated that China’s current stage of development, labourers and the means of production were not “unconditionally unified, but were unified through the exchange of labour power as a commodity; this arose from the fact that the individual labourer owned nothing but his labour and had to sell that to make a living” (Ibid). Thus labour was made a commodity. “A subsequent view put forward by Hu himself stresses that the difference between capitalism and socialism lay not in whether labour power was a commodity, but in who appropriated the surplus value. According to this formulation, under capitalism they could neither own the means of production nor appropriate the surplus value; under socialism, labourers had a dual status, wherein they sold their labour and also simultaneously owned the surplus product they produced due to the public ownership system” (Ibid). The central command planning also had to undergo changes to acquire more flexibility, to ensure that rigorous and centralized authority

also underwent some transition to meet the market requirements. Thus, emerged the two terms of Mandatory Planning and Guidance Planning, according to Robert Hsu:

- **Mandatory planning** was the orthodox type of socialist planning with compulsory targets for production and distribution. Excessive mandatory planning produced rigidity and disincentives as found out by many economists. Hence, it was limited to major macro-economic proportions and balances of the economy and to the production and distribution of essential products and the key enterprises that produce them.
- **Guidance planning** was more a flexible type of planning, concerned with the micro activities of most enterprises, with key enterprises excepted. These enterprises should have much autonomy in their production for the market, and they should be given guidance plans by the planners that contain suggested targets, which were not binding. The enterprises could adjust them in accordance with changes in the market or in supply conditions. Thus, in guidance planning, the market mechanism plays a dominant role, with planning have a minor role. The economists widely accepted guidance planning in the urban industrial sector as the best way to combine market with planning in order to raise productivity of enterprises and to make production attuned to market.

The 14th Party Congress of the CPC in 1992 as well, had reached an understanding to reduce the role of mandatory planning in a significant way. Thus, “reformed economy was increasingly becoming market oriented, with the economists and policy makers agreeing to the use of economic levers (prices, taxes, credit, interest rates, state purchase orders, etc) along with a new legal framework (contract law, patent law, bankruptcy law, etc) as the best means to steer enterprises towards the plan’s targets” (Ibid). A “pure market economy which is not subject to any administrative interference does not exist and the modern market economy without any exception, operates together with certain forms and degrees of macro-management and regulation through planning” (Tang, 1994). Significant debate also occurred in the country among the economists on whether a buyers’ market had to be created in

China. "By the Buyers' Market, the Chinese mean a market situation in which the quantities of goods supplied slightly exceed the quantities demanded at the prevailing prices" (Hsu, 1991). Until 1970s, the "Chinese going along with the Soviet view, had commonly regarded the existence of the sellers' market in socialist countries, in which the quantities of goods demanded exceed those supplied at the prevailing controlled prices and this was considered as a manifestation of the superiority of socialism" (Ibid). "This latter notion had led to various problems like neglect of consumer interests, poor quality, surplus of unwanted goods in the midst of shortage, and the development of black markets" (Ibid). According to Robert Hsu, one of the leading proponents of the buyers' market theory, Huang Fanzhang advocated the 'socialist consumer sovereignty' that could be attained by giving the state enterprises profit incentives to produce according to consumer demand. Going further Liu Guoguang argued that "in contrast to the sellers' market where it was necessary to have mandatory planning with planned distribution of products and materials wherein some buyers may be left without some essential goods, the buyers' market with excess supply would leave enough room for competition, and thus create conditions for linking the market with the plan; also, the slight surplus constitutes rational social reserves for the maintenance of macro balances without incurring the wastes of capitalist overproduction" (Hsu, 1985). The buyer's market according to Liu Guoguang is "also expected to help in stabilizing the economy and avoid a fiscal deficit, thus increasing in money supply" (Ibid). Thus, it is to be noted that the "envisioned buyers' market was intended primarily or exclusively for the sector under guidance planning, for it is only these conditions that prices would fluctuate within a range set by the planners" (Ibid). But there are also impending concerns with such a model, as market imperfections always lie in the background, wherein the "deliberate creation and maintenance of a buyers' market under guidance planning invariably involves the extended use of some form of state control like price control, suppression of price competition, mandatory surplus production, etc, to cause and perpetuate an artificial disequilibrium in the market" (Ibid). These very problems also could lead to inflation and overheating of the economy, thus having a destabilizing effect. Amalgamating all these discussions, Robert Hsu has put forward the following characteristics in terms of operations of the market;

- (a) The market needed to be stable and competitive, thus avoiding drastic fluctuations in prices as well as integration of the national market without any artificial barriers such as regional blockades or monopoly.
- (b) The market needed to be efficient and normal meaning that market prices including interest rates and exchange rates had to reflect both supply and demand on the one hand and the 'value' of resources used in production on the other.
- (c) The market had to be controllable by the state for macro objectives, with the instruments of control being indirect economic levers and guidance planning along with direct administrative control and legal actions.

The essence of a market mechanism and its adoption in China was dependent on the need to have fiscal measures or economic levers. In this, the crucial aspect was the need to have a rational price mechanism and therefore, price reforms had to be undertaken in the country. Before going into the debate and formulations of the price reform, it is important to look at the concept of 'Law of Value' within it, for this concept was in fact the most vital aspect of the market forces being adapted and integrated to the planning model. For a long time, the Chinese were under the influence of Stalin's thesis that "under socialism, the means of production were not commodities and that the role of value had to be restricted; he had held that production and circulation of means of production among enterprises under the ownership by the whole people was something beyond the sphere of operation of the law of value" (Zhou, 1982). This was also argued by Liu, Wu and Zhao too. They have stated that for long, law of value had been denied its regulative function in socialist production due to the understanding that price needed to be kept unaltered for definite, external periods and that the policy of relatively stabilizing planned price, needed to be converted into one of long-term price freezing. They further added that since economic life was in constant change associated with changes of various objective factors which may affect prices, it was impossible for price to be fixed at a certain level without modification; freezing of price unnaturally would all the more put price out of gear with reality and contravene the objective requirements as demanded by the law of value. Economist Hu Qiaomu "emphatically put it across that

under socialism, commodity production and circulation would continue over a long period of time, and in China there was a need for their vigorous development, with the law of value still playing an indispensable role in the economic life of the people” (Zhou, 1982). It was also stated that “in drawing up and implementing the country’s plans, there was a need to utilize the law of value and give expression to the requirement of this law” (Ibid). Thus, the predominant role of the law of value as a regulator was established, thus further cushioning the market system in China. This was a marked departure from the pre-1979 period, when the labour theory of value gained in prominence and was the unit of analysis for price discussions. It was not until 1986-88 that the Chinese adopted market prices to be adopted in the price system. “Yu Guangyuan urged his fellow economists to put prices in the forefront and value in the rear, as too much energy and time was being spent in the exercise to evoke the concept of labour value” (Hsu, 1991). The “economists were increasingly changing the orientation of their theoretical discourse from labour theory to the supply-and-demand mechanism after 1986” (Ibid). To avoid inflation and thus have price stability was one of the important formulations in China since the declaration of the People’s Republic in 1949. Also, “there was a development objective of price policy, whereby for China’s development, modern industries were developed that required economic surplus for state investment; one way to obtain the surplus was to manipulate the terms of trade or the price ratio between agriculture and state owned industry in favour of the latter, that is, between agricultural products sold to the state and manufactured goods sold by the state to the peasants” (Ibid). “This had led to the ‘scissors differentials’ between agricultural and industrial prices, meaning a double price squeeze on agricultural producers” (Ibid). The price adjustments initially took place in agrarian sector with a raise in the procurement prices of eighteen agricultural products in 1979. However, “the increase in procurement prices could not solve the problem of the squeeze on agricultural sector with constraints developing whereby the government in order to supply grains and other essential food items to the urban population at low and stable prices had to initiate a number of subsidy programmes, thus giving rise to heavy fiscal burdens on the government; this finally led to large government deficits” (Ibid). Robert Hsu also feels that with modernization as the primary objective, it seemed logical that flexibility and efficiency needed to take precedence over price stability as the primary policy objective. But major price

reforms were postponed for the fear of massive inflation, thus forcing the government to resort to partial reforms and the adoption of the Dual-Track system.

This “dual-track system initiated first in price and later in other aspects, enabled non-state enterprises to obtain a supply of raw materials and sell their products via a market” (Wu, 2005). With the “non-state sector rising rapidly in the 1980s free trading had to be introduced for their survival; the scope of off-plan production and trading of SOEs was also expanding” (Ibid). The ‘*Circular on Lifting Control over the Prices of Over-Fulfilled and Producer-Marketed Industrial Means of Production*’ issued by the State administration of Commodity Prices and the State Bureau of Materials and Equipment in January 1985, “allowed enterprises to sell and buy off-plan products at market prices, thus officially introducing the dual-track system for the supply and pricing of the means of production; those SOEs enjoying the right to get planned allocation of materials and equipment before 1983 could still get the same quantities of materials and equipment as they did in 1983, called ‘83 base quotas’ at allocation prices” (Ibid) and parts exceeding them at market prices. This essentially meant that there were “lower state-set prices for output produced within the state quota system and higher negotiated prices for output produced outside the state plan, whereby the latter could fluctuate within 20 percent of the former” (Hsu, 1991). “This 20 percent limit was cancelled in February 1985, with the negotiated prices becoming free market prices and they being often a multiple of the government prices for many products” (Ibid). A “three tier price system was recommended, with *planned prices* for the essential products under mandatory planning; *floating prices* for products under guidance planning; and freely *fluctuating prices* in the free-market sector” (Hsu, 1985). While “planned prices were fixed by planners in the short-run that could be adjusted in the longer run as conditions change, the floating prices could fluctuate within a range set by the planners, whose range in the long run could be adjusted by the planners as well; as for free market prices, the Chinese do not consider them to be completely beyond state guidance, and it is the state that determines which products may be in the free markets, with the sellers being not allowed to engage in illegal activities, as defined by the state, to influence prices” (Ibid). For “output within mandatory planning targets, the lower planned prices apply; excess output over and above the planned targets could be sold by the producer in the market at market prices” (Hsu, 1991). “For enterprises that use these products as inputs, the state

allocates a certain amount of planned prices to ensure the fulfillment of their plan targets; for additional production, the needed inputs have to be purchased in the market at market prices" (Ibid). The dual-track transition is also reflective of the Chinese thinking "to develop a new system first aside the old system and then if everything went well, to reform the old system when more favourable conditions emerge from the development of new components of the economy" (Fan, 1994). In conditions where the old system was difficult to be broken down, it was better to develop the new track first paralleling the old one. The "dual price system was meant to get the best of both worlds, namely to reap the benefits of both the fixed and free price systems while avoiding some of their costs" (Chai, 1994). The dual track transition adopted by China was a gradual, incremental approach. In fact "this approach also contributed to the moderation of the rate of inflation in China" (Ibid). "Putting resistance to these reforms under the cost-benefit angle, the incremental approach could be the best choice for Chinese reformists to start first some market-oriented moves which generate less resistance" (Fan, 1994). The "rise of multilevel prices stimulated the effort on the part of the enterprises and promoted the increased supply of various goods, in particular production of energy and raw materials; further, reinvestment of the funds earned through the higher price could help the adjustment of the investment structure, if reinvested" (Ishihara, 1987). This also "eliminated the old problem of the waste of domestic resources, which in spite of their high costs were used instead of the relatively more advantageous utilization of overseas resources due to the low prices set for them by government policy" (Ibid). The dual track system was initially visualized as a transitional system, to be replaced later with much more concrete reforms. However, this never worked out as the leadership in the country sought to postpone the large scale price reforms in the backdrop of inflation. Going further in the late 1980s, the dual track approach created problems for the reform process. The "system was exploited by 'shortsighted' enterprises in their 'irrational' behaviour, as enterprises given the opportunity to sell part of their output at higher market prices, had an incentive to circumvent their plan quotas, making it difficult for other enterprises using the products as inputs; the system was also abused by corrupt officials and people related to them, as they had privileged access to low priced inputs and foreign exchanges allocated by the state" (Hsu, 1991). Along with these problems, there were other problems in continuing such a transitional model that was meant to be put to use only for a short-term.

The Price reform debate in China between 1984 and 1988 had been articulated by two major schools of economic thought. The “first school led by economist Li Yining contended that enterprise reform should precede price reform as its prerequisite, and that costs and benefits of price reform are such that it should be delayed; this was because unless enterprises were motivated and efficient, they would not respond positively to market signals including prices, but would merely attempt to cope with the new prices in a premature price reform” (Ibid). “China’s imperfect market and irrational behaviour of enterprises also meant that prices that were market determined could not be equilibrium prices, and hence chaos, rather than optimum allocation of resources would result from premature price reform” (Ibid). According to Hsu, the second school of thought led by Wu Jinglian agreed that enterprise reforms were important, but went on to argue that price reforms and macro-reforms needed to be implemented along with it in a coordinated manner; the arguments allowed from the fact that an autonomous enterprise that is responsible for its own profits and losses could not exist without a competitive market. Hsu opines that for the second school, the enterprises were not merely the main actors in the market, but were themselves the sum of market relations. “Therefore unless and until a market oriented price mechanism was established, it was inevitable that part of the allocative function would be performed by the administrators, and the enterprises would not be free of government interference; the lack of a competitive market coupled with numerous government regulations creates various opportunities for rent seeking by enterprises as well as government officials” (Ibid). In terms of time horizon, the first school of enterprise reform allowed a relatively long period, while the integrated school wanted a phased implementation, with about three years in the first phase. Between both the schools, Robert Hsu argued that the integrated school had the upper hand, as a competitive market was not possible without market determined prices, and in a competitive market, the enterprises had to be responsive to market prices. Gradually, he also pointed out that there arose a third school which comprised economists like Liu Guoguang and Zhang Zhuoyuan, who though agreed with the contention of the first two schools in wanting a competitive market environment and market oriented prices, had different arguments on other aspects. They contended that enterprise ownership reform and price reform were equally important and had to be coordinated to support each other, thus bringing down the argument that enterprise and price

reforms were complementary and not mutually exclusive. "While the enterprises could set their own prices, thus making price reform essential to China's market orientation, effective price reform also required some preconditions, that China had lacked due to inflation in 1988" (Ibid). But this school was mainly sidelined to the margins. Thus, the debate on price reforms continued in China, even though the government was hesitant in implementing wide ranging reforms, and was contented in continuing with the incremental approach.

The Marketization of the economic trajectory in China meant that the market forces had penetrated into all the major factors of production, leading to their Marketization too. Ellman and Kojima opine that, the various factors invigorated by the market forces were:

(a) Capital goods market – Earlier, the capital goods were distributed by the State Bureau of Supplies and they never entered community distribution except when going to the countryside. Thus, there were no capital goods markets in urban areas. But in May 1984, the State Council promulgated 'Regulations for further expansion of the autonomous powers of state enterprises', which permitted state enterprises to sell freely their extra-quota products, new test manufactured products and upto 2 percent of their quota covered outputs. The state enterprises were also permitted to adjust the prices of their freely sold products within 20 percent of the official prices. To improve the situation of the country's earlier problems of excess investment and the use of investment funds for projects with poor returns, the government has made strenuous efforts to reduce the share of investment in the national income, by stressing the need for enterprises to make profits, and by replacing grants by bank loans for financing the working capital. Shares and securities were also issued to the public, thus to further revitalize the enterprises.

(b) Labour Market – Labour was never considered as a place for market orientation according to the classical Marxist understanding in the country. Earlier, in the cities, ordinary citizens seeking jobs registered with their street companies and then the government labour administration office unilaterally assigned them to different jobs. College and middle-school graduates would

be assigned jobs by their schools on the basis of instructions given by the government labour administration offices. People in the rural areas were not allowed to work in the cities without proper approval of the Party officials in their areas, or employers. Hence, there was no space for job selection and no freedom for enterprises to hire personnel. However, changes occurred in the 1980s, first in the Shenzhen SEZ and later in other centres. Foreign investors demanded the right to hire labour, which was conceded by the government. A contract system came into place and the government also accepted the management's decisions to fire personnel. Thus, the policies of 'hire and fire' were now handled by the management rather than the state. In the countryside, local enterprises mushroomed, where workers were hired on more or less 'free' labour markets. Individuals got the right to select their jobs and enterprises. Taking the cue from East European economies of Hungary and Poland, the Chinese sometimes leased out state-owned restaurants, small shops and repair facilities to private individuals. However, in the key state sector, the labour allocation remained fundamentally unchanged. According to the modified personnel system, an employee had no right to apply for another job without the permission of the enterprise where the employee was already working. This permission was normally denied. Resignation without the approval of one's current employer was considered to be illicit. This was in essence an exhortation to do away with the 'Iron Rice Bowl' system of guaranteed employment, with other benefits.

(c) Financial Market – Moving away from the earlier system of book keeping and deposit handling, wherein the loan operations were limited to small scale lending of excess cash funds, China's financial institutions were expanding their role, leading to the creation of a financial market. Like labour markets, financial markets first emerged in the countryside. Expanding to the cities, inter-bank short-term financial markets were established, since 1986 in a number of different provinces. Foreign exchange markets were introduced in 1986 in several cities.

(d) Land Market – Before 1978, cultivated land were owned by the village, and urban land, major mountain areas, rivers and lakes were owned by the state.

Even though the communes were dismantled in the face of the rural reforms after 1978, the state never allowed land to be privately owned. The government in practice commoditized urban land by separating the land utilization rights from land ownership rights, thus making the utilization rights marketable. To rectify the measure of the state enterprises, schools and organizations connected to party officials taking over large tracts of land and keeping them idle in the absence of a price on land, Fushun city in Liaoning province began collecting ground rent from such land in 1985. This resulted in nation wide debate, leading to many cities follow suit. Later in 1990, the government brought in new regulations, whereby urban land utilization rights became marketable through open bidding and/or auction. The utilization rights for residential land are valid for seventy years, while those for industrial land may last for fifty years.

(e) Market for Technology – In the pre-1978 period, technology was not considered tradable under government policy. There was no idea of patenting and intellectual property rights. People making pioneering inventions were only to be rewarded with promotional money based on the amount stemming from their application. The Chinese gained experience from western companies in this matter, wherein they asked for royalties for the technology China wanted to introduce. Though China opposed this, it soon came to realize that unless it adhered to these laws, it would not be able to access advanced technology. Later, in 1984, the Chinese brought in the Patent Law and subscribed to the International Convention for the Protection of Industrial Property.

The post-Mao leadership thus, was vigorously pushing for growth of the market forces that would aim to integrate it with the plan. Under this programme, the state sought to undertake certain measures to push this integrated model forward. Solinger has pointed out, these measures have also faced criticism by being demarcated as measures that were closer to the capitalist method and thus being anathema to socialism. However, many features introduced by China around the growth of the market model have definitely been a break with the past. According to Solinger, the measures introduced to further cushion the market model are:

1. Bankruptcy Law – Allowing firms to go bankrupt goes against the grain of the fundamental assumptions of existing socialist societies, whereby there is state ownership of productive assets and thus state has the responsibility for their management and maintenance, with the existence of right of all workers to employment plus provision for their welfare. But an increasing need was felt for a bankruptcy law to purge the economy of technologically obsolete enterprises and allow modernization to get under way. Such a bankruptcy law was introduced in Shenyang in early 1985, and this after immense debates got into the shape of a law known as ‘Enterprise Bankruptcy Law of the PRC’, coming into effect from November 1, 1988. The law defined an enterprise as bankrupt if ‘because of a deficit caused by mismanagement, it cannot repay the debts which are due’. The law essays to differentiate between enterprises suffering losses because of poor management and those whose losses result from state actions, such as state pricing or procurement policies or state allocation of inferior equipment or insufficient supplies. There are also arguments that the actual aim of the law was to prevent enterprise failure by compelling firms in danger of going under to shape up and not to force unprofitable firms to go bankrupt. It places heavy responsibility on the official department (industrial bureau) that is in charge of managing the firm. The law decrees that the officials in that department needed to submit to administrative sanctions, if it could be proved that their interference had been the primary reason for the firm’s losses. The law also had a provision, whereby it gave attention to the fate of the former employees of the defunct firm and thus stating that their basic livelihood needs had to be met during their unemployment period.

However, this law was not without problems and did not work as intended. One of the problems of relying solely on bankruptcy to solve the financial problems is that obtaining the funds necessary to provide for the social welfare of all employees was virtually impossible. Also, the administrative departments were required to take responsibility of the failing firms under provisions of the law. Thus, there was growing feeling that the law was basically undertaken for bolstering the state treasury and not for enhancing the autonomy of the enterprises.

2. Enterprise Takeovers – The experiment of Enterprise takeover was undertaken to enable the state to rid itself of the burden of floundering firms, without having at the same time to sustain their staff and workers. This essentially meant merging or annexing enterprises. Such mergers amounted to the transfer of management power and the right to benefit, away from the firms in trouble to stronger firms, in a better position to use the assets. By the end of 1988, more than 1,800 factories had been merged to form 1,779 new enterprises. Mergers were set to help avoid the social shocks that follow bankruptcies like labour retrenchment, and further pave the way for developing profitable enterprises. According to economist Dong Furen, mergers could help the country save in its investment, an amount equivalent to that scheduled for the Seventh Five Year Plan, as he felt that mergers encouraged more effective use of the assets. Also, it was generally agreed that mergers could shore up the state budget through measures like directing the flow of state investment into more marketable and competitive products and industries to raise the returns of investment, allowing stronger concerns to expand production while lowering their costs, and furthering an industrial structural arrangement in accordance with the economies of scale and macro-economic industrial policy. But on the flip side, mergers could also lead to uneasiness among the workers.

3. Shareholding – Shareholding and stock markets received more and more attention, as a measure to collect capital and at the same time avoid worker discontent. This system also began first in Shenyang in 1982; however, the equity markets were first opened in 1984. In 1986, the Shenyang Trust Investment Company sponsored a securities exchange with a national reach, which became the turning point. By 1988, nearly 80 cities were engaged in negotiated security transfer. It was hoped that through this system, necessary conditions would be provided for the enterprises to fully operate independently, thereby assuming the sole responsibility for their profits and losses. It was also seen as a way of facilitating the flow of funds, absorbing idle capital, distributing risk and promoting the rational movement of production factors. This system was also aimed at easing the state's fiscal crisis. It was pointed out that soliciting investment through the sale of shares to employees or even to the public or by permitting firms with surplus funds to buy into other firms was inherently less threatening to employees than a merger because joint stockholding unlike enterprise merging, does not entail the transfer of asset rights. Share holding allowed the

existing structure of the enterprise to remain intact and thus, presumably, protected the jobs of the staff and workers. Majority of the firms selling shares offered them internally, thus largely to their own employees. Other than shares, other securities included state treasury bonds and bonds for keypoint projects. Securities were primarily issued to, not only accumulate funds for the construction projects of the central government and thus relieve the state financial organs and banks from their burden of finding investment, but also to sop up the excess currency in the hands of the population. This was also in the face of mounting inflation. To guard against privatization, the government had stipulated that stocks issued by a state enterprise could not represent more than 30 percent of the value of the total stock.

However, from a neo-liberal perspective, Solinger has argued that there were impending problems in this measure as China lacked many pre-conditions for a genuine stock market like inability of the enterprise to fully operate independently, a stable taxation system and a well developed financial market. Also, many firms used the share system to provide extra welfare supplements or bonuses to its employees, which only increased the pressure on consumption funds on the market. Solinger also put forward some old bureaucracies and a new set of state-directed agencies, to enforce these market reforms. These were:

- **Material Supply Bureaus** – This agency earlier located at the hub of the command economy, remained heavily involved in transactions in the industrial sector. Various measures were undertaken to counter the abuse of power by personnel in these bureaus of using their control over scarce supplies to engage in profiteering. These bureaus through their long-term participation in well established exchange networks under the reign of the state plan and through their command over supplies stood to profit from the reforms.
- **Industrial Companies** – The industrial bureaus that manage production and sales in particular trades in the urban economies were subdivided into specialized industrial companies that in turn were responsible for directing individual firms. By relying on their original suppliers and procurers, they were becoming wholesale salesmen and sources for market information.

- **Property Rights Markets** – Started first in the city of Wuhan in early 1988, the city government formulated policies to guide its activities. It was seen as a measure to encourage mergers, wherein the city government's involvement could speed up initiatives to strengthen the mergers. The aim was to focus urban investment in high priority industries and products, thus helping the cities to readjust their productive forces.
- **Enterprise Bankruptcy Offices** – Set up by city governments, its function was to arrange tax reduction and exemption as well as low interest loans from banks and insurance companies, and to permit the temporary suspension of debt-payments by firms warned of imminent bankruptcy.
- **Bidding Market Management Offices** – Another market reform aimed at breaking down the rigidity of the command economy was the use of bidding in construction work, instead of relying on specific bureaucratic units to assign supply equipment to specific projects. Again under the city administration, the body was responsible for managing the bidding, in which all capital construction and renovation projects that were written into state plans were on a scale surpassing 2,000 square meters and had a price-tag above 300,000 yuan.
- **Trade Associations** – They were organized in many cities to act as a bridge between the people and the government, with their function including providing the enterprises in a given trade with information and help. However, their chief function was to see to it that various firms in the line of industry under their purview played their part in helping to realize the city government's objectives. These associations were also marked out to push trades to develop along the lines city planners had worked out.
- **Trust Investment Companies** – Developed mainly in Shenyang, it was to shore up the old command economy and this body is used by the industrial companies, both to invest their surplus capital and to provide them with capital needed by them to complete technical transformation projects provided for within the city's annual economic plan.

- **Economic and Technical Cooperation Committees** – Maintained by most municipalities in China, their functions were to sponsor and further advance the economic and technical exchanges among firms across administrative and geographical boundaries that delineated the flow of goods, services and materials under the state planning system.

Thus, China's market reforms post-1978 moved from the classical theories and advanced with the sole aim of liberating the productive forces. With the market paradigm deeply engrained among the policy makers, the formulation of 'practice being the sole criterion of truth' was put forth vigorously in the course of the reform process. Adopting a variety of methods, the Chinese have sought to experiment a great deal and thus, engage with new forms of development. This is commensurate with the report of the 13th Party Congress of the CPC wherein Zhao Ziyang had stated that "whatever was conducive for growth was in keeping with the fundamental interests of the people and was therefore needed by socialism and allowed to exist; conversely, whatever was detrimental to this growth went against scientific socialism and therefore could not be allowed to exist" (Zhao, 1987). The market forces and their involvement in the Chinese economy were finally given concrete shape at the 14th Party Congress of the CPC when Jiang Zemin was the General Secretary of the party. The Socialist Market Economy was finally adopted by the Chinese as the model of their economic development. This Congress also took place in the context of Deng Xiaoping's tour of south China, especially to the SEZs and other development zones, where he called for an acceleration of growth; this was also important because in the aftermath of Tiananmen incidents, the Chinese had slowed down the reform process. Thus, in the 14th Congress, economist Ma Hong elaborated that "replacement of the planned commodity economy by a socialist market economy was not just a name change, but involved a major change in understanding the nature of the socialist economy" (Sharma, 2003). Going further in commenting on the report presented by Jiang Zemin, he pointed out changes in 10 areas, which were:

- Unitary public ownership, both state and collective should be replaced by a complex form of ownership in publicly owned businesses.

- Enterprises and individuals, and not government, should assume the dominant role in economic operations.
- The risk of operating enterprises would be borne by the enterprises and individuals, and not by the government and society, as is the case.
- In operating strategy, the enterprises must count on their own efforts and not on outside support for growth.
- Enterprises that used to be closely associated with the government should become enterprises free from administrative affiliations.
- The government would change its way of managing economic affairs, with the actual object-oriented, direct and one-on-one management to be replaced by value-oriented, indirect and macro-economic management.
- State-owned properties would be turned into stocks and bonds according to their market values.
- The employment system would be changed, with the state no longer responsibility for providing jobs for all.
- Instead of having different competitive standards for various enterprises, all enterprises would share a common competition mechanism.
- Administrative prices would be replaced by market prices, with a majority of products being sold at market prices.

Thus, the state was increasingly in a mode of retreat, whereby it was deviating from its earlier share of responsibilities. This had serious implications, for under socialism, the state was assessed as having a commanding role, and it was still argued, that public ownership would be paramount. The policy makers and the economists arguing for reform, through adoption of the market forces were trying to define new parameters for development, thus even re-visioning the role of the state and hence, socialism. By continuously harping on the need to analyze the ground realities in their theoretical deliberations, they were also providing a new meaning to the very concept of socialist construction. This market trajectory had its impact on some major

concepts traditionally associated with socialism like egalitarianism, and permanent employment and social security often termed as the 'Iron Rice Bowl'. Critics like Feng Chen have argued that this impact was more on the negative side, as a result of what many called the pursuit of 'neo-liberal' policies by the state. This led to widespread debates, with arguments coming from the orthodox Marxist schools of thought, who took a critical position on the whole market oriented reform process. Some criticisms, like those coming from Jan Prybyla were also voiced, especially in the West. These critics argued that the 'piecemeal' approach or the incremental approach adopted by the country, was resulting in structural bottle-necks and taking a heavy toll on the reforms. They were arguing for a much more accelerated approach to the reforms.

CHAPTER FIVE: CRITIQUE OF THE MARKET ECONOMIC APPROACH OF THE CHINESE

The reforms initiated in China in the post-Mao era was a break with the previous methods that had placed the country in shackles, thereby preventing or disallowing any attempts at remodelling the economic strategy. The basic assessment made in the immediate years after the accession of Deng to power had been to place emphasis on advancement of the economy by invigorating the overall model with new innovations and superior methods. Hence, Deng's period is termed as that of 'economics in command', which essentially meant that the economy was accorded more importance than politics. This was in contrast to the Maoist principle of privileging politics over the economy. Deng sought to move away from this standpoint and elevated economic development to a paramount status. He stressed that the earlier obsession with the political aspects rather than the economic matters had led to slowdown of the growth and had not fully advanced the economic forces. Hence, Deng and his policymakers actively pursued the line of liberating the productive forces. Productive forces gained in prominence, with the Chinese rearranging their model to suit this prioritization. In fact, in various theoretical deliberations, both the reform economists and the CPC underlined the need to stick to this understanding. Any move away from such a model, was equated with pushing China into backwardness and underdevelopment. The reformist measures encompassed the need to raise the material incentives of the people, and led to a dramatic improvement in their living standards. The major thrust of the reforms by the Chinese was to invigorate the market forces, and give them greater prominence. Even though the argument was to give primacy to the socialist planning, there were efforts to integrate it with market forces, thus adopting dual strategy. With public ownership being given the status of a mast-head, the aim was to give the market model, greater importance. This model was also accompanied by changes in the price system, with the law of value being given a regulatory role. With market getting such an enhanced role, the CPC finally put it forth in concrete terms in 1992 during the 14th Party Congress that the country was set to establish the socialist market economy as the ideal model.

However, these economic changes and stress on market was not without resistance and criticism. The critique of such shifts from the Maoist paradigm to that of the market paradigm was also important on many counts. The perception that the country was only benefiting from these reforms was sought to be rectified, thus bringing out the dissenting voices and opinions. The economists and other critics opposing the very adoption of this model, let alone its consequences, drew upon the traditional Marxist-Leninist framework in formulating their responses. The need to take both plan and market together, aimed at unshackling the economy from the Stalinist framework was critiqued; the argument that both were compatible and complementary was contested by the economists. Such a view was termed as narrow and simplistic, and the “assumption was that market mechanism and government planning were merely system-neutral techniques that were separate from and external to the economic systems was not valid” (Hsu, 1991). Further, there was the assumption that the “Chinese government possessed the extraordinary skills that were required to fine-tune the economy by combining the market with planning in various proportions in accordance to the economy’s needs was also flawed since such skills were not even in the possession of the developed countries” (Ibid). Thirdly, “it negated any possible incongruity between both these models when taken together” (Ibid). Robert Hsu argues that economists like Kornai have also critiqued such integration, wherein disparate items were taken from different shelves as one wished and also put forward the notion that such a naive ‘supermarket shopping’ approach to economic systems would not work in socialist reform; in real life, an economic system has to be considered as a package deal with all its good and bad features taken together. For long, the Chinese path has also been shrouded in indecision and dilemma. “Any attempt to absorb the market economy into the planned economy would produce an economic form that was neither entirely a planned economy nor entirely a market economy, because the planned economy could not effectively control the non-socialist operation tendencies in the market economy; and the market economy interfered by the planned economy would be unable to give full play to its functions of readjusting automatically the circulation and production of the commodities” (Sah, 1988). Besides, “for macro economic control, the planned economy mainly relied on mandatory planning and administrative means; but the market economy depended mainly on economic means and the functions of these means were completely different, thus triggering many difficult problems” (Ibid). With regard to changes in

the demand of various commodities, “the market economy showed a quick response while the planned economy could not do so; while in the market system, the enterprisers were able to modify promptly their management policies to meet the needs of the market, the state enterprises under the planned control were often inefficient, unconscious of market information and slow in responding to market needs” (Ibid). Thus, there was an imbalance between production plans and market needs, which was difficult to overcome. In essence, “the plan economy and market economy were in opposition and contradiction; while the planned economy was based on the conscious analysis of society’s overall demands and which allocated social resources and products according to pre-established priorities, the consideration was not whether individual sectors or enterprises could gain the maximum profit but as to how needs could be satisfied and maximum gains could be obtained by the whole society” (Barrett, 1996). The Revolutionary Communist Party of China was a political party that was influenced by the thoughts of Trotsky. According to the report of their Fifth National Congress, “under the domination of the market economy, the production was geared towards satisfying those who could afford to pay but not the most basic needs of the broad masses; what decided investment was not overall consideration for the whole society but consideration of dispersed, individual economic sectors of enterprises” (Ibid). Thus, the party drew the conclusion that “production tended towards anarchism, which was basically similar to the features of the market economy in socialist society and this existed together with underproduction in some sectors and overproduction in others” (Ibid). Thomas Barrett points out that the Party Congress also argued that “large amounts of social surplus products were not converted into socialist accumulation but into private capital accumulation; as both investment and production were directed by profits, the planned economy would gradually disintegrate” (Ibid).

The arguments gained further ground as the criticisms of the market put forth by Marx were also elaborated to attack the nature of the market forces. It is important in this context to note that “Marx tied his critique of capitalism not merely to exploitation, but also to commodity exchange, as historically markets evolved out of the development of the social division of labour whereby individuals or groups no longer satisfied all their needs directly by their own labour; instead, they exchanged the products of their specialized labours to obtain useful goods or services produced by

other labourers” (Howard, 1988). It was pointed out that market economies had some inherent contradictions, whereby “it was a blind, heartless mechanism that operated automatically, organizing social production according to existing proportions of supply and demand; it achieved its adjustments of regulation of production by forcing producers to respond to disproportions caused by errors of overproduction or underproduction and thus appears inimical to any notion of social development centered on increasing human control of the conditions of life” (Ibid). It was also argued that “through a series of crises or dislocations, market regulation of an economy produced inequality and contradictions among individuals, groups and economic sectors; market competition also produced and exacerbated social differences of relative wealth, status and power” (Ibid). Howard also put forward two other criticisms by Marx of the market, which said that though rooted in a logic of competition under conditions of equality and autonomy, the market produced through its unfettered operation, the seeds of its own destruction in an inherent tendency to generate processes of monopolization and thereby inequality and inefficiency; also, the market stimulated those activities that were most profitable and discouraged production of goods and services that may be needed but were not competitively profitable, relative to other more lucrative investments. Marx believed that labour became alienated when labourers shifted their attention away from the usefulness or meaningfulness of the immediate product of its exchange value as to how much they could get for it from the market; thus, the product was no longer an expression of the creative powers of its maker and had become a commodity, that is a mere means to obtain money to buy the means of existence” (Ibid). Its value was no longer determined so much by the skills of its maker as by conditions of supply and demand utterly beyond the control of its maker, and when the social division of labour evolved to the stage wherein producers no longer owned their means of production and thereby also lost their rights of disposition over the products of their labour, their labour power itself became a commodity” (Ibid). Hence, labour being commoditized under the market conditions was viewed as antithetical to the popular socialist vision of China and thus was seen as a clear instance of rightist deviation. “Marx had envisioned a future communist utopia where not only exploitation, but also markets, money and commodity exchange would be abolished” (Ibid). It is further argued that “with the evolution of market relations, some producers lost their means of production and became wage labour, while others were able to turn their exchange value into

capital; when capital and wage labour meet in the labour market, the capitalist agreed to pay the labourer an amount of money sufficient to reproduce the labour power expended during the period of the work contract” (Ibid). Here, the “buyer is expected to pay the cost of production of the product on its purchase; but what the capitalist got in return was actually more valuable because the labour power employed produced new value equal to considerably more than the cost of its production” (Ibid). In fact, this “exchange of equal values was in reality a very unequal transaction, whereby the capitalist was able to extract surplus value in the form of profits realized from the sale of the products of wage labour; thus, the formal equality and freedom of the wage contract concealed a fundamental inequality” (Ibid). Howard also put forward Marx’s objective dependence of labour on capital which meant the dependence of individuals on a system of social production built around commodity exchange through the medium of money; exchange when mediated by exchange value and money, presupposed the all-round dependence of the producers on one another, together with the total isolation of their private interests from one another, as well as a division of social labour whose unity and mutual complementarity existed in the form of a natural relation. Taking the argument further, he said that Marx had a dialectical view of the impact of commodity exchange in the bourgeois era, whereby though it gave humanity the experience and corresponding notion of personal liberty, these free individuals were still caught in the realm of necessity, of unfreedom, where their very effort to act out their freedom in the market place produced a set of interrelations and dependencies behind their backs. Marx also believed that commodity exchange and money had to be abolished to create conditions for ‘free individuality based on the universal development of individuals and on their subordination of their communal, social productivity as their wealth’, according to Howard. He underlined the fact that capitalist exchange relations not only established the negative freedom from pre-capitalist forms of personal subordination but also created the material preconditions for the positive freedom to develop a diversity of individual capacities to their maximum potential.

The “essential belief is that the market was subject to crises, as it blindly responded to demand, allocating resources *ex-post*” (O’Neill, 1989). It has been also argued that “market power was the true condition for exploitation; to do away with such exploitation meant implementing competition to the maximum, for the better the

functioning of competition, the more just the result and the less the exploitation” (Wittmann, 1985). However, Wittmann argued that the desired, optimal competition did not necessarily happen and there may also be the situation whereby degeneration could happen that could end up in concentration or monopoly. Overall, “the dominant role of the state being reduced gradually, has resulted in the concomitant activation of the market model. This was termed by many as disastrous, for private ownership gained in prominence in the country with individual households dominating farm production and foreign investment being indiscriminately pursued; also social forms of distribution and regulation prices were dismantled” (Petras, 1989). The “system of profit maximization under the market strategy in China led to the undermining the system of central economic planning based on the allocation of resources in accordance with clearly stated social and economic objectives; financial grants to the state enterprises under the plan were curtailed and partially replaced by a system of state loans channeled through the various credit and banking institution” (Chossudovsky, 1986). On the Law of Value, Marx’s analysis was of capitalist mode of economy. His “analysis of price formation and the particular relationship between price and value under capitalism could not be mechanically transported to that of a socialist country” (Ibid). Thus the Law of Value being emphasized constantly in the Post-Mao era by the reformists were treated as a measure of building the capitalist form into the socialist economy and hence, was termed under socialist aspects as ‘erroneous’. The price reform had also undergone various debates and according to the Fifth National Congress of the Revolutionary Communist Party of China whereby it was pointed out that “the price problem was essentially the problem of insufficient products to meet the national need; if this problem was not addressed in a proper manner and tackled at the roots, the consequence could only be soaring prices, greater disequilibrium in production and more difficulty in meeting people’s urgent needs” (Barrett, 1996). For the peasants, “the general rise in the prices of industrial goods caused the production costs of agricultural and subsidiary products to increase substantially, which resulted in the reduction of peasant income and the ‘scissors’ difference in industrial and agricultural prices again expanded” (Ibid). The uncertainty that governs the market forces also meant that “no market economy could avoid the ills of periodic economic catastrophes like mass bankruptcies, mass unemployment, periodically declining living standards and periodically increasing misery for millions; this was not accidental, as it was related to the very nature of that economic

system” (Mandel, 1988). “From uncertainty, business cycle fluctuations unavoidably flow, whereby one could not reduce output or introduce revolutionary labour-saving production techniques without causing unemployment; and similarly one could not provoke sharp sudden drops in prices without provoking a number of bankruptcies; all these unavoidable evils of market uncertainty were strongly enhanced by private property and competition, which made *overshooting* inevitable” (Ibid). Ernest Mandel also lays down the prediction that market competition inevitably cut out the weakest competitors and thereby led to monopoly, which in turn led to competition between the monopolies on a higher level that in turn led to even larger monopolies; these processes of concentration and centralization of capital have regularly accompanied the development of market economy. Mandel also articulates that markets did not ensure greater consumer sovereignty in a richer community, once basic elementary needs were satisfied. Market, according to him also did not automatically lead to ‘input-output coherence’, as over capacities and scarcities existed side-by-side periodically; he also puts it across that exploitation is inherent in the market model.

On the whole, the reformist measures wherein the market forces were invoked and sought to be integrated with the centrally planned economy also produced negative efforts. These were picked up by the critics for special treatment and conclusions were drawn on their basis, thus mounting some stringent attacks on the very basis of the market model. The problems included hyper-inflation and economic overheating, stagnation of income, unemployment, slow-down of innovation and budget crises. The inflation is of serious concern, as “all the price indexes have gone up since 1979, which was mainly the consequence of the steep rise of purchasing prices in agriculture” (Kosta, 1987). The Chinese had been propagating the need for “allowing some people and enterprises to get better off first, as this was considered the only road to prosperity for the people as a whole” (Sah, 1988). But such an approach meant that the “opposite corollary of ‘many getting a poor second’ was also inevitable” (Weil, 1996). Unemployment was also on the rise; chronic underemployment due to overstaffing was also felt by many as a serious problem plaguing the country. The state was thus trying to break the Iron Rice Bowl, whereby the guaranteed employment was provided to the citizens. This system, which was a feature of the socialist economies came along with welfare measures and social benefits for the employees like bonuses, increments, housing, healthcare schemes along with other

incentives. The government in the reform era sought to essentially redraw the definitions of egalitarianism. While it continued to be stressed, the aspect of complete equality was not envisioned by the state. Thus, the state sought to relieve itself of its responsibility of providing employment to the citizens. Granting the factory managers and enterprise directors greater autonomy, a contract system was put in place whereby hire-and-fire policies were to be practiced. The state was increasingly trying to do away with the concept of 'eating from the same pot'. These along with other percolating issues led to the development of serious opposition to the market-oriented reform process.

Delving further into these issues, "under the Iron Rice Bowl system, the government effectively guaranteed that all adults would be able to work and every person working for public enterprises had jobs from which it was essentially impossible to fire them, at least without providing equivalent employment; the term Iron Rice Bowl rested on a healthy respect for the working class and its power, as well as more quantitative forms of social security" (Weil, 1996). The "Iron Rice Bowl was not just a kind of job security, or even an economic system alone, but a form of socialism which organized the society in its entirety, including its class relations and degree of egalitarianism" (Ibid). Breaking the Iron Rice Bowl involved "linking incomes to labour productivity or other criteria of performance, raised questions about equality of opportunity, challenged party-state paternalism and legitimated a greater autonomy for civil society" (Howard, 1988). "The private and foreign funded sectors were seen as the most dynamic element in the economy and they came to be known as the vanguard for new social relations, wherein with the dismantling of the old socialist forms of planning, management and social services had led to the emergence or creation of new class elements which were incompatible with socialism in any recognizable form" (Weil, 1996). The "Chinese model of market socialism argued that economic mobility in the hierarchy of world economy required higher levels of production and technology, which in turn required greater vertical linkages to the capitalist market place and the deepening of internal accumulation through exploitation of surplus labour; the local economies' linkages to the world economy reinforced the socio-economic agencies like managers and technocrats promoting internal exploitation and vice-versa the expanded reproduction of local private accumulation widened the social base and economic demand for foreign investment technology and imports"

(Petras, 1988). The stress on the material incentives for the workers was tied along with the contractual system increasingly propagated by the reformists. The report of the Fifth National Congress of the Revolutionary Communist Party of China stated that “redistribution of wages within a set total amount was designed to raise labour intensity because the workers had to work harder to gain more wages at the expense of other workers. Workers unable to produce as much or those engaged in unskilled or simple labour faced reduced wages, with a conscious attempt to sow differentiation, competition and inequalities among workers” (Barrett, 1996). The “disciplining of the labour system aimed by the reforms resulted in the contract workers being even given menial jobs; the new division of labour between managers with effective control over labour and the party-state with effective control over politics almost drove to the conclusion that the working class would no longer enjoy the protection of the old system and harsher demands of the new” (Petras, 1988). However, despite such major reforms targetting the working class, a closer view of the factory reality revealed that the “Chinese working class operated within a tight network of relations that protected the workers from firings, speed up and arbitrary managerial initiatives, and job safeguards that far exceeded those found in most Western democracies; to put it simply, though laws existed for extensive hire-and-fire policies, it was done with utmost care as the constraints from the workers was serious” (Ibid).

The invigoration of market meant that “in the post-Mao reforms, the allocation of resources subordinated to the structure of market demand interacted with the underlying patterns of social and income inequality favouring the development of small pockets of consumerism, largely at the expense of basic human needs objective; the dynamic development of consumer durables and semi-luxury goods would necessarily benefit a small social minority rather than contribute to an improvement of the material conditions of life of the broad masses” (Chossudovsky, 1986). Hence, the “market process favoured a transition towards a new structure of capital accumulation that unfolded alongside the development of a relatively privileged urban middle stratum; in turn, the development of this middle class endorsed the CPC’s ideology of modernization, thus granting the party leadership the required element of social cohesiveness and support for its policies” (Ibid). On the whole aspect of some people getting rich earlier than others, whereby Deng had often remarked about ‘getting rich being glorious’, the critique was more stringent. As pointed out earlier, while some

did get rich, it also resulted in many turning out to be a 'poor second'. "The birth of the 'new rich' was accompanied on a vastly greater scale by the generation of a newer type of poor, who have no place to fit in except as a reserve army of labour; the misery index of impoverishment had risen to drastic levels, as over an estimated 8 to 10 million transient workers in the streets of Chinese cities, wherein many of them included women and children¹⁵" (Weil, 1996). Such mass movement of migrants to flock the cities was carefully avoided in the Maoist period through carefully crafted policies. The growth of an urban underclass of impoverished semi-migratory workers, unemployed, slum dwellers and homeless, with the government's own estimate of at least 100 million 'excess' peasants in the countryside, was of grave concern. Though the government had initiated an unemployment insurance plan, also termed as 'moonlighting', such a measure could not cover all the affected sections. These visual manifestations only "convey the depths of division beginning to open up in Chinese society where marketization had begun to devour the very groups in whose name it was initiated and among whom it was first implemented; with the reforms being also initiated in the urban centres after the rural areas in the mid-1980s, inflationary pressures grew and opened up a 'price scissors' between rural and urban areas" (Ibid). The rural-urban divide was thus growing, as contradictions developed between them. "Seeing some peasants getting rich quickly on the account of contract responsibility system being implemented in the agrarian sector, the workers' dissatisfaction began to grow; the staff and workers feel they had less opportunities than peasants to increase their income on a large scale; also, with the reforms, the prices of agricultural and sideline products had been allowed to fluctuate leading to sharp price rises and was advantageous to the peasants but disadvantageous to the workers who depended on their fixed wages for their living" (Sah, 1988). The report of the Fifth National Congress of the Revolutionary Communist Party of China also stated that within the countryside, there was "concentration of farmland in the hands of the 'competent growers with the rise in rich peasants, private industrial and commercial entrepreneurs and even loan sharks; the less productive peasants or peasants in the backward, poor regions could not compete with the strong and rich, thus becoming hired labour to be exploited by the developed groups" (Barrett, 1996). Social differentiation was thus

¹⁵ Many of China's provinces like Guangdong and Heilongjiang had child labourers working in inhuman conditions. In Shanghai, for instance more than 3000 child vagrants were picked up in 1992. Weil, Robert (1996), *Red Cat, White Cat: China and the Contradictions of Market Socialism*, New York: Monthly Review Press.

developing in the countryside, with “rise in social inequalities and breeding of class contradictions, with the report of the Revolutionary Communist Party also arguing that the bureaucracy’s laissez-faire type of market reform violated socialist principles, leading to cadres’ corruption, privatization and concentration of wealth, means of production and land, appearance of large numbers of hired labourers, accumulation of private capital, and the expansion of capitalist production on the basis of exploitation of hired labourers as well as unevenness of market economy” (Ibid). Thus, there was revival in China’s countryside of earlier forms of system that had been eliminated during the revolutionary years under Mao Zedong. The “peasantry as a whole have begun to suffer as a class regardless of their individual wealth, and that the farming regions were being increasingly stripped of income to pay for the high-flying profiteering and rising consumption levels in the cities, and to make up for the township revenues lost when communal structures were dissolved. A special mention has to be made of the disintegration of much of the agricultural technology support system” (Weil, 1996). Also, “the government policies were also such that growing number of peasants were discouraged from considering farming to be economically viable, as their costs rose and income stagnated compared to non-farming jobs; many croplands were converted into forests, grazing land and fish ponds, which were more profitable in the new market economy” (Ibid). Measures like these were also adopted “to build infrastructure and rural enterprise growth for houses, various structures and even golf courses, thus catering to the *nouve riche*” (Ibid). Robert Weil also states that the land needed for agricultural expansion was gobbled up for speculative purposes, largely by those with no interest in farm production per se, and at twice the rate of the disappearance of croplands resulting from their being turned to non-farming usages; in such an anarchic market situation, any rational increase in the conversion of marginal or waste lands to meet government goals for food production became hostage to the profit motives of speculators. The revival of the capitalist forms was a cause of serious concern to the very trajectory of the Chinese revolutionary, socialist legacy. The dismantling of the commune system and subsequent decollectivization methods carried out meant that the effects were also felt in the social sectors, especially rural health. “The medical cooperative system was largely shattered with inexpensive preventive services for the masses giving way to high-tech and costly equipment for the relative few; funding for village cooperatives had evaporated and resulted in a drop in the proportion of the national health care budget received by the

rural medical service from 21 percent in 1978 to 10 percent in 1991” (Weil, 1996). “There was a drastic exodus of doctors either to private practice or to more urbanized centres, resulting in a scramble to find alternative source of funds from the state or private institutions, or to tap individuals and villages to support a separate system of medical foundations; as a result of the disintegration of the co-operative system, the peasants were suffering and even once-rich farmers had become impoverished when they had to pay by themselves” (Ibid). The “adoption of market mechanism also interacted in a decisive way with the ‘open door’ to foreign capital whereby China’s market system was not only subordinated to the laws of world market, but foreign capital displaced and subordinated important areas of the Chinese industries; the restoration of market mechanism was conducive to economic and social polarization, industrial concentration and a tendency towards the technological subordination of Chinese industry to foreign capital” (Chossudovsky, 1986). Vociferous arguments were made to adopt the Open Door policy, as the policymakers stressed on the “need for socialism to adopt the best capitalist technologies available because Marx has posited the necessary precedence of capitalism to socialism” (Ibid). Such notions have been based on the need articulated by the leadership to press forward with high growth rate, which was also later stressed upon by Deng in his tour to southern China, especially the Special Economic Zones and other coastal regions. Along with all these, the Chinese also were increasingly dovetailing themselves to adopt practices like patenting and intellectual property rights as well as the institutionalizing of the share-holding system whereby stocks and securities were introduced on a big scale. All these measures were long considered anathema and taboo to the socialist practice in a theoretical sense. Such a reorientation of the economic pattern of China was on the whole generating debate among the intellectual circles.

The “first general source of opposition to the reforms was concerned with economic insecurities that individuals and families had to face, especially hyper-inflation and employment; many of their fears turning into reality with the deterioration of the community irrigation systems, disbanding of rural medical insurance programmes, reduced investment in land improvement and the channeling of profits of village enterprises and shops into the pockets of particular individuals and families” (Whyte, 1989). The other source of opposition was the “perceptions of inequality wherein the feeling in some sections of the population was that they ought to be doing better than

the present times” (Ibid). This largely “involved the criteria for determining rewards and mobility opportunities that had been changed in the context of reforms and those who sensed that they were losing out under the new criteria may feel that the criteria themselves were unfair; earlier criteria like political redness, work, seniority, age, good class labels, exploits in class struggle, a frugal life style and labour enthusiasm were devalued and replaced by criteria like educational credentials and degrees, foreign study, entrepreneurial skills, technical knowledge, overseas contacts and management potential” (Ibid). Hence manipulations, nepotism and corruption also became problems, thus creating bottlenecks. All these point towards the enhancement of the market principle deeply in the economic strategies of China. However, the opposition to such policies were raised from within the Left sections too. The CPC sought to admonish and portray them as extreme Left thinking and treated them as erroneous in character as well as in approach. “Leftism in the initial years of reform expressed itself largely by defending Marxist and socialist doctrines in theoretical terms and attacking the so-called ‘bourgeois liberalism’ on the ideological front, thus later decrying the adverse consequences of capitalist-style market reform, such as the growing gap between the rich and the poor, massive lay-offs, corruption and the decay of the State-Owned Enterprises” (Feng, 1999). The “recurrent leftist criticism not only indicated the entrenched orthodox ideological orientation in the Party, but also reflected an emerging social cleavage that could destabilize society” (Ibid). It is important to take an in-depth look into the party leadership and the theoretical debates to bring out the critique of the path followed by China in pursuit of the market, and thereby try to understand their vision of socialism. There have been arguments put forward to state that the Party and overall socialist model being followed in China was one where extreme de-radicalization was being carried out with full vigour. Quoting Marx, the economists in China had argued that “a genuine socialist reorganization of society could be accomplished only on the basis of the highly-developed productive forces and technologies created by modern capitalism, for only conditions of economic abundance would allow people to free themselves of the tyranny of the division of labour, permit the shortening of the working day, and thereby permitting the leisure time for the emergence of new ‘all-round’ people who would freely and creatively develop their true human potentialities” (Meisner, 1989). This was a “traditionally understood formulation defining the features of socialism and capitalism, thus meaning that socialism could only be built on the material, social and

cultural foundations laid by capitalism” (Ibid). Such a theory negated even the slightest utopianism that could be visualized under the socialist paradigm and as part of the Marxist theory. “For Marxism to retain its vitality as a force for social revolutionary change, an activistic utopianism remains essential, both in pre-revolutionary and post-revolutionary societies; with the waning of that utopian spirit, Marxism in the advanced industrialized countries becomes an ideology that adapts itself to the social reformism of the capitalist ‘welfare state’, and in socialist societies, it degenerates into vacuous revolutionary rhetoric only thinly disguising the banal nationalist and modernizing aims of the rulers of autonomous bureaucracies” (Meisner, 1985). This meant that the Chinese were negating such an aspect and were focussed only on the need to advance modernization in the Post-Mao era. Such a model presented by the Leftists were termed to be outmoded by the reform thinkers and economists, as they were largely incongruent to the needs of the time, that of invigorating the economy. The Marxists in China “were confronted with the task of building the preconditions for socialism rather than socialism itself. As Marxist rulers undertake the work of modern economic development which earlier abortive capitalist regimes failed to accomplish, and create massive bureaucratic state structures to preside over the modernization process, socialist goals are postponed” (Ibid). Industrialization, originally conceived as the means to attain socialist ends, soon acquired a dynamic of its own and, indeed, tended to become an end in itself” (Ibid). The 13th Party Congress of the CPC had declared that China had to remain in the primary stage of socialism for an indefinite period, and further argued that “the policies then being pursued were laying the necessary material pre-conditions for a fully-developed socialist society that would flower at some time in the distant future” (Meisner, 1989). Such an understanding was to postpone the goals of transformation to a distant period in the future and giving great emphasis to modernization. Tied to this were the conditions of economic determinism and objective laws of development. It was argued that “specific economic laws governed the development of a socialist society, wherein progress was dependent on discovering what were termed as ‘the objective laws of socialist economic development’ and pursuing policies in accordance with them; to do so otherwise would invite disaster as these laws were inviolable” (Meisner, 1985). This led to the “characterization of the Chinese Marxist mentality by an increasingly economically deterministic interpretation of the doctrine in general, and the primacy given to the prior development of productive forces meant

that the laws which presumably determined course of historical development could not be altered by the will of the Party” (Ibid). Thus, “men had to recognize the restraints imposed by objective laws and obey their dictates, which also critiqued the Maoist idea of stress on human will and consciousness” (Ibid). This position meant that the “socialism in China was essentially evolutionary rather than revolutionary process of historical development governed by the operation of objective laws rather than human desires, thus largely excluding human purpose from the historical scheme of things and was incongruous with any sort of visionary utopianism” (Ibid). Going further, the new regime in China was insisting that “the increasing compromise with capitalism was nothing but an innovation within socialism, at most a temporary detour intended to consolidate socialism and carry it to a higher plane of achievement” (Dirlik, 1989). By “making the socialist future the product of the workings of objective economic and historical laws, post-Maoist Chinese Marxism postponed the emergence of a real or genuine socialist society to a very distant and unpredictable time in the future” (Meisner, 1989).

Class polarization was an undisputed reality in China. To take this view further, class analysis had almost disappeared from the socialist radar of China after the Maoist era. Class theory was abandoned in the post-Mao reform era as Deng Xiaoping had clearly stated that the ‘era of class struggles were over’. In fact, in pursuit of the Four Modernizations, it was argued that inequalities were an important necessity for the transformation of China’s agriculture, industry, national defence and science and technology, to attain wealth and power. This was in complete contrast to the vision of Mao who had argued that “there would always be sections of the people who felt themselves oppressed like junior officers, students, workers, peasants and soldiers; for them, revolution was important and hence, contradictions would never disappear” (Kraus, 1981). Class struggle was completely negated and “market place had replaced class relations, thus subordinating internal class politics to meet global competition” (Petras, 1988). Contrary to Mao’s analysis, that class struggle was also possible in a socialist society, thus arguing the need for a permanent revolution, the reformists brought forward an entirely new formulation, which stated that the “principal contradiction was no longer between antagonistic social classes but rather between the productive forces, which were relatively backward and the relations of production, which were presumably socialist in character and therefore relatively advanced; class

struggle was now to be directed against what were termed the 'remnants' of the old exploiting classes, their ideological residues, and a handful of counterrevolutionaries" (Meisner, 1985). The argument put forward by the reformists of 'no more Class Struggles', was in the context that since socialism in China had already passed through one stage and was currently in a second stage consisting two different kinds public ownership of the means of production, in which class and class struggle no longer persisted" (Ibid), this concept was now largely irrelevant. Such "de-emphasis on class struggle serves to mask the social contradictions such as the gap between town and countryside and resulting conflict of interests between workers and peasants; an evolutionary conception of the stage theory of socialism combined with the doctrine of increased diminution of class struggle, was an ideology that served to support and rationalize the existing social status-quo" (Ibid). The Marxist theory was essentially one of trying to change the existing status-quo and thus was a liberating force. Hence, such a contrast visible in the Chinese path was positing a new approach to the entire socialist framework. According to the Leftist critique, "the party was being weakened by alienating itself from working people, whose socio-economic status had declined drastically as a result of the market reform and thus, failing to represent them; the composition of the party leadership at all levels was also being increasingly biased towards technocrats who had little understanding of Marxism and were incapable of handling political issues" (Feng, 1999). Thus the "CPC's ambivalence to socialist theory and practice had also become a reason for the leftist assertiveness, whereupon they argued that reforms in Soviet Union and East Europe that were the models for the Chinese, had ended up with the collapse of socialism because they were all built upon a capitalistic or Adam Smithian premise of the economic man" (Ibid). Under this, it was assumed that "individuals' pursuit for material interests could automatically foster social progress as well as the growth of wealth; the structural and institutional changes to accommodate the 'economic man' would inevitably lead to capitalism" (Ibid). The critiques also pointed out that "de-politicization and de-ideologicalization that resulted from the following of the market path were intended to relinquish socialism and were doomed to lead to capitalist restoration" (Ibid). The reformists led by Deng Xiaoping himself launched scathing attacks on Leftism, articulating that "it was as dangerous and destructive as rightism, whereby the former constituted an immediate obstacle to the reform process" (Ibid). Hence, these ideas had to be thoroughly countered. Despite such assertions of the

CPC, the Leftist ideas could not be cowed down, and “they were largely an ideological ferment with no significant impact on policy agenda” (Ibid). But their presence was increasingly made clear, and later in China, the New Left emerged as a voice of considerable dissent.

On the whole, “Market Socialism in China, in its origins could be best understood as the expression of the middle class or petty bourgeois side of the Chinese revolution; marketization was initiated with the stated intention of tempering the rigidity of a centralized state economy through a limited degree of small-scale private enterprise and unregulated sales” (Weil, 1996). Instead of the market reforms emerging from some spontaneous and liberal economic process, Robert Weil argues that they were imposed on the Chinese people through government fiat, by breaking the commune system under Mao Zedong and also forcibly demolishing the socialist forms of collective public welfare. The market path followed by China was thus largely critiqued and questioned, thus leading to a heightened need to have a re-look at the entire approach. As pointed out repeatedly, the treading of this path by the leadership also led to the country engaging and at times adopting various models, which were often antithetical to the socialist path. The critics were also concerned with the fact that class relations were also undergoing a change, and the market-led reforms had led to the rejuvenation of certain classes that had been eliminated during the liberation struggle of China. The Maoist vision was increasingly being diluted to justify the combination of capitalist elements in the socialistic paradigm. The dismantling of the collectivist order had led to the party to arrive at the formulation of ‘adopting anything that was conducive for growth and discarding anything that hindered the growth model’. Such an understanding according to the critics was a narrow understanding of the socialist vision, which was aimed at acceptance of the capitalist forms. Such embrace of the capitalist modes, which was also made clear by the need to move away from class struggle, stood in sharp contrast to the practice of socialism and was, bound to dither the very basis of existence of the political grounding of the communist legacy. The debates were increasingly aimed at charting out the way to move out of economic determinism and other objective economic laws, to pursue a development strategy that in essence would maintain the Socialist and Marxist visions, as well as the inherent Mao Zedong Thought.

CHAPTER SIX: CONCLUSION

Having undertaken a study of the model of market socialism and its conception as well as practice in China in the previous chapters on a detailed basis, it would now be useful to look at the issue more closely, in terms of coming to some tentative conclusions. This would also involve a validation or otherwise of the hypotheses proposed initially, as to whether both socialism and market were compatible. Secondly, the constant pressures emerging during the practice of market reform could initiate new debates within the academic and intellectual circles. The CPC had remodelled its entire approach towards the economy in 1978-79, marking a decisive break from the Maoist period. Closely analyzing the East European experiences, they sought to move away from the planned approach that was a feature of all socialist countries. This commandist approach brought with it inherent contradictions of massive destabilizing factors, and many structural bottlenecks, which applied brakes on the economy, thereby slowing it down considerably. This slowdown had resulted in much more stagnation creeping into the economy, thus hindering growth. Thus, the introduction of the market was thought to be an effective solution, by the leadership and the academia in the country to free the fetters on the economy, thereby allowing it to grow to new heights.

Since the passing of Mao, the CPC sought to re-orient their developmental paradigm by placing great stress on the development of productive forces. There was also a strong effort from the leadership to shift focus from the primacy accorded to ideology by Mao, to a much more pragmatic and nuanced approach formulated by Deng. This need was also felt by many due to the chaotic consequences of the Great Proletarian Cultural Revolution. This resulted in a re-thinking of the approach to socialist construction demanded in the country. Hence, “the thinking of Chinese socialism had deepened incrementally from an examination of mistakes in Chinese theory and practice to that of problems inherent in socialism as it was originally conceived” (Yan, 1995). This was stressed by Deng in his speech “Emancipating the Mind” which was highly critical of the erroneous ultra-left mistakes in the past. There was also an indictment of Mao when Deng also spoke against the efforts to build a ‘cult status’ within the country. The indictment was also of the Gang of Four, who in the view of the reformers had tried to bring anarchy in the country through their

articulations and campaigns. Therefore, the CPC sought to raise the consciousness of the people, in seeking to maintain their vigilance against such 'divisive forces'. The arguments for the rethinking of the socialist paradigm ranged from the need to overcome the unrealistic adoption of the Socialist economic model by correcting the errors as regards the application of socialism as well as nature and designs of the original theory. Some even argued that there were problems within the Chinese institutional set-up that needed serious modification.

The goal of socialism was seen from a materialistic perspective. "By prioritizing the methodology of Marxism over its world view, radical reformers have in effect substituted normative goals of socialism for economic ones; the goal of socialism, the superiority of the socialist system and the desirability of all policies were judged on the basis of the growth of productive forces" (Ibid). Socialism was thus increasingly seen from this perspective of raising the material well-being of people. In fact, "its broad aim should be to improve the quality of life of the whole population of a particular country and indeed of all the members of the human race; socialism's distinguishing characteristics are commitment to the equal worth of all human beings and a belief that collective action was often necessary to improve the quality of life" (Nolan, 1990). Therefore, it was argued that some form of market socialism was the only viable option in the long-term to invigorate growth and to enhance the potential of people. Under these conditions, it was rationalized that "capitalist forces of competition and profit-seeking were necessary for successful growth of the productive forces in a developing country" (Ibid). This even found mention in the report mentioned in the 13th Party Congress of the CPC where in the words of General Secretary Zhao Ziyang, "anything that aided growth was considered good and had to be encouraged while anything that hindered growth was sought to be discouraged".

Such a conception captured the change in the Chinese thought-process that sought move away from outmoded models. Unfettered growth was a critical necessity for the rise in the material well-being of the country's population. "The underestimation of the unique difficulties faced in terms of building socialism in a underdeveloped country like China was a vital factor; this was borne out of the result of a subjective and dogmatic approach to building socialism that neglected the scientific basis of socialism in theory and the peculiarity of Chinese society in practice" (Yan, 1995).

Thus, Deng Xiaoping proposed the need to raise the consumption of consumer goods, which would raise the quality of life and also improve the living standards. The regime encouraged people to get rich, wherein it would lead to some people getting rich in the beginning, thus producing a trickle-down effect aiding in the further enrichment of the rest of the population. This essentially meant that 'getting rich was glorious'. The invigoration of the market forces and integrating the concept with that of the planned model became the motive factors for the state. The primacy of the state sector was ensured wherein the market was to have a subordinated role to the plan. With changes in enterprise management in terms of more autonomy and delegation of powers to the directors, the state also was in a mode freeing itself.

The market-oriented approach also brought about changes in some fundamental concepts of socialist development like egalitarianism and Iron Rice Bowl of permanent employment. Though the state did aim at enhancing employment job opportunities, the earlier system of the state being bound to guarantee employment was voted out. The state increasingly sought to give this right to the enterprises, which had the right to 'hire-and-fire'¹⁶, and whereby there were also mechanisms driven into the enterprise administration placing constraints on frequent shifts in jobs. The state was increasingly feeling burdened by such responsibilities and it aimed to reduce its role in this area. Guaranteed employment had within it, various employment benefits like bonuses, increments, allowances, and health insurances, ensuring that the state look ample care of the material well-being of the employees.

The egalitarian vision that was encapsulated within the socialist paradigm was also sought to be re-modified, for there was the realization that absolute egalitarianism was not possible due to the fact that all inequalities could not be done away with in terms of poverty alleviation and providing relief to the people. Though "one of the most sustained attempts in modern history was made to reduce inequality and to ensure maximum poverty relief from given resources, the attempt to make substantial reductions in inequality was a factor contributing to the extremely slow growth of average living standards by reducing the effectiveness with which people made use of productive resources" (Nolan, 1990). This realization could also be viewed as an assessment made by the state on the actual feasibility and the concrete conditions that

¹⁶ Care was taken however, to see that it was practiced with circumspection, in order to ensure that the tensions surrounding this sensitive area did not spiral out of control.

prevailed in fulfilling the goals earmarked. Such an assessment was also based on the state's aim of realizing its own potential and also an evaluation of the specific targets that were to be set forth. The state's assessment was, as pointed out earlier guided by the re-conceptualization of the vision of socialism by the CPC, which was made clear by the various articulations put forward by the CPC leaders on different occasions. The enormous stress placed on the need to liberate the productive forces could also be seen as a way to give a materialistic direction to achieve the goals set forward under the socialist vision. The Maoist conception of politicization of the economic trajectory that was being followed was based on the need to raise the political consciousness of the people that aimed at making the best use of the human potential. This was effectively ended by the reformist policies. In fact, this could be best illustrated in the theory put forward after 1978 that 'practice was the sole criterion of truth', which essentially gave theory as secondary role. This turned out to be the negation of the orthodox Marxist thought that 'without a revolutionary theory, there could be no revolutionary movement'. Such an argument was further combined with the conceptualization of the primary stage of socialism formulated by the CPC at the 13th Party Congress in 1987. This in essence argued that the country had to remain in the primary stage of Socialism for a long time to come, since the material conditions that favoured the transition to communism had not yet been realized. The fundamental contradiction during this stage, stemmed from a backward economy and the need to advance the productive forces. Such a postponement of the goals of socialism was thus made out to be a pragmatic step.

The market-oriented growth if analyzed in concrete terms was certainly a positive aspect for the economy of the country. It increased the material standards of the people, raised agricultural output and led to closer integration with the world economy. The leading role given to the Plan with the state sector still in the guidance role meant that the market forces and the non-state sector were to work in parallel terms but with good control. Since, China followed an incremental strategy, termed as 'crossing the river groping for stones' in its developmental track, it opposed the 'Shock Therapy' approach practiced in many East European transitional economies. Except for Hungary, most of these countries had opted for the 'shock therapy' approach, which destabilized the economic sector. The incremental approach meant that the new system was in a parallel track with the old one, which the former sought

to replace. Thus, the gradual transition would not lead to shocks and tremors affecting the people on a large scale, as had occurred in Poland and other countries, even Russia. Hence, the hypothesis of socialism and market being not necessarily antithetical is proved correct in some aspects.

However, there are also problems and therefore, such a formulation is not entirely true. The state, which was the primary institution under socialism, was increasingly deviating from its primary responsibilities in the economic arena. The *laissez-faire* model being increasingly propagated was not feasible, as it advocated the withdrawal of the state from the key areas of economic decision-making. Despite the problems with the commandist centrally planned economy, the increased reliance on the market forces was running into problems. The vagaries of the fluctuating market economy had strong destabilizing factors, with speculative tendencies working to shoot-up prices, thus leading to rise in inflation. The neo-liberal model that guided such state withdrawal also had its impact on the sectors of health and education, the key areas in welfare state. The dismantling of the commune system also in turn created hurdles for the rural health schemes as the latter was highly based on the former. It spiralled the costs of the social sector and with the entry of private players, people in the lower strata of the society in the rural areas could not afford the rising health costs. Similar situation also arose in the education sector. Even the development that was pursued with all vigour was not an equitable development but was increasingly one that 'trickled-down'.

The withdrawal of the state from its responsibilities in terms of attempting to break the Iron Rice Bowl cannot be viewed in a positive manner as it impacted the lives of a wide section of the people. The end of the guaranteed employment scheme, a chief characteristic of any socialist economy and the hallmark of the Maoist period, marked a serious departure. Unemployment also was a cause of serious concern, as was rise in the rural-urban divide and regional inequalities. The Dengist regime was largely focussed on the raising the technological standards and management efficiencies to meet the challenges before economic development. The downgrading of the 'politics in command' perspective, led to major erosion of ideological controls and thereby of the socialist values, ethics, etc. Political consciousness and the aspect of Mass Line formulated by Mao had placed a great amount of stress on the people than on

materials, whereby they were not seen as mere tools or machinery, but as vital beings with freshness of thoughts and with enormous potential to make their own destiny. Politicization was essential to invigorate the consciousness and make the people capable of enlarging the scope of human action. Mao also placed "great importance on the role of class analysis, whereby it led to the distinction between the friends and enemies of the revolution. He had gone on to argue that revolutions also were possible in socialist societies as there was always room for retrograde forces could sneak in" (Meisner, 1977); according to him, "this enunciated the need to wage class struggles within socialist systems and thereby maintain vigilance without any lowering of the guard" (Ibid). However, in the post-Mao period, this theory was fully negated, in the context of the excesses of the Cultural Revolution. In fact, Deng Xiaoping had gone on to argue that 'Class Struggles were a thing of the past' and now the focus had to be on advancing the productive forces. This was based on the realization that with the socialist revolution in the country, the period of Class Struggle had come to an end. Though Deng admitted that the dangers of re-entry of the retrograde forces existed, this problem was only a technical one and could be solved through administrative ways. The post-reform period also saw the re-emergence of new classes, which highlighted the fluid nature of the situation in the country. In the context of the market-oriented reforms, these classes were mainly the entrepreneurial class, and the technocrats who were given a larger role in the state affairs. The CPC was also taking into cognizance the changes that were taking place due to the impact of the reforms. Jiang Zemin's 'Three Represents' theory¹⁷ in the 16th Party Congress in November 2002, in effect called for the amalgamation of the entrepreneurial class into the folds of the Party. The first of these Represents theory of Jiang called for the party to represent the development of the advanced productive forces. This encompassed within itself the interests of the entrepreneurs, whose contributions to growth and development was considered crucial by the leadership. However, there was also the flip side, as the reforms in Enterprises also created a class of 'retrenched workers',

¹⁷ The formal statement of the theory was "Reviewing the course of struggle and the basic experience over the past 80 years and looking ahead to the arduous tasks and bright future in the new century, our Party should continue to stand in the forefront of the times and lead the people in marching toward victory. In a word, the Party must always represent the requirements of the development of China's advanced productive forces, the orientation of the development of China's advanced culture, and the fundamental interests of the overwhelming majority of the people in China.", *The Three Represents Theory*, URL: <http://www.economicexpert.com/a/Three:Represents.htm>

who were bearing the brunt of the new economic policies. The effects of the reforms thus brought into the open, several new contradictions.

The reformists also completely negated utopian ways of thinking, which they said dominated the ultra-left critique. However, for opponents of socialism, Marxism was largely a utopia that could never be realized. Hence, such determinist positions were not in a positive direction and did not send the right message across. Though the state cannot be a mute spectator to the decline of economic growth and must adopt measures to arrest such a slide with whatever measures possible, the larger goal should never be forgotten. In other words, in the pursuit of realizing short-term targets, the state should not forsake its long-term goals, especially in socialist societies. Every action undertaken in a socialist set-up has to be a step forward in not only raising the material well-being of the people, but also in realizing the transition to a higher mode of development. Relegating this goal to a far distant future, with no linkages to the present, was thus not a positive step. The modifications in the vision of egalitarianism were also associated with this overall shift. Therefore, even though the integration of the market forces into the economy was then the need of the hour, care should have been taken to maintain the primacy of the state sector. A total focus only on productive forces and economic growth also requires some readjustment.

The market reforms have led to increased debates among the political and academic circles, arguments both in favour and against. The New Left in China has grown considerably as a pressure force concerned with the problems emerging from the economic reforms and forcing the CPC to give more attention to these problems. The economists opposed to large-scale marketization ably put forth the deviations from the socialist path, thus raising concerns that speculative tendencies could rise and the forces that had been defeated thoroughly in the earlier years that saw the victory march of the revolutionary forces in the country could stage a comeback. They have pointed towards the old despotic order of feudalism and capitalism raising their heads in new forms. Theoretical debates have occupied centre-stage, as both the participants in the debate use Marxist texts and materials, in their own manner to justify or oppose prevalent practices. Even though after the Tiananmen Square incidents in 1989, the reforms temporarily slowed down, they again came to the forefront after Deng's south China tour in 1992, which led to a deepening and acceleration of the reforms.

However, the state has also come to increasingly see that the problems, especially in the rural areas are threatening the long-term future of China's development. The programme of the New Socialist Countryside initiated by the incumbent Hu Jintao regime is a pointer towards this direction to address the problems of the peasantry and seek positive redressal. The Scientific Socialist approach adopted in the 17th Party Congress in 2007 also encapsulated this change in approach. The stress was now increasingly to put 'people first', which meant that development also began to be seen in more equitable terms. The development shifted from being growth-centric to being people-centric, thus marking a change in the vision of economic reforms. Thus, the second hypothesis of the state coming to take a serious note of the inherent problems due to marketization is found to be true. Being judgemental or making sweeping statements need to be avoided. The "eventual success or failure of China's reforms should not be evaluated in terms of whether the reforms have made China more capitalist-like, but in terms of whether the Chinese had succeeded in achieving their own objective of making Chinese socialism more flexible and efficient" (Hsu, 1991). Therefore, it is important to note that though the growth of Chinese economy guided by the plan-market integration has led to development, there are serious differences of opinion and opposition within the country that merits serious attention of the leadership and the CPC as a whole. The leadership of the CPC enjoins upon it the task of undertaking in China concrete efforts to address the concerns of all the people, and ensure their overall well-being, which is an inviolable feature of socialism.

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