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Social Text, Volume 0, Issue 55, Intellectual Politics in Post-Tiananmen China (Summer, 1998), 67-81.

Stable URL:
http://links.jstor.org/sici?sici=0164-2472%28199822%290%3A55%3C67%3AWCTDOP%3E2.0.CO%3B2-E

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THE DISCOURSE ON PROPERTY RIGHTS IN THE CHINESE REFORM CONTEXT

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Whither China? Until recently, this has been arguably the most challenging riddle confronting Western China watchers. The intellectual task required for its resolution was deemed so daunting as to forestall any sweeping generalizations. However, with the opening of the Fifteenth Congress of the Chinese Communist Party (CCP) on 12 September 1997, China's future suddenly seemed clear to Western commentators of all ideological persuasions: China was definitively moving toward "capitalism," judging by Chinese president and party chief Jiang Zemin's explicit endorsement of a "shareholding system" as a means for reforming state-owned enterprises (SOEs). Numerous reports and news analyses portrayed the CCP's Fifteenth Congress as giving the green light to massive privatization; however, some Western leftists condemned China for surrendering to the force of capitalist globalization.[1]

My purpose in this paper is to offer some reasons to regard the question Whither China? as still open, even after the latest party congress. Obviously, arguing against the grain of both the mainstream and the leftist interpretations of China in a short paper is no easy task. All that can be done here is to highlight some of the themes that are most crucial for understanding China's future possibilities.

Three Schools of Thought on Property-Rights Reform

Jiang Zemin's most striking statement to the CCP's Fifteenth Congress was as follows: "Public ownership can and should be realized in many possible institutional forms." He explained: "In general terms, the shareholding system cannot be considered either public ownership or private ownership. It all depends on who has a controlling stake in the shares."[2]

Jiang's statement on the compatibility of the shareholding system and public ownership is the culmination of a decade of discourse on property rights among Chinese intellectuals, policy advisors, and government officials. It can be viewed as a synthesis or compromise between three schools of thought.

The first school argues that the key problem of China's SOEs lies in the uncertainty as to who owns them. In contrast, the second school contends that the state's ownership is clear enough and the real issue is their

Social Text 55, Vol. 16, No. 2, Summer 1998.

lack of efficient management and their inflexible, outdated industrial structure. The third school puts the emphasis on "economic democracy," which it interprets broadly as including both workplace participation and public accountability for the officials in charge of managing state assets.

The "Clarification of Property Rights" Thesis

The first school, namely, the "clarification of property rights" school, is by far the most influential one. The 1993 Decision of the CCP Central Committee on Some Issues Concerning the Establishment of a Socialist Market Economic System describes "clearly defined property rights" as the first "basic feature" of a "modern enterprise system."[3]

What the term "clearly defined" means here is itself far from clear. It is possible to distinguish two versions of the clarification of property rights thesis: the popular version and the sophisticated version. According to the popular version, public ownership is by definition unclear, since only individualized private ownership is clear.[4] Though this version has had an enormous impact on some elitist intellectuals and has penetrated into some newspapers and research journals, it was not the driving force behind the CCP's decision to establish clearly defined property rights within the modern enterprise system.

The sophisticated version of the clarification of property rights thesis stipulates that the modern enterprise system does not have to be private but that the existing SOEs suffer from a lack of clarity in assigning rights and responsibilities to the relevant parties. A constantly recurring theme is that nobody represents the interests of the state as an owner in the SOEs. This seemingly paradoxical statement makes sense only if we understand how the SOEs operated in the 1980s.

The Chinese economic reform started in 1979 with an experiment to grant SOEs more autonomy in decision making and profit retention through a "contract responsibility system." Under this system, SOEs were given "four kinds of autonomy": (1) autonomous management, (2) an autonomous budget with regard to profits and losses, (3) autonomous action on the part of managers, and (4) autonomous development. According to the sophisticated version of the clarification of property rights thesis, this expanded autonomy certainly helped China's transition to a market economy, but it also had a dark side: The interests of the state were not being taken care of in those "autonomous" SOEs. There were too many forms of asset stripping, or decapitalization. Under the contract responsibility system, the SOEs signed contracts with government agencies specifying fixed amounts of money they needed to turn over to the government and allowing them to retain whatever profits remained. The managers and workers therefore had an incentive to overstate their profits by underestimating depreciation and overlooking maintenance, thereby increasing their own compensation. Worse, there were many forms of outright corruption that ran down the state's assets. As a solution to the problem of asset stripping and managerial self-dealing, the modern enterprise system was proposed. Its advocates offered a three-step argument: first, the modern enterprise system requires "corporatization"; second, corporatization requires the conversion of state assets into state-owned shares; third, those shares represent a clearly defined set of property rights that the board of directors of an enterprise will defend against managerial self-dealing.[5]

> There were many forms of outright corruption that ran down the state's assets.

Corporatization also is attractive because, according to its advocates, it enables the state to get rid of its unlimited liability for the losses of SOEs. The shareholders of a corporation have only limited liability. Moreover, in cases where the state is the controlling shareholder, corporatization enables the state to control more social assets with fewer state assets.[6] That is because, in addition to the shares held by the state, there are shares held by "legal persons" (i.e., institutions) and individual citizens.

It can be seen from the above discussion that the sophisticated advocates for the clarification of property rights present corporatization not as a way of privatization but as a way of strengthening the state's capacity in asset management through maintenance and increase of asset value. Their argument is particularly persuasive to the CCP leaders, who are facing a fiscal crisis because of intensified domestic and international competition.[7]

The Managerial Improvement and Structural Adjustment Thesis

Proponents of the second school object to the idea of clarifying the property rights for SOEs. They argue that the definition of property rights in the case of the SOEs is perfectly clear: The assets of the SOEs belong to the state, which is the representative of the whole people. The real problem is not the definition but the enforcement of state ownership. An American scholar of corporate law at Stanford University, William H. Simon, nicely summarizes the position of the second school of thought in China: "The real need is not for a better definition of property rights, but for the development of the state's capacity to enforce public rights and citizen remedies for official abuse. It is difficult to avoid the conclusion that many reformers prefer to talk about property-rights reform as a way of avoiding a more politically sensitive discussion of state-structure reform."[8]

Ma Bin, a leading proponent of the second school of thought, emphasizes that the issue of management, including both the government's management of the SOEs and the management within the SOEs, is much more important than defining property rights. He points out that as long as the mismanagement and corruption of some government officials do not change, a shareholding system that is achieved via corporatization will not make the SOEs more efficient. Moreover, the introduction of a shareholding system will exacerberate the problem of mismanagement, because the managers will have one more tool for self-enrichment.[9] As a matter of fact, in 80 percent of the projects of corporatization and joint ventures with foreign investors that have been carried out so far, the state's assets have not been evaluated by an independent accounting and auditing agency, and there has been widespread undervaluation.[10]

Lin Yifu and his associates develop a more elaborate analysis than Ma Bin for the second school of thought. They argue that privatization is neither necessary nor sufficient for making SOEs more efficient. Not sufficient, because there are many inefficient private enterprises in India and Latin America; not necessary, because there are a lot of efficient SOEs, such as Korea's Pohang Iron and Steel Company and Singapore Airlines. The crucial problem for Lin is that as a result of China's heavy industry–oriented development strategy, the Chinese SOEs still have to bear many policy-determined burdens. He points out four specific burdens that cause the competition between SOEs and non-SOEs to be unfair: (1) SOEs are concentrated in capital-intensive heavy industries, whose construction and capital-return period are long, so that they do not have a comparative advantage in today's world market; (2) the prices of basic materials, such as electricity, petroleum, natural gas, chemicals, steel, and so on, are not completely decontrolled; (3) because of the legacy of central planning, SOEs have many social responsibilities, the most striking of which is the obligation to provide pensions and pay the medical expenses of their retired workers (the money must come from current income since no pension funds were accumulated in the central-planning period); and (4) SOEs have many redundant workers, who can't be pushed out into the labor market, given the lack of a social-security system. All these obligations put SOEs in a disadvantageous position to compete in the market. Moreover, they make the principal-agent problem between the state and the SOEs' managers more difficult to track because SOEs' financial records don't reveal their actual economic performance. The solution, according to Lin Yifu, depends more on the creation of a fair environment for competition by structural adjustment than by establishing a modern enterprise system.[11]

The second school's emphasis on management improvement (Ma Bin) and structural adjustment (Lin Yifu) has had an impact on the CCP's leaders. The ninth Five-Year Plan (1996–2000) introduces "double transitions" for the Chinese economy: the transition from a centrally planned economy to a market economy and the transition from an extensive mode of growth to an intensive mode of growth. The first transition supposedly relies on the establishment of a modern enterprise system; the second, on management improvement and structural adjustment.

It should be noted that though the second school explicitly opposes the popular version of the clarification of property rights school, it is not necessarily against the sophisticated version. This is partly due to the fact that the advocates of the latter version never present their reform proposal as privatization. More importantly, in response to the criticism of the second school, the sophisticated proponents of the clarification of property rights thesis make the convincing argument that a shareholding system can facilitate structural adjustment through cross-territory, cross-sector stockholding. In fact, the major economic trend after the Fifteenth Congress has been the increased pace of formation of "enterprise groups," which has been made possible by enterprises in the group reciprocally holding each other's stock.[12]

The Economic Democracy Thesis

The third school of thought focuses on a thesis of economic democracy. One version of this thesis emphasizes the workers' right to hold shares in enterprises. The proponents of this view are mainly scholars with connections to trade unions. Feng Tongqing, a professor in the Chinese Trade Union Movement school, takes the clarification of property rights thesis of the first school and turns it into an argument for "labor's property rights." He criticizes the trend toward downgrading workers' salaries and rights of participation in the process of Chinese economic reform and advocates a system of "universal shareholding" (*fanguzhi*). Specifically, he argues that "human capital" should be counted equally with physical capital in corporatization: The workers should be given shares on the basis of their skills and labor contributions; they should not have to buy shares with their limited resources.[13]

A more sophisticated version of economic democracy is provided by Chen Chuanming, who developed the so-called S-type theory of the firm.[14] The S-type theory of the firm synthesizes three "single-logic" theories of the firm into one "multilogic" theory. The three single-logic theories, according to Chen, are: (1) the theory of the firm based on the logic of capital, its typical institutional embodiments including both privately owned enterprises and SOEs; (2) the theory of the firm based on the logic of labor, its typical institutional realization being Yugoslavia's workers' self-management; and (3) the theory of the firm based on the logic of knowledge, its typical institutional expression being manager-controlled

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firms. Chen criticizes each theory in turn: For the capital-logic theory, he points out that capital is not the only risk factor contributing to production; therefore, there is no reason to grant the sources of capital, private or state, the status of sole "owner." For the labor-logic theory, he pinpoints its weakness in dealing with the issue of "past labor," that is, the contribution of the capital that embodies labor in the past. For the knowledge-logic theory, he highlights the danger of managerial self-dealing and the repression of workplace democracy in manager-controlled firms. Instead of these single-logic theories, Chen advocates his S-type theory, which brings the best elements of the single-logic theories together and avoids their respective weaknesses. Institutionally, he envisions a "capital committee" and a "labor committee" for each S-type firm. These two committees, together with the top managers, elect and form a so-called enterprise committee, which is the highest decision-making agency in the S-type firm.[15] More concretely, Lu Changzong, a professor at Dongbei Economic and Financial University, envisions the existing worker representatives in each Chinese enterprise electing worker directors to the board of directors of a joint-stock corporation, no matter whether the corporation is wholly or partly owned by the state; there would also be a "mutual veto" mechanism for both the workers' meetings and the stockholders meetings with which each side could veto the most disadvantageous decisions of the other side.[16]

Chen Chuanming explicitly talks about economic democracy, describing his "capital committee" as "capital democracy" and his "labor committee" as "labor democracy." Lu Changzong speaks of the respect given to the "sole interest of the stockholder" as belonging to the past. Obviously, they both want to give labor more voice without emulating Yugoslavia's workers' self-management.[17] Both are not necessarily against the first and second school of thought as long as they allow for the active participation of labor.

This third school of thought also has had some influence on CCP policy making, though it has not been as significant as the first two schools' influence. So far, the 1994 Chinese Corporation Law only allows workers' directors to sit on the boards of directors for corporations wholly owned by the state. One goal of the advocates of economic democracy is to expand workers' board representation into all types of corporations, especially since the number of wholly state-owned corporations is decreasing because of the introduction of cross-shareholding corporations based on three types of shares: state shares, institutional shares, and individual citizens' shares.

A Tentative Analysis: Globalization and the Cross-fertilization of Ideas

What sense can we make of these three schools of thought regarding property rights in the context of Chinese economic reform? The first striking thing to be noticed is their global nature. To some extent, all three schools' ideas can be seen as responses to related Western thoughts. These responses range from outright coping to critical reflection and creative innovation.

The Western impact is perhaps most apparent in the case of the first school. The idea of the clarification of property rights was popular in Western universities in the 1980s, and is represented by the works of scholars such as Ronald Coase, A. Alcian, H. Demsetz, and Richard Posner.[18] Significantly, Demsetz was invited by the Chinese State-Asset Management Bureau to lecture in China on the issue of property rights in 1991. In his lecture, he rejected the idea that workers should have the right to own stocks and be represented on the boards of directors of corporations.[19] His view certainly had a big impact on the popular version of the clarification of property rights thesis with regard to SOEs. It is not clear whether the advocates of the sophisticated version of the same thesis also were influenced by Demsetz at an unconscious level.

But the managerial improvement and structural adjustment thesis and the economic democracy thesis also have connections with Western economic thought. The former introduced the theories of "teamwork" and post-Fordism into the Chinese economic reform debates.[20] The latter (in which I played a part) introduced into China the debate on "stockholder vs. stakeholder" in American corporate-law reform at the state level.[21]

Though the Chinese discourse on property rights is quite interesting and sometimes sophisticated, it could still benefit from further knowledge of the advanced debates in the West. For instance, Chen Chuanming's S-type theory of the firm and Feng Tongqing's "universal stockholding theory" can be argued more forcefully if they incorporate the ideas about capital-labor partnership developed by Nobel laureate James Meade and Margaret Blair of the Brookings Institute.

Basically, the shareholders (in either a private or public company) are not the only risk-bearing group, according to Meade and Blair. The company's firm-specific human capital also runs a risk. In fact, given the existence of limited liability for shareholders, shareholders do not bear the full costs of a company's actions; therefore, they cannot claim to be "full" risk bearers. Moreover, shareholders can diversify their shareholding by purchasing a portfolio of different companies' shares, but one worker cannot work for several companies at the same time. In this light, it can be argued that a company's human capital runs a higher risk because of its lack of diversification. Hence, workers should be partners with shareholders in sharing income and the right to control corporate assets. Put in the Chinese context, it follows that the fear of worker control in the popular version of the clarification of property rights thesis is unwarranted, even on the grounds of pure efficiency.

The most important point here is that when we fully take into account a company's firm-specific human capital, the conventional argument that a corporation should be managed solely for the benefit of its shareholders falls apart. This is exactly the kind of argument that Chinese proponents of economic democracy could draw on for support. Blair's explanation is therefore worth citing at some length:

> The first thing we have to understand is that corporate profits, as measured by standard accounting rules, provide a very incomplete measure of the total economic surplus generated by corporations. . . . a large part of the total surplus is paid out to employees in the form of higher wages; but the employees' share of the economic surplus, when paid out in this form, is treated as a cost of operation. . . . But when accountants record the entire package of payments to employees as a cost, shareholders see the return to employees for their firm-specific investments as something the firms should be trying to cut. [Therefore,] firms that focus solely on share value will have an incentive to shut down operations that are not generating profits for shareholders even though those operations may still be generating substantial real economic rents. From the point of view of society at large, this is, obviously, inefficient.[22]

Likewise, Meade's "labor-capital partnership" can be understood as an effort to reconcile the interests of stockholders and workers for the sake of "total wealth maximization." This, as Blair points out, is not the same as the maximization of shareholders' share value. According to Meade's scenario, shareholders would own capital share certificates and workers would own labor share certificates. This is quite like the universal shareholding system envisioned by Feng Tongqing. The operational mechanism of Meade's labor-capital partnership is one in which

> the workers and those who provide risk capital jointly manage the concern as partners. The capitalists own Capital Shares in the business, which are comparable to Ordinary Shares in a Capitalist Company. The worker partners own Labor Shares in the partnership; these Labor Shares are entitled to the same rate of dividend as the Capital Shares, but they are attached to each individual worker partner and are canceled when he or she leaves the partnership. If any part of the partnership's income is not distributed in dividends but is used to develop the business, new Capital Shares, equal in value to their sacrificed dividends, are issued to all existing holders of Labor as well as of Capital Shares. These partnership arrangements greatly reduce the

areas of conflict of interest between workers and capitalists, since any decision which will improve the situation of one group by raising the rate of dividend on its shares will automatically raise the rate of dividend on the shares of the other group.[23]

For the reasons given by Blair above, total wealth creation will be increased for society as a whole if the model of the labor-capital partnership is adopted. More interestingly, for our purpose, Meade's specific proposal for constituting the board of directors is very similar to Chen Chuanming's idea of a capital committee and a labor committee and may turn out to be useful for advocates of economic democracy in China: the shareholders and workers each elect an equal number of directors; the directors then appoint an outside chairman, who may cast a vote when there is a conflict between the two sets of directors.

The above discussion clearly shows the amazing affinity between some advanced Western theoretical debates and the Chinese discourse on property rights. It illustrates the truly global nature of ideas. Nowadays it is fashionable to talk about globalization. But upon deeper reflection, the globalization of capital is not yet fully realized, and the globalization of labor is even farther away.[24] The most advanced globalization is the globalization of ideas. What matters for an open and lively debate in China is to make sure that the diverse and alternative ideas on property rights in the West are available to participants in the Chinese discourse.

The globalization of ideas also presents an opportunity for cross-fertilization between local innovations and globalized theoretical reflections. In their efforts to create a suitable ownership form for rural enterprises, Chinese peasant-workers and their local governments have designed the ingenious "shareholding-cooperative system" (SCS).[25] Their system is similar to Meade's labor-capital partnership in that both have labor shares and capital shares;[26] however, the Chinese SCS is distinct in that the capital shares are mainly collective, that is, they belong to the representatives of the community—township and village governments. Thus, the SCS in China's rural industries may serve to harmonize the interests of industry workers and outside members of the same community.

The SCS was invented in 1982 in Zhoucun District, Zibo County, Shangdong Province (where I conducted preliminary field research in the summer of 1993). It was a response to the difficulty of dismantling the collective property of the People's Communes. The peasants found that some collective property (such as vehicles) was physically indivisible. Instead of dismantling this property and distributing it in pieces (in some places, trucks were broken up and sold as parts by the individuals who received them), they decided to issue equal shares to each peasant-worker. However, they soon realized (or conceded) that the shares should go not just to members of the current workforce—an older generation of retired peasant-workers, as well as local governments that had invested in commune enterprises, also had an interest in the property. Therefore, they decided to set aside a portion of the shares as "collective shares" that were designed to be held by outside corporate bodies such as local government agencies, other companies both in and outside of the locality, banks, and even universities and scientific research institutions. Thereafter, in Zhoucun District, 10 percent of the profits of an SCS enterprise went into a "workers' welfare fund"; 30 percent went into a "firm development fund"; and 60 percent went into a "share fund" (comprised of both collective and individual shares).

Clearly, the SCS developed because of two factors: (1) the accumulated changes in Chinese rural institutions (such as the dissolution of the commune), and (2) the peasant-workers accidentally finding a solution to the indivisibility of People's Commune property. Chinese practitioners of the SCS and China scholars are uncertain as to how to evaluate the potential of this new form of property. As Karl Polanyi said: "The contemporaries did not comprehend the order for which they were preparing the way."[27]

Hope and Danger

How does this discussion of the three schools of thought on property rights answer the question Whither China? I am not someone who gives priority to ideas in explaining history. But I submit that ideas play a particularly important role in times of big social changes. This is so because big social changes imply huge uncertainty, and the various actors need ideas or theories to persuade themselves and others where their interests lie. At this kind of historical juncture, where China now stands, ideas can have more of an impact on history than they could in relatively stable times.

We have already seen that the sophisticated version of the clarification of property rights thesis had a big impact on the CCP's decision to establish the modern enterprise system via corporatization. We also have pointed out that the clarification of property rights thesis can be used for many other purposes, including arguing for labor's property rights. The news that came out of China immediately after the Fifteenth Congress seems to indicate that China will experiment with the shareholding system on a larger scale.[28] But the central government leaders also call for caution.[29] Therefore, it is not impossible that we shall see the emerging Chinese shareholding system combine the best elements of each of these three schools of thought. In fact, some cities and provinces in China have already been experimenting with a particular version of "pension-funds socialism," in which a part of existing state assets is used to set up workers' pension funds and the proceeds from the sale of small- and medium-sized SOEs are used to augment those pension-fund assets; the workers' pension funds are then allowed to diversify their investment holdings in different enterprises.

However, there is one great danger: corruption in the implementation of corporatization. It is well known from the Russian privatization experience that corporatization may degenerate into sheer misappropriation of public assets by corrupt officials and managers. Though the Chinese leaders insist that China's corporatization is not the same as the Russian privatization scheme, China must face similar procedural problems regarding asset valuation, which is particularly subject to fraud.[30] In this light, it is particularly relevant to connect political democratization with corporatization. Wu Jianglian, whose idea of clarifying property rights was discussed above, has proposed to establish a "public-assets committee" in each level of the People's Congress to oversee the implementation of corporatization.[31] If tried, this proposal may prove to be crucial to the success of the Chinese shareholding system.

Finally, can we say that today's China is moving toward "capitalism"? It depends on what we mean by capitalism. Deng Xiaoping once said, "We do not know what is socialism." We might add to this by saying, "We also do not know what is capitalism." Fernand Braudel confessed in his monumental work on the history of modern civilization from the fifteenth to the eighteenth century that he might be able to write the whole book without using the word "capitalism."[32] Indeed, the word "capitalism" seems too broad to be useful for analyzing today's China. Should we say the shareholding system is inherently "capitalist"? If so, how do we make sense of the fact that J. S. Mill introduced the General Act of Incorporation, which limited the liability of shareholders, to the British Parliament in 1855 on the basis of its supposed function to promote workers' cooperatives?[33] After all, Marx concurs with American "legal realism" that ownership is not a single right but a "bundle of rights" that can be unbundled and rearranged to suit changing social relations.[34] The concept of ownership as a bundle of rights makes it possible to break away from the Stalinist idea that socialist ownership has only two possible types, namely, state ownership and collective ownership. The CCP's Fifteenth Congress did exactly that by allowing cross-stockholding between state shares, institutional shares, and individual shares. This opened up the possibility of enlarging the number of stakeholders in corporations, thereby democratizing them. It also left room for corruption and the misappropriation of public assets. It is here that both the hope and the danger for China lie.

Notes

1. "We absolutely condemn the latest Chinese decisions," said Ramon Mantovani, an Italian Communist and member of Parliament. "They illustrate the way in which the Chinese have become one of the bulwarks of American-driven globalization, the very force that is threatening European workers" (Roger Cohen, "To Deplore Capitalism Isn't Always to Fight It," *New York Times*, 21 September 1997).

2. Jian Zemin, "Report to the 15th Congress of the Chinese Communist Party," *Beijing Evening Newspaper*, 22 September 1997. Unless otherwise stated, all translations from Chinese texts are my own. A full English text of Jiang's report can be found in *FBIS Daily Report on China*, 22 September 1997.

3. See *FBIS Daily Report on China*, 17 November 1993, 22–23.

4. The most prolific advocate of the popular version is Zhang Weiying, a professor of economics at Beijing University. See Zhang Weiying, *Qiye de qijia—qiyue lilun* [An entrepreneur—contract theory of the firm] (Shanghai: Shanghai Renmin Chubanshe, 1995).

5. Wu Jianglian, "Dazhongxing qiye kaige he gongxihua" [The reform and corporatization of large- and medium-sized SOEs], in *Gouzhu shichang jingji de jichu jiegou* [Constructing the infrastructure of a market economy] (Beijing: Zhongguo Jingji Chubanshe, 1997), 81–102. Wu Jianglian is a senior researcher at the state council's Development Research Center. His view had a direct impact on the CCP's decision to establish a modern enterprise system to replace the troubled contract responsibility system.

6. This point has been stressed both in Jiang Zemin's report to the Fifteenth Congress and Vice Premier Zhu Rongji's remarks on the shareholding system (*Renmin ribao* [People's daily], 15 September 1997). The current value of citizens' deposits in banks exceeds the total value of the state's assets.

7. In 1995, central government revenue as a percentage of GDP was only 8.1 percent. See Liu Guoguang, Want Luolin, and Li Jingwen, eds., *Jingji lianpishu 1997* [Economic blue book, 1997] (Beijing: Shehui Kexue Wenxue Chubanshe, 1996), 119.

8. William Simon, "The Legal Structure of the Chinese 'Socialist Market' Enterprises," *Journal of Corporation Law* 21 (winter 1996): 299.

9. Ma Bin, *Qiye gaige he gufenzhi* [Enterprise reform and the shareholding system], vol. 2 (Beijing: Zhongguo Guoji Guangbo Chubanshe, 1994). Ma Bin was the managing director of the Anshan Steel Company in the 1950s, when the company developed the famous "Anshan Enterprise Constitution." Its main point was to give more power to the frontline workers in production management. Some Japanese and American scholars have credited this Maoist participatory model as having an impact on the Toyota model of industrial management. See Robert Thomas, *What Machines Can't Do* (Berkeley and Los Angeles: University of California Press, 1994), 209.

10. See Zhu Zhigang, *Zican quanyi he zhidu zhuangxin* [Ownership rights and institutional innovation] (Beijing: Jingji Gexue Chubanshe, 1996), 46. It should be noted here that a limited experiment with establishing the modern enterprises system via corporatization was carried out as soon as the Chinese Corporation Law was effective on 1 July 1994. In this sense, Jiang Zemin's Report to the Fifteenth Congress did not signify the practical beginning of the

shareholding system; rather, it was an ideological legitimization for larger-scale experiments with corporatization.

11. Lin Yifu, Cai Fang, and Li Zhou, *Chongfen xinxi he guoyou qiye gaige* [Sufficient information and SOEs reform] (Shanghai: Shanghai Renmin Chubanshe, 1997). It is interesting to observe that Lin Yifu, who got his Ph.D. from the University of Chicago economics department, has such a balanced view on SOEs.

12. For a major case of enterprise group-formation in the chemical industry see Jiang Shijie, "Weiqing chai de hao," *Renmin ribao*, 29 September 1997.

13. Feng Tongqing, Yun Zhongfan, and An Miao, *Xiang shehuizhuyi shichang jingji zhuanbian shiji de gonghui lilun shuping* [A review of trade union theory in the transition to the socialist market economy] (Beijing: Renmin Chubanshe, 1997), 133.

14. The *S* stands for synthesis.

15. Chen Chuanming, *Bijiao qiye zhidu* [Comparative enterprise systems] (Beijing: Remin Chubanshe, 1995), 220. Interestingly, Chen was a former Ph.D. student with Vice Premier Zhu Rongji at the School of Management of Qing Hua University; Zhu is now the honorary head of the school.

16. Lu Changzong does not mention Chen Chuanming's theory regarding S-type firms, but his institutional design, which he developed independently, is similar in spirit to Chen's theory. See Lu Changzong, "Gongxi zhili ye xinlao sanhui guanxilun" [Corporate governance and the relationship between the old and new three meetings], *Jingji yanjiu* [Economic research], no. 11 (November 1994): 10–14.

17. The widely shared perception of Yugoslavia's workers' self-management among Chinese intellectuals is that it leads to "short-termism," meaning overconsumption at the expense of capital accumulation.

18. A collection of these Western scholars' writings has been translated into Chinese and has had wide circulation among Chinese economists. See Ronald Coase and Douglas North, *Caican quanli he zhidu bianqian* [Property rights and institutional change] (Shanghai: Shanghai Renmin Chubanshe, 1992).

19. See State-Asset Management Bureau, *Guoyou zican canquan lilun tansuo* [Exploring the issue of property rights in SOEs] (Beijing: Jingji Kexue Chubanshe, 1992), 56.

20. Cui Zhiyuan, "Anshan xianfa he huofutezhuyi" [The Anshan constitution and post-Fordism], *Dushu*, (March 1996): 11–21.

21. My paper on the change in U.S. corporate law in twenty-nine states to recognize "stakeholders" (shareholders are only one kind of stakeholder; labor and the community are also stakeholders) has triggered significant debate among Chinese intellectuals. See Zhang Wenmin, Sun Guangmao, Zheng Hongliang, Wanh Limin, and Zhan Xiaohong, eds., "Zhongguo jingji dalunzhan" [The big debates on the Chinese economy], vol. 2 (Beijing: Jingji Guanli Chubashe, 1997).

22. Margaret Blair, *Ownership and Control: Rethinking Corporate Governance for the Twenty-First Century* (Washington, D.C.: Brookings Institute, 1996), 8–12. According to University of Chicago economist Robert Topel, as much as 10 to 15 percent of the total compensation of employees of large corporations in the United States is for firm-specific skills. One piece of evidence that he has for this is that when employees are laid off through no fault of their own, they take, on average, a 10 to 15 percent cut in pay when they are reemployed. Blair draws a further implication from Topel's estimate. She estimates that 10 percent of the

total compensation paid to employees by corporations from 1990 through 1993 was about $850 billion. This is approximately equal to the total of U.S. corporate profits during those years, which amounted to about $991 billion. "In other words, what we call corporate profits measures only about half of the total economic surplus being generated by corporations. The other half is typically paid out to employees" (8).

23. James Meade, *Liberty, Equality, and Efficiency* (New York: New York University Press, 1993), 85–86.

24. The (partial) globalization of capital without the globalization of labor will increase existing international injustices.

25. After three years of experiments in three areas of Shandong, Zhejiang, and Anhui Provinces, the Chinese Ministry of Agriculture issued Temporary Regulations for Peasants' Shareholding-Cooperative Enterprises in February 1990. The regulations state that this ownership form will become more and more important in Chinese rural enterprises.

26. It is important to notice that both systems differ significantly from the Employee Stock Ownership Plan (ESOP) in the United States. The ESOP promotes "worker participation in the firm's fortunes only insofar as a part of the worker's past pay has taken the form of compulsory savings rather than the receipt of freely disposable income, whereas Labor Share Certificates depend directly upon the employee's current supply of work and effort to the firm without any reference to past compulsory savings" (Meade, *Liberty, Equality, and Efficiency*, 117).

27. Karl Polanyi, *Great Transformation* (Boston: Beacon, 1957), 81. In an article I wrote in 1994, I argued that the SCS should be considered an institutional innovation. This article appears to have had an impact on the final decision to allow the SCS to spread in rural China. See Zhiyuan Cui, "Zhidu chuangxi he de re ci sixiang jiafang" [Institutional innovation and the second thought liberation movement], *Beijing qingnianbao*, 24 July 1994.

28. After the promulgation of the Decision of the CCP Central Committee on Some Issues Concerning the Establishment of a Socialist Market Economic System in November 1993, the state council selected one hundred large- and medium-sized SOEs to experiment with the shareholding system. The provincial governments also selected about seventeen hundred SOEs to do the same experiment.

29. Vice Premier Zhu Rongji emphasized that corporatization should not be implemented all at once. See Jinsheng, "Zhu rong ji zai xiao zu de fan yan."

30. The Russian privatization did not perform proper evaluations of state-owned firms' assets. No adjustment was made for inflation or "intangible assets." The Russian privatization minister Anatoly Chubais "simply declare[d] that book value of the Russian companies as of July 1992, without any adjustment, would serve as the charter capital" (Maxim Boycko, Andrei Shleifer, and Robert Vishny, *Privatizing Russia* [Cambridge, Mass.: MIT Press 1995], 75). This decision gave tremendous benefits to those people who bought state assets through auctions, as well as to company insiders, who could buy up to 51 percent of the shares. Not surprisingly, the end result was an extremely low asset value for Russian industry: At the end of the privatization scheme in June 1994, the aggregate value of Russian industry was under $12 billion. Even Chubais's three main advisers were shocked: How could it be that "the equity of all of Russian industry, including oil, gas, some transportation and most of manufacturing, was less

than that of Kellogg [one American health food company]" (ibid., 117)? Certainly, this state of affairs could not generate sufficient government revenues and cannot encourage broad public support for the new democratic regime in Russia.

31. Wu, "Dazhongxing qiye kaige he gongxihua," 105.

32. Fernand Braudel, *Civilization matérielle, économie et capitalisme, XVe–XVIIIe siècle* (in Chinese) (Beijing: Sanlian Shudian, 1993), 2:234.

33. J. S. Mill reasoned as follows: When the liability of owners is unlimited, only rich people can afford to do business; a system of limited liability would encourage the workers to form their own cooperatives to compete in the market on a safer footing.

34. By breaking ownership into its constituent parts, which include income rights, use rights, control rights, and transfer rights, legal realism demonstrates that ownership does not imply any prepolitical, absolute, or fixed set of rights. See Morton Horwitz, *The Transformation of American Law, 1870–1960* (New York: Oxford University Press, 1992), 145–69. The former president of Austria Karl Renner has written the best synthesis of Marxism and legal realism. See Karl Renner, *Institutions of Private Law and Their Social Functions* (London: Routledge, 1949).