Routledge Studies on the Chinese Economy

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The Chinese Model of Modern Development

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issue concerning how to make labor express its demands normally among each labor group, among peasants, workers, and each social interest, and how to form legal organizations that really represent their interests, and to promote social consultation and dialogue among social interests.

Tian Yu Cao: I do not think that you answered his question. His question was concerned with the fact that in addition to the relations between state and society, the conflicts among various forces in society constitute an issue as well. The process of social negotiation that you advocated in 1989 concerns not only the issue of state and society relations – it also can be concerned with internal conflicts and contradictions in society. The more complex and diverse issues of the 1990s, according to his view, are actually the conflicts among various social interests, not just the issue of state and society relations.

Zhu Houze: There were different opinions when negotiating with the government. Some people were upset and said that your trade unions wanted the same status as that of the government. We responded right away that we had to negotiate with the government because, first, the government is the biggest boss of the country, and state ownership was everywhere – we had to deal with the state. Second, the government functioned also as the social manager, the coordinator of social interests. Many relations required state regulation. So we had to hold discussions with the state.

Just now, what Tian Yu Cao said is correct. The relations among various interests we discussed are becoming more and more complex – for example, the relations between chambers of commerce and trade unions, and between investors and management. Therefore, it is important to promote social consultation and dialogue. I think that it is difficult to avoid this issue if we want to solve the current social conflicts.

Armin: My question is, is the implementation of socialization based on democracy or based on the market? There is a conflict between the market and democracy. How do you deal with these contradictions?

Zhu Houze: When I think about issues, I always consider the actual situation in China, and I seldom study the situation in the world. In the current situation in China, there are demands for improving the market, for the promotion of the market process, for the implementation of political democracy, and for the establishment of democratic political order. We have not seen any unresolved contradictions. The reality of China is that there is no freedom of capital, nor freedom of labor under the domination of the highly centralized government which has complete authority, and which has a highly centralized mandatory economic system.

9 Liberal socialism and the future of China

A petty bourgeoisie manifesto

Cui Zhiyuan

A specter is haunting China and the world – the specter of petty bourgeoisie socialism.

Why? Both Marxism and Social Democracy has lost its political and intellectual momentum worldwide. The disillusion about neoliberalism is also growing.

Petty bourgeoisie socialism can make some sense out of the current confusion in interpreting the institutional arrangements in today's China. Moreover, since socialism should not perpetuate the proletarian status of the working class, the universal petty bourgeoisie seems to be the promise of the future.[1]

The central economic program of petty bourgeoisie socialism is to establish a "socialist market economy," especially through reforming and transforming the existing institutions of financial markets. The central political program of petty bourgeoisie socialism is to promote "economic and political democracy."

The leading thinkers in the rich tradition of petty bourgeoisie socialism are P-J. Proudhon, F. Lassalle, J.S. Mill, Silvio Gesell, Fernand Braudel, James Meade, James Joyce, Charles Sabel, Fei Xiaoton, and Roberto M. Unger.

The notion of "petty bourgeoisie" used in this chapter includes peasants. This is the main difference with the notion of "middle classes" used in the current Chinese discourses. But the concept of petty bourgeoisie socialism may be associated with the current Chinese effort to build "Xiao Kang Socialism."

Proudhon and China's landownership system

Pierre-Joseph Proudhon has challenged Locke's theory that "private property in land originated in First Occupancy" by emphasizing that population growth makes it impossible for everyone to have private property in land:

> For, since every man, from the fact of his existence, has the right of occupation, and, in order to live, must have material for cultivation on which he may labor; and since, on the other hand, the number of occupants varies continually with the births and deaths, – it follows that the quantity of material which each laborer may claim varies with the number of occupants; consequently, that occupation is always subordinate to population. Finally, that, inasmuch as possession, in right, can never remain fixed, it is impossible, in fact, that it can

> ever become property. . . . All have an equal right of occupancy. The amount occupied being measured, not by the will, but by the variable conditions of space and number, property cannot exist.[2]

Proudhon's point is that, if private property in land implies indefinite control of the owner, then it is incompatible with population change. Therefore, private property in land, understood as a universal[3] right applying to everyone, cannot exist.[4] In other words, if private landownership implies indefinite control on the part of the owner, it cannot adjust to population change, therefore private landownership cannot be a universal right for everyone; if private landownership adjusts to population change, it cannot be private property in the sense of owners' indefinite control. It is remarkable that today's landownership in China testifies to this insight of Proudhon.

China's rural land is *not* owned by the state, or by the individuals. Rather, it is owned by the village collective. The current system is called the household contract responsibility system for rural land lease (thirty years). How much land lease a family gets is in accordance with its size, and every member of the village regardless of age and gender receives an equal share. The land was leased out to the family by the village authority[5] for five years in the early 1980s, the length of land lease was extended to fifteen years in 1984, and further to thirty years in 1993. Because the size of a family changes over time with in-and-out marriages and births and deaths, village collectives usually make a small adjustment of the land lease every three years, and a thorough adjustment every five years.

It is a mistake on the part of many Western leftists to assume that China has "restored" the "capitalist productive relations in the countryside" after abandoning the People's Communes. China's rural landownership system is a Proudhonian version of petty bourgeoisie socialism, with all of its promises and contradictions.

The Chinese government is in the process of making land contract law and trying to consolidate the household contract responsibility system while achieving economy of scale and speeding up urbanization. It is a great experiment of petty bourgeoisie socialism in that one of its core ideas is to realize socialized production without depriving peasants.

J.S. Mill and the genealogy of the "modern enterprise system"

Establishing a "modern enterprise system" is the most often used phrase in contemporary Chinese discourse of economic reform. However, few have noticed that petty bourgeoisie socialism was at the heart of the genealogy of the "modern enterprise system." In fact, a petty bourgeoisie socialist J.S. Mill was the key figure to bring one of the main features of the "modern enterprise system" – limited liability for shareholders – into existence.[6]

It was due to the concern for the development of workers' cooperatives of his time that John Stuart Mill started to study the issue of limited liability. He first analyzed the so-called "en commandites" form of partnership. This special form

of partnership had many proponents in England, the Christian Socialists perhaps being the most prominent among them. In this form of organization the "active" partners were subject to unlimited liability, staying with the idea of tying liability to responsibility, while the "sleeping" partners were subjected to limited liability, since they were not responsible for running the business. John Stuart Mill advocated this form of partnership because it would have allowed workers to form associations to "carry on the business [with] which they were acquainted" and also allow the "rich to lend to the poor." Mill argued:

> No man can consistently condemn these partnerships without being prepared to maintain that it is desirable that no one should carry on business with borrowed capital. In other words, that the profits of the business should be wholly monopolized by those who have had time to accumulate, or the good fortune to inherit capital, a proposition, in the present state of commerce and industry, evidently absurd.[7]

In 1850, Mill testified before the Select Committee on Investments for the Savings of the Middle and Working Classes of the British Parliament. He proposed to establish the corporate regime with generalized limited liability for shareholders, because it would induce the wealthy to lend more freely in support of projects by the poor. The poor would also benefit by having the opportunity to invest their savings in producers' or consumers' cooperatives. As a result of the efforts of Mill and others, the British Parliament passed the 1855 Act of general limited liability for corporations.

This genealogy of limited liability has been almost forgotten by the contemporary economists. The point of retelling this forgotten chapter of economic history is to highlight that the "modern enterprise system" is not necessarily capitalist. If shareholders have only "limited liability", it implies that they are not taking the full risks as "private owners" are supposed to do; therefore they should not enjoy all the profits of the enterprises.[8] In other words, the shareholders are not the only risk-bearing group. The employee's firm-specific human capital also runs at a risk. Moreover, shareholders can diversify their shareholding through a portfolio of different firms' shares, but a single worker cannot work for several firms all at the same time. In this light, it may be argued that employees' human capital runs a higher risk due to the lack of diversification. This opened the door to our understanding of the widespread institutional innovation in China's rural industry – a "shareholding-cooperative system."

James Meade and the Chinese "shareholding-cooperative system"

James E. Meade, the 1977 Nobel Laureate in Economics, is one of the founders of modern GNP accounting. As a student of Keynes, Meade was inspired by the tradition of petty bourgeoisie socialism.[9] He always calls his program "liberal socialism." Meade's program aims to combine the best features of liberalism and

socialism. It has two main components in its institutional design: "labor–capital partnerships," and "social dividend."

Labor–capital partnership

In Meade's design, outside shareholders own capital share certificates and inside workers own labor share certificates. The operational mechanism of the program is roughly as follows:

> the Labour–Capital Partnership, whereby 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 Labour Shares in the partnership; these Labour Shares are entitled to the same rate of dividend as the Capital Shares, but they are attached to each individual worker partner and are cancelled 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 Labour 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.
>
> (Meade 1993, 85–86)

In addition to this benefit of aligning interests of outside shareholders and insider workers, Meade's labor–capital partnership has an added main advantage of introducing flexibility into the labor market. The current social democracy in the Western European style suffers from a major problem: the high wage of workers on the job is maintained at the cost of rigidity of the labor market, thus implying an inefficient reduction of output and a level of employment below the potential full employment. When the labour–capital partnership uses a labor share certificate to replace a fixed wage arrangement, a degree of flexibility is introduced into the labor market which is formerly characterized by downward rigidity of wages.

It is important for the "progressive" forces in China and other post-communist countries not to imitate social-democratic policies pursued in Western Europe. There, the social-democratic parties had long lost their radical inspiration. Instead of challenging and reforming the institutions of the existing forms of market economy and representative democracy, the social-democratic program merely seeks to moderate the social consequences of structural divisions and hierarchies. We need more radical institutional innovations like the labor–capital partnership to make up for the deficiencies of conventional social-democratic policies. The flexibility in the labor market is just one case which illustrates this general point.

Social dividend

The second feature of Meade's program of "liberal socialism" is "social dividend:" every citizen is paid a tax-free Social Dividend according to the citizen's age and family status but without any other conditions. Two basic reasons for instituting social dividend are: (1) promotion of equality by providing everyone with the same basic unconditional income; (2) the reduction of risks by providing some part of income that is unaffected by variations required by flexibility in the labor market. The intuitive core of the idea of social dividend lies in the attempt to replace the demand for job tenure by an enhancement of the resources and capabilities of the individual citizen.

One of the advantages of social dividend over the conventional social-democratic policy of "conditional benefit" is that the former improves the incentives of recipients of low-earning jobs. This may appear counter-intuitive at first sight, because "unconditional social dividend" seems to reduce the incentive to accept low-paid jobs more than conditional benefit (based on unemployment or illness). However, intuition is wrong in this case. Meade argues against intuition with the following simple example:

> a recipient of a Social Dividend of 80 supplemented by a Conditional Benefit of 20 will have an incentive to take outside earnings so long as those earnings after deduction of Income Tax are greater than 20; but if he or she had relied for the whole 100 on a Conditional Benefit, there would be no incentive to accept any outside earnings less than 100.[10]

"Shareholding–cooperative system" (SCS) in China

In their effort to create a proper ownership form for rural enterprises, the Chinese "peasant-workers" and their community governments have designed an ingenious one: a "shareholding–cooperative system (SCS)."[11] It is similar to James Meade's "labor–capital partnership" in that both systems have a labor share and a capital share;[12] however, the Chinese SCS is distinct in that the capital share itself is mainly collective in the sense of belonging to the representative of the community – the township and village governments. Thus the SCS in China's rural industry may serve to harmonize the interests of inside workers and outside members of the same community. To give a sense of its working mechanism, I now describe briefly one of the earlier experiments with the SCS in rural China.

In one locality where I conducted preliminary field research in the summer of 1993, Zhoucun District of Zibo (Shangdong Province), the SCS was invented in 1982 as a response to the difficulties of dismantling the collective properties of the People's Commune. The peasants found some collective properties (other than land) to be simply physically indivisible. They decided to issue shares to each "peasant-worker" on equal terms, instead of destroying the collective property (such as trucks) to sell them in pieces (which had happened in many other regions). Soon after, they realized (or conceded) that they should not divide up all collective

properties into individual shares to distribute to the current workforce, because the older generation of "peasant-workers" had left the enterprises and the local government had made prior investments. Thus they decided to keep some proportion of "collective shares" which would not go into individual labor shares. These collective shares are designed to be held by outside corporate bodies, such as local governmental agencies, other firms in and out of the locality, banks, and even universities and scientific research institutions. The following figures show the flow of profits of SCS in Zhoucun District:

After-tax profits of SCS firm
- 10 per cent: Workers' welfare fund
- 30 per cent: Firm development fund
- 60 per cent: Share fund (collective and individual shares)

Clearly, the development of SCS is the joint product of two factors: (1) accumulated change of Chinese rural institutions (such as the dissolution of the commune), and (2) accidental solutions to the indivisibility of People's Commune's property. Therefore, the SCS has created an attitude of ambiguity among the Chinese practitioners and scholars on China as to how to evaluate the potential of this new form of property. As Karl Polanyi once said: "the contemporaries did not comprehend the order for which they were preparing the way."[13]

As for James Meade's "social dividend," there is so far no Chinese experiment in a similar spirit. However, it is my belief that China can benefit from considering seriously Meade's program of "social dividend" in establishing her own social welfare system.

Braudel, anti-market capitalism and real estate in China

Most commentators in the West, from the Right as well as from the Left, believe China is becoming increasingly "capitalist." But what is the meaning of the word "capitalism?" It is worth citing Fernand Braudel's struggle with this word:

> I have only used the word *capitalism* five or six times so far, and even then I could have avoided it. . . . Personally, after a long struggle, I gave up trying to get rid of this troublesome intruder. *Capitalism* . . . has been pursued relentlessly by historians and lexicologists. . . . But it was probably Louis Blanc, in his polemic with Bastiat, who gave it its new meaning when in 1850 he wrote: "What I call 'capitalism' [and he used quotation marks] that is to say the appropriation of capital by some to the exclusion of others." But the word still occurred only rarely. Proudhon occasionally uses it, correctly: "Land is still the fortress of capitalism", he writes. . . . And he defines it very well: "Economic and social regime in which capital, the source of income, does not generally belong to those who make it work through their labour." Six years later however, in 1867, the word was still unknown to Marx.[14]

Most importantly, Braudel makes a crucial distinction between "market economy" and "capitalism." According to him, "there are two types of exchange: one is down-to-earth, is based on competition, and is almost transparent; the other, a higher form, is sophisticated and domineering. Neither the same mechanisms nor the same agents govern these two types of activity, and the capitalist sphere is located in the higher form."[15] Braudel considers the market town as the typical case of the first type of exchange, and the monopoly of long-distance trade and financial speculation as the model of the second type (i.e., "capitalism," which is essentially "anti-market").

Braudel's distinction can make sense of the two types of real estate markets in China today. The first type is illustrated by He Gang City, Hei Long Jiang Province; the second type is illustrated by Bai Hai City, Guang Xi Province. In the case of He Gang city, when land speculation is prohibited by local government, the real estate market becomes the engine of local economic growth. In contrast, in Bai Hai City, real estate developers collude with the banks (borrowing money from the banks to speculate in the land market), the result being that common people cannot afford to buy houses due to the very high prices.[16] Petty bourgeoisie socialism must embrace the first type of market while rejecting the second.

China vs. Russia: petty bourgeoisie socialism vs. oligarchy capitalism

The Russian privatization program of 1992 "offered all citizen including children, for a nominal payment of 25 rubles, an opportunity to receive a voucher with a denomination of 10,000 rubles."[17] However, this happy starting point soon turned into a situation which produced oligarchy capitalism (in the sense of Braudel). The reasons are as follows:

1 Russia allowed free trading in vouchers. According to the three main advisers to the Russian government, "tradability lets people convert vouchers to cash right away, which especially helps the poor who have great immediate consumption needs . . . it vastly improves opportunities for potential large investors." Obviously, this re-concentrates wealth in the hands of the rich people, and this is the design of the program! No wonder the Russian Prime Minister Chernomyrdin said in December 1992 that the program of voucher privatization is comparable to Stalin's bloody collectivization of agriculture.
2 Each firm may choose among three options in the Russian privatization. The most widely used option is the so-called Option 2, in which workers and managers together can buy 51 percent of the voting shares at a nominal price of 1.7 times the July 1992 book value of assets, with vouchers and/or cash. Among the rest of the shares, 29 percent should be sold to the general public through voucher auctions. However, workers are prevented from holding their shares as a block. They can only own their shares individually. This is the deliberate design of Anatoly Chubais, head of the State Committee on the Management of State Property, in order to avoid any possible workers'

control.[18] As a result, the managers and big outside investors are eager to buy vouchers from the workers, and workers are not resistant to selling, even selling just one voucher for a bottle of vodka.

3 The Russian privatization did not rely on proper valuations of current state-owned firms' assets. No adjustment for inflation and "intangible assets" has been made. Anatoly Chubais "simply declared that book value of the Russian companies as of July 1992, without any adjustment, would serve as the charter capital." This decision gives tremendous benefits to the new buyers of state assets (29 percent of the firm's share as described in Option 2 above) through voucher auctions, as well as the insiders of the firm who can buy up to 51 percent of shares. Not surprisingly, the end result is the extreme low asset value of Russian industry: at the end of the voucher privatization scheme in June 1994, the aggregate value of the Russian industry was under $12 billion. Even the three main advisers to Anatoly Chubais 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]?"[19]

James Meade's topsy-turvy state share ownership in China

There are two stock exchanges in today's China, The Shanghai Stock Exchange (opened on December 19, 1990) and the Shenzhen Stock Exchange (opened in July 1991). The corporations listed in these two Stock Exchanges usually have three types of shares: state shares, legal-person shares and individual shares:

- *State shares*. These are the shares held by the governments (both central and local) and solely government-owned enterprises.
- *Legal-person shares*. These are the shares held by other stock companies, non-bank financial institutions, and other social institutions.
- *Individual shares*. These are shares held and traded by individual citizens. They are called tradable A shares, since there are B shares offered exclusively for foreign investors.

A typical Chinese corporation listed in Shanghai or Shenzhen Stock Exchange usually has the above three types of shareholders; that is, state, legal-person, and individual. Each holds about 30 per cent of total outstanding shares.[20] By the end of July 1997 there were a total 590 companies listed in the Shanghai and Shenzhen Stock Exchanges. However, only individual shares are allowed to be traded on these two stock exchanges. State shares and legal-person shares are not permitted to be traded.

Currently, there is a heated policy debate on whether state shares should be traded on the Stock Exchanges. People who are against the trading of state shares cite mainly ideological reasons: they think trading in state shares amounts to "privatization;" those who are in favor of the trading of state shares argue that the large proportions of state shares in a corporation still cannot prevent governmental

officials from arbitrarily intervening in business decisions, since the state must appoint officials to sit on the Board of Directors.

Some might think that the case of the state as shareholder is too specialized to offer any general theoretical insight. However, one of America's leading liberal thinkers, Louis Hartz, has written a definitive history on the "mixed corporation" – "mixed" in the sense that the state government is a shareholder among other private shareholders – in Pennsylvania between 1776 and 1860.[21] Upon reflection, it should not be surprising that states in the U.S.A. had to resort to shareholding as a means for their expenditure and industrial policy: it was only until February 1913 that the Sixteenth Amendment of the U.S. Constitution legalized income tax (as not being against private property[22]).

The example of "mixed corporations" in U.S. history reminds us that the state as shareholder may not be so special or exceptional. For example, the UK nationalized its steel, electricity, railways, and coal industries after World War II, yet the state in the U.K. was only a residual controller without residual claimant, since it "did not receive for its own free use the profits . . . since this was offset by the payment of interest on the national debt issued to raise the compensation cost of the nationalization schemes. Thus, the state became the owner-manager but without the benefit of an increased income."[23]

James Meade proposes to reverse the U.K. nationalization process. What he calls "topsy-turvy nationalization" is essentially giving "residual claims" rights to the state as shareholder without granting control rights. Two major benefits of this "topsy-turvy nationalization" are, according to Meade, (1) that the government can use the proceeds of its shareholding to finance "social dividend," which will provide the flexibility to the labor markets by granting a minimum income to everyone; (2) that the government can be separated from micro-managing business decisions for the companies it partly owns.

There is some resemblance between James Meade's vision and the Chinese emerging policy consensus on the state as a passive shareholder. Even the idea of "social dividend" can be partially seen in local practice: Shunda City in Guangdong Province has used the sale proceeds of government shares to finance its "social security fund." For this reason, I dub the prospect of passive state shares in China as "topsy-turvy state ownership." This raises deep theoretical questions about petty bourgeoisie socialism's vision of reforming the existing institutions of financial markets.

Silvio Gesell: petty bourgeoisie socialism's financial reformer

Keynes makes an amazing statement in his *General Theory of Employment, Interest and Money*: "the future would learn more from Gesell than from Marx."[24] Silvio Gesell (1862–1930) was a German businessman and finance minister in the government of Gustav Landauer of Ratterrepublik of Bavaria in 1919. Gesell considers himself a disciple of Proudhon. According to Gesell, Proudhon's central insight was that money held competitive advantage over labor and goods. Proudhon tried

to raise goods and labor to the level of money, but failed. Since it is impossible to alter the nature of goods, Gesell proposed to alter the nature of money: "we must subject money to the loss to which goods are liable through the necessity of storage. Money is then no longer superior to goods; it makes no difference to anyone whether he possesses, or saves, money or goods. Money and goods are then perfect equivalents, Proudhon's problem is solved and the fetters that have prevented humanity from developing its full powers fall away."[25]

Concretely, Gesell proposes a "stamp scrip" or "stamp currency." Gesell's insight was that money as a medium of exchange should be considered a public service (just as public transportation) and, therefore, that a small user fee should be levied on it. In Gesell's time, stamps were the normal way to levy such a charge. Now, the generalized use of computers in payment would make this procedure much easier to implement.

To give a vivid sense of how "stamp scrip" works in reality, let us look at the Austria experiment in the 1930s. In 1932, Herr Unterguggenberger, mayor of the Austrian town of Worgl, decided to eliminate the 35 percent unemployment of his town. He issued 14,000 Austrian shillings'-worth of "stamp scrip" which was covered by exactly the same amount of ordinary shillings deposited in a local bank. A stamp is needed each month (at 1 per cent face value of "stamp scrip") in order to make this "local currency" valid. Since the cost of the stamp is a user fee for holding this currency, everyone wants to spend "stamp scrip" quickly, therefore automatically providing work for others. After two years, Worgl became the first Austrian city to achieve full employment.

Keynes specifically states his support of "stamp scrip:" "Those reformers, who look for a remedy by creating an artificial carrying cost for money through the device of requiring legal-tender currency to be periodically stamped at a prescribed cost in order to retain its quality as money, have been on the right track, and the practical value of their proposal deserves consideration."[26]

At the most general philosophical level, Gesell's "stamp scrip" may be viewed as a reform effort to separate the two traditional functions of money – money as medium of exchange and money as store of value, since "stamp scrip" eliminates money's function as store of value. This separation helps to solve one of the major economic problems of recession: when money both serves as the medium of exchange and the store of value, anybody in recession time will save more and consume less, thereby exacerbating the recession.

Gesell's "stamp scrip" proposal is a telling case of petty bourgeoisie socialism's economic vision: instead of abolishing the market economy, we can create such an economy with more freedom and equal opportunity by reforming and innovating the monetary institutions.

James Joyce and the art of petty bourgeoisie socialism

It is well known that James Joyce considers himself a "socialist artist."[27] But what kind of socialism? A clue to the answer may be found in *Ulysses*: when Bloom runs for municipal election, he declares:

> "I stand for the reform of municipal morals and the plain ten commandments. New world for old. Union of all, jew, moslem and gentile. *Three acres and a cow for all children of nature.* . . . Free money, free rent, free love and a free lay church in a free lay state."[28]

Obviously, Joyce's socialism is petty bourgeoisie socialism. More tellingly, Ezra Pound, who was a great modernist poet and promoter of Joyce's works, devoted huge amount of time and energy to studying Gesell's financial reform proposal.[29] Also interestingly, the Soviet film director Sergej Eisenstein (1898–1948) met with Joyce in Paris and considered Joyce's *Ulysses* to be a great inspiration for his "dynamic montage."[30] In this context, we can understand Walter Benjamin's "The Arcades Project" – the montage of a social life of perpetual transition and juxtapositions.

The great modernist writers, such as James Joyce and Robert Musil,[31] have articulated the petty bourgeoisie socialist sensibility. Institutional innovations and personal transformations always go together!

Post-Fordism, Fei Xiaotong, Charles Sabel and Roberto M. Unger

There is a long tradition of petty bourgeoisie socialism in modern China. Hsiao-Tung Fei is especially important in this tradition. Beginning in the 1930s, Hsiao-Tung Fei has been concerned with "rural industry" and "small township." Fei realized that "to improve the produce [of rural industry], is not only a matter of technical improvement but also a matter of social reorganization."[32] Writing his dissertation in London under B. Malinowski in the late 1930s, Fei argued that "the real nature of the communist movement [in China] was a peasant revolt due to their dissatisfaction with the land system . . . it must be realized that a mere land reform in the form of reduction of rent and equalization of ownership does not promise a final solution of agrarian problems in China. Such a reform, however, is necessary and urgent because it is an indispensable step in relieving peasants."[33] More importantly, at that time (1938), Fei had already pointed out:

> Being a late comer in the modern industrial world, China is in a position to avoid those errors which have been committed by her predecessors. In the village, we have seen how an experiment has been made in developing a small-scale factory on the principle of cooperation. It is designed to prevent the concentration of ownership of means of production in contrast with the capitalist industrial development in the West. In spite of all difficulties and even failures, such an experiment is of great significance in the problem of the future development of rural industry in China.
>
> (Fei, 1939, p. 286).

It is important to note that Fei, like Proudhon, did not object to large-scale industry per se:

> When the industrial revolution began, the major innovation was steam power, which caused the concentrated location of industry. Between steam engine and working machine, there must be a strap which connects them, so it was more economical to put these two machines close. . . . The use of electrical power could change the [concentrated] industrial location, [since] the distance between electrical power engine and working machine no longer needs to be short. . . . The invention of the internal combustion engine and its applications in transportation, makes concentrated industrial location even more unnecessary. . . . If the new economic opportunities opened by the new engines could not be shared by the majority of the [rural] people, it may have harmful effects on people's livelihood. The more [rural] people use these new engines and new technologies, the more likely that they will be used properly. This is the reason why I do not advocate the Western capitalism as a way to develop our new industries.[34]

Fei's concern may be connected to the theory of post-Fordism or "flexible specialization." Theoretically, China's rural industry fits the definition of flexible production. According to David Friedman, who applies the theory of flexible specialization developed by Piore and Sabel[35] (1984) to Japanese machine tool industry, "Mass production is the attempt to produce a single good at the highest possible volume to reduce costs through economies of scale. Flexible production is the effort to make an ever-changing range of goods to appeal to specialized needs and tastes with tailored designs" (David Friedman, p. 15). In comparison to state enterprises in cities, China's rural enterprises face a very unstable market for their products, subject to fluctuations due to economic and administrative shocks. Economic shocks come from the fact that their products have never been included in central planning, and central planning may be viewed as a mechanism which serves the function of "futures markets"; that is, a stabilizer of market demand. Administrative shocks come from the fact that the national tight credit policy in 1986 and 1989 had a disproportionally large impact on rural industry, because some policy coalition in the central government still favors big state enterprises in cities, especially in bad economic times. Facing highly unstable markets, China's rural enterprises have developed various technological and organizational arrangements for flexible production. Their dictum is "a small ship can change direction easily." They usually produce multiple products, and often change their product every one or two years (Fei, 1988, p. 170). If we adopt the above-mentioned David Friedman's definition of mass production as producing a single good at the highest possible volume, Chine's rural enterprises are clearly engaged in flexible production.

The conventional wisdom is that mass production is the most efficient way of modern industrial production, because it can reduce costs through economies of scale. The innovative idea put forward by Piore and Sabel is that flexible specialization is more efficient than mass production under the conditions of demand instability. The price shocks due to the oil crisis, the collape of the Bretton Woods system which stabilized international markets from 1944 to 1973, and the

saturation of consumer-goods markets in the industrial countries – all these factors make it more and more difficult to expand mass production further. The way out is "flexible specialization," which is the "second industrial divide." According to Piore and Sabel,

> flexible specialization is a strategy of permanent innovation: accommodation to ceaseless change, rather than an effort to control it. This strategy is based on flexible-multi-use-equipment; skilled workers; and the creation, through politics, of an industrial community that restricts competition to those favoring innovation. For these reasons, the spread of flexible specialization amounts to a revival of craft forms of production that were emarginated at the first industrial divide.
>
> (Piore and Sabel, p. 17)

As insightful as it is, this definition places to much emphasis on technology: multi-use, general-purpose, numerical controlled machines. Indeed, this definition may give people the impression that flexible specialization is impossible without computer-aided general-purpose machines.[36]

The Chinese rural industry highlights the importance of institutional, in contrast to technological, foundations of flexible specialization.[37] The reason for Piore and Sabel's (over)emphasis on general-purpose technology is, I suspect, that they do not distinguish between fixed costs and avoidable costs. In other words, they adopt the conventional microeconomics' distinction between fixed costs and variable costs. As they put it, "within the firm, the distinction between general and specialized resources is seen as a distinction between variable and fixed costs" (Piore and Sabel, 1984, p. 52). However, as J. Maurice Clark (1923) pointed out some time ago, fixed costs is only one of the costs under the general heading "overhead costs." William Sharkey recently picked up Clark's theme to develop his theory of "efficient production when demand is uncertain." According to him, avoidable costs, such as fixed costs, are independent of output. But

> avoidable cost, differs from the plant construction cost, or fixed costs, in that it can be avoided by taking a particular plant out of production . . . the interaction of uncertain demand with fixed plus avoidable costs requires a determination of the optimum flexible of capacity. The nature of the avoidable costs creates an incentive for smaller, more numerous plants that can be shut down when not needed in order to save on operating costs.
>
> (Sharkey, 1977, p. 370)

In other words, fixed cost is independent of both output and plant capacity; variable cost is not independent of output; and avoidable cost is independent of output, but not capacity.[38] By making the distinction between fixed cost and avoidable cost, we can open our eyes to many possible organizational innovations which reduce avoidable cost, rather than focusing only on technological innovations which reduce fixed costs. Viewed from this perspective, the scope for flexible specialization is much larger than previously perceived.

China's rural industry has often been criticized for lack of economy of scale (Zhou, 1990; Byrd and Zhu, 1990, p. 110). However, given the high demand instability caused by economic and administrative shocks mentioned above, it is not rational to pursue economy of scale single-mindedly. In fact, Sharkey proves that "in a world of uncertainty there can be no optimum scale of plant or minimum efficient scale, although the same cost functions in a world of certainty clearly do imply a single optimum size of plant" (Sharkey, 1977, p. 371). China's township and village governments seem to understand this theorem, and their decision to keep their enterprises relatively small is an institutional arrangement for reducing avoidable costs rather than a sign of ignorance about economies of scale.

Another type of avoidable costs is the fixed wage (Clark, 1923, p. 357). It follows that a flexible payment system will reduce avoidable costs and thus increase flexibility of production. China's rural enterprises have done just that. Most of these enterprises use, at least partially, piece-rate and/or a "contract responsibility system," so that wage payment is not totally independent of output. According to the survey by the State Statistical Bureau mentioned above, the closing rate of rural enterprises at the time of economic adversity (such as austerity in 1986 and 1989) is high, while the reopening rate is also high when times get better. This flexible adjustment between agriculture and the rural industrial sector is made possible by community governments' policy of "supporting agriculture from the profits of rural industry" (Yi Gong Pu Nong) which, among other things, establishes a common pool for aiding adjustment in bad economic times. All this shows that flexible specialization requires not only competition, but cooperation at the level of whole community.

Fei's concern may also be connected to Roberto M. Unger's effort to "rescue" petty commodity production in our time of post-Fordism. The "petty commodity production" refers to the economy of small-scale, relatively equal producers, operating through a mix of cooperative organization and independent activity. Both the positive social sciences and Marxism consider that "petty commodity production" is doomed to failure, because it precludes the economies of scale in production and exchange vital to technological dynamism. Unger sees "petty commodity production" differently. He neither accepts nor rejects it in its unreconstructed form. Rather, he tries to "rescue" petty commodity production by inventing new economic and political institutions. For example, we can satisfy the imperative of economies of scale by finding a "method of market organization that makes it possible to pool capital, technologies and manpower without distributing permanent and unqualified rights to their use." This solution amounts to the new regime of property rights in Unger's programmatic proposal, discussed below. We can invent new institutions rescuing from the old dream of yeoman democracy and small-scale independent property the kernel of a practical alternative, open to economic and technological dynamics as well as to democratic ideals.[39]

Unger draws out the affirmative democratizing potential in that most characteristic theme of modern legal analysis: the understanding of property as a "bundle of rights." He proposes to dismember the traditional property right and vesting its component faculties in different kinds of right-holders. Among these successors

to the traditional owner will be firms, workers, national and local government, intermediate organization, and social funds. He opposes the simple reversion of conventional private ownership to state ownership and workers' cooperatives, because this reversion merely redefines the identity of the owner without changing the nature of "consolidated" property. He argues for a three-tier property structure: the central capital fund, established by the central democratic government for ultimate decisions about social control of economic accumulation; the various investment funds established by the central capital fund for capital allotment on a competitive basis; and the primary capital takers, made up of the teams of workers, engineers, and entrepreneurs.

We can appreciate Unger's ideas about "disintegrated property" from the standpoints of both the radical-leftist tradition and the liberal tradition. From the perspective of the radical leftists, Unger's program is related to Proudhon's petty bourgeois radicalism. Proudhon was a forerunner of the theory of property as a "bundle of rights," and his classic work *What is Property?* provides a thorough critique of "consolidated property." It is important to realize that, in its economic aspects, Unger's program amounts, in a sense, to a synthesis of Proudhonian, Lassallean, and Marxist thinking. From the petty bourgeois radicalism of Proudhon and Lassalle, he absorbs the importance of the idea of economic decentralization both for economic efficiency and political democracy; from the Marxist critique of petty bourgeois socialism, he comes to realize the inherent dilemmas and instability of petty commodity production. This realization stimulates Unger to reverse petit bourgeois radicalism's traditional aversion to national politics. He develops proposals for decentralized cooperation between government and business. He connects these proposals with reforms designed to accelerate democratic politics through the rapid resolution of impasse among branches of governments to heighten and sustain the level of institutionalized political mobilization, and to deepen and generalize the independent self-organization of civil society.

From the perspective of liberal tradition, Unger's program represents an effort to take both economic decentralization and individual freedom one step further. In today's organized, corporatist "capitalist" economies, economic decentralization and innovation have been sacrificed to the protection of the vested interests of capital and labor in advanced industrial sectors. Unger's program remains more true to the liberal spirit of decentralized coordination and innovation than does the current practice of neoliberalism and social democracy. Conventional institutionally conservative liberalism takes absolute, unified property right as the model for all other rights. By replacing absolute, consolidated property rights with a scheme for reallocation of the disintegrated elements of property among different types of right-holders, Unger both rejects and enriches the liberal tradition. He argues that the Left should reinterpret rather than abandon the language of rights. He goes beyond Proudhon–Lassall–Marx and the liberal tradition by reconstructing a system of rights which comprises four types: immunity rights, market rights, destabilization rights, and solidarity rights. In this sense, we can understand why Unger sometimes names his program "superliberal" rather than antiliberal. Any

reader of John Stuart Mill's *Autobiography* would recognize that "superliberalism" – realizing liberal aspirations by changing liberal institutional forms – recalls Mill's new thinking after his mental crisis.

Thus, we may view Unger's programmatic alternative as a synthesis of the petty bourgeois socialist tradition and the liberal tradition. This synthesis may be called "liberal socialism." The vision of "liberal socialism" will compete with Marxist, social democratic, and neoliberal visions in China and the world.

The petty bourgeois can only liberate itself after it liberates mankind as a whole![40]

Notes

1 Marx and Engels famously predict the disappearance of petty bourgeoisie in their *Communist Manifesto*: "In countries where modern civilization has become fully developed, a new class of petty bourgeois has been formed, fluctuating between proletariat and bourgeoisie, and ever renewing itself as a supplementary part of bourgeois society. The individual members of this class, however, are being constantly hurled down into the proletariat by the action of competition, and, as Modern Industry develops, they even see the moment approaching when they will completely disappear as an independent section of modern society." However, their prediction does not come true. According to Erik Olin Wright's recent study, the petty bourgeois has been increasing in numbers. See his *Class Counts: Comparative Studies in Class Analysis*, Cambridge University Press, 1997.

2 Joseph Proudhon, "What is Property", Cambridge University Press, 1994 edition, pp. 82–83.

3 Drawing on H.L.A. Hart's distinction between "special rights" and "general rights", Jeremy Waldron makes a distinction between "general-right-based arguments for private property" and "special-right-based argument for private property." As he points out, Proudhon is successful in arguing against "general-right-based arguments for private property." See Waldron, *The Right to Private Property*, Oxford University Press, 1988, p. 324.

4 The "Proudhon strategy" may be summarized in his own words: "Every argument which has been invented in behalf of property, whatever it may be, always and of necessity leads to equality; that is to the negation of property" (Proudhon, ibid, p. 66).

5 The "village" here mostly means "natural village". In some cases, land leases are issued by the "administrative village" – a higher entity than "natural village".

6 On Mill's socialist ideals after the 1848 Revolution, see Michael Levin, *The Condition of England Question: Carlyle, Mill and Engels*, Macmillan, 1998.

7 Cited in *Collective Works of John Stuart Mill*, University of Toronto Press, 1967, vol. 5, p. 462.

8 This was exactly one of the reasons why Adam Smith was against limited liability for shareholders in his famous *Wealth of Nations*.

9 There is an interesting theoretical connection between Keynes and Proudhon via Silvio Gesell. See Dudley Dillard, "Keynes and Proudhon," *The Journal of Economic History*, May 1942, pp. 63–76.

10 James Meade, *Liberty, Equality and Efficiency*, New York: New York University Press, 1993, p. 152.

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

12 It is important to note that both systems differ significantly from the ESOP in the U.S.A. ESOP promotes "worker participation in the firm's fortunes only in so far as a part of the work'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" (James Meade, "Alternative Systems of Business Organization and of Workers' Remuneration," London: Allen & Unwin, 1986, p. 117).

13 In an article I wrote in Chinese in 1994, I argued that the SCS should be considered as an institutional innovation. This article appears to have had an impact on the final decision of the top authority to allow SCS to spread in rural China. See Cui Zhiyuan, "Zhidu Chuangxin He Dierci Sixiang JiaFang", *Beijing QingnianBao*, July 24,1994.

14 Fernand Braudel, *Civilization and Capitalism 15th–18th Century, The Wheels of Commerce*, vol. 2, California: University of California Press, 1992, pp. 231, 237.

15 Fernand Braudel, *Afterthoughts on Material Civilization and Capitalism*, Baltimore, MD: Johns Hopkins University Press, 1977, p. 62.

16 For details of these two types of real estate market in China, see Wang Xiaoqiang, "Reports from He Long Jiang", *Shi Jie*, 6, 2002.

17 Maxim Boycko, Andrei Shleifer and Robert Vishny, *Privatizing Russia*, Cambridge, MA: The MIT Press, 1995, p. 83.

18 Ibid., p. 79.

19 Ibid, p. 117.

20 The governmental regulation requires that tradable A shares should account for no less than 25 per cent of a company's initial public offering.

21 Louis Hartz, *Economic Policy and Democratic Thought:Pennsylvania,1776–1860*, Cambridge, MA: Harvard University Press, 1948.

22 See Robert Stanley, *Dimensions of Law in the Service of Order: The Origins of the Federal Income Tax 1861–1913*, Oxford: Oxford University Press, 1993.

23 Meades, 1993, p. 95.

24 Keynes, *General Theory of Employment, Interest and Money*, London: Macmillan, 1936, p. 234.

25 Silvio Gesell, *The Natural Economic Order*, p. 9.

26 Keynes, *General Theory*, p. 355.

27 In his letter to his brother, Joyce said: "it is a mistake for you to imagine that my political opinions are those of a universal lover: but they are those of a socialist artist." See *Letters of James Joyce*, edited by Richard Ellmann, London: Faber and Faber, 1966, vol. 2, p. 89.

28 James Joyce, *Ulysses*, New York: Random House, 1987, p. 803.

29 See Tim Redman, *Ezra Pound and Italian Fascism*, esp. ch. 5, "The Discovery of Gesell," Cambridge: Cambridge University Press, 1991.

30 Gosta Werner, "James Joyce and Sergey Eisentein," *James Joyce Quarterly*, 1990, pp. 491–507.

31 Robert Musil also seems to be under the influence of Gesell's theory of money. Musil wrote in 1923: "During the recent period of revolution and confusion, a kind of natural economy involving every imaginable form of favoritism established itself everywhere. This point needs to be made, since many people seem to believe that abolishing money would abolish selfishness. But selfishness is as old and eternal as its opposite, social feelings" (Robert Musil, *Precision and Soul*, Chicago, IL: University of Chicago Press, 1990, p. 181.

32 Fei, Hsiao Tung, *Peasants' Life In China*, 1939, London: Macmillan, p. 283.

33 Ibid., p. 285.

34 Translated by myself from Fei's book *Xiang Tu Chung Jian* (*Rural Reconstruction*), Shanghai: Guancha Publishers, 1948. The citation is from the section entitled "Electricity and internal combustion engine make it possible to decentralize modern

industrial production." However, this crucial section was missed in Margaret Park Redfield's English translation of the book (The English title is *China's Gentry*, with an introduction by Robert Redfield, Chicago, IL: University of Chicago Press, 1953).

35 Michael Piore and Charles Sabel, *Second Industrial Divide*, Basic Books, 1984.

36 Certainly, I do not deny the tremendous importance of general-purpose technology for flexible specialization. According to the data collected by the International Institute for Applied System Analysis in 1989, there are about 800 "flexible manufacturing systems" (FMS) now in operation around the world. The FMS are used to produce a variable number of product varieties: "30% produce less than ten varieties, 44% between ten and 100, 22% between 100 and 1,000, and the remaining 4 per cent used to produce more than 1,000 product varieties" (Boyer, 1991, p. 765). My intention is only to emphasize that flexible specialization is also possible in the developing countries without many general-purpose machines. This claim is consistent with Sabel (1986), who argues that flexible specialization should have implications for industrialization in the Third World.

37 In my view, only by studying institutional underpinnings can we understand why a specific flexible technology, such as the Jacquard loom, did or did not develop and spread. This is consistent with Sabel and Zeitlin's (1985) view on "historical alternatives to mass production."

38 This is my illustration, which is still imprecise. Strictly speaking, avoidable cost means that "cost function is not convex on the closed set X 0 and is convex only on the open set X 0" (see Telser, 1991, pp. 228–229).

39 Roberto M. Unger, Politics, edited by Zhiyuan Cui, New York: Verso, 1997.

40 There is a debate among historians about the political inclination of the petty bourgeois in modern history. According to Arno Mayer, the petty bourgeois was a swing sector between the conservative and the radical forces, and became increasingly conservative after 1871 (See Arno Mayer, "The Lower Middle Class as Historical Problem," *Journal of Modern History*, September 1975, pp. 409–436). George Orwell famously depicts the petty bourgeois in the following way: "The real importance of this class is that they are the shock-absorbers of the bourgeoisies" (see his *The Road to Wigan Pier*, London, 1937). However, Richard Hamilton's important study on the social basis of German fascism shows that the highest level of support for Hitler came from the grand bourgeoisie rather than the petty bourgeois (See his *Who Voted for Hilter*, Princeton, NJ: Princeton University Press, 1982). The petty bourgeois socialism program presented here may be viewed as a break away from petty bourgeois conservatism and an innovation in the tradition of petty bourgeois radicalism.

10 Pension funds and responsible accumulation

The choices facing China

Robin Blackburn

As a result of medical advances and improved social conditions, life expectancy is growing in China. This is, of course, a very good thing. However, taken in conjunction with the one-child policy, it has already raised the proportion of the elderly in the population and is set to raise it even more dramatically in future decades. As in most countries in the world today China's success brings a challenge. As it modernizes and grows, so it will need to be able to furnish pensions to its old people. With greater geographical mobility as well as longer lives, relying on the family alone – especially the smaller family produced by the one-child policy – is no longer enough. However, China is not the first state to confront these problems, or something like them. It will be able to study the lessons of pension provision in other countries.

In an ageing society, differing methods of furnishing pension provision pose a critical strategic choice, with wide implications for the health of the whole economy. In the more successful and advanced countries the ability to mobilize retirement savings has played a crucial role in fostering economic growth while the ability of the state to ensure a livelihood to its citizens in old age furnishes a key test for political leaders. The traditional pattern has been for the state to guarantee a basic state pension to all its citizens, financing this by means of a special tax or social insurance contribution. This has been true even in the United States, with its strong financial sector and famous individualism. The failure of commercial organizations to supply reliable pensions led President Roosevelt to introduce the beginnings of such a system with his Social Security Act of 1935. Subsequently US Social Security has withstood several attempts at privatization and commanded such popular support that it has become 'the third rail' of American politics. While US social and political arrangements are generally hostile to redistribution, Social Security does redistribute from richer regions, and citizens, to poorer ones. In addition, the US debate on social security has elicited outstanding contributions from such writers as Joseph Stiglitz (Columbia), Alicia Munnell (Boston College) and Peter Diamond (MIT) who defend public provision.

In the United States and Britain the basic state pension now only offers subsistence and is paid for by a social insurance contribution which works like a payroll tax. The universal pension is supplemented by occupational and private pensions which supply a secondary source of retirement income for about half of