Readings in comparative sociology of law

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INTRODUCTION

China’s leaders have identified the main problem in China as low productivity. They have formulated a theoretical explanation centered around the proposition that China is passing through an early stage of the socialist transition that they call the primary socialist commodity stage. In this stage, they say, direct government planning and management of economic development hinder the development of China’s productive forces. Therefore, they have proposed reforms, and call on lawyers to formulate appropriate laws and regulations to ensure their success.

The readings in this Chapter consists of excerpts from statements concerning the theoretical basis for the Reforms, including: (1) the Communique of the Third Plenary Session of the 11th Central Committee of the Communist Party of China (December 22, 1978); (2) the Resolution on Certain Questions in the History of Our Party since the Founding of the People’s Republic of China, Adopted by the Sixth Plenary Session of the 11th Central Committee of the Communist Party of China, June 27, 1981; (3) Decision of the Central Committee of the Communist Party of China on Reform of the Economic Structure, adopted at the 12th Central Committee of the Communist Party of China at its Third Plenary Session, October 20, 1984; (4) the Report of the General Secretary of the CPC, Zhao Ziyang, at the 13th National Congress of the CPC, October 25-Nov. 1, 1987; and (5) Zhao

The reader is asked to recast these various documents into the problem-solving mode: What difficulty do they identify as requiring explanation and solution? What explanations do they offer? Do they supply data to support those explanation? What solutions do they propose? Are those solutions related to the causes revealed by the explanation? Which groups in society do those solutions tend to favour? Do they put forward a new, fourth theory of development not discussed in Chapters VI and VII, or do they use rather different language to incorporate elements from one or more of the three sets of theories earlier introduced?

These readings suggest three sets of issues with which students of Sociology of Law and its application to China must deal. First, given an understanding of the themes of economics and their legal analogues, what broader implications do the Reforms introduce for development in China? Ultimately, all Chinese citizens will have to examine and resolve the seeming contradictions which the Reforms may introduce. Those interested in Sociology of Law, however, will need to address these issues explicitly in formulating new law -- and their answer may influence the outcome of the Reforms.

The second set of issues relates to the formulation of specific laws to deal with specific problems introduced by the Reforms. The remainder of this set of readings will introduce concepts and research agendas for dealing with these in particular contexts.
Third, in particular the reader should look for instances in which the basic policy declaration explicitly purports to rest on a socialist perspective, but the particular tactics adopted seem to derive from some form of capitalist theory. (For example, it could be argued that the Patent Law constitutes an example of that). The Reforms seek to introduce some market mechanisms into China's basically socialist economy. Apparently, to some, it seems a logical theoretical step to look for guidance to the theories that purport to guide the development of the great capitalist economies and their legal orders: supply-side economics and conservative law and economics, or perhaps basic needs theory and liberal law and economics. That "logical theoretical step" assumes, however, (1) that those theories "worked" under capitalism, and (2) that the markets in a capitalist society have in some meaningful sense the same characteristics as markets in an economy in the stage of primary socialist commodity production. Are those propositions true? Is that "logical theoretical step" a valid one? Do any dangers lurk in it?
It has been shown in practice that whenever we maintain the society's necessary political stability and work according to objective economic law, our national economy advances steadily and at a high speed; otherwise, our national economy develops slowly or even stagnates and falls back. While we have achieved political stability and unity and are restoring and adhering to the economic policies that proved effective over a long time, we are now, in the light of the new historical conditions and practical experience, adopting a number of major new economic measures, conscientiously transforming the system and methods of economic management, actively expanding economic co-operation on terms of equality and mutual benefit with other countries on the basis of self-reliance, striving to adopt the world's advanced technologies and equipment and greatly strengthening scientific and educational work to meet the needs of modernization. Therefore, there can be no doubt that our country's economic construction is bound to advance rapidly and steadily once again.

The session points out that the restoration and development of our national economy since the downfall of the gang of four has been very rapid, and that there have been marked increases in total industrial and agricultural output value and revenue in 1978. But it has to be noted that due to sabotage by Lin Biao and the gang of four over a long period there are still quite a few problems in the national economy, some major imbalances have not been completely changed and some disorder in production, construction, circulation and distribution has not been fully eliminated. A series of problems left hanging for years as regards the people's livelihood in town and country must be appropriately solved. We must conscientiously solve these problems step by step in the next few years and effectively achieve a comprehensive balance, so as to lay a solid foundation for rapid development. We must make concentrated efforts within the limits of our capabilities to carry out capital construction actively and steadily and not rush things, wasting manpower and material.

The session points out that one of the serious shortcomings in the structure of economic management in our country is the overconcentration of authority, and it is necessary boldly to shift it under guidance from the leadership to lower levels so that the local authorities and industrial and agricultural enterprises will have greater power of decision in management under the guidance of unified state planning; big efforts should be made to simplify bodies at various levels charged with economic administration and transfer most of their functions to such enterprises as specialized companies or complexes; it is necessary to act firmly in line with economic law, attach importance to the role of the law of value, consciously combine ideological and political work with economic methods and give full play to the enthusiasm of cadres and workers for production; it is necessary, under the centralized leadership of the Party, to tackle conscientiously the failure to make a distinction between the Party, the government and the enterprise and to put a stop to the substitution of Party for government and the substitution of government for enterprise administration, to institute a division of responsibilities among different levels, types of work and individuals, increase the authority and responsibility of administrative bodies and managerial personnel, reduce the number of meetings and amount of paper work to raise work efficiency, and conscientiously adopt the practices of examination, reward and punishment, promotion and demotion. These measures will bring into full play the initiative, enthusiasm and creativeness of four levels, the central departments, the local authorities, the enterprises and the workers, and invigorate all branches and links of the socialist economy.
The plenary session holds that the whole Party should concentrate its main energy and efforts on advancing agriculture as fast as possible because agriculture, the foundation of the national economy, has been seriously damaged in recent years and remains very weak on the whole. The rapid development of the national economy as a whole and the steady improvement in the living standards of the people of the whole country depend on the vigorous restoration and speeding up of farm production, on resolutely and fully implementing the policy of simultaneous development of farming, forestry, animal husbandry, side-occupations and fisheries, the policy of taking grain as the key link and ensuring an all-round development, the policy of adapting to local conditions and appropriate concentration of certain crops in certain areas, and gradual modernization of farm work. This requires first of all releasing the socialist enthusiasm of our country's several hundred million farmers paying full attention to their material well-being economically and giving effective protection to their democratic rights politically. Taking this as the guideline, the plenary session set forth a series of policies and economic measures aimed at raising present agricultural production. The most important are as follows: The right of ownership by the people's communes, production brigades and production teams and their power of decision must be protected effectively by the laws of the state; it is not permitted to command the manpower, funds, products and material of any production team; the economic organizations at various levels of the people's commune must conscientiously implement the socialist principle of "to each according to his work," work out payment in accordance with the amount and quality of work done, and overcome equitarianism; small plots of land for private use by commune members, their domestic side-occupations, and village fairs are necessary adjuncts of the socialist economy, and must not be interfered with; the people's communes must resolutely implement the system of three levels of ownership with the production team as the basic accounting unit, and this should remain unchanged.

Organizations at various levels of the people's commune must firmly carry out democratic management and election of cadres and make public their accounts. The session holds that, for a fairly long period to come, the national procurement of grain and the grain purchase prices will continue to be based on the five-year quotas 1971-75 and that grain purchase prices never be excessive. To reduce the disparity in prices between industrial and agricultural products, the plenary session suggests that the State Council make a decision to raise the grain purchase price by 20 percent, starting in 1979 when the summer grain is marketed, and the price for the amount purchased above the quota by an additional 50 percent, and also raise the purchase price for cotton, oil-bearing and sugar crops, animal by-products, aquatic and forestry products and other farm and sideline products step by step, depending on the concrete conditions. The factory price and the market price of farm machinery, chemical fertilizer, insecticides, plastics and other manufactured goods for farm use will be cut by 10 to 15 percent in 1979 and 1980 on the basis of reduced cost of production, and these benefits will in general be passed on to the farmers. After the purchase price of farm produce is raised, the urban workers must be guaranteed against a fall in their living standards. The market price of all food grain will remain unchanged, and the selling price of other farm products needed for daily life must also be kept stable; if some prices have to be raised, appropriate subsidies will be given to the consumers.
The plenary session points out that it is imperative to improve the livelihood of the people in town and country step by step on the basis of the growth of production. The bureaucratic attitude of paying no attention at all to urgent problems in the people's livelihood must be resolutely opposed. On the other hand, since our economy is still very backward at present, it is impossible to improve the people's livelihood very rapidly and it is essential to keep the people informed on the relevant state of affairs and to intensify education in the revolutionary ideas of self-reliance and hard struggle among the youth and other sectors of the people, and leading comrades at all levels must make themselves exemplars in this regard.

The session held a serious discussion on the question of democracy and the legal system. It holds that socialist modernization requires centralized leadership and strict implementation of various rules and regulations and observance of labour discipline. Bourgeois factionalism and anarchism must be firmly opposed. But the correct concentration of ideas is possible only when there is full democracy. Since for a period in the past democratic centralism was not carried out in the true sense, centralism being divorced from democracy and there being too little democracy, it is necessary to lay particular emphasis on democracy at present, and on the dialectical relationship between democracy and centralism, so as to make the mass line the foundation of the Party's centralized leadership and the effective direction of the organizations of production. In ideological and political life, among the ranks of the people, only democracy is permissible and not suppression or persecution. It is essential to reiterate the "principle of three noes": not seizing on others' faults, not putting labels on people and not using the big stick. Leadership at all levels should be good at concentrating the correct ideas of the masses and making appropriate explanation and persuasion in dealing with incorrect ideas. The constitutional rights of citizens must be resolutely protected and no one has the right to infringe upon them.

In order to safeguard people's democracy, it is imperative to strengthen the socialist legal system so that democracy is systematized and written into law in such a way as to ensure the stability, continuity and full authority of this democratic system and these laws; there must be laws for people to follow, these laws must be observed, their enforcement must be strict and law breakers must be dealt with. From now on, legislative work should have an important place on the agenda of the National People's Congress and its Standing Committee. Procuratorial and judicial organizations must maintain their independence as is appropriate; they must faithfully abide by the laws, rules and regulations, serve the people's interests, keep to the facts, guarantee the equality of all people before the people's laws and deny anyone the privilege of being above the law.
NOTES AND QUESTIONS

1. What does the 1978 Communique identify, expressly or by necessary implication, as the principal difficulty that China faced in 1978? What explanations does it imply for that difficulty? What strategy does it suggest for solving it?

2. What does the communique say constitutes the relative importance of improving agricultural production?

3. What role does the Communique suggest law should play in implementing this strategy?

4. The 1978 Communique initiated the Reforms that have dominated Chinese economic and political dialogue ever since. Does it mention the market or its importance? Does it discuss the "primary socialist commodity stage"? What does it contain pointing towards an expansion of the market as a central institution in the economy?

late, are loyal to the Party and people and steadfast in their belief in the cause of socialism and communism. Most of the intellectuals, model workers, patriotic democrats, patriotic overseas Chinese and cadres and masses of all strata and all nationalities who had been wronged and persecuted did not waver in their love for the motherland and in their support for the Party and socialism. Party and state leaders such as Comrades Liu Shaoli, Peng Dehuai, He Long and Tao Zedong and all other Party and non-Party comrades who were persecuted to death in the “cultural revolution” will live forever in the memories of the Chinese people. It was through the joint struggles waged by the entire Party and the masses of workers, farmers, PLA officers and men, intellectuals, educated youth and cadres that the havoc wrought by the “cultural revolution” was somewhat mitigated. Some progress was made in our economy despite tremendous losses. Grain output increased relatively steadily. Significant achievements were scored in industry, communications and capital construction and in science and technology. New railways were built and the Changjiang River Bridge at Nanjing was completed; a number of large enterprises using advanced technology went into operation; hydrogen bomb tests were successfully undertaken and man-made satellites successfully launched and retrieved; and new hybrid strains of long-grained rice were developed and popularized. Despite the domestic turmoil, the People’s Liberation Army bravedly defended the security of the motherland. And new prospects were opened up in the sphere of foreign affairs. Needless to say, none of these successes can be attributed in any way to the “cultural revolution,” without which we would have scored our greater achievements for our cause. Although we suffered from sabotage by the counter-revolutionary Lin Biao and Jiang Qing cliques during the “cultural revolution,” we won out over them in the end. The Party, the people’s political power, the people’s army and Chinese society on the whole remained unchanged in nature. Once again history has proved that our people are a great people and that our Party and socialist system have enormous vitality.

14. In addition to the above-mentioned immediate cause of Comrade Mao Zedong’s mistake in leadership there are complex social and historical causes underlying the “cultural revolution” which dragged on for as long as a decade. The main causes are as follows:

a) The history of the socialist movement is not long and that of the socialist countries even shorter. Some of the laws governing the development of socialist society are relatively clear, but many more remain to be explored. Our Party had long existed in circumstances of war and fierce class struggle. It was not fully prepared, either ideologically or in terms of scientific study, for the swift advent of the new-born socialist society and for socialist construction on a national scale. The scientific works of Marx, Engels, Lenin and Stalin are our guide to action, but can in no way provide ready-made answers to the problems we may encounter in our socialist cause. Even after the basic completion of socialist transformation, given the guiding ideology, we were liable, owing to the historical circumstances in which our Party grew, to continue to regard issues unrelated to class struggle as its manifestations when observing and handling new contradictions and problems which cropped up in the political, economic, cultural and other spheres in the course of the development of socialist society. And when confronted with actual class struggle under the new conditions, we habitually fell back on the familiar methods and experiences of the large-scale, turbulent mass struggle of the past, which should no longer have been mechanically followed. As a result, we substantially broadened the scope of class struggle. Moreover, this subjective thinking and practice divorced from reality seemed to have a “theoretical basis” in the writings of Marx, Engels, Lenin and Stalin because certain ideas and arguments set forth in them were misunderstood or dogmatically interpreted. For instance, it was thought that equal rights, which reflect the exchange of equal amounts of labour and are applicable to the distribution of the means of consumption in socialist society, or “bourgeois right” as it was designated by Marx, should be restricted and criticized, and so the principle of “to each according to his work” and that of material interest should be restricted and criticized; that small production would continue to engender capitalism and the Bourgeoisie daily and hourly on a large scale even after the basic completion of socialist transformation, and so a series of “left” economic policies and policies on class struggle in urban and rural areas were formulated; and that all ideological differences inside the Party were reflections of class struggle in society, and so frequent and acute inner-Party struggles were conducted. All this led us to regard the error in magnifying class struggle as an act in defence of the purity of Marxism. Furthermore, Soviet leaders started a polemic between China and the Soviet Union, and
turned the arguments between the two Parties on matters of principle into a
conflict between the two nations, bringing enormous pressure to bear upon
China politically, economically and militarily. So we were forced to wage a
just struggle against the big-nation chauvinism of the Soviet Union. In these
circumstances, a campaign to prevent and combat revisionism inside the
country was launched, which spread the error of broadening the scope of
class struggle in the Party, so that normal differences among comrades inside
the Party came to be regarded as manifestations of the revisionist line or of
the struggle between the two lines. This resulted in growing tension in
inner-Party relations. Thus it became difficult for the Party to resist certain
"left" views put forward by Comrade Mao Zedong and others, and the
development of these views led to the outbreak of the protracted "cultural
revolution."

b) Comrade Mao Zedong's prestige reached a peak and he began to get
arrogant at the very time when the Party was confronted with the new task of
shifting the focus of its work to socialist construction, a task for which the
utmost caution was required. He gradually divorced himself from practice
and from the masses, acted more and more arbitrarily and subjectively, and
increasingly put himself above the Central Committee of the Party. The
result was a steady weakening and even undermining of the principle of
collective leadership and democratic centralism in the political life of the
Party and the country. This state of affairs took shape only gradually and the
Central Committee of the Party should be held partly responsible. From the
Marxist viewpoint, this complex phenomenon was the product of given
historical conditions. Blaming this on only one person or on only a handful
of people will not provide a deep lesson for the whole Party or enable it to
find practical ways to change the situation. In the communist movement,
leaders play quite an important role. This has been borne out by history time
and again and leaves no room for doubt. However, certain grievous
deviations, which occurred in the history of the international communist
movement owing to the failure to handle the relationship between the Party
and its leader correctly, had an adverse effect on our Party, too. Feudalism in
China has had a very long history. Our Party fought in the firmest and most
thoroughgoing way against it, and particularly against the feudal system of
land ownership and the landlords and local tyrants, and fostered a fine
tradition of democracy in the anti-feudal struggle. But it remains difficult to
eliminate the evil ideological and political influence of centuries of feudal
autocracy. And for various historical reasons, we failed to institutionalize
and legalize inner-Party democracy and democracy in the political and social
life of the country, or we drew up the relevant laws but they lacked due
authority. This meant that conditions were present for the overconcentration of Party power in individuals and for the development of
arbitrary individual rule and the personality cult in the Party. Thus, it was
hard for the Party and state to prevent the initiation of the "cultural
revolution" or check its development.

A Great Turning Point in History

25 The victory won in overthrowing the counter-revolutionary Jiang
Qing clique in October 1976 saved the Party and the revolution from
disaster and enabled our country to enter a new historical period of
development. In the two years from October 1976 to December 1978 when
the Third Plenary Session of the 11th Central Committee of the Party was
convened, large numbers of cadres and other people most enthusiastically
devoted themselves to all kinds of revolutionary work and the task of
construction. Notable results were achieved in exposing and repudiating the
crimes of the counter-revolutionary Jiang Qing clique and uncovering their
fractional setup. The consolidation of Party and state organizations and the
redress of wrongs suffered by those who were unjustly, falsely and wrongly
charged began in some places. Industrial and agricultural production was
fairly swiftly restored. Work in education, science and culture began to
return to normal. Comrades inside and outside the Party demanded more
and more strongly that the errors of the "cultural revolution" be corrected,
but such demands met with serious resistance. This, of course, was partly
due to the fact that the political and ideological confusion created in the
decade-long "cultural revolution" could not be eliminated overnight, but it
was also due to the "left" errors in the guiding ideology that Comrade Hua
Guofeng continued to commit in his capacity as Chairman of the Central
Committee of the Chinese Communist Party. On the proposal of Comrade
Mao Zedong, Comrade Hua Guofeng had become First Vice-Chairman of
the Central Committee of the Party and concurrently Premier of the State
33. Socialism and socialism alone can save China. This is the unalterable conclusion drawn by all our people from their own experience over the past century or so; it likewise constitutes our fundamental historical experience in the 32 years since the founding of our People's Republic. Although our socialist system is still in its early phase of development, China has undoubtedly established a socialist system and entered the stage of socialist society. Any view denying this basic fact is wrong. Under socialism, we have achieved successes which were absolutely impossible in old China. This is a preliminary and at the same time convincing manifestation of the superiority of the socialist system. The fact that we have been and are able to overcome all kinds of difficulties through our own efforts testifies to its great vitality. Of course, our system will have to undergo a long process of development before it can be perfected. Given the premise that we uphold the basic system of socialism, therefore, we must strive to reform those specific features which are not in keeping with the expansion of the productive forces and the interests of the people, and to staunchly combat all activities detrimental to socialism. With the development of our cause, the immense superiority of socialism will become more and more apparent.

34. Without the Chinese Communist Party, there would have been no New China. Likewise, without the Chinese Communist Party, there would be no modern socialist China. The Chinese Communist Party is a proletarian party armed with Marxism-Leninism and Mao Zedong Thought and imbued with a strict sense of discipline and the spirit of self-criticism, and its ultimate historical mission is to realize communism. Without the leadership of such a party, without the flesh-and-blood ties it has formed with the masses through protracted struggles and without its painstaking and effective work among the people and the high prestige it consequently enjoys, our country — for a variety of reasons, both internal and external — would inexorably fall apart and the future of our nation and people would inexorably be forfeited. The Party leadership cannot be exempt from mistakes, but there is no doubt that it can correct them by relying on the close unity between the Party and the people, and in no case should one use the Party's mistakes as a pretext for weakening, breaking away from or even sabotaging its leadership. That would only lead to even greater mistakes and court grievous disasters. We must improve Party leadership in order to uphold it. We must resolutely overcome the many shortcomings that still exist in our Party's style of thinking and work, in its system of organization and leadership and in its contacts with the masses. So long as we earnestly uphold and constantly improve Party leadership, our Party will definitely be able to undertake the tremendous tasks entrusted to it by history.

35. Since the Third Plenary Session of its 11th Central Committee, our Party has gradually mapped out the correct path for socialist modernization suited to China's conditions. In the course of practice, the path will be broadened and become more clearly defined, but, in essence, the key points can already be determined on the basis of the summing up of the negative as well as positive experiences since the founding of the People's Republic, and particularly of the lessons of the "cultural revolution."

a) After socialist transformation was fundamentally completed, the principle contradiction our country has had to resolve is that between the growing material and cultural needs of the people and the backwardness of social production. It was imperative that the focus of Party and government work be shifted to socialist modernization centering on economic construction and that the people's material and cultural life be gradually improved by means of an immense expansion of productive forces. In the final analysis, the mistake we made in the past was that we failed to persevere in making this strategic shift. What is more, the preposterous view opposing the so-called "theory of the unique importance of productive forces," a view diametrically opposed to historical materialism, was put forward during the "cultural revolution." We must never deviate from this focus, except in the event of large-scale invasion by a foreign enemy (and even then it will still be necessary to carry on such economic construction as wartime conditions require and permit). All our Party work must be subordinated to and serve this central task: economic construction. All our Party cadres, and particularly those in economic departments, must diligently study economic theory and economic practice as well as science and technology.

b) In our socialist economic construction, we must strive to reach the goal of modernization systematically and in stages, according to the conditions and resources of our country. The prolonged "left" mistakes we made in our economic work in the past consisted chiefly in departing from Chinese realities, trying to exceed our actual capabilities and ignoring the economic returns of construction and management as well as the scientific confirmation of our economic plans, policies and measures, with their
concomitants of colossal waste and losses. We must adopt a scientific attitude, gain a thorough knowledge of the realities and make a deep analysis of the situation, earnestly listen to the opinions of the cadres, masses and specialists in various fields and try our best to act in accordance with objective economic and natural laws and bring about a proportionate and harmonious development of the various branches of economy. We must keep in mind the fundamental fact that China's economy and culture are still relatively backward. At the same time, we must keep in mind such favourable domestic and international conditions as the achievements we have already scored and the experience we have gained in our economic construction and the expansion of economic and technological exchanges with foreign countries, and we must make full use of these favourable conditions. We must oppose both impetuosity and passivity.

c) The reform and improvement of the socialist relations of production must be in conformity with the level of the productive forces and conducive to the expansion of production. The state economy and the collective economy are the basic forms of the Chinese economy. The working people's individual economy within certain prescribed limits is a necessary complement to public economy. It is necessary to establish specific systems of management and distribution suited to the various sectors of the economy. It is necessary to have planned economy and at the same time give play to the supplementary, regulatory role of the market on the basis of public ownership. We must strive to promote commodity production and exchange on a socialist basis. There is no rigid pattern for the development of the socialist relations of production. At every stage our task is to create those specific forms of the relations of production that correspond to the needs of the growing productive forces and facilitate their continued advance.

d) Class struggle no longer constitutes the principal contradiction after the exploitors have been eliminated as classes. However, owing to certain domestic factors and influences from abroad, class struggle will continue to exist within certain limits for a long time to come and may even grow acute under certain conditions. It is necessary to oppose both the view that the scope of class struggle must be enlarged and the view that it has died out. It is imperative to maintain a high level of vigilance and conduct effective struggle against all those who are hostile to socialism and try to sabotage it in the political, economic, ideological and cultural fields and in community life. We must correctly understand that there are diverse social contradictions in Chinese society which do not fall within the scope of class struggle and that methods other than class struggle must be used for their appropriate solution. Otherwise, social stability and unity will be jeopardized. We must unwaveringly unite all forces that can be united with and consolidate and expand the patriotic united front.

e) A fundamental task of the socialist revolution is gradually to establish a highly democratic socialist political system. Inadequate attention was paid to this matter after the founding of the People's Republic, and this was one of the major factors contributing to the initiation of the "cultural revolution." Here is a grievous lesson for us to learn. It is necessary to strengthen the building of state organs at all levels in accordance with the principle of democratic centralism, make the people's congresses at all levels and their permanent organs authoritative organs of the people's political power, gradually realize direct popular participation in the democratic process at the grass roots of political power and community life and, in particular, stress democratic management by the working masses in urban and rural enterprises over the affairs of their establishments. It is essential to consolidate the people's democratic dictatorship, improve our Constitution and laws and ensure their strict observance and inviolability. We must turn the socialist legal system into a powerful instrument for protecting the rights of the people, ensuring order in production, work and other activities, punishing criminals and cracking down on the disruptive activities of class enemies. The kind of chaotic situation that emerged in the "cultural revolution" must never be allowed to happen again.

f) Life under socialism must attain a high ethical and cultural level. We must firmly eradicat such gross fallacies as the denigration of education, science and culture and discrimination against intellectuals, fallacies which had long existed and found extreme expression during the "cultural revolution"; we must strive to raise the status and expand the role of education, science and culture in our drive for modernization. We unequivocally affirm that, together with the workers and farmers, the intellectuals are a force to rely on in the cause of socialism and that it is impossible to carry out socialist construction without culture and the intellectuals. It is imperative for the whole Party to engage in a more diligent
In the present international situation, the danger of war still exists, and it is necessary to strengthen the national defense. The building up of national defense must be in keeping with the building up of the economy. The People's army should be strengthened and strictly trained. The political work of the army must be strengthened. We must also study the military science of the modern world and the tactics of military science and further the military education of the masses.
NOTES AND QUESTIONS

1. What does the 1981 Resolution identify as the principal contradiction facing China? Is that the same as, or different from the difficulty defined in the 1978 Communique?

2. When the 1981 Resolution states that "All our Party work must be subordinated to and serve this central task -- economic construction", does it exclude consideration of equity and distribution? (Consider the statement made a few lines earlier, that "the Party's focus [will] be shifted to socialist modernization centering on economic construction and that the people's material and cultural life [will] be gradually improved by an immense expansion of productive forces.")

3. What explanation does the 1981 Resolution state or imply for the relatively low level of productive forces?

4. As its proposal for solution, what function does the 1981 Resolution assign to the planned economy? To the market? What does the 1981 Resolution state will serve as the basic form of property ownership during the phase of socialist commodity production? What role does it assign to the individual economy?

5. What do you understand the Resolution to mean by the phrase, the class struggle"? Does the Resolution imply that China need no longer pay attention to the class struggle?
11. Reform Is Aimed at Establishing a Dynamic Socialist Economic Structure

The founding of the People’s Republic of China and the establishment of the socialist system marked the end of the century-old history of our people’s misery in a semi-feudal and semi-colonial society. The system of exploitation was abolished and the people of all nationalities became real masters of their country. The people of the whole country, led by the Chinese Communist Party, have established an independent and fairly comprehensive industrial system as well as a national economic system through arduous efforts and have scored tremendous successes inconceivable in the old China, thus laying the indispensable material foundation for building China into a powerful and prosperous modern socialist country with a high level of democracy and civilization. The people of all our nationalities have come to realize through long historical experience that only socialism can save China.

The founders of Marxism predicted that by eliminating the exploitation of man by man, socialism would make possible a higher rate of labour productivity and a faster expansion of the forces of production. The profound changes that have taken place in the 33 years since the founding of the People’s Republic are an initial demonstration of the superiority of the socialist system. But this superiority, it must be pointed out, has yet to be brought into full play. Apart from historical, political and ideological causes, a major economic cause for this is a rigid economic structure that cannot meet the needs of the growing forces of production. Following are the major defects of this structure: No clear distinction has been drawn between the functions of the government and those of the enterprise; barriers exist between different departments or regions; the state has exercised excessive and rigid control over enterprises; no adequate importance has been given to commodity production, the law of value and the regulatory role of the market; and there is absolute egalitarianism in distribution. This has resulted in enterprises lacking necessary decision-making power and the practice of “eating from the same big pot” prevailing in the relations of the enterprises to the state and in those of the workers and staff members to their enterprises. The enthusiasm, initiative and creativeness of enterprises and workers and staff members have, as a result, been seriously dampened and
the socialist economy is beset of much of the vitality it should possess.

China gradually established a unified and centralized economic structure on a nationwide scale in the early post-liberation days and during the First Five-Year Plan (1953-57) when the country faced the heavy tasks of unifying its financial and other economic work, carrying out socialist transformation of capitalist industry and commerce and undertaking large-scale, planned economic construction. However, control then was not very rigid in many aspects and the measures and steps we took for socialist transformation were based on China's actual conditions and were highly creative. But with the basic completion of socialist transformation and the ever-growing scale of economic construction, the measures taken to restrict and transform capitalist industry and commerce no longer suited the new situation. The defect of excessive and rigid control gradually became manifest in some aspects of the economic structure. The Central Committee and especially the comrades in overall charge of economic work, at the Eighth National Congress of the Party in 1956 as well as before and after, perceived this problem and raised some suggestions for correction. However, our Party was, after all, inexperienced in guiding socialist construction. Certain rigid concepts about socialism developed over the years that were not in keeping with the actual conditions in China. The influence of the "left"-deviationist errors in the Party's guiding ideology after 1957, in particular, resulted in the various correct measures aimed at enlivening enterprises and developing socialist commodity economy being regarded as "capitalist." As a result of all these, the problem of overconcentration in the economic structure long remained unsolved and, what is more, became more and more serious. It is true that we tried to delegate power to lower levels on a number of occasions. But this was limited solely to readjusting the administrative power of the central and local authorities and of the different departments and regions. The critical issue of giving enterprises decision-making power was not dealt with. We therefore failed to break with outmoded conventions.

To bring about a radical change in the economic structure that hinders development of the forces of production, we must conscientiously sum up China's historical experience and study the concrete conditions and requirements for economic growth. In addition, we must draw on the world's advanced methods of management, including those of developed capitalist countries, that conform to the laws of modern, socialized production. In line with the Party's consistent principle of integrating the fundamental tenets of Marxism with China's actual conditions and the principle of adopting a correct approach towards foreign experience, the Central Committee holds that we must emancipate our minds more, follow our own road and build a socialist economic structure with Chinese characteristics that is full of vigour and vitality so as to promote the growth of the forces of production. This is the fundamental objective of our present reform.

The basic contradiction in socialist society remains that between the relations of production and the forces of production, between the superstructure and the economic base. Reform of China's economic structure means reforming, on the premise of adherence to the socialist system, a series of interrelated links and aspects of the relations of production and the superstructure that are not suited to the development of the forces of production. As a form of self-improvement and development of the socialist system, this reform is to be carried out under Party and government leadership in a planned, systematic and methodical way. It should serve to advance, and not to impair, social stability, expansion of production, improvement of the people's living standards and the growth of state revenue. The essential task of socialism is to develop the forces of production, create ever more social wealth and meet the people's growing material and cultural needs. Socialism does not mean pauperism, for it aims at the elimination of poverty. We must, with firm determination and maximum tenacity, concentrate on economic development and modernize China's industry, agriculture, national defence and science and technology. This is the inevitable trend of history and the wish of the people. In carrying out our reform, all Party comrades must unfailingly grasp the above-mentioned basic concept of Marxism and set whether the reform facilitates this task as the most important criterion for assessing the success or failure of all reforms.

III. Invigorating Enterprises Is the Key to Restructuring the National Economy

The chief and direct responsibility for industrial production and construction and commodity circulation falls on urban enterprises. They
constitute the main force spurring the growth of the forces of production and encouraging economic and technological progress. China now has over one million urban industrial, building, transport, commercial and service enterprises, with a total work force of more than 80 million. The taxes and profits delivered by urban industrial enterprises alone account for over 80 percent of the state's revenue. This means that the enthusiasm, initiative and creativity of the urban enterprises for production and operation as well as their 80 million workers and staff members must be brought into full play. In other words, the urban enterprises must have great vitality. This has a vital bearing on basic improvement of the national economy as a whole and on the state's financial and economic situation and on quadrupling China's annual industrial and agricultural output value by the end of the century, a task set by the Party's 12th National Congress. Socialism with Chinese characteristics should, first and foremost, be able to instil vitality into the enterprises. In essence, the drawbacks of our present economic structure are precisely the lack of vitality in our enterprises. Therefore, the key to restructuring the national economy, with the focus on the urban economy, is invigoration of enterprises, particularly the large and medium-sized enterprises owned by the whole people.

With this key in mind, we must handle two types of relationships satisfactorily. That means we should extend the decision-making power of enterprises owned by the whole people by establishing a correct relationship between them and the state, and safeguard the status of the workers and staff members as masters of the enterprises by establishing correct relationships between them and their enterprises.

One of the main reasons why the state exercised excessive and rigid control over enterprises in the past was to equate the concept of their ownership by the whole people with the concept of their direct operation by the state institutions. As Marxist theory and the practice of socialism have shown, ownership can be duly separated from the power of operation. To make the economic activities of all enterprises conform to the overall requirement of economic growth, the socialist state institutions must manage, inspect, guide and regulate the activities of the enterprises, as is necessary, through planning and by economic, administrative and legal means; it must use taxation and other means to concentrate in its treasury that part of enterprises' net income which should be used by the state in a unified way; it must designate, appoint and remove the principal leading members of the enterprises or approve their employment and election; and it must decide on the establishment of enterprises, their removal to other places, their switching over to other lines of products, their merger with others, suspension of operations, or closing down. However, since social demand is very complex and in a state of constant flux, since the conditions in enterprises differ in a thousand and one ways and since the economic links between enterprises are complicated, no state institution can know the whole situation fully and cope with everything in good time. If the state institutions were to directly administer and manage various kinds of enterprises owned by the whole people, it would be very hard to avoid serious subjectivism and bureaucratism, with a consequent suppression of enterprise vitality. Therefore, on the premise of following the state plans and subjecting itself to state control, the enterprise has the power to adopt flexible and diversified forms of operation; plan its production, supply and marketing; keep and budget funds it is entitled to retain; appoint, remove, employ or elect its own personnel according to relevant regulations; decide on how to recruit and use its work force, and on wages and rewards; set the prices of its products within the limits prescribed by the state; and so on. In short, the enterprise should be truly made a relatively independent economic entity and should become a producer and operator of socialist commodity production that is independent and responsible for its own profit and loss and capable of transforming and developing itself and that acts as a legal person with certain rights and duties. This is the way to ensure both overall unity of the growth of the national economy as a whole and the diversity and flexibility of individual enterprises in production and management as well as their desire to make progress. Instead of weakening socialist ownership by the whole people, this will contribute to consolidating and improving it.

The well-spring of vitality of the enterprise lies in the initiative, wisdom and creativeness of its workers by hand and brain. When the status of the working people as masters of their own enterprise is guaranteed by its rules and regulations and when their labour is closely linked with their own material benefits, their initiative, wisdom and creativeness can be brought into full play. This has been vividly and convincingly proved by our experience in rural reform. In restructuring the urban economy, it is imperative to handle correctly the relationship of the workers and staff to
their enterprise so that they are its real masters and can work as such at their jobs. This will ensure their deep interest in the operation and effectiveness of their enterprise, so that their performance is closely linked with their social prestige and material benefits. Modern enterprise calls for centralized and unified leadership and direction of production and strict labour discipline. Because ours are socialist modern enterprises, in carrying out such centralized leadership and strict discipline, we must resolutely ensure the workers and staff and their elected representatives the right to participate in democratic management of the enterprise. Under socialism, there is unity between the authority of the enterprise's leadership and the status of the working people as masters of the enterprise and their initiative and creativity. This unity is a prerequisite for the proper, effective exercise of their initiative.

Correct relations between the state and the enterprise and between an enterprise and its workers and staff are the essence and basic requirement of the restructuring of the national economy as a whole with focus on the cities. Fulfilment of this basic requirement inevitably calls for reform of every aspect of the entire economic structure. This involves a whole range of reforms including planning, pricing, economic management by state institutions, and the labour and wage system. The Central Committee is of the opinion that these reforms should be carried out step by step in harmony with the inherent connections between the various links of the national economy, according to the degree of ripening of the subjective and objective conditions and in the right order of importance, urgency and feasibility, and that they should basically be accomplished in about five years. Specific plans will be drawn up separately to this end.

IV. Establish a Planning System Under Which the Law of Value Is Consciously Applied for Developing a Socialist Commodity Economy

Socialist society practises a planned economy on the basis of public ownership of the means of production. It can thus avoid the anarchy of production and cyclical crises characteristic of capitalist society and ensure that production constantly meets the growing material and cultural needs of the people. This is one of the fundamental indicators of the superiority of a socialist economy over a capitalist economy. Since the founding of the People's Republic, we have practised a planned economy and concentrated vast financial, material and human resources on large-scale socialist economic construction, with tremendous achievements to our credit. At the same time, historical experience shows that the socialist planning system should be one that combines uniformity and flexibility. We must take into account China's vast territory and large population, the difficulty of drastically improving in a short period its poor transport conditions, its inadequate information facilities and the obviously uneven economic and cultural development of its various regions, and we must realize that because of China's rather undeveloped commodity production at the present stage, it is necessary to stimulate commodity production and exchange. In view of all this, it is all the more urgent for us to institute this planning system. If the actual conditions of our country are ignored and if we try to incorporate all economic activities into the plans and implement them by administrative orders alone in disregard of the importance of the economic levers and the market, then there will unavoidably be a discrepancy between the subjective guidelines for planning and objective conditions, with the plans seriously out of step with reality. After the October Revolution, Lenin expressed the idea when working out Russia's plan for electrification that "a complete, integrated, real plan for us at present = 'a bureaucratic utopia.'" "Don't chase it," he added. Although China's conditions today are vastly different from those of Russia at that time when its economy was in extreme difficulties, our practical experience has proved that this idea of Lenin's was not only applicable to the Russia of that day, it is also of lasting significance. We must be realistic and admit that for a considerably long time to come, our national economic plans on the whole can only be rough and elastic and that we can do no more than, by striking an overall balance in planning and through regulation by economic means, exercise effective control over major issues while allowing flexibility on minor ones. In this way, we will be able to ensure the appropriate proportions between the major economic branches and, in general, the proportionate and co-ordinated growth of the national economy.

In the reform of the planning system, it is necessary, first of all, to

discard the traditional idea of pitting the planned economy against the
commodity economy. We should clearly understand that the socialist
planned economy is a planned commodity economy based on public
ownership, in which the law of value must be consciously followed and
applied. The full development of a commodity economy is an indispensable
stage in the economic growth of society and a prerequisite for our economic
modernization. It is the only way to invigorate our economy and prompt
enterprises to raise their efficiency, carry out flexible operations and
promptly adapt themselves to complex and changing social demands. This
cannot be achieved by relying only on administrative means and mandatory
plans. Meanwhile, we must also realize that the extensive growth of a
socialist commodity economy may also lead to certain disorder in
production, and there have to be guidance, regulation and administrative
control through planning. This can be achieved under socialist conditions.
Therefore, a planned economy by no means excludes the application of the
law of value and the growth of commodity economy; they in fact form a
unity. It would be wrong to pose one against the other. The difference
between socialist and capitalist economy, as far as a commodity economy
and the law of value are concerned, lies not in whether these are still
functioning, but in the difference in ownership, in whether there is an
exploiting class and whether the working people are masters of the state, in
the different purposes of the production, in whether the law of value can be
consciously applied throughout society and in the different scopes of
commodity relations. Under our socialist conditions, neither labour power
nor land, mines, banks, railways and all other state-owned enterprises and
resources are commodities.

In the light of historical experience and the practice since the Third
Plenary Session of the 11th Party Central Committee, the basic
characteristics of our planning system can be further summed up as follows:
First, ours is on the whole a planned economy, that is, a planned commodity
economy, not a market economy that is entirely subject to market
regulation. Second, production and exchange completely subject to market
regulation are confined mainly to certain farm and sideline products, small
articles of daily use and labour services in the service and repair trades, all of
which play a supplementary but indispensable role in the national economy.
Third, our planned economy does not necessarily mean the predominance of
mandatory planning, both mandatory and guidance planning being its
specific forms. Fourth, guidance plans are fulfilled mainly by use of
economic levers; mandatory plans have to be implemented, but even then
the law of value must be observed. To reform our present planning system in
accordance with the above points, it is necessary, step by step and to an
appropriate extent, to reduce the scope of mandatory planning and extend
guidance planning. Mandatory planning will be applied to major products
which have a direct bearing on the national economy and the people's
livelihood and which have to be allocated and distributed by the state, as well
as major economic activities that affect the overall situation. Other products
and economic activities which are far more numerous should either come
under guidance planning or be left entirely to the operation of the market, as
the case may require. The focus of planning will be shifted to medium and
long-term planning, and annual plans will be appropriately simplified. There
should be a corresponding reform of the methods of planning. Full attention
should be paid to economic information and forecasting so as to raise the
scientific level of planning.

V. Establish a Rational Price System and Pay Full Attention to
Economic Levers

Because the law of value was long neglected and because of various
other historical reasons, there is much confusion in our present system of
pricing. The prices of many commodities reflect neither their value nor the
relation of supply to demand. This irrational price system has to be
reformed. Otherwise it will be impossible to assess correctly the
performance of enterprises, ensure the smooth circulation of goods between
urban and rural areas, promote technological advances and rationalize the
production mix and consumption patterns. This will result in an enormous
waste of social labour and seriously hamper the application of the principle of
distribution according to work. As the decision-making power of
enterprises grows, pricing will be increasingly important in regulating their
production and operation. It is, therefore, all the more urgent to establish a
rational system of pricing. The various aspects of the reform in economic
structure, including planning and wage systems, depend to a large extent on
reform of the price system. Pricing is a most effective means of regulation.
and rational prices constitute an important condition for ensuring a dynamic yet not chaotic economy. Therefore, reform of the price system is the key to reform of the entire economic structure.

Our present irrational price system finds expression mainly in the following: inadequate price differentials for a given product with diverse quality, irrational price ratios between different commodities, particularly the relatively low prices for some mineral products and raw and semi-finished materials; and the retail price of major farm and sideline products being lower than their state purchasing price. From now on, we must gradually correct this irrational situation.

The irrational system of pricing is closely related to the irrational system of price control. In readjusting prices, we must reform the over-centralized system of price control, gradually reducing the scope of uniform prices set by the state and appropriately enlarging the scope of floating prices within certain limits and of free prices. Thus prices will respond rather quickly to changes in labour productivity and the relation between market supply and demand and better meet the needs of national economic development.

As the reform of the price system affects every household and the national economy as a whole, we must be extremely prudent, formulate a well-conceived, feasible programme based on the growth of production and the capability of state finances and on the premise that the people's real income will gradually be increased, and then carry it out in a planned and systematic way. The principles guiding the reform are: First, we should readjust irrational price ratios on the basis of the exchange of equal values and changes in the relation between supply and demand, lowering or raising prices as the case may be. Second, when the prices of some mineral products and raw and semi-finished materials are raised, the processing enterprises must substantially cut down consumption so that the increased production cost resulting from the higher prices of such products and materials can be basically offset within the enterprises, with only a small part of the increase being borne by the state through tax reductions and exemptions. This will avoid a consequent rise in market sales prices of manufactured consumer goods. Third, in solving the problem of the state purchasing farm and sideline products at prices higher than their selling prices and in readjusting the prices of consumer goods, we must adopt effective measures to ensure that the real income of urban and rural inhabitants does not go down as a result of price readjustments. Instead, with the growth of production and improvement in economic results, the pay of workers and staff members will have to be raised gradually. It must be widely publicized among the people that on the condition of developed production and ever greater abundance of goods, the reform of the price system and readjustment of various irrational price ratios carried out on our own initiative will never bring about a general and spiralling price rise. Such a reform is the urgent need for further developing production and accords with the fundamental interests of the consumers. All enterprises should achieve better economic results through efforts to improve management and operation and should never try to increase their income by price increases. It is absolutely impermissible for any unit or person to boost prices at will by taking advantage of the reform, deliberately generating a tendency towards a general rise in prices, disrupt the socialist market and harm the interests of the state and the consumers.

While reforming the price system, we should further improve the tax system and reform the financial and banking systems. The more the economy is enlivened, the more attention we should pay to macro-economic regulation and the more we should try to have timely grasp of economic trends so as to use pricing, taxation, credit and other economic levers better. This will help regulate such major proportional relations as those between aggregate social supply and aggregate social demand and between accumulation and consumption; regulate the direction of the flow of financial, material and human resources; regulate the industrial set-ups and the distribution of the forces of production, regulate market supply and demand, regulate external economic exchange, and so on. We have fallen into the habit of using administrative means to keep the economy functioning and have long neglected the use of economic levers for regulation. Economic departments at various levels, especially the departments in charge of comprehensive economic management, must take it as an important task to learn to use the economic levers and make this aspect the focus of our leadership over economic work.
VI. Separate Government From Enterprise Functions So That Government Organs Can Properly Perform Their Function of Managing the Economy

After the proletariat and the whole people take state power in their hands, it becomes a basic function of the state organs to lead and organize economic construction. Over the past 30 years or more since the founding of New China, our state organs have, on the whole, played a significant role in performing this function. But how the state organs, especially government departments, can better lead and organize economic construction to meet the needs of the national economy and social development still remains a question calling for effective solution. The functions of government for a long time were not separated from those of enterprises, which in fact became appendages of administrative organs, and the central and local governments took responsibility for many matters which were not really theirs and at the same time did not do well what they ought to do. This, plus the barriers between different departments or regions and the practice of endless wrangles, increased the difficulties in running enterprises. If this state of affairs were not changed, the enthusiasm of the enterprises and other grassroots units could not be aroused, cooperation, association and competition between enterprises could not develop and a unified socialist market would not grow. Moreover, the role that government organs should play in managing the economy would be seriously weakened. So there is a pressing need to conduct reform in line with the principle of separating the functions of government and enterprises, streamlining administration and instituting decentralization in order to invigorate the enterprises and the national economy as a whole.

Practical experience over the years shows the following to be the principal functions of government organs in managing the economy: They should formulate the strategy, plans, principles and policies for economic and social development; work out plans for the exploitation of natural resources, for technological transformation and for the development of intellectual resources; co-ordinate the development plans of localities, departments or enterprises and the economic relations among them; arrange for the construction of key projects, especially those in energy, transport and the raw and semi-finished materials industries; collect and disseminate
economic information, learn to utilize economic means of regulation; work out economic regulations and ordinances and supervise their execution; appoint and remove cadres within a prescribed scope; administer matters related to external economic and technological exchanges and co-operation; etc. The performance of these functions requires immense efforts on the part of the governments at various levels. In the past some of the functions were not performed well and others not performed at all. As far as the relations between governments and enterprises are concerned, from now on government departments at various levels will, in principle, not manage or operate enterprises directly. As for the small number of government economic departments that have been entrusted by the state with direct operations and management of enterprise, they must also correctly handle their relations with the enterprises under them through simpler administration and decentralization so as to enhance the capacity of enterprises and other grass-roots units for independent management and avoid drawbacks that may arise from over-centralization. The national and local corporations are economic associations set up for better economic development and mutual benefit of enterprises concerned. They must be enterprises and not administrative organs, and must not follow old practices, but should master modern methods of scientific management.

After the functions of government and enterprises are separated, the central role of cities must be brought into full play and open and interconnected economic zones of various sizes gradually formed with support from cities, the large and medium-sized cities in particular. In this reform it is necessary to call the attention of all leading urban comrades to the need for the city governments to separate their functions from those of enterprises and achieve simpler and decentralized administration, and not to repeat the past practice of mainly depending on administrative means to control enterprises so as to avoid creating new barriers between departments or regions. City governments should concentrate on urban planning, construction and management; building public facilities; carrying out comprehensive ecological improvement; guiding and promoting the specialized co-operation of enterprises, their reorganization, association and technical transformation and the modernization of their management and operation; guiding and promoting a rational circulation of materials and commodities; improving cultural, educational, public health and social
welfare work and various services; promoting the building of a civilization with a high cultural and ideological level, and the fostering of better social conduct; and maintaining public order. Moreover, they should also work out satisfactory medium- and long-term plans for economic and social development based on the general requirements of developing the national economy and on local conditions.

The relationship between socialist enterprises is first of all one of cooperation and mutual support, but this by no means excludes competition. For a long time, people used to consider competition peculiar to capitalism. As a matter of fact, where there is commodity production, there is bound to be competition. The point is that the purposes, nature, scope and means of competition vary under different social systems. Competition between socialist enterprises is fundamentally different from that under capitalism where the law of the jungle prevails. On the basis of public ownership and subject to the control of state planning and laws, and for the purpose of serving socialist modernization, our enterprises are put to the test of direct judgment by consumers in the marketplace so that only the best survive. This will help to break the blockade and monopoly hampering the growth of production, lay bare the defects of enterprises quickly and stimulate enterprises to improve technology, operation and management. It will stimulate the economy as a whole and benefit socialism. As for some undesirable trends and unlawful acts that may appear in the course of competition, the relevant leading organs at various levels should keep a clear head and strengthen education and control and tackle such problems in real earnest.

More and more norms guiding economic relations and activities will have to be framed in the form of law in the restructuring of the economy and national economic development. State legislative bodies must produce economic legislation faster, the courts should make greater efforts to try economic cases, the procuratorates should strengthen their work in dealing with economic crimes, and the judicial departments should offer active legal services for economic construction.

The separation of the functions of government and enterprises as well as simpler and decentralized administration constitute a deep-going transformation of the socialist superstructure. When the structure changes, the organization and the style of thinking and work should also change. We
must unhesitatingly change the working style of government departments in accordance with the principles of serving the people and of streamlining, unification and efficiency and raise the competence of their functionaries. We must end the longstanding practice of leading organs making enterprises and units completely dependent on them, instead of serving the enterprises and other grass-roots units, and eliminate such bureaucratic maladies as organizational overlapping, overstaffing, vague delimitation of functions and endless wrangling. The leading organs at various levels will thus be able to orient their work towards promoting production, serving the enterprises and other grass-roots units, and helping build a strong and prosperous country and bring prosperity and happiness to the people.

VII. Establish Various Forms of Economic Responsibility System and Conscientiously Implement the Principle of Distribution According to Work

Experimental urban reforms in the past few years have amply demonstrated that the basic experience of the system for contracted responsibility in the rural areas is also applicable in the cities. Enterprises must specify in explicit terms the requirements for each work post and the duties of each worker and staff member and must establish various forms of the economic responsibility system with contracted jobs as the main content so as to invigorate the urban enterprises, raise the sense of responsibility of the workers and staff members and bring into full play their initiative, enthusiasm and creativeness. The basic principles of this responsibility system are a combination of responsibility, authority and benefit; the unity of the interests of the state, the collectives and the individuals; and the linking of the income of workers and staff members with their job performance. In applying rural experiences to urban areas, we must take into account the characteristics of urban enterprises. It is neither feasible nor necessary to transplant mechanically the specific measures of the rural areas. As the nature of trades and the size and production conditions of enterprises differ from one another, urban enterprises cannot follow a single model of responsibility system. Our comrades, leading comrades of enterprises in particular, should always proceed from reality and in the course of practice gradually work out concrete forms of the responsibility system suited to
their specific conditions. Then the contracted responsibility system will take root, blossom and bear fruit in the cities.

Modern enterprises have a minute division of labour, a high degree of continuity in production, strict technological requirements and complex relations of co-operation. It is therefore necessary to establish a unified, authoritative and highly efficient system to direct production and conduct operations and management. This calls for a system of the director or manager assuming full responsibility. Party organizations in enterprises should actively support directors in exercising their authority in giving unified direction to production and operations, guarantee and supervise the implementation of the principles and policies of the Party and the state, strengthen the Party's ideological and organizational work in enterprises, improve their leadership over the trade unions and Communist Youth League organizations and do effective ideological and political work among the workers and staff members. While the director assumes full responsibility, we must improve the system of congresses of workers and staff members and other systems of democratic management, give play to the authority and role of the trade union organizations and workers and staff members' deputies in examining and discussing major decisions to be taken by the enterprises, supervising administrative leadership and safeguarding the legitimate rights and interests of the workers and staff members. All of this expresses the status of the working people as masters of the enterprise. Their status is determined by the nature of the socialist enterprise and must in no way be neglected or weakened.

With the general replacement of profit delivery by taxes and the widespread establishment of various forms of economic responsibility in enterprises, the socialist principle of distribution according to work will be implemented more fully. An important step already taken in this respect is that enterprises decide on the amount of bonuses for their workers and staff members according to the results of enterprise operation, while the state only collects an appropriate amount of tax on the above-norm bonus from enterprises. In the future, adequate measures will be taken to better link wages and bonuses with the improved enterprise performance. In the enterprises, the difference between the wages of various trades and jobs should be widened, so as to apply fully the principle of rewarding the diligent and good and punishing the lazy and bad and of giving more pay for
more work and less pay for less work as well as to fully reflect the differences between mental and manual, complex and simple, skilled and unskilled, and heavy and light work. In particular, it is necessary to change the present remuneration for mental work which is relatively low. We should also reform the wage system in state institutions and public organizations in accordance with the principle of linking wages with responsibilities and achievements. While reform of the wage system in enterprises, state institutions and public organizations is under way, the reform of the labour system will be speeded up.

There has long been a misunderstanding about the distribution of consumer goods under socialism, as if it meant equalitarianism. If some members of society got higher wages through their labour, resulting in wide gaps in income, it was considered polarization and a deviation from socialism. This equalitarian thinking is utterly incompatible with scientific, Marxist views on socialism. History has shown that equalitarian thinking is a serious obstacle to implementing the principle of distribution according to work and that if it is unchecked, the forces of production will inevitably be undermined. Naturally, a socialist society must guarantee its members a gradual improvement in material and cultural life and their common prosperity. But common prosperity cannot and will never mean absolute equalitarianism or that all members of society become better off simultaneously at the same speed. If common prosperity were understood as absolute equalitarianism and simultaneous prosperity, not only would this be impossible, but such thinking would lead to common poverty. Only when some regions, enterprises and individuals are allowed and encouraged to get better off first through diligent work can there be a strong attraction and inspiration to the majority of the people. More and more people will be prompted to take the road of prosperity, one group after another. At the same time, we must provide social relief for the old, weak, sick, disabled and for widows, widowers, orphans and childless elders who cannot support themselves. We must aid those who have not yet become well-off and adopt special and preferential policies towards some old revolutionary base areas and minority nationality, remote and other areas where the economy is still very backward and give them the necessary material and technical assistance. The difference arising from the prosperity of some people before others is a difference in speed, with all members of society advancing on the road to
common prosperity. It is certainly not polarization, which means that a handful of people become exploiters while the vast majority fall into poverty. The policy of encouraging some people to get better off earlier accords with the law of socialist development and is the only road to prosperity for the whole of society.

We must never discard the fine tradition of working hard and building the country through diligence and thrift that was developed during the long period of our revolution and construction. In the new historical period this tradition chiefly means the spirit of working hard and defying all difficulties in dedication to the motherland and the people, practice of strict economy in production and construction, opposition to any act that squanders state materials and funds, and avoidance of erroneous policy decisions that result in waste. It should not be misconstrued as overlooking due growth in the people's level of consumption. According to the basic tenets of Marxism, production is the starting point and the predominant factor of all economic activities and determines consumption; but consumption also determines production in that the growth of consumption gives a strong impetus to creation of new social demands, opens up vast markets and encourages production. We must gradually bring about substantial increases in the pay of workers and staff members and in the people's level of consumption. This should be based on increased production, better economic results, a steady increase in state revenue and a correct proportion of accumulation and consumption. It is incorrect to put forward demands for consumption in excess of the capacity of current production. But it is likewise incorrect not to appropriately increase but keep restricting consumption that is well within the capacity of current production.

VIII. Work to Develop Diverse Economic Forms
And Continue to Expand Foreign and Domestic Economic And Technological Exchanges

We must mobilize all positive factors if we are to achieve rapid growth in all fields of production and construction and make our country strong and prosperous and our people rich and happy at a fairly fast pace. Under the
guidance of state policies and planning, the initiative of the state, the collective and the individual should all be encouraged. We must work to develop diversified economic forms and various methods of management. And we must actively expand foreign economic co-operation and technological exchange on the basis of independence, self-reliance, equality and mutual benefit, and mutual good faith.

Enterprises owned by the whole people constitute the leading force in China's socialist economy and are decisive in ensuring our socialist orientation and the steady growth of our entire national economy. But their consolidation and development should not be predicated on restriction and exclusion of other economic forms and other methods of management. The collective economy is an important component of the socialist economy, and we can give the collectives a free hand in running enterprises in many areas of production and construction. The individual economy now found in China is linked with socialist public ownership and differs from the individual economy linked with capitalist private ownership. It plays an irreplaceable role in expanding production, meeting the people's daily needs and providing employment. It is a necessary and valuable adjunct to the socialist economy and is subordinate to it. At present, we should try to remove obstacles in the way of the collective economy and individual economy in cities and rural towns and create conditions for their development and give them the protection of the law. We should promote individual economy, particularly in those economic fields mainly based on labour services and where decentralized operation is suitable. Meanwhile, we should, on the basis of voluntary participation and mutual benefit, extensively encourage diverse and flexible forms of co-operative management and economic association among the state, collective and individual sectors of the economy. Some small state-owned enterprises can be leased to collectives or individuals, or run by them on a contract basis. It is our long-term policy and the need of socialist development to promote diversified economic forms and various methods of operation simultaneously. This is not retrogression to the new-democratic economy of the early period of the People's Republic when the socialist public ownership was not yet predominant in town and country. Far from undermining China's socialist economic system, the new policy will help consolidate and develop it.

Marx and Engels pointed out long ago in the *Manifesto of the Communist*
Party that with the exploitation of the world market due to the growth of capitalism, the old local and national seclusion and self-sufficiency had given place to intercourse between nations in every direction, and production and consumption in every country had become cosmopolitan in character. The productive forces including science and technology in our times are developing ever faster. Although international relations are complex and ridden with contradictions, international economic and technological ties are, generally speaking, very close, and national seclusion cannot lead to modernization. Since the Third Plenary Session of the 11th Central Committee, we have taken opening to the outside world to be our long-term, basic state policy, a strategic measure for accelerating socialist modernization. Practice has already yielded marked results. We must continue to pursue flexible policies, reform our foreign trade structure in line with the principle of both arousing the enthusiasm of all quarters and developing a unified approach in our external dealings. We will work to expand economic and technological exchanges and co-operation with other countries, strive for the success of the special economic zones and open more coastal cities. Using foreign funds and attracting foreign businessmen for joint ventures, co-operative management or exclusive investment in enterprises are also a necessary and beneficial complement to China's socialist economy. We must make the best use of both domestic and foreign resources and both the domestic and foreign markets, and learn both to organize domestic construction and develop foreign economic relations.

As we open to the outside world, we shall open up even more between different areas within China itself. We should smash blockades and open doors in the relations between economically more developed and less developed areas, coastal areas and interior and border areas, cities and countryside, and between all trades and enterprises. We must act in conformity with the principle of making the best possible use of favourable conditions and avoiding the effects of unfavourable ones, developing diversity of forms, offering mutual benefit and achieving common progress, and strive to develop economic relations among enterprises and regions, promote appropriate exchanges of funds, equipment, technology and qualified personnel, introduce diverse forms of economic and technological co-operation and run joint economic enterprises. This will speed up the rationalization of our economic setup and of the geographical distribution of our enterprises and accelerate modernization.
1. What contradiction did the 1984 Decision identify as central to China's circumstances? Does that imply that in 1984 the principal difficulties facing China remained the same as those identified in 1981? What explanations for those difficulties did the 1984 Decision propose? Had those explanations changed since 1981? What evidence did the Decision put forward to support those explanations? What solutions did it propose?

2. The 1984 Decision stated that "The essential task of socialism is to develop the forces of production, create ever more social wealth and meet the people's growing material and cultural needs." Does this imply that increasing productivity is socialism's only task?

3. Consider the scope for the market defined by the 1984 Decision. The Decision announced a change from the system of planning "by administrative orders alone" to a system of "rough and elastic" national plans, in which the State can, "by striking an overall balance in planning and through regulation by economic means, exercise effective control over major issues while allowing flexibility on minor ones." To what difficulty was this proposal for solution addressed? Upon what explanation for that difficulty does it rest? Is it consistent with the 1984 Decision's statement about the appropriate scope for State intervention?

4. The Decision stated that one of the main reasons for
excessive state control in the past lay in a misunderstanding about the relationship between ownership by the whole people and direct operation by state institutions. It stated that it was possible to separate ownership from management. It therefore re-allocated decision-making power between the state and the enterprise. To which does it allocate the following: the establishment of enterprises; their removal to other places; managing, inspecting, guiding and regulating the activities of enterprises; through taxation recovering the part of the enterprise income that should go to the state; appointing and removing leading members of the enterprise, (or approving their employment and election); deciding on switching to new lines of products, merger, or closing down; adopting flexible and diversified forms of operation; planning the enterprise's production, supply and marketing; keeping and budgeting funds the enterprise is entitled to retain; appointing, removing, employing or electing its own personnel; deciding on how to recruit and use its work force, and on wages and rewards; and setting the prices of products within limits set by the state.

5. Do the 1984 Decision's proposals for solution tend to favour any particular social grouping, class or strata?

6. The 1984 Decision proposed to give more decision-making power to enterprises. In development, the nature and location of major capital investments constitutes the hard essence of the development process. Chapter III above suggested that only through direct planning -- including physical planning
-- of capital investment can the State ensure that the economy will meet the needs of the people, not merely make profit for investors. If profits, alone, constitute the criteria for investments, they will tend to produce goods for high income consumers, raw materials for export to factories overseas, and cheap, labour-intensive manufactures that depend for their success upon the continued low incomes of Third World workers—that is, upon the poverty that development aims to alleviate.

In the division of decision-making between enterprise and State, to whom does the 1984 Decision allocate decisions about new investment?

7. According to the 1984 Decision, what factors decisively distinguish between the socialist commodity economy and the capitalist commodity economy?

8. The Decision stated that "Socialism with Chinese characteristics should, first and foremost, be able to instil vitality into the enterprises. In essence, the drawbacks of our present economic structure are precisely the lack of vitality in our enterprises. Therefore, the key to restructuring the national economy, with the focus on the urban economy, is invigoration of enterprises, particularly the large and medium-sized enterprises owned by the people."

This quotation implies that the solution for the problem of underproductivity in the economy as a whole is to improve productivity in the individual enterprises. Is that always so?"
Professors Makgetla and Seidman wrote:

"Law and economics holds that even if inequalities exist, inefficiency at the microeconomic level affects everyone because, in the aggregate, it ensures low national production. This simple equation of enterprise and market efficiency with national productivity does not hold in the Third World, which displays high levels of unemployment and underemployment. In these conditions, maximizing returns solely on employed resources may increase national output less than if returns on all resources, including those now outside the "modern" sector, were maximized, although at a lower average rate of profit for the country as a whole. Thus, raising the productivity of currently un- and underemployed resources in the peasant and informal sector may expand national output most rapidly (and more equitably), even if profit rates on the projects initiated to that end remained well below the international norm. Using capital only at the maximum profit found in the economy could only ensure development of the modern sector, while sustaining the underutilization of a significant share of natural resources, particularly labor. This perception bolsters the argument for adoption of comparatively labor-intensive technologies."

In a footnote, they give a numerical example:

"Imagine two economies, each with 100 unit worth of
factors of production. In Country A, which has accepted an IMF standby agreement, 50 units are employed at an average profit rate of 10 per cent on all employed factors. Social democrats have taken over in Country B. They have achieved full employment, but average only 5 per cent returns. In this case (1) total output in both countries grows by the same amount, or 5 units; (2) Country A has a 50-per-cent unemployment rate, but retains the associated factor mobility and, making the rather heroic assumption that neither income redistribution nor rising internal security costs set in, accrues a greater share of the increment in output as profit, which is easier to pry loose for investment; and (3) Country B enjoys full employment and relative income equality, but also the concomitant factor immobility and decentralisation of investment resources. Which situation appears preferable depends on two factors—whether the implied strategies are politically and/or economically feasible; and whether one consider unemployment and income inequality a greater or lesser social evil than inefficiency of employed resources."

Query: Makgetla and Seidman wrote about countries with economic systems following either a supply side or basic needs strategy. Does their argument hold for a country whose dominant form of property ownership is public ownership, and in which the market plays only a "supplementary" and "regulatory" role? If their argument does apply to countries like China, does it
suggest an alternative development strategy to the Reforms?

What would that strategy be?

9. The Decision states that it is necessary consciously to follow and to apply the law of value to the socialist planned economy. What do you understand the Minister to mean by "the law of value"?

(a). Marx held that in a perfectly competitive market, goods will exchange in terms of the amount of useful labour time embodied in their production. He never held that this statement of the theoretical exchange value of goods in a hypothetical perfect market was a normative law to be followed in socialist conditions. Does the 1984 Decision change Marx's descriptive law into a normative one? If so, to what end?

(b). Recall the article by Huang Kunyi, Director General of the Patent Office of China, supra p.xx. He distinguished bourgeois law, which held that an individual, because he created an invention, had an "inalienable" natural right in it, from socialist law. Under socialist law, he said, inventions are the embodiment of creative labour, both of the inventors and creators and, frequently, "socialized mental labour." Therefore, he argued, "They have inherent value and use value, and may be viewed as wealth, or as a commodity. They demand compensation for values and exchange of information. As such, inventions must be protected under socialism." Why? How would you distinguish Mr Huang's argument about socialist law from "natural right" theory under bourgeois law? Does Mr Huang's argument necessarily flow
from the 1984 Decisionb? Does Mr. Huang's argument from the law of value persuade you that patent protection makes sense in China's circumstances? (It may make sense for other reasons, of course).
Session of the 11th Central Committee: The principal contradiction in Chinese society is the contradiction between the expanding material and cultural needs of the people and low production. For a long time class struggle will continue to exist within certain limits, but it is no longer the principal contradiction. Through this objective analysis, the Party got rid of the erroneous policy of "taking class struggle as the key link," which was carried out long after the socialist transformation was basically completed, and adopted modern economic construction as its central task.

Q: Please explain the primary stage of socialism in detail.
A: Zhao Ziyang, in his report to the congress on behalf of the 12th Central Committee, answered this question clearly and precisely. The following is an excerpt from the report:

A correct understanding of the present historical stage of Chinese society is of prime importance for building socialism with Chinese characteristics, and it is the essential basis on which to formulate and implement a correct line and correct policies.

Our Party has already made a clear and definite statement on this question: China is now in the primary stage of socialism. There are two aspects to this thesis. First, the Chinese society is already a socialist society. We must persevere in socialism and never deviate from it. Second, China's socialist society is still in its primary stage. We must proceed from this reality and not jump over this stage. Under the specific historical conditions of contemporary China, to believe that the Chinese people cannot take the socialist road without going through the stage of fully developed capitalism is a mechanistic view on the question of the development of revolution, and that is the major cognitive root of Right mistakes. On the other hand, to believe that it is possible to jump over the primary stage of socialism, in which the productive forces are to be highly developed, is to take a utopian position on this question, and that is the major cognitive root of Left mistakes.

China used to be a semi-colonial, semi-feudal country. During the more than 100 years since the middle of the last century, repeated trials of strength between various political forces, repeated failures of the democratic revolution of the old type and the final victory of the new-democratic revolution have proved that the capitalist road is a blind alley for China and that the only way out is the socialist road China is taking under the leadership of the Communist Party, having overthrown the reactionary rule of imperialism, feudalism and bureaucrat-capitalism. But precisely because our socialism has emerged from the womb of a semi-colonial, semi-feudal society, with the productive forces lagging far behind those of the developed capitalist countries, we are destined to go through a very long primary stage. During this stage we shall accomplish industrialization and commercialization, socialization and modernization of production, which many other countries have achieved under capitalist conditions.

How do things stand in China, now that socialism has been developing here for more than three decades? On the one hand, a socialist economic system based on public ownership of the means of production has been instituted; a socialist political system of people's democratic dictatorship has been established; and the guiding role of Marxism in the realm of ideology has been affirmed. The system of exploitation and the exploiting classes have been abolished. China's economic strength has grown enormously, and
Building socialism in a big, backward Eastern country such as China is something new in the history of the development of Marxism. We are not in the situation envisaged by the founders of Marxism in which socialism is built on the basis of highly developed capitalism, nor are we in exactly the same situation as other socialist countries. So we cannot blindly follow what the books say, nor can we mechanically imitate the examples of other countries. Rather, proceeding from China's actual conditions and integrating the basic principles of Marxism with those conditions, we must find a way to build socialism with Chinese characteristics through practice. Our Party has explored ways of doing this and has achieved major successes. But the road it has traversed has many twists and turns, and this has cost us dear. Beginning in the late 1950s, under the influence of mistaken Left thinking, we were too impatient for quick results and sought absolute perfection, believing that we could dramatically expand the productive forces by relying simply on our subjective will and on mass movements, and that the broader the scale and the higher the level of socialist ownership, the better. Also, for a long time we relegated the task of expanding the productive forces to a position of secondary importance and continued to “take class struggle as the key link” after the socialist transformation was basically completed. Many things which fettered the growth of the productive forces and which were not inherently socialist, or were applicable only under certain particular historical conditions, were regarded as “socialist principles” to be adhered to. Conversely, many things which, under socialist conditions, were favourable to the growth of the productive forces and to the commercialization, socialization and moderni-
zation of production were dubbed "capitalist restoration" to be opposed. As a consequence, a structure of ownership evolved in which undue emphasis was placed on a single form of ownership, and a rigid economic structure took shape, along with a corresponding political structure based on over-centralization of power. All this seriously hampered the development of the productive forces and of the socialist commodity economy. This state of affairs has taught us that it is of prime importance to have a clear understanding of China's basic conditions and of the present stage of socialism in China.

What, then, is this historic stage, the primary stage of socialism in China? It is not the initial phase in a general sense, a phase that every country will go through in the process of building socialism. Rather it is, in a particular sense, the specific stage China must necessarily go through while building socialism under conditions of backward productive forces and an underdeveloped commodity economy. It will be at least 100 years from the 1950s, when the socialist transformation of private ownership of the means of production was basically completed, to the time when socialist modernization will have been in the main accomplished, and all these years belong to the primary stage of socialism. This stage is different from both the transitional period, in which the socialist economic basis was not yet laid, and the stage in which the socialist modernization will have been achieved. The principal contradiction we face during the present stage is the contradiction between the growing material and cultural needs of the people and backward production. Class struggle will continue to exist within certain limits for a long time to come, but it is no longer the principal contradiction. To resolve the principal contradiction of the present stage we must vigorously expand the commodity economy, raise labour productivity, gradually achieve the modernization of industry, agriculture, national defence, and science and technology, and, to this end, reform such aspects of the relations of production and of the superstructure as are incompatible with the growth of the productive forces.

In short, the primary stage of China's socialism is one in which we shall gradually put an end to poverty and backwardness. It is a stage in which an agricultural country, where farming is based on manual labour and where people engaged in agriculture constitute the majority of the population, will gradually turn into a modern industrial country where non-agricultural industrial workers constitute the majority. It is a stage in which a society with the natural and semi-natural economy making up a very large proportion of the whole will turn into one with a highly developed commodity economy. It is a stage in which, by introducing reforms and exploring new methods, we shall establish and develop socialist economic, political and cultural structures that are full of vitality. Lastly, it is a stage in which the people of the whole country will rise to meet the challenge and work hard to bring about a great rejuvenation of the Chinese nation.

Q: Proceeding from the realities of the primary stage of socialism, what principles did the congress lay down to guide China's long-term development?
A: The report delivered by Zhao Ziyang answers this question also. Here are the relevant excerpts:

First, we must concentrate on modernization. The fundamental task of a socialist society is to expand the productive forces. During this primary stage we must shake off poverty and backwardness, and it is therefore...
especially necessary for us to put the expansion of the productive forces at the centre of all our work. Helping to expand the productive forces should become the point of departure in our consideration of all problems, and the basic criterion for judging all our work should be whether or not it serves that end. We must always give full play to the spirit of plain living and hard struggle.

Second, we must persist in a comprehensive reform. Socialist society is a society that advances through reform. In the primary stage, and at present in particular, reform is an urgent historical necessity because the development of the productive forces has been seriously hampered by the rigid structure that was built up over the years. Reform is a process by which the socialist relations of production and superstructure improve themselves and it is also a force that pushes all work forward.

Third, we must adhere to the open policy. Economic relations between states today have become increasingly close, and no country can possibly advance behind closed doors. When a country has only a poor foundation on which to build socialism, it is especially necessary for it to develop economic and technological exchanges and co-operation with other countries and to assimilate the achievements of civilization the world over, so as gradually to close the gap between it and the developed countries. Closing one's country to external contact results only in increasing backwardness.

Fourth, we must vigorously develop a planned commodity economy with public ownership playing the dominant role. A fully developed commodity economy is an unavoidable stage in the development of the economy and the indispensable, basic condition for the socialization and modernization of production. So far as ownership and distribution are concerned, absolute perfection and egalitarianism are not what is required in a socialist society. In the primary stage it is particularly important to develop diverse sectors of the economy, provided that public ownership remains dominant; to have diverse forms of distribution, provided that distribution according to work is the principal form; and, with the object of common prosperity in mind, to encourage some people to become well-off first, through honest work and lawful business operations.

Fifth, we must endeavour to build democracy on the basis of stability and unity. In a socialist society there should be a high degree of democracy, a comprehensive legal system and a stable social environment. In the primary stage, as there are many factors making for instability, the maintenance of stability and unity is of special importance. We must correctly handle the contradictions among the people. The people's democratic dictatorship should not be weakened. Because feudal autocratic influence is still strong, it is particularly urgent to build socialist democracy, but in view of the restrictions imposed by historical and social conditions, that can only be done step by step and in an orderly way.

Sixth, guided by Marxism we must endeavour to build a society with an advanced culture and ideology. The ideological and ethical standards of the whole nation, as well as its cultural and scientific levels, should be raised in order to help people to become well educated, self-disciplined citizens with high ideals and moral integrity. We should strive to foster theoretical guidance, public opinion, values and a cultural and social environment which promote modernization, reform and the open policy. We should also try to
overcome the narrow mentality and conservative habits of the small-producers, resist decadent feudal and capitalist ideas, and arouse the immense enthusiasm and creativity of the Chinese people of all nationalities as they dedicate themselves to the cause of modernization.

Q: Why did the report to the congress say that "socialism with Chinese characteristics is the product of the integration of the fundamental tenets of Marxism with the modernization drive in China?" What theories and views has China developed?

A: Marxism is a science that keeps developing in practice. In the contemporary era it is generally recognized that Marxism needs further development. The world is undergoing tremendous change; civilization is advancing very rapidly, and new vistas are unfolding before the working people. All this requires Marxists to widen their vision, develop new concepts and enter a new theoretical realm.

The historic contribution of Marx and Engels is that they transformed utopian socialism into scientific socialism. In theory and in practice - the practice of building socialism in one country, the practice of building it in many countries and the practice of introducing reforms in socialist countries in the contemporary world - scientific socialism broadens and deepens the understanding of socialism, by integrating the scientific theory of socialism with the practice in various countries and with the developments of the times. In this process, it is only natural that people will discard some theses which are utopian because they were formulated by our predecessors within the limits of their historical conditions. It is also natural that people will reject dogmatic interpretations of Marxism and erroneous viewpoints imposed on it, and will further develop the theory of scientific socialism on the basis of new practice.

The integration of Marxism with practice in China has been going on for more than 60 years. During this time there have been two major historic leaps. The first took place during the new-democratic revolution, when the Chinese Communists, after repeated experimentation and learning by trial and error, found a way to make revolution based on China's particular conditions and led the revolution to victory. The second took place after the Third Plenary Session of the 11th Central Committee in 1978, when, having reviewed both the positive and negative experience of more than 30 years since the founding of the People's Republic and studied the experience of other countries and the world situation, the Chinese Communists found a way to build socialism with Chinese characteristics, thus ushering in a new period of socialist development in the country.

In the process of deepening its understanding of socialism, the Communist Party of China has developed during the past nine years a series of theories and views in the realms of philosophy, political economy and scientific socialism. They include the following:

- that it is necessary to emancipate the mind, seek truth from facts and take practice as the sole criterion of truth;
- that people must take their own road in building socialism in the light of the specific conditions of their own countries;
- that there must be a very long primary stage in the building of socialism in a country that is backward economically and culturally;
- that the fundamental task for a socialist society is to develop its productive forces and concentrate on a drive for modernization;
that the socialist economy is a planned commodity economy;
that reform is an important motive force for the development of a socialist society and that opening to the outside world is indispensable for the realization of socialist modernization;
that socialist democracy and an advanced socialist culture and ideology are essential characteristics of a socialist society;
that the two basic points—adherence to the Four Cardinal Principles and adherence to the general policy of reform and opening to the outside world—are interrelated and neither can be dispensed with;
that the reunification of the motherland should be achieved by applying the principle of "one country, two systems;"
that a good work style is vital to the very existence of a party in power;
that relations with Communist Parties and other parties in other countries should be developed on the basis of the principles of independence, complete equality, mutual respect and non-interference in each other's internal affairs;
that peace and development are the outstanding issues in the world today.

These fundamental views constitute an outline of the theory for building socialism with Chinese characteristics. They provide initial explanations of such basic questions as what are the stages of China's socialist development, its tasks, motive forces, conditions, overall plan and the international environment. By elaborating these ideas, the Party has scientifically charted the course for the country's advance.

Q: Reform of the political structure was one of the main focuses of the congress. What decisions were made about it?
A: The 13th National Congress was of the opinion that the deepening of the ongoing reform of the economic structure makes reform of the political structure increasingly urgent. The process of developing a socialist commodity economy should also involve the building of a socialist democracy. Without reform of the political structure, reform of the economic structure cannot succeed in the end. China is a socialist country under the people's democratic dictatorship and its basic political system is good. But there are major defects in the system of leadership, the organizational structure and style of work. These mainly find expression in over-concentration of power, a serious degree of bureaucratism, and feudal influences that are far from being eliminated. The purpose of reforming the political structure is to promote what is beneficial and abolish what is harmful, and to build a socialist democratic political system with Chinese characteristics.
NOTES AND QUESTIONS

1. The 1987 Report states:

"The fundamental task of a socialist society is to expand the productive forces. During this primary stage . . . it is therefore especially necessary for us to put the expansion of the productive forces at the centre of all our work. Helping to expand the productive forces should become the point of departure in consideration of all our problems, and the basic criterion for judging all our work should be whether or not it serves that end."

Compare this with the following earlier statements:

1978: "... it is imperative to improve the livelihood of the people in town and country step by step on the basis of growth of production. . . ."

1981: "[After the completion of socialist transformation] it was imperative that the focus of Party and government work be shifted to socialist modernization centring on economic construction and that the people's material and cultural life be gradually improved by means of an immense expansion of the productive forces. . . . All our Party work must be subordinated to and serve this central task of economic construction."

1984: "The essential task of socialism is to develop the forces of production, create ever more social wealth and meet the people's growing material and cultural needs."

Query: Does the 1987 Report meaningfully shift the emphasis from expansion of production to meet people's needs to expansion of production for its own sake? If so, what significance might that have with respect to issues of distribution of income?

INTRODUCTION TO THE 1987 REPORT OF ZHAO ZIYANG: A PRELIMINARY NOTE ON THE DISTRIBUTION OF INCOME

In the 1984 Resolution, the Central Committee stated that the Reforms required payment according to work done, and that this implied a degree of inequality in incomes. It also stated
that while enterprises owned by the whole people will remain the leading economic form, the collective economy and the "individual economy" play important roles in production. It stated that the policy of some people getting rich before others "is certainly not polarization, which means that a handful of people become exploiters while the vast majority fall into poverty."

In Marxist theory, a person "exploits" another when he receives a portion of the product of that person's labour power without paying for it. If all value arises from labour, then the total value that an enterprise receives for its product arises from the labour of its workers. In that view, all profit appropriated by a private owner constitutes exploitation. Profit appropriated by a collectively-owned or state owned enterprise does not represent exploitation, since in those enterprises the workers themselves count among the owners.

FROM ZHAO ZIYANG'S 1987 REPORT, ABOVE

"In addition to the main form of distribution according to work and earnings from individual labour, there may be the following: When enterprises issue bonds to raise funds, buyers receive interest; when shares are issued, shareholders receive income in the form of dividends; enterprise managers receive additional income to compensate for risk-taking; owners of private enterprises employing a certain number of workers receive some unearned income. Income of these types should be allowed, so long as it is acquired legally. The policies of
distribution being formulated should encourage some enterprises and individuals to become prosperous before others through good management and honest work, thus widening the differences in personal income to a reasonable degree. But at the same time these policies should prevent polarization of rich and poor, enable all people to move towards common prosperity and bring about social equity while improving efficiency. It is essential to adopt effective measures to readjust excessively high personal income and to bring to justice anyone who makes exorbitant profits through illegal means."

[Quoted in "The 13th Party Congress & China’s Reforms", supra, at 55].

QUESTIONS

1. Is the Secretary’s 1987 Report consistent with the 1984 Resolution? Recall that the 1981 Decision stated that "it is necessary to oppose both the view that the scope of class struggle must be enlarged and the view that it has died out." Will introduction of a private sector necessarily intensify the problems of class struggle?

2. In a socialist society, on what basis might one justify the inclusion of profits from private enterprise (whether to the sole owner or to shareholders) in the permissible forms of distribution of income?

3. How would one make a decision that somebody’s personal income is "excessively high", or that it is or is not likely to cause "polarization of rich and poor"?

4. In private enterprise, can the situation be prevented where
a few people become exploiters of the many?

EXCERPTED FROM LIU GUOGANG 1, IN 30 BEIJING REVIEW 39:17 (1987)

Socialism replaces distribution according to capital with distribution according to work. The latter constitutes true equality, but not egalitarianism. China, however, has adopted the policy of letting some people get rich first as part of the goal of common prosperity. "Implementing this policy is related not only to the application of the principle of distribution according to work, but also to the development of a commodity economy". Incomes determined by the "laws governing the commodity economy" may include incomes not derived from work -- for example, "interest, shares, extra dividends, rent and all other income from bank deposits, loans, shares, operating assets and leasing." These incomes "are not a form of income derived from labour, but are determined by distribution principles beyond distribution according to work. The determination of these incomes can be traced back to the commodity exchange principle of exchange at equal value."

"Some people worry about the existence of various forms of income deviating from the principle of distribution according to work, particular incomes from profiteering, embezzlement, bribery and other dishonest practices which have emerged under the commodity economy and the coexistence of the old and new systems. They worry that this will result in unfair distribution, affect

1. Vice president, Chinese Academy of Sciences [a leading economist].
the general mood and stability of society and stem the advance of socialism. This is not completely without reason. But, in judging a distribution system, Marxists do not simply attend to social justice. They also check whether it is advantageous to the development of the social forces of production. Today, non-socialist ownership sectors are allowed to coexist with the socialist public ownership sector so long as they benefit the growth of the socialist forces of production and do not impinge on the primacy of public ownership. Similarly, in the distribution system, the income determined by the law of commodity production and not gained through distribution according to work should be allowed to exist so long as it helps develop the socialist forces of production and does not change the primacy of distribution according to work."

NOTES AND QUESTIONS

1. Reconsider the Note on Marx's Law of Value, in Note 9 following the excerpt from the 1984 Decision.

2. If, as Professor Liu suggests, the socialist commodity economy is subject to a "law" that requires exchange at equal value of all sorts of property --including shares, bonds, operating assets, and so forth -- what distinguishes the socialist commodity economy from capitalism?

3. Professor Liu justifies the distribution of income not according to work but arising by reason of exploitation, on the ground that the "law of commodity production", and particularly the "commodity exchange principle of exchange at equal value."
Whence does he derive that "principle"? He treats it as a "law" that society breaks at its peril. Is it? Is he not doing what we saw the Director General of Patents doing in another context:

Rewriting Marx's law that in conditions of perfect competition, articles exchange in terms of the labour value embodied in them, into a normative rule about how the State and the law ought to deal with issues of pricing? Does he give a reason why under socialism the State should ensure that goods exchange at equal value? (Should food for the mass of the population be priced on the same basis as, say, Mercedes Benz automobiles for the very rich?) How does the principle he espouses differ from Pareto optimality -- that is, the "principle" of supply-side and basic need theories that only when things exchange in a completely free market can one ensure that they exchange at the values the individuals involved in the bargain subjectively put on them?

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ISSUES CONCERNING CONTROL OF THE ECONOMY THROUGH MARKET FORCES

The Reforms following 1978 centered upon the countryside. It made it quite clear that the central form of the economy would remain planning, but that "small plots of land for private use by commune members, their domestic side-occupations, and village fairs are necessary adjuncts to the socialist economy." The 1981 Resolution stated that "it is necessary to have a planned economy and at the same time give play to the supplemntary, regul;atory role of the market on the basis of public ownership."

The 1984 Decision sought to bring the Reform to urban
enterprises. It argued that central planning constituted "a bureaucratic utopia" and added (also in Lenin's words), "don't chase it." Instead, it held that for a long time, "our national economic plans on the whole can only be rough and elastic and that we can do no more than, by striking an overall balance in planning and through regulation through economic means, exercise effective control over major issues while allowing flexibility on minor ones." Liu Guogang, in "Unifying Planning and Marketing", 30 Beijing Review 41:17 (1987) generalized from this:

"[Since 1984], . . . three new concepts have emerged: 1) Planned administration does not necessarily mean mandatory planning, but encompasses both mandatory and guidance planning. Mandatory planning should gradually be replaced by guidance planning, which takes into account market situations, so that the latter will become dominant. 2) Planning is not all embracing. In general, it does not cover micro-economic activities, but mainly deals with the balance of the macro-economy in the light of market force co-ordinating micro-economic factors. 3) It is not necessary to adopt or rely on the target system (such as fixing concrete production figures) for the regulation of the economy. More emphasis should instead be placed on the application of economic policies and economic levers, such as price, taxation, and interest and exchange rates."

The new concept of the market, Professor Liu wrote, now extends not only to consumer goods, but also "... to funds, labour service, technology, real estate and essential elements of production."

These concepts led to a new slogan: "The market guides the enterprises, and the Plan guides the market." Thus from the 1978 concept of a planned economy with market forces filling in the crevices where planning could not reach, in principle the market would control the entire economy, leaving to indirect controls the State's direction of the macro-economy.
NOTE

The State has begun to expand the market not only to consumer goods, but to capital goods and even to major investment decisions. In his Report to the Fifth Session of the Sixth National Congress, March 25, 1987, Zhao Ziyang stated that the State would further expand the capital goods market, and that "Large integrated enterprises under direct state control and large and medium enterprises enjoying special state aid will be given enlarged power to make decisions relating to the organization and conduct of capital construction and technological transformation."

EXCERPT FROM "THE 13TH PARTY CONGRESS AND CHINA'S REFORMS" (quoted above, at p. 46)

What does "socialist planned commodity economy" mean? The Beijing Review gave this response:

"The socialist planned commodity system should be a system that integrates planning with the market.

In this connection, several basic concepts need to be clarified:

First, the essential difference between the socialist and capitalist commodity economies lies in the form of ownership on which they are based. The socialist commodity economy, which is based on public ownership, provides the possibility for the society to maintain a balanced growth of the national economy. It is necessary to make this possibility a reality by a judicious use of both regulation through planning and regulation through
the market. The socialist commodity economy cannot develop without the growth and improvement of markets, so regulating through the market does not mean practising capitalism.

Second, planning should be done according to the principle of commodity exchange and the law of value. The form of direct economic control that relies chiefly on mandatory planning cannot meet the requirements of the development of a socialist commodity economy. It is inappropriate to equate regulation through planning with mandatory planning. Gradually, the scope of mandatory planning should be reduced by such means as signing contracts in accordance with the principle of exchange of equal value, contracts by which the state places orders for goods with enterprises, and enterprises with one another. The state should, gradually, resort to mainly indirect means to control enterprises.

Third, the operating sphere of planning and the market covers the whole society. On the whole, under the new economic mechanism, "the state regulates the market and the market guides the enterprise." The state regulates the relation between supply and demand through economic, legal and administrative means and creates a favourable economic and social environment in which enterprises are guided towards correct management decisions. The attainment of this goal is an evolutionary process, and active efforts must be made to create conditions for it.

Gao Shangquan, Vice-Minister of the State Commission for Restructuring the Economic System, "Relations Between Planning

The State will regulate the market through state economic contracts, not through mandatory planning.

"The introduction of state economic contracts to gradually reduce the sweep of mandatory planning is a concrete manifestation of planned commodity economies; the aim is to carry out planning on the basis of commodity exchange and the law of value....It involves the following procedure: (1) Economic contracts between the state and enterprises or among enterprises and units should be made in line with the principle of exchange of equal value. This is the only way to satisfy the interests of all the parties. (2) Market mechanisms should be introduced to enable enterprises and units to choose the best qualified partners through public bidding. (3) Economic interests and responsibilities should be stated clearly to the partners.

The use of economic contracts in place of mandatory planning does not involve the abolition of planning but a strengthening of the scientific nature of planning. It has the following advantages: Planning in the form of contracts can avoid the subjectivism and the tendency of mandatory planning to lose contact with reality. Contracts are based on economic interests and responsibilities and can be implemented through legal procedures....They are conducive to enterprises' self-motivating and self-limiting mechanisms and to making enterprises commodity producers and managers. At the same time they can provide restraints against government departments. They produce a better combination of planning and market...."

Minister Gao continues by calling for "the replacement of material planning with policy planning". He writes:

"The major thrust of policy planning involves enacting macro-economic policies, including financial and monetary ones; making a decision about a reasonable economic structure and readjusting its orientation of development; and adopting policies for regional development and income distribution. Guiding policy plans are flexible and open to continuing evaluation, amendment and improvement. In medium-term (five years, for instance) policy plans, material quotas should be abolished, and principles, policies and goals laid down for development on the basis of analysis and economic forecasts; the implementation of the plans should be ensured by market forces, including taxation, pricing, credit and monetary means."
Minister Gao stated that the plans should be implemented by "market forces, including ... pricing...." How is this to be done? The 1984 Resolution of the Central Committee stated that

"In readjusting prices, we must reform the over-centralized system of price control, gradually reducing the scope of uniform prices set by the state and appropriately enlarging the scope of floating prices within certain limits and free prices. Thus prices will respond rather quickly to changes in labour productivity and the relation between market supply and demand and better meet the needs of national economic development."

In 1987, Zhao Ziyang had stated that to establish a socialist market system, it becomes necessary to reform the pricing system. To do that requires that China "gradually establish a system in which the state sets the prices of a few vital commodities and services while leaving the rest to be regulated by the market."
NOTES AND QUESTIONS

1. Is the slogan, "the market guides the enterprises and the State guides the market" consistent with the description of the relationship between planning and the market given in the 1984 Resolution's allocation of functions between the State and the enterprise?

2. Is Professor Liu's assertion that in a socialist commodity society, the market extends not only to consumer goods, but also to factors of production like funds, technology, real estate and the essential elements of production consistent with the 1984 Resolution?

3. From these excerpts, can you explain how the government plans through the use of economic contracts? In supply-side and basic needs theory alike, and, in their jurisprudential homologues, conservative and liberal law and economics respectively, contracts involve bargains between economic units. In those theories, all valuations are subjective; only the individual can value a good. In those theories, therefore, only when the parties enter into a contract freely can one say (as does Minister Gao) that "this is the only way to satisfy the interests of the parties." (Economists call that "Pareto efficiency").

In contrast, planning occurs when the State coerces individual choice in line with the Plan, and what the Plan conceives constitutes the public interest. How could one use contract in that classical sense to carry out a State plan? Does
Minister Gao answers the question? Or does the Minister mean by "contract", of course, something quite different from "contract" in its classical sense -- for example, could the State assign to an enterprise a quota of goods to be produced and then sold at a stated price, permitting the enterprise to make its own arrangements by "contract" for supplies (a system used in some Eastern European countries)? Or, could the State enforce quotas by requiring enterprises to sign "contracts" with the State for the goods assigned to it by Plan?

4. Minister Gao states that the "the implementation of the plans should be ensured by market forces, including taxation, pricing, credit and monetary means."

(a) In capitalist countries, Keynesian economists have long advocated macro-economic policies similar to those suggested by Minister Gao. They, too, emphasize "indirect" controls over the market. In A_Time_for_Passion:_America_1960-1980 Charles R. Morris discusses the American experience in using the "indirect" controls over the market that liberal economists in the United States and elsewhere used to think they could use to "fine-tune" the market. During the Kennedy years, contemporary observers credited government with using these instruments successfully. He concludes:

"The notion that Kennedy and his advisors were engaging in scientific economic management was a media myth--although the administration did all it could to encourage it, and probably half believed it. The ponderous American policy-making process simply didn't lend itself to fine-tuning; policy could never follow neatly the dictates of theory. More important, even if the policy process could have been tamed, the fit between the Keynesian theoretical
apparatus and the real world was not nearly so precise as Kennedy's men confidently proclaimed. . . .

The unfortunate reality is that, despite its occasional pretensions, economic theory has yet to catch up to the complexities of the real world...."

Do conditions exist in China to permit macro-economic planning methods, devised for the highly complex capitalist economies like that of the United States, to work better here than in those countries, where (as Morris and others claim) they did not work very well?

(b). Minister Gao states that one of the instruments to be used by the State to control the market consists in prices. The market, however, is supposed to guide enterprises by the price system, which in principle responds quickly to changes in supply and demand. In fact, the essence of the market as a guide to enterprise consists in the free price system. Can the market guide enterprises in any way except through prices? Can prices simultaneously be regulated by the Plan and to the market? If the State does set prices, how in any real sense can a free market exist?

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THE 1988 HOLD ON THE REFORMS

Recall the course of the Reforms. Originally, they called for the limited development of a market economy, to fill in the interstices where planning did not seem appropriate. Planning would surely control major investment decisions and therefore
capital goods. The proposals for Reform based themselves on public ownership as the principle form of property ownership of the means of production, with provisions for individual but not private production. By 1987, these had all changed somewhat. The market was now to cover the entire economy, with indirect controls used to control the market. The market would control also the capital goods sector, and presumably even major investment decisions. A strong movement had developed for transforming property ownership into share ownership. (We discuss this in Chapter 18, p. xx). Private ownership had become an accepted sector of the economy.

In the Spring and Summer of 1988, strong inflationary pressures appeared. A near run on the banks ensued, as people withdrew their savings to buy hard consumer durables before the price rose too far. A year before, in March, 1987, then-Premier Zhao Ziyang had delivered a report to the National Assembly stating how solid and stable the situation appeared to be. On September 26, 1988, Zhao Ziyang (now General Secretary) delivered a report to the Third Plenary Session of the 13th CPC Central Committee. In that Report he proposed (and the Central Committee adopted) what amounted to a two-year suspension of the reforms. Economist Xue Xuehan analyzed the difficulties (as reported in CHINA DAILY, Tuesday, December 27, 1988, p. 4):
success of individual reform measures cannot be consolidated on the basis of an overall strategy, which has confused the market even further.

Fourth, systematic and effective industrial policies have not yet been introduced by the central government, the article said.

Thus — although the government's focus on reinforcing such key areas of the economy as the development of agriculture, energy, communications, and science and technology is correct — the country's overall economic strategy still lacks concrete measures to ensure its implementation, the article stated.

Grain

One example of such a lack of long-range perspective in economic planning is that after the initial success of rural reform and bumper harvests for several years, many people were led to believe that there would be no more grain shortages.

Consequently, spending on agriculture was cut back and the State plan for grain purchase reduced, thus greatly dampening the enthusiasm of peasants for growing grain crops.

Another instance of shortsightedness was the fact that a considerable number of rural business enterprises were developed only because local governments offered them "preferential terms."

But although the operators found it easy to start a business, they have not been able to follow through competitively, and most of their products are poor in quality, high in cost, backward in technology and consume far too much energy.

Also, the article asserted, the introduction of foreign investment and technology has become much too region-oriented rather than based on the State industrial policies. As a result, processing industries are growing too fast for the slow development of the infrastructure and basic industries.

Fifth, the article said, political reforms have lagged behind economic reform measures. Institutions are still overstaffed, bureaucracy stifles initiative, and democracy in decision-making is inadequate.

"The failure to stop corruption is also closely linked with the delay in political reform," the writer pointed out.

The article called for the slowing down of industrial growth, consolidating stable economic progress, and redoubling efforts to curb price hikes.

As the amount of currency issued by the central bank in the first eight months of this year appeared to be out of control, China must be fully prepared for a possible fresh rash of price hikes next year — all the more reason to insist on taking effective measures to check inflation, it said.

The article suggested that overdraft deficits should be prevented; the amount of currency issued should be controlled within the rate of economic growth, the interest rate of savings deposits should be increased and the interest rate for loans should be higher than both the inflation rate and the interest rate of savings deposits.

Turning to the importance of cracking down on bureaucratic profiteering, the article said that leading cadres must ensure that neither they, their families nor their staffs are involved in dubious business dealings.

(Xinhua)
NOTES AND QUESTIONS

1. Can the problems identified in the last reading be remedied by indirect controls over the market? For example, how might the State encourage increased grain production by the use of indirect, macro-controls over the market? How might it increase the introduction of foreign investment and high technology to backward sections of the interior save by quite direct controls and regulations -- either directly over capital investment, or directly over the availability of credit for capital investment (which is really the same thing)?

2. An alternative question focusses on the sociology of law and law and development: How can the study of these subjects contribute to overcoming these difficulties?

RESEARCH PROJECTS FOR CHAPTERS VI, VII AND VIII

For each of the following, state the nature and scope of the problem, read up on the alternative explanations offered by different relevant sets of theories relating to the law and to economics, and evaluate the relevant law in China to determine which theory (implicitly) guided the drafters:

The impact of foreign investment
Environmental pollution
Low productivity in agriculture