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**Legitimizing Property Reform:
China's Passive Revolution**

Harry John Williams IV

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requirements for the degree
of Doctor of Philosophy
in the Graduate School of Arts and Sciences**

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ABSTRACT

Legitimizing Property Reform: China's Passive Revolution

Harry John Williams IV

Two factors determine the legitimacy of property reform: the type of regime transition and the production regime. In a revolution, property reform is an organic part of a movement which has strong support with popular groups, and therefore has a high degree of legitimacy. In a "normalizing transition," as in eastern Europe, property reform is legitimated as part of the general turn to Western conceptions of law. However, since this legitimacy is linked to political rather than economic ideas, the legitimacy of property reform can be short-lived. As time passes, the political implications of the organization of work, what I call a production regime, reassert themselves and set the stage for a reaction against privatization. This is the pattern in Russia, where property reform has progressed quickly, but has also run up against popular protest. In a revolution from above, or what I call a passive revolution, the legitimacy of property reform must be created by the regime. This requires work at the level of ideology, such as redefining the terms of economics. The regime must also contain working class demands by giving workers stability while transforming the production regime. This changed production regime, along with effective ideological work, can provide a more solid base for property reform in the future than that created as part of a normalizing transition. China has taken this slower, but perhaps ultimately more stable, road to reforming urban property relations.

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*"It would be very rash to believe that everything has been said."
-- Althusser*

to my friend nina:

i just want you to know something: you're so cool.

**love,
hari**

INTRODUCTION

Economic action is always teleological, in the sense that men always and everywhere seek to do something. What, in specific, they seek, is not to be answered except by a scrutiny of the details of their activity... (Veblen 1948: 234).

If, as Karl Marx asserted, and generations of Communist militants averred, the program of Communism can be summarized in one sentence-- "The abolition of private property!" -- how and why has China, ruled by a Communist Party, changed from a country that had largely eliminated private property to one that increasingly embraces it?

An orthodox answer to these questions is emerging: After Mao's death, the Chinese Communist Party faced a legitimacy crisis. In response to this crisis, the CCP staked its right to rule on good economic performance and stability. To increase economic efficiency, China is changing its property regime. The limits of property reform in China are the limits of bureaucratic acceptance of change. Thus, it is assumed, China's changing property rights regime is a response to the needs of economic performance, mediated through the self-interested actions of bureaucratic functionaries.

In this dissertation, I will argue that the process of legitimating the regime through economic performance has not been so straightforward.

Property is implicated in social power, and redistributing property redistributes social power.¹ Therefore, property reform has to be legitimated -- those who will be affected by it must be able to give it some meaning that makes it acceptable to them. Defining property, and what type of property is most efficient, is a highly political process. In order to clear the ideological path for reform in China, it has been necessary to redefine the central terms of economics. This has been a contentious process, one that continues to this day. And I will argue that the regime's interactions with the Chinese masses have been at least as important as the actions of bureaucrats in deciding the course of reform. As I will show, to insure the social stability the CCP regime prizes so highly, the regime has retreated on the question of property reform in state enterprises rather than face unrest in the state workforce. Legitimizing property reform, and the entire process of making economic performance the basis of the regime's right to rule, is more problematic than simply rationalizing the economic system. Before the system can be rationalized (made to fit the economic theories of the West), it must be rationalized: explained (and to some extent accepted) by the Chinese.

This is especially true under Communist rule, where nationalization of property was considered one of the bedrock achievements of revolutionary regimes, a task which was carried out in accordance with the objective laws of history. How do you legitimate property reform, reform away from socialized property, under a Communist regime?

¹ These statements are discussed in Chapter II. See also Macpherson (1962, 1978).

Property reform must be legitimated, but the mode of justification for property reform varies according to two factors. One factor is the production regime which precedes the transition. A production regime refers to how goods are produced and how the labor force is reproduced. I will argue that the production regime is a crucial factor in determining how popular groups respond to the question of property reform.

The type of transition is the second factor which determines the role and importance of legitimation in property reform. In a revolutionary transformation, instigated from below, property reform is legitimated because it is part of the basic ideology which motivated a mass movement for change.¹ In what I will call a “normalizing regime transition,” as we have witnessed in eastern Europe, the legitimacy of property reform is connected with the general legitimacy of democratization and normalization to Western standards (Zagorski 1994). In the third case, a “revolution from above” or a “passive revolution,” the question of legitimacy is much more difficult.² In a passive revolution, the legitimacy of property reform is not an organic part of the transformation. Instead, support for property reform must be built by the regime.

¹ Thus in France, the peasant’s class struggle “dictated abolition of seigniorial privileges.” But “Once the Assembly was forced to destroy one complex of privileges, it was moved forward by an overarching urge for ideological consistency and destroyed them all” (Sewell 1994: 181). The ideology which sprang from the mass-based revolution helped win the case for capitalist property in France.

² On passive revolutions, see Moore (1966), Gramsci (1971).

In a passive revolution, reform is initiated from above in the hopes of preserving the regime while changing the basis of its legitimacy. Passive revolutions seek to modernize the economy, usually through industrialization, and to professionalize the state. Historically, passive revolutions have implemented capitalist economic relations while attempting to maintain the power of the old political ruling classes. In addition, they attempt to gain social stability in a chaotic situation. Thus, while regimes attempting a passive revolution repress independent political expression, they have fostered a top-down corporatism, often by buying the support of core urban workers with special concessions. China since 1978 evinces the classic features of a passive revolution, including the concerns with modernization, stability, and the cultivation of urban worker's support through concessions.

The effort to explain China's property reform through the idea of a passive revolution yields one basic improvement over the standard interpretation of property reform. By directly looking at the question of legitimacy,¹ it brings politics to the center of political explanation, and it can incorporate both bureaucratic and popular politics. Instead of relegating the problem of legitimacy to an epiphenomenon of economics, it places the question at the center of analysis, offering an opportunity for a serious study of how property is justified, both theoretically and to one core constituency of the Chinese regime, urban state workers.

¹ A legitimate order is one which has the active support of the ruling group in society, and at least the acquiescence of popular groups. See chapter IV for more details.

Regimes, economics, and change

Regime change and economics have long been linked in political studies. A classic example is the link between the rise of merchant capitalism and the demise of feudal institutions (e.g., Wallerstein 1979; Weber 1978). Indeed, the idea that market economies make it impossible to sustain authoritarian, or at least totalitarian, institutions runs deep in political science. Critics have long pointed out this is empirically false, as China today, Latin America in the 1960s and 1970s, and much of Europe before World War Two all demonstrate. The logic behind this reasoning is not, however, so flawed, and in the long run (which analysts have the luxury to peruse), the claim appears to have more validity. It now appears that authoritarian regimes tend to appear with market economies only under certain conditions: when domestic industrial classes are weak and the state is strong (France in 1848) or when strong international pressures impinge on internal economies (Germany in the 1930s). For instance, O'Donnell tried to demonstrate that the wave Latin American authoritarianism in the 1960s was associated with the need to "deepen" the economic structure (O'Donnell 1979; Collier 1979). Even Communism was seen by many simply as a means of developing national economies given the pressures of the international system (Lowenthal 1970; Johnson 1970; Wallerstein 1979).

Political scientists have found the question of what triggers political change to be much more difficult to answer. If markets are incompatible with tyranny, at what point does this incompatibility need to be rectified? This is

all-the-more difficult to answer because countries have become market-oriented, and democratic, under such different circumstances.¹ The level of development, measured in term of machines, output, or labor markets is little help. The US was not an industrial power in 1776 or even 1865; certainly Germany in 1933 was more advanced than the US was at either of these points. Culture provides little help: democracy is something societies create, not something they inherit. International pressures certainly matter, but these, too, vary so much over time and across cases that deciphering their exact contribution is difficult.²

In truth, all of these factors matter. They interact with non-structural factors, such as the emergence of charismatic leaders advocating democracy. But these leaders and the ideology they carry are only effective under certain conditions. “Common Sense” helped create the conditions for the emergence of a Republic, but dropping thousands of translated copies of Paine’s work into Cuba today doesn’t have had the same effect it did in Britain’s American colonies in the 1770s.

¹ Another important factor is the structure of the feudal society which preceeded capitalism. For instance, the idea of immunity, the right to resist unjust authority, and the idea of binding contracts in Western European Feudalism probably aided the development of democracy (Moore 1966: 415; Anderson (1974); Brenner (1985a and 1985b).

² Przeworski makes perhaps the strongest claim for situational relativism, arguing that “Objective factors constitute at most constraints to that which is possible under a concrete historical situation but do not determine the outcome of such situations” (1986: 48).

Structural arguments

This dissertation is not, however, about how different types of transitions come about, or under what conditions democracy emerges from authoritarian institutions. The point here is that China's regime has changed, in a pattern we can compare to what others have called a passive revolution. China's passive revolution, in turn, changes how property reform is implemented. Under a passive revolution, the legitimacy of property must be created, and in China the regime has sought to legitimize property reform through the transformation of economic discourse and the transformation of production regimes.

The argument I pursue in this dissertation is a structural argument, and like all structural arguments it attempts to delineate the conditions under which certain courses of action are more likely and others less likely. In making a structural argument, an actor's actions can take on very different meanings than they have for the actors themselves. For instance, in the neoclassical explanation of collective action, individuals may free load on institutions because they save time or money or some other valued object by doing so (e.g., Przeworski 1980). Individuals may think they are being frugal, but for the collectivity, they could be causing a crisis that eventuates in a regime change. For North and Thomas (1973), the transition from feudalism to capitalism in Europe was of this nature: an accumulation of individual decisions regarding agricultural production which eventually changed the circumstances so as to make it impossible for the ancien regime to survive.

At least: it is impossible for the regime to continue in its old form, and this presents a problem. Structures change, through conscious or unconscious action, or conscious actions with unintended consequences: but what, at the level of politics, changes: the state, the regime, or the government? "Governments," Stephanie Lawson recently argued, "come and go, while the regime remains more or less in place" (Lawson 1993: 185). Political power resides in the state while regimes embody norms and procedures. "A regime, then, may be characterized as that part of the political system which determines how and under what conditions and limitations the power of the state is exercised. In other words, the concept of regime is concerned with the form of rule" (Lawson 1993: 187). Lawson is concerned with finding the key features of democratic regimes, which she argues lies in legal opposition. For my purposes here, however, the key point is that regimes "embody the norms and principles of the political organization of the state, which are set out in the rules and procedures with which governments operate" (Lawson 1993: 187). Regime change plays an important part in deciding the course of property reform. Governments come and go, but regime changes are more important, because they offer they opportunity to alter the basic political and economic structures of society. China's political regime has gone from Communist to a still-evolving post-Communist formation. If the main actor is still the Party, the situation it finds itself in, who it recruits, its goals, and its role in popular consciousness have all changed radically.

Three types of transition

A revolution, as Skocpol has argued, contains a significant element of class struggle from below. Her definition has been criticized (Burawoy 1989; Sewell 1994), but it remains useful. Skocpol defines revolution as follows:

Social revolutions are rapid, basic transformations of a society's state and class structures; and they are accompanied and in part carried through by class-based revolts from below. Social revolutions are set apart from other sorts of conflicts and transformative processes above all by the combination of two coincidences: the coincidence of societal structural change with class upheaval; and the coincidence of political and social transformation. In contrast, rebellions, even when successful, may involve the revolt of subordinate classes -- but they do not eventuate in structural change. Political revolutions transform state structures but not social structures, and they are not necessarily accomplished through class conflict. And processes such as industrialization can transform social structures without necessarily bringing about, or resulting from, sudden political upheavals or basic political-structural changes (Skocpol 1979: 4).

Revolutions contain an important element of class struggle from below. The class component of revolutions is important; a changing class composition means that property relations are changed. Since popular groups are involved in this class upheaval, the ideology of property reform has an organic link to the political revolution. Ideologically, social justice is the key term.

Revolutions are different from rebellions, which are also class-based, because of they attain political power and implement structural changes.

Skocpol's definition invites us to dismiss rebellion for its failure to attain structural change, but it in no way requires us to do so. Rebellions are important political phenomena. E.P. Thompson, after all, made a distinguished career arguing for the importance of failed rebellion, and James Scott (1985) has made a similar intervention in political science. In China's post-Mao

reforms, peasants staged a relatively peaceful rebellion, seizing land rights from the commune and destroying most of the institutions of Maoist agriculture in the space of four years (see Chapter IV). Like other rebellions, this one failed to gain political power, but it did force structural change in the economy.

A transition, as Stepan (1986) has argued, may contain important contributions from popular groups; popular groups help force the regime to accept change. But in a transition, popular groups do not lead. Instead, change is led by elites. Ideologically, normalization is the key term. Transitions do not emphasize redistribution, but instead a Liberal idea of social justice: justice is equality before the law. Transitions seek to restore, or create, the rule of law. They seek to tame the state, especially security services or armed forces. Economically, free market ideas pervade, as these are seen as connected with liberal institutions such as democracy and rule of law. In these conditions, economic change is possible, because the population is willing to sacrifice to create a stable new order. However, perceived inequality in the process of economic reform can undermine attempts at economic change. Since the emphasis in a transition is largely political, the legitimacy of economic change is only linked to the general theme of transition; it is not an organic part of the regime change, and therefore legitimacy is more problematic. Once the political changes are established, economic interests are more likely to reassert themselves.

A passive revolution is a state-led transformation which seeks to modernize the economy and professionalize the state without changing the

basis of state power. Importantly, this includes limiting the power of new groups formed by the emergence of the new economic patterns.

Characteristically, this means limiting the political power of urban workers. Limiting worker's political power entails both repression and concessions. In pre-World War I Germany, workers gained as the economy grew (Moore 1966: 441). In South Korea, terrible repression of urban workers went hand-in-hand with better wages and paternalist strategies to ensure worker loyalty to the chaebol (Ogle 1990).

China is going through a passive revolution. Ideologically, economic modernization is the key term. This is usually quickly conflated with a strong nationalist impulse; after all, rallying the nation to modernize is only effective for a while, and eventually someone will question the distribution of benefits from economic growth. Nationalism can help hide inequalities, or at least justify crushing those who bring them to public attention. For example, in South Korea under Park (1960-1979), economic modernization was wedded to a nationalist anti-communism which justified state intervention in the economy and repression of labor (see chapter IV for more on South Korea).

Production regimes and reform

The sociologist Michael Burawoy (1985) uses the term production regime to explain how the process of producing goods influences the ideology and politics of workers.¹ Production is much more than an economic act -- it is

¹ The general concept of production regime, and changes in China's production regime, are examined in Chapter III.

also a political and ideological act, and it has crucial importance for the development of a social formation as it shapes not only material products but a subjective understanding of economic and social institutions.

Production regimes are made up of four components: the role of the state, the reproduction of labor power, the labor process, and market context. The state can play an external (regulatory) or an internal (participatory) role in production. Since so much of Chinese and Soviet production was directly organized and carried out by state units, the state deeply penetrated factory life. This has a very important political consequence: the state is directly involved whenever workers and management have conflicts. Every economic protest is immediately and irreducibly a protest against the Party/state. The state is thus highly sensitive to labor unrest, seeking to accommodate worker demands while ruthlessly repressing attempts at independent worker organization.

The reproduction of labor is the reproduction of the human workforce needed for production: that is, how labor gains access to food, housing, and education. For much of Soviet and PRC history, consumer goods were distributed through the productive enterprise itself. Even today, access to housing is still largely a function of how successful the enterprise itself is at negotiating with local officials for permission to build housing (Cook, 1993; Lin and Bian, 1991; Logan and Bian, 1993).

The labor process refers to how things are produced. The crucial feature here is whether or not the real subsumption of labor has taken place. The formal subsumption of labor represents the aggregation of workers into

factories to produce, and is symbolized by craft production. Skilled workers work for an owner, but control the production process through their monopoly on skills. The real subsumption of labor takes place when owners take control of the production process through the implementation of new machinery, new divisions of labor, or both. Given the authoritarian nature of the state socialist Party/state and its deep penetration into the realm of productive enterprises, it may seem strange to ask whether the state controlled the production process. In fact, the nature of the state socialist economic system in many countries engendered a system where workers had significant control over the process (Burawoy 1985). Finally, market conditions can vary from the severely limited markets of command economies, to the anarchic markets of early capitalism, to the restricted markets of oligarchic systems.

The relationship between the variables

Production regimes are part of what determines the type of transitional regime. For example, the nature of Russia's prerevolutionary production regime gave workers' struggles a strong political edge, and therefore created working class support for the Bolsheviks. In Russia, the state was highly involved in production, through its control over the flow of labor between the peasant and industrial economies and intervention in industrial planning and strikes (Burawoy 1985: 104-107). The high degree of state intervention gave worker's struggles a revolutionary form in both 1905 and 1917, because protests against management were also struggles against the state. The factory regime thus made revolution a more likely outcome in Russia.

My dissertation is not, however, an inquiry into what determines which path a country will follow. Instead, I want to employ the concept of production regime to help explain the course of property reform. One advantage of using these variables is an explanation of the direction and speed of economic change which takes into account popular struggles based on the real experience of these groups.

Scholars have tended to take a static view of China's regime and ignore the importance of worker's experience in the production process. For instance, Zhang Baohui (1994) argues that, because China is a totalitarian regime, it has less chance of achieving democracy than the corporatist regime in Brazil. According to Zhang, successful transitions depend on two factors, the ability of elites to exclude popular groups from participation, and the ability of elites to enforce pacts (Zhang Baohui 1994: 112). These elite pacts are more likely in corporatist settings such as Brazil than in Communist settings such as China, because elites under corporatism have better control of workers. Since labor is unorganized under Communist rule, its demands tend to become "radical and even demagogic" and demand the "immediate and unconditional removal of current top [state] leaders" (Zhang Baohui 1994: 127). In China, however, labor's demands have been localized and are linked to the ideology produced by the production regime: the concerns are wages, social security, and an end to corruption. There is little evidence that labor supports "radical and even demagogic" demands, which were those of students rather than workers. Students found their strongest support with the theme of corruption rather than radical demands for democracy (see Chapter III). As labor activist Han

Dongfang put it, “Now our priority is to fight for reasonable salaries and not involve ourselves with issues involving political power” (in Chen 1994: A8).

The variables are thus interactive and mutually constitute the structural constraints within which property reform is carried out. A passive revolution calls forth the need to legitimize property reform, as shown in Chapter II, but the production regime also helps determine the popular response to regime initiatives. Schematically, the interaction between the variables in the Chinese case are as follows (see also Chart XI):

If passive revolution, then:

Need for stability to allow for economic modernization, §
 fear of working class unrest § concessions to workers;
 But: the point of the passive revolution is to transform economic relations to increase efficiency, so:
 ideological opening is created; and
 less threatening aspects of economy are changed, §
 modifies production regime and changes subjectivity, §
 increased chance for successful property reform.

In Chapter IV, I will contrast China’s experience with Russia’s normalizing transition, which can be represented as follows:

If transition, then:

**Society prepared to sacrifice during transition to normal society, §
increases legitimacy of property reform**

**But: legal changes in property are not changes in production regime, so
ideology of old production regime continues to influence politics;
transitional regime's changes may threaten vital interests
of workers §
resistance to privatization.**

Structure of the dissertation

In chapter one, I survey the literature on property reform and bureaucratic politics. The most common approach to property reform is based on the property rights literature. This approach offers important insights into the process of property reform, but remains problematic for political explanations. Originally, property rights theories argued that efficiency alone would motivate property reform. However, property rights approaches to efficiency may not effectively examine the causes of efficiency within national economies and within firms. As the property rights literature has evolved, many writers have reduced the emphasis on efficiency and examine instead the political institutions which block efficient forms of property from emerging. Even in this more subtle and political approach, however, writers basing themselves on the property rights approach cannot grasp the importance of

ideology or popular politics. This is demonstrated in property rights approaches to bureaucratic politics and local development.

Chapter two examines the attempt in China to build an ideology suitable to property reform, and the theoretical difficulties associated with that project. Here I show that definitions of property have been contested throughout the PRC period, and have been associated with different visions of Chinese society. Furthermore, I show that redefining the subjectivity of economic actors is crucial to the success of legitimating property reform and transforming the production regime.

Chapter three examines the state's interaction with its industrial workforce. The production regime in China has made it difficult for the state to carry out the type of property reform associated with the rationalization, austerity, and privatization plans advocated by Western governments and financial institutions. Instead, property reform has taken great strides within factories, strides that will help pave the way for privatization even as they have slowed such plans to this point.

Chapter four first examines the question of legitimacy and property reform in comparative perspective. I then elaborate on the three types of regime transition. In the conclusion, I review the findings of the dissertation and explore some of the wider political implications of China's passive revolution.

CHAPTER I

PROPERTY REFORM AND POLITICAL SCIENCE

“Can any scholar today seriously visualize a return to private property in the means of production in the Soviet Union or a meaningful inroad into the economic powers of corporate business in the United States?” (Meyer 1970: 339).

Changes in property relations are one the most striking aspects of reform in China during the Deng period. The magnitude of change can be discerned from three sets of statistics: number of enterprises under the different forms of property, the percentage of production produced by enterprises categorized by various property forms, and the number of workers employed by enterprises representing various forms of ownership. These are shown in graphic form in charts I-IV.

Charts I and II shows the changes in the amount of goods and services produced by enterprises under various forms of ownership. In 1978, state-owned enterprises produced 3,289 hundred million yuan in gross industrial output value, with collective enterprises producing 948 hundred million yuan. Private and Township and Village Enterprises were not even measured. By 1980, the value of state-owned enterprises output had risen to 3,916 hundred

million yuan, and collectives produced 1,213 million yuan. At this time, private enterprises produced on .81 hundred million yuan, and “other” (mostly TVEs and foreign joint ventures) produced 24 hundred million yuan. Five years later, TVEs were producing 117 hundred million yuan. Even more impressive, private enterprises were now producing 179.5 hundred million yuan. The value of state-owned enterprises also continued to increase. By 1992, SOEs were producing 17,824 hundred million yuan. Collective enterprises had nearly caught up with SOEs, producing 14,101 hundred million yuan. Private enterprises produced 2,507 hundred million, and “others” 2,634 hundred million yuan.

Chart three shows how the number of workers under various types of ownership has also changed. Out of about 400 million workers in 1978, 75 million worked in state enterprises. While SOEs employed almost 110 million workers in 1992, most job growth had occurred outside the state sector, as the labor force was now almost 600 million. Chart IV shows the increasing numbers of non-state and para-state enterprises in China. The number of large and medium state enterprises has grown during the reform period, quadrupling in size from 1978 to 1993. The growth in other state-owned enterprises has been much more modest, less than twenty percent, from 83,700 to 100,470 in the same time period. The number of township and village enterprises has more than doubled during this period, from 160,410 to 380,210. Most impressive, however, is the growth in the “other” category, which includes foreign and private enterprises. There were 4000 of these in

1978, 24,000 in 1986, and 72,000 in 1989. The number doubled from 1992 to 1993, going from 142,000 to 321,000.

What has brought about these changes? In the rest of this chapter, I will examine answers to this question which base themselves on economic or bureaucratic explanations for the course of reform. Chapters two, three, and four will offer an alternative, political explanation for the course of property reform in China.

In this chapter, I will examine the two most common and important approaches to China's economic reforms: property rights and bureaucratic approaches. Both offer crucial insights into the process of change in China. Both rely heavily on the question of economic performance and intra-government struggle to explain, often in convincing fashion, how the program of reform came to be implemented and justified. But economic results are not enough. Economic efficiency, the touchstone of the property rights approach, is more slippery than it first appears.¹ At a minimum, we know that questions of efficiency are inextricable from questions of distribution. After all, in the mid and early 1980s, it was often assumed that increasing inequality would block radical reforms (Zweig 1985, 1986; Shirk 1981; Walder 1987; White 1987). What is considered efficient can be a tricky question, and what brings about

¹ Invoking the term efficiency itself tells us very little about how efficiency is defined, what factors brought about the realization that efficiency was too low, and how countries have gone about trying to make the case for property reform (Woods 1995).

efficiency is more complicated than the property rights literature admits. And the answer to how change is justified requires us to go outside the framework of bureaucratic politics.

Property rights and economic reform

How is it that China's reforms have become one the century's great economic success stories while Russia and, to lesser or greater degrees, the rest of Eastern Europe, remain bogged down in post-Communist economic difficulties? Increasingly, social scientists have looked to the property rights regime in China for an explanation of China's success. The story can be summarized as follows: In China, reforms decentralized power to localities. The decentralization allowed localities to gain new rights over enterprises in their jurisdiction, including rights to profits. Often, the story goes, local officials "took" these rights from central authorities, rather than being handed to them from on high. By securing these rights, localities had an incentive to make their enterprises profitable, because they could keep part of their profits. In addition, a large number of enterprises were involved; markets became an important force, which put hard budget pressures on these enterprises. Facing hard budget constraints and ready to reap the profits they accrued, Township and Village Enterprises became havens of entrepreneurial activity, propelling China's economic growth.

This story is both simple and compelling. It appeals to the common sense idea that people work harder if they are allowed to keep more of what

they produce when they work.¹ It also explains why China's reforms have been driven by enterprises outside the core of large and medium state-owned enterprises (SOEs). Behind this simplicity, however, lies a large body of theory, and important assumptions and hypothesis regarding history and economic behavior. The next section will examine the theory behind the property rights explanation of China's economic reforms.

NEH as an approach to social science

The theories known as "the new economic history," (or positive political economy, or property rights theory) are no longer particularly new. NEH took the form of an identifiable movement as early as a 1957 conference of economic historians and researchers, but its intellectual roots go back much further and its real influence began somewhat later.² Like any school of thought which remains viable over a period of time, the property rights school itself is now divided between different groups which emphasize various aspects of the original program. The common origins of NEH have, however, remained in the later work: a commitment to methodological individualism and the

¹ This is not always the case. At least some economists believe that many people aim for a certain income level, and will decrease the amount they work rather than increase their income by working more when they reach that level (Murray 1996). See also Gorz (1990). This approach also leaves out the question of the reproduction of labor power, a central concern of feminist economics. For an excellent example of the power of this type of thinking, see Folbre (1994).

² For the history of NEH, see North (1977); Hughes (1982); Sutch (1982); Dragun (1987); Field (1987). For its history in political science, see Oardeshook (1990) and Bates (1990).

general precepts of neoclassical economics, a belief that political behavior can be explained using economic methods, and the idea that contracts between individuals (humans or firms) are the keystone of social interaction.

Origins of the property rights approach

The concept of property rights is very old, but its re-emergence in modern social science can be traced to the late 1950s and early 1960s and the work of J.M. Buchanan, R.H. Coase, and W.C. Stubblebine (Dragun 1987: 860). These economists believed that the trend toward greater government involvement in the economy was counterproductive. Buchanan and Coase both argued that taxes, specifically taxes on externalities, were undesirable because they implicitly changed property rights. For instance, if producers were taxed for the externalities (e.g., pollution) they produced, their property rights would be restricted: they would not be able to produce on or with their own property what they were likely to gain the most value from. Since property rights are essential to liberty and economic growth, taxes are not an acceptable solution to the problem of externalities. These early theorists tried to move arguments from (implicit) discussions about property rights--taxes--towards discussion about working agreements--e.g., bargaining and compensation.

Institutions

Institutions are the key to NEH explanations.¹ Institutions are the “rules of the game” in a society or “the humanly devised constraints that shape human interaction” (North 1990: 3). “Institutional change,” writes Douglas North, “shapes the way societies evolve through time and hence is the key to understanding historical change” (North 1990: 3). Institutions affect economic performance and “differential performance of economies over time is fundamentally influenced by the way institutions evolve...” (North 1990: 3). “The major role of institutions in a society is to reduce uncertainty by establishing a stable (but not necessarily efficient) structure to human interaction” (North 1990: 6). Institutions can be said to “define and limit the set of choices of individuals” (North 1990: 4). More formally, “institutions can thus be described...as the set of rights and obligations in force; or in the parlance of sociology and social anthropology, as a role-system or status-system; or in the parlance of economics as defining: (i) what markets exist, taking market in the broadest sense, to include all voluntary exchange; and (ii) how economic relations are regulated in areas where markets do not exist”

¹ There are, of course, many versions of “institutionalism.” In economics, there is a separate strand of institutionalism which encompasses those who could be loosely called followers of Veblen. For an examination of China’s reforms from this perspective, see Schlack (1989). For an article which argues that institutional analysis does not follow Veblen’s radical lead, see McFarland (1985). Recent trends in institutional analyses in political science are covered in Steinmo, Thelen and Longstrength (1992) and Knight (1992).

(Bromley 1989a: 739-740). Examples of institutions include written constitutions, common law traditions, or other formal or informal sets of rules.

Property rights

Institutions are the key to NEH theory, and, property rights are the key institution. Property rights are defined as, “rules, laws, even customs (for example, customary entitlements), governing ownership of, use of, rights of access to, and rights of appropriation of resources, productive factors and output” (Caporaso 1989: 143). Property rights are different from property as the term is commonly used. In daily use, the term property refers directly to things--land, houses, cars. Property or property rights as these terms are used in NEH is a legal title--an enforceable right--to a thing, idea or stream of income (Macpherson 1978: 6-9; Macpherson 1973). Property depends on the power of the state to defend property rights.

Externalities and transaction costs

Two other key terms in NEH are externalities and transaction costs. Externalities are defined as costs not included in a specific transaction--they are external costs or benefits which another party suffers or enjoys. The most familiar example is pollution. A factory pays for inputs of raw materials, labor, and power. An unintended result of production is pollution--externalities, the most common example of which is the foul-smelling smoke of the classic industrial plant. Although externalities are usually associated with negative consequences, that is not necessarily the case. Someone who enjoys gardening

may provide oxygen and beauty to others free of charge because the joy of growing plants is sufficient to motivate them. On the other hand, the gardener may be using insecticides which pollute the water system, an example of negative externalities. Similarly, a company may spontaneously reduce pollution when they can reduce inputs (and therefore lower costs) or cheaply recycle waste (Marx 1981: 181-199). The problem of dealing with externalities was an important inspiration to the emergence of property rights explanations.

Transaction costs “refer to the total costs of information, measurement, negotiation, uncertainty, implementation, and monitoring transactions” (Caporaso 1989: 145). Property rights lower transaction costs by making behavior predictable. In contrast to Walrasian analysis, NEH theorists do not assume that setting and discovering prices is without cost; instead, the difficulties in obtaining market information prompt the formation of institutions: “Information processing by the actors as a result of the costliness of transacting underlies the formation of institutions” (North 1990: 107). Institutions, such as property rights, reduce transaction costs. Property rights require third party enforcement, and thus the state appears as the enforcer of contracts. The existence of the state, then, can be viewed in NEH terms as a functional requirement for the existence of commerce, and the costs of maintaining the state can be seen as one of the costs of doing business. Technological improvements in transportation and communication decrease transaction costs, and thus can lead to new property rights arrangements which take advantage of the new technologies.

Property rights and Communist economies

Chinese authors are increasingly using property rights explanations in their studies of China's reforms. The economic success of Shenzhen (Su 1995), TVEs (Liu Xiaoxuan 1995; Cai 1995), and the economic failures of SOEs (Huang and Zhang 1995) have all been studied using a property rights approach. Indeed, this approach to the question of property rights and property reform has clearly achieved a certain dominance in Chinese economic thinking. The property rights approach thus merits our attention not only because it is a commonly held Western academic view of Chinese reform, but because the Chinese themselves are explicitly using PPE to explain, justify, and guide their reform efforts.¹

The pioneering attempt to use property rights in explaining Communist systems was by Pryor (1973).² Pryor focuses on the rights of bureaucratic entities within Communist states. He argues that ownership (in the legal sense) is separated from control, which is exercised not by the state, the people, or the workers, but by bureaucrats and ministries. Pryor goes on to show how bureaucratic control molds incentive structures toward the types of behavior which Kornai is so often credited for discovering: the shortage

¹ For instance, Douglas North's work was published in a recent issue of *Jingji Yanjiu* (North 1995). For more discussion, see chapter two.

² Some more recent general treatments of property rights under Communism are in Lee (1991); Pejovich (1987); Kornai (1990); Granick (1990).

economy, soft budgets and bargaining, etc.¹ More than many later writers, however, Pryor argues that property rights cannot be separated from the values and non-economic institutions of society (1973: 380).

David Granick has also used a property rights approach to study China's economic reforms. His book is based on a large World Bank survey of Chinese industry undertaken in the early and mid 1980s. The survey includes data from interviews with enterprise personnel at twenty Chinese factories. Granick, a long-time student of the Soviet and Eastern European economies, outlines his thesis as follows: "Although [China] falls within the class of centrally planned economies, its peculiar features are sufficiently prominent so as to represent a radical departure from the [Communist] model as it is observed to operate in the Soviet Union or elsewhere in Eastern Europe. Furthermore, the peculiarities cannot be attributed solely to China's state of economic development" (Granick 1990: 1). Granick outlines six unique features of China's planned economy:

- (1) Multi-level supervision over [urban] enterprises;
- (2) loose and easily overfullfilled production plans, which thus offer only limited guidance to the enterprise activities.;
- (3) complementary to (2), availability of

¹ Barzel makes a similar point: that property rights as they are understood by NEH writers must exist in all systems, and therefore what needs to be studied is how they effect economic activity in each case: "The distinction between the private and public sectors is not a distinction between the presence and absence of private property rights. Such rights are necessarily present in both systems. The distinction lies instead in organization, and particularly in the incentives and rewards under which producers tend to operate. In the private sector, producers are more readily given the opportunity to assume the entire direct effects of their actions. In the government sector, people assume a smaller portion of the direct effects of their actions. Both systems reflect the outcome of the actions of maximizers. Each must be efficient" (Barzel 1989: 107).

allocated items outside of the allocation system; (4) multiple prices for the same product and enterprise customer in a single region; (5) the nature of the *nomenklatura* control that exists over the appointment of directors and Communist party secretaries within the enterprise; and (6) the allocation of labor and determination of wages (Granick 190: 2).

Granick believes that he can explain the first five of these peculiarities using what he calls a regional property rights approach. His approach incorporates the principal-agent model in economics, "All principals hold property rights in enterprises. These property rights are accompanied by the right to give directions and provide resources so as to realize these rights. A principal other than the national government obtains property rights in a given agent in one of two ways: (1) by historical tradition; or (2) by investment in the fixed capital of the agent (Granick 1990: 36). Principals are actors with property rights; agents have no property rights. Multiple principals exist within the state sector, and a single enterprise may have multiple principals--thus a single state enterprise may have several overseers who take interest in the enterprise and who may share in its profits. Aside from the central government, principals include regional governments at the provincial, municipal, and county levels. Agents include not only state enterprises, but also bureaucratic organizations that mediate between principals and the enterprises, namely, central ministries, regional industrial bureaus, and corporations (Granick 1990: 32).

Granick's data demonstrates that China has not stressed mandatory quotas to the extent that other centrally planned economies did. More surprisingly, he shows that these loose targets allow Chinese enterprises to

enter into market-type arrangements, gaining crucial inputs in exchange for their own products or excess raw materials. Chinese industries can thus be seen to have operated with marginal prices since at least the 1960s, a definite shock to those who claim that no prices can exist in a planned economy (Granick 1990: 112-158). Of course, the real problems which exist in China's urban economy show that marginal pricing was at best only a partial solution to the problems posed by economic development, and Granick does not argue that marginal pricing was by any means an ideal solution.

While Granick's empirical analysis of the data yields interesting observations, it is less clear that his theory improves on other models. For instance, Granick discusses the property rights of lower-level units in China as follows: "Neither the Center nor an intermediate regional body, such as a province, in relation to lower bodies such as municipalities, simply takes those actions that maximize its own welfare function" (Granick 1990: 23). The interaction between national and local level units appears to be nothing more than bargaining. Granick argues that it is something more: an implicit, on-going contract between principles and agents in which much more than political-control considerations are involved. The contract, according to Granick, also involves real rights for agents, but he doesn't specify what those rights might be (Granick 1990: 60-61).

Victor Nee (1992) focuses on transaction costs when explaining the Township and Village Enterprise phenomenon in China. Nee argues that these collective enterprises have the advantage of reduced transaction costs, which can be explained using property rights theory. While state firms remain tied to

the plan and the political considerations of the center, and private firms face political and popular backlash, collective firms maintain a middle ground in the transition period.¹ Unlike state firms, TVEs are largely free from central plans and free to devote their entire output to economic markets. Unlike private enterprises, however, TVEs have political connections which allow them more security than private entrepreneurs. Local governments depend on TVEs for revenue and jobs, and unlike private enterprises, they are “semi-socialist” and therefore not subject to confiscation. Indeed, many TVEs are apparently private enterprises which have been registered as TVEs to gain the protection TVEs enjoy.

Montinola, Qian, and Weingast (1995) use a similar approach to explain the origins of China’s successful reforms. According to these authors, China’s reforms are successful as a result of reasonably secure property rights emerging from political decentralization. This “Federalism, Chinese style,” differs from Western conceptions of federalism because it excludes human rights considerations from the protection against the central government offered by federalism. However, from the point of view of the economy, Chinese style federalism has been very effective in creating a reasonably secure property regime. Secure property rights, as noted above, encourage actors to take advantage of economic opportunities, and thus China’s reforms

¹ This, of course, shows the importance of ideological legitimation for successful reform: reform falters on popular resistance unless consciousness can be changed.

have been driven by the property rights afforded by China's federalist style property rights regime.

Bureaucratic approaches to economic reform in China

Bureaucratic approaches attempt to explain the political mechanisms by which economic policy has been produced. If property rights theory explains the efficacy of Chinese reforms by the decentralized structure of the Chinese polity, bureaucratic approaches attempt to explain how that decentralized system works. In bureaucratic approaches, Chinese politics are seen as largely derivative of, or sometimes simply consisting of, bureaucratic politics.

What are bureaucratic politics? In technical terms, bureaucratic politics is an oxymoron. Bureaucracies are rule-governed institutions of hierarchal authority relations, while politics involves the struggle for redistribution of resources. It is axiomatic in bureaucratic politics explanations that bureaucracies, while rule-governed, are never perfectly responsive to orders from above. There are three reasons politics exist in the rule-governed realm of bureaucracy (Art 1973: 468). First, there are divergences between different bureaucratic organizations (e.g., the foreign and domestic policy bureaucracies), and different individual bureaucrats, about the ends and means of policy. This means that bureaucrats can influence, in varying degrees, the choices made, because there is always some room to maneuver when policies are discussed or implemented. Third, policies are made and carried out through negotiation, bargaining, and compromise. This

follows from the above two points: since bureaucrats have room to maneuver, they must be offered sanctions to implement the policy preference of higher-level bureaucrats. The type and frequency of bureaucratic politics varies over time, as well as between different bureaucratic systems.

According to Lieberthal (1992), in China the bureaucracy in the post-Mao era follows this general pattern, where lower-level units adhere to rules coming down from above, but the bureaucracy does not automatically act in complete accord with the wishes of higher levels. There is always room for interpretation of rules. In addition, placement in a bureaucracy causes bureaucrats to develop interests which may be different from their superiors (where you stand depends on where you sit). Just as bureaucratic theory would predict, implementing orders and supplying information to other units involves politics. Lower-level units attempt to manipulate orders in ways that increase their power and security, and bureaucrats and officials at all levels bargain over the formation of new rules and the distribution of benefits in order to enhance their personal position and/or that of their branch of the bureaucracy. The Chinese bureaucracy functions like bureaucracies in the US and Europe, with three major exceptions. First, there is less public accountability in China. Second, there is an ill-defined system of authority at the highest levels, where bureaucratic rules give way completely to personal relationships as a basis of authority and decision-making power (Shirk 1992:

61-62). Third, China's system has strong regional tendencies, and thus regional as well as functional and hierarchal interests affect policy.¹

Lieberthal uses the term "fragmented authoritarianism" to describe the Chinese system. Fragmented authoritarianism is a synthesis of elite-oriented decision-making models, the cellular approach (which argues that China's political and economic authority is fragmented along regional lines), and a bureaucratic politics approach, which tries to bring the structure and actions of bureaucrats into focus. At the elite level politics is personal, while below the highest levels politics is determined by bureaucratic position, heavily influenced by localism (the cellular shape of China's political economy). Bargaining is the modal bureaucratic behavior. Bargaining occurs between actors of approximately equal rank, or among immediate superiors and subordinates. It is especially common when different bureaucratic clusters must gain the cooperation of others to carry out a plan (Lampton 1992: 34). For instance, the large Three Gorges dam project required the cooperation of a number of different ministries, contributing to the difficulties of this gigantic undertaking (Lieberthal and Oksenberg 1988: 269-338).

The frequency of bargaining helps explain the prevalence of provincial power in China. Provinces hold several important bargaining chips (Lampton 1992: 43): they are often represented in the Central Committee, they have the power to appoint officials within their jurisdiction (after consulting with the center), they are major sources of central revenue, and the provinces

¹ On regionalism, see Goodman and Segal (1994).

themselves ultimately implement central policy. What we see as rampant regionalism, then, may be little more than smart bureaucratic politics. Walder (1992) and Naughton (1992) highlight the structural conditions which encourage bargaining at the local level. While studying the relationship between cities and industry, Walder notes that cities must provide a favorable environment for industry in order to insure their own income. On the other hand, as Naughton notes, industrial enterprises are dependent on cities and industrial bureaus for inputs, infrastructure and market access. Walder (1992: 331) somewhat naively sees the structures that produce this behavior as a temporary result of the transition to a market economy. This situation of mutual dependency and local bargaining to attract and retain enterprises is familiar, however, to students of the restructuring of the global economy, and the dual dependency of localities and local industry is unlikely to disappear in China. Indeed, rather than an abnormality of China's reforms, it is a fact of life in a period of rapid capital movement and shrinking government revenues (see discussion later in this chapter).

A major weakness of the bureaucratic politics approach is that it often focuses on bargaining to the exclusion of other aspects of bureaucratic behavior. As Lampton himself points out, "[B]argaining is *one of several forms of authority relationship in China*" (1992: 34). Bureaucratic politics approaches tend to separate the bureaucracy from the society in which it operates. Many of the other relationships named by Lampton (hierarchy and command, markets, patron-client, and corruption) require analysts to go

beyond inter-bureaucratic politics and examine the interaction of the bureaucracy with the rest of society.

More recent work on bureaucratic politics in China has based itself explicitly on the theoretical bases of positive political economy. As we saw with Granick's work, what "pure" bureaucratic scholars look at as bargaining is reinterpreted as a principal-agent problem. Two examples of this new hybrid are the work of J. Winiiecki and Susan Shirk.

Winiiecki (1991) used property rights analysis to explain why an inefficient property rights structure was maintained for so long in eastern Europe and the USSR. If there is an inherent economic tendency toward efficient property rights, the explanation for the persistence of inefficient property rights must be found in the political realm. Winiiecki attempts to unearth the political reasons (political institutions) which explain why bureaucrats in centrally planned systems are resistant to changes in the economy. For Winiiecki, wealth distribution--the exploitation of the population by the Communist Party--is the key to understanding the persistence of what he calls Soviet Type Economies: "It is important to realize that wealth distribution has been much more important in determining attitudes of the ruling stratum [the Party] in the case of market-oriented change. Without the wealth component it is difficult to explain why changes--so badly needed by the rulers themselves in times of economic decline--have failed to materialize or, if they did materialize, why they failed (or at best brought very little improvement)" (Winiiecki 1991: 2). For Winiiecki, the Party, and its bureaucratic functionaries, is just like any other ruling class: it expropriates

from the non-ruling classes purely in its own class interest, and this expropriation explains why they failed to change the property regime.

Party apparatchiks gain income by rent-seeking. In economics, a rent is unearned income derived from position: if you own the only watering hole in the desert, or control access to jobs and material through political position, you can gain income (rents) which are out of proportion to your physical/intellectual contribution. Winiecki sees Party members maximizing their rent in two ways: first, through the *nomenklatura* system, they control who gets ahead within the system; second, they receive kickbacks from enterprise managers (Winiecki 1991: 4). Since the best paying jobs, and the greatest opportunities for procuring rents, exist in the urban industrial sector, industrial reforms have been more difficult to carry out than agricultural reforms: industry, as the most important source of income for the Party, is where change will be most fiercely resisted.¹ Moreover, Winiecki argues, this resistance cannot be overcome merely by expanding opportunities in the private sector; instead, the whole public sector must be abolished, because it is the foundation on which the ruling stratum's power is based (Winiecki 1991: 12).

In stark contrast to more recent analyses of China, Winiecki does not see much hope in China's emerging property rights regime. He distinguishes Chinese reforms from reforms in eastern Europe (before autumn 1989)

¹ This claim, however, may be empirically false: in Russia, rural bureaucrats have fought change more successfully than their industrial counterparts (Van Atta 1994).

because of the extent to which China's reforms rely on the expansion of the private sector and foreign co-operative ventures. According to Winiecki, "This gave Chinese industrial reform the appearance of the overall impetus they in fact never had" (Winiecki 1991: 26). China's apparent breakthrough was bound to falter because the bureaucratic class would prevent real reform.

Shirk (1993) uses a "choice-theoretic" framework to explain the dynamics of economic policy in China in the 1980s. This framework derives from microeconomic "rational-choice" theory, but places more emphasis on the structures which limit the choices of individuals. Shirk examines how the distribution of political resources at the upper levels of China's polity determined the course of economic reform.

During the 1980s, two alternative forms of revenue collection from state industries were proposed: taxes and "particularistic contracting." Taxes are uniform rates of government revenue extraction which apply uniformly to all similar units. Particularistic contracting, on the other hand, is a form of revenue extraction in which individual revenue producers bargain about the amount they will turn over to the state. Particularistic revenue collection continually won out over uniform tax codes, despite the apparently superior economic logic of taxes, and Shirk tries to explain why this happens.

According to Shirk, authority relations in China are structured so that the Communist Party is the "principle" and the government is the "agent". Simply put, the Party leads and the government carries out policies on behalf of the Party. During the reform decade, the Party delegated more power to the government in order to improve economic decision making. As the agent,

government policies rarely depart in important ways from the preferences of Party leaders. This principle-agent relationship gets more complicated, however, when leadership selection is considered. China's leaders are chosen from a "selectorate" of about 500 people, including the central committee of the Party (made up primarily of provincial leaders in the 1980s), Party elders, military leaders, and the preeminent leader, Deng Xiaoping. Those vying for power therefore promote policies which appeal to the selectorate. An important corollary is that since policies are designed to appeal to the selectorate, benefits of policies will favor groups in the selectorate or groups on which the selectorate depends. Since Chinese officials are encouraged to represent their ministry or region, and since provinces (which depend on industry for revenue) and industrial ministries are heavily represented in the government, policies which impact industry will be highly contested.

The features of China's political structure impact the nature of economic reform: expansion is easier than restructuring, because no one is forced to sacrifice, thereby appeasing all groups and bureaucrats within the selectorate. It was easier to allow the collective sector and joint enterprises to grow than to reform state industries. "Thus, by 1982 a clear political strategy of reform had emerged. The top leadership generated support for themselves and reform by selectively allocating lucrative reform experiments to enterprises, localities, and even (later) to ministries, while the costs of reform (from inefficiency and inflation to bond purchases and taxes on extrabudgetary funds) were diffused to everyone" (Shirk 1993: 220).

The idea behind introducing taxes was to level the playing field for all enterprises (ending favoritism), put relations between enterprises and the state on a legal footing, enhance enterprise independence, and help implement a national, rather than local, industrial policy (Shirk 1993: 248-251). When a tax system was introduced briefly, however, it took a particular rather than universal form: an “adjustment tax” was levied on more profitable enterprises, while poorer enterprises could bargain for lower tax rates. In part, the failure of tax reform was a result of the failure to reform other parts of the system: tax reform required price reform, because irrational prices meant that enterprise profits and losses were arbitrary. As in the case of revenue collection, however, particularistic politics made price reform very difficult. Shirk argues (1993: 301) that bureaucratic politics rather than fear of popular unrest prevented price reform. Chinese leaders deregulated food prices, the most politically sensitive factor to the general population, but left the prices of many raw materials, which affected bureaucratic interests, unchanged. What this analysis ignores, however, is what was happening in the enterprises during this period. Local bureaucrats, faced with unhappy workforces, sought to placate their workers with bonuses and new housing to insure their cooperation in economic production. This cushioned the blow of rising food prices, which have, at any rate, been periodically re-regulated several times since they were initially freed. It wasn’t simply bureaucrats trying to increase their power which led to the policy reversal. Instead, bureaucrats themselves were reacting to pressures from below. When taxes threatened enterprise profits

and thus brought on the possibility of lay-offs and worker unrest, the Party/state opted for domestic peace over economic rationality.

According to Shirk, the struggle for leadership was behind the failure of tax reform. The battle for power between Hu Yaobang and Zhao Ziyang led them to favor particularistic forms of revenue collection with which they could distribute benefits and thereby gain support among the selectorate (1993: 222). The structure of China's political system thus determined the direction of economic policy. Shirk's book thereby reduces politics in China to policy and leadership selection, ignoring the politics at the base of China's social system which drive much of the bureaucratic behavior she examines. While the limitations of Shirks analysis are partly attributable to her use of the choice-theoretic approach, in which reality must be limited to a finite set of choices and a small number of "players" who get to choose between policies, they are also symptomatic of the problems of bureaucratic politics approaches in general. Explaining bureaucratic politics is indispensable to our understanding of Chinese politics, but these explanations are not complete without a more comprehensive account of the societal sources of politics in China.

Efficiency and the firm: a second look

According to the property rights approach, efficiency is determined by stable property rights. The argument is convincing, but how far does it really take us to understanding efficiency? In contrast to a straight property rights approach, there is a growing body of literature by geographers, sociologists, political scientists, and economists which argues that state policy, regional

synchronies, and intrafirm organization are the real basis for efficiency in modern economies. This literature is important because, as I argue in later chapters, changes within China's factories are an important part of property reform in China. And, as I argue in a later section of this chapter, the property rights explanation of intra-firm relations is unsatisfactory.

The role of the state in development is being reexamined in development literature. On one side, writers such as Amsden (1989) argue that the state plays a crucial role in late development. Another group, however, contends that economies are being "glocalized," one neologism for the growing importance of the local level and the international level in the current phase of international political economic development. According to Jessop (1994), the national state is being "hollowed out" as its primary functions of welfare provision and direction of the national economy are being leached away by local governments, companies, and international business patterns and agreements.

Post-Fordism

The globalization school is usually termed "PostFordism." The prefix post demonstrates the unsettled nature of the new forms, and the continuing disagreements over the theoretical conceptualization of these changes. Fordism is, itself, a somewhat contentious concept, but its main features can be described as "mass production of complex consumer durables based on moving assembly line techniques operated with the semi-skilled labor of the mass worker" (Jessop 1994: 253); a virtuous circle of growth, whereby

increases in productivity led to higher wages which provided a market for the goods; separation of ownership and control; and a multi-divisional corporate structure, along with union recognition and collective bargaining; and consumption of standardized, mass commodities in nuclear family households.¹

There are three basic approaches to the Postfordist economics: neo-Smithian (or flexible specialization); neo-Schumpeterian; and regulationist. The neo-Smithian approach is associated with the work of Piore and Sable (1984). This work is concerned with explaining the reemergence of industrial zones--regional, integrated areas of production--symbolized by the Third Italy² and Silicon Valley. These regional economies appear for five reasons. First, the emergence of successful districts itself spurs on other regions to attempt to copy the success of earlier adopters of the new strategy. Second, a reorganization of transnational firms--leaving more autonomy to units--gives them space to develop regionally. Third, there is a double convergence of large and small firms: large firms are trying to capture the entrepreneurial dynamism associated with small firms (Hill and Yamada 1992). Meanwhile, small firms have found it necessary to centralize resources for research, development, and marketing (Selz 1992). Fourth, local governments have been transformed from "welfare dispensaries to job-creation agencies" (Sable 1994: 103). Fifth, a changed global economy has forced labor to adopt different

¹ The term Fordism comes from Gramsci (1971: 277-318). The classic study of Fordist corporations is Chandler (1962).

² On the continued vibrancy of the Third Italy, see *The Economist* 2 March 1996: 52-53.

attitudes towards the division of labor and work rules, allowing for the emergence of flexible work regimes. Ideally, these regional economies, “escape ruinous price competition with low-wage mass producers by using flexible machines and skilled workers to make semi-custom goods that command an affordable premium in the market” (Sable 1994: 106). Where Fordism was characterized by mass production, product specific machines, semi-skilled labor, and standardized goods, flexible specialization is characterized by skilled workers who produce a variety of customized goods.

In the Neo-Schumpeterian approach, “periodic gales of ‘creative destruction’ represent fundamental technological revolutions which bear with them ‘quantum leaps’ in industrial productivity.” These revolutions are “composed of a ‘cluster of radical innovations’ which introduces a new set of common sense principles into capitalist production and a clearly defined ‘best practice’ frontier.” Finally, firms become “locked in” to “a universal developmental trajectory” (Elam 1994: 45). What is locked in is not always the best technological choice, but a standard which promotes production: “The argument is that initial technological choices are not necessarily dictated by relative efficiencies, but once adopted they tend to persist until a major shock makes them unviable” (Storper 1994: 199).¹

The regulationist approach was developed by French economists beginning in the late 1970s in response to the growing crisis in the core

¹ On the consumer side, the two most famous examples are Sony’s Betamax and Apple’s Macintosh operating system, both of which were technically far superior to rivals but suffered because they failed to become an industry standard.

capitalist countries. There are five basic elements in this approach (Amin 1994: 8). First, the regime of accumulation: the set of regularities at the level of the whole economy, enabling a more or less coherent process of capital accumulation. Second, the mode of regulation: the institutional ensemble (laws, agreements, etc.) and the complex of cultural habits and norms which secures capitalist reproduction as such. It consists of formal and informal rules which codify the main social relationships. The third basic element is the labor process: the patterns of industrial or work organization, and includes the nature of technologies, management rules, division of tasks, industrial relations and wage relations. Fourth, the mode of development, which is the total pattern of development within an economy, based on the labor process, regime of accumulation and mode of regulation. And finally, the mode of societalization or societal paradigm: the series of political compromises, social alliances, and hegemonic processes of domination which feed into a pattern of mass integration and social cohesion, thus serving to underwrite and stabilize a given development path.

The Regulationists offer four reasons for the move away from Fordism. First, productivity stagnates because of worker resistance to Fordist production techniques, as well as the difficulty of maintaining and or increasing the rigid division of labor in production lines. Second, expansion of mass production brought about globalization of national economies, which made national economic management increasingly difficult. Third, Fordism led to greater social expenditures through the welfare state. Finally, changed consumption patterns made mass production less profitable (Amin 1994: 10).

State and development

Amsden (1989, 1990) offers a more statist approach. She argues that late industrialization is based on “learning” or borrowing technology. This type of industrialization is “entirely different from those of an industrialization process based on the generation of new products or processes--the hallmark of the First and Second Industrial Revolutions.” Successful late industrializers, such as Japan, Korea, Taiwan, Brazil and Mexico, have share many economic features as a result of being late industrializers. Most notably, they share a much more active state than the Anglo-Saxon ideal. Amsden also argues that “growth rates among these countries have differed not because markets have been allowed to operate more or less freely, but because institutions general to late industrialization have functioned with varying degrees of effectiveness” (Amsden 1990: 15). The most important institution of late industrialization is the state.

The state promotes industrialization by subsidizing favored industries (Amsden 1990: 16). It does this by “getting prices wrong” (purposely manipulating exchange rates and the price of capital to favor exports and dynamic industries), promoting the growth of conglomerates, a focus on “through-put” (strategic shop-floor management for maximum efficiency), and low-wage labor. Late industrialization in East Asia has been effective because these states have been able to “discipline big business, and thereby to dispense

to big business according to a more effective set of allocative principles”
(Amsden 1990: 16).¹

Amsden has recently brought her perspective to the transition in Eastern Europe. In this work she and her coauthors argue that the ideology of free market capitalism replaced real strategies for economic development, causing the collapse of production Eastern Europe experienced and the horrible pain felt by the majority of people in countries transitioning from Communism. The basic problem of Communist economies was a lack of technical dynamism (Amsden, Kochanowicz and Taylor 1994: 21). Since “all successful industrialization experiences have rested on state intervention” (49), the laissez faire policies pushed by the World Bank and seconded by high ranking economist-politicians in Eastern Europe were bound to fail.

The focus on the shop floor in both statist and Post-Fordist approaches is very important. At the very least, it shows that property rights are not always converted into successful development strategies. More radically, they show that property rights are a secondary consideration in determining economic efficiency. In all these new development theories, what happens in the firm is crucial to the success of individual businesses and the economy as a

¹ Note, however, that Wade argues that Amsden offers little evidence for the discipline she claims the state enforces, nor how the powerful state disciplines itself: “She says almost nothing about how the state is organized, its base of support, its means of survival, and how it maintains its discipline in the exercise of its discretionary powers” (Wade 1992: 295).

whole. What, then, does property rights theory have to say about relations within the firm?

The firm in NEH

Given the importance of the firm in economic efficiency, how does the property rights approach look at intra-firm relations? According to the classic analysis by Alchian and Demsetz (1972), the firm is potentially victimized by the free rider problem--workers have the potential to shirk. Firms are a response to the need to coordinate labor efforts as the complexity of production increases, and thus team or cooperative labor predominates inside the firm. In this situation, workers have an incentive to shirk because it is difficult to ascertain the amount of individual input into the collective process of production.

To guard against shirking, overseers--management--are needed to assure that every worker contributes. The ability of management to elicit effort from workers is a function of management's ability to enforce the work contract. "Thus the extent of shirking in a firm depends on (1) the cost of monitoring workers, (2) the monitor's incentives, and (3) the monitor's power to hire and fire members of the team" (Pejovich 1990: 129). If it is too costly to monitor work closely, or if monitors are not properly rewarded for performing their work, or if managers lack the power to dismiss or hire, shirking will increase.

Alchian and Demsetz argue that the firm is based on contractual relations between numerous individuals. Thus, the labor contract, and

management of firms, is nonauthoritarian. But it is difficult to reconcile the supposed nonauthoritarian nature of the firm with the ability of management to oversee workers. According to Lazonick, "The [Alchian and Demsetz] story has it that some workers (apparently the nonshirkers) see it in their interest to hire an agent to monitor team production in order to ensure that each worker is paid only according to his or her productivity. Alchian and Demsetz did not tell us why all team members were not shirkers, nor did they consider power struggles between shirkers and non-shirkers over the issue of hiring a manager to monitor their work" (Lazonick 1991: 182). Lazonick points out the implausibility of this argument. Even if workers did hire managers to prevent shirking, how could management carry out this task "in the presence of alienated labor (as manifested in its propensity to shirk) in a nonauthoritarian manner" (Lazonick 1991: 183).

According to Alchian and Demsetz, for the manager of a firm to do h/er job, s/he must be able to fire workers. In their idealized firm, this ability to dismiss and hire labor is not a manifestation of an authoritarian relationship. Yet, the only way that this management power could be viewed as nonauthoritarian would be in a system in which individuals were assured of some sort of living wage no matter what their employment status. Only in this case, when the threat of dismissal did not mean a threat to the very existence of the worker, could the threat of dismissal be in any way nonauthoritarian (see Elson 1988). In reality, such a comprehensive system does not exist anywhere, and the threat of dismissal is one in which the power of management is much greater than the power of labor.

In contrast to the Alchian-Demsetz view of freely contracting labor-capital relations, recent work on productivity emphasizes the importance of a highly negotiated labor-capital relationship in enhancing productivity, while noting that this relationship involves an asymmetrical power relationship. Specifically, against the image of conflictual relations which suggest the regular use of negative sanctions, the new industrial relations literature suggests that cooperative relations are crucial to productivity on the shop floor. The basic idea is that new, flexible production regimes within factories and amongst suppliers require workers who can adapt rapidly to different tasks.¹ The cost of training workers in many areas is high, and in order to protect these high sunk costs, the threat of dismissal, central to Alchian-Demsetz regime, is counter-productive. Moreover, the role of workers in new productive regimes is much greater than that envisioned by the classic Taylorist production line: "By continually protecting advanced manufacturing systems from failure, shop-floor workers become just as much the authors of these systems as the managers and engineers who originally conceived them" (Elam 1993: 18).

Companies do not simply adjust to external changes, as in the neoclassical firm, but create their own competitive advantage: The real question in business is "how the business organization can attain and sustain competitive advantage by contributing to the generation of new cost

¹ "History shows that the driving force of successful capitalist development is not the perfection of the market mechanism but the building of organizational capabilities" (Lazonick 1991: 8).

structures” (Lazonick 1991: 9). The cooperative, corporate nature of research and product innovation is demonstrated by the evolution of the personal computer industry. While Intel’s first microchip was created by a lone researcher freelancing on a company project, each new generation of Intel processor takes form in definite stages: first, performance parameters are defined, then design teams are set up, and finally an elaborate testing and refinement process takes place. Intel knows ahead of time what types of innovation each generation of chip will embody before design begins.

Communist firms

How well does property rights theory explain the internal workings of Communist firms? For historical and biographical reasons, Yugoslavia is the subject of many of the early attempts at NEH theorizing about Communist economies. Yugoslavia’s open political structure and its economic innovations made it an attractive subject for research. In addition, the Yugoslav expatriate Svetozar Pejovich was a member of the important group of property rights theorists which included Armen Alchian and Harold Demsetz. The general themes of Pejovich’s work on the Yugoslav economy, which spans over two decades, are summed up in a 1990 article. Pejovich’s thesis is that “...the economic crisis in Yugoslavia is a predictable consequence of the system of labor participation in the management of business firms” (Pejovich 1990: 123). The reasons labor-managed firms produce suboptimal performance are explained by property rights theory. High transaction costs and disincentives for innovation, which are a result of the institutional (property rights)

structure of Yugoslav firms, are blamed for Yugoslavia's economic woes. While Pejovich's analysis correctly identifies some of the sources of inefficiency in Yugoslavia, he places too much emphasis on the property rights system associated with labor management. In fact, the non-property rights institutions of the Yugoslav economy were a more important cause of inefficiency.

Pejovich argues that there are three transaction costs specific to the labor-managed firm: choice of organization, bureaucracy, and the location of decision-making in labor-managed firms. I will first explicate Pejovich's terms, then propose a different explanation. The first transaction cost of labor management is that the *choice of organization* is limited under socialism--in the case of Yugoslavia, to labor-managed firms (Pejovich 1990: 128). This reduces the social opportunity set and prevents entrepreneurs from choosing the most efficient structure for their firm. But here Pejovich makes a careless substitution of terms. Although choice of organization is said to be a transaction cost of labor management, in reality it is a transaction cost associated with Yugoslavia's Communist system. Nothing *within* the labor-managed firm limits the choices of other firms; rather, governmental decisions perform that function. Pejovich is correct that choice of organization was severely limited in Yugoslavia, but his failure to see the difference between government policy and labor management weakens his argument.

The same problem emerges when we turn to the second source of increased transaction costs, *bureaucracy*. State bureaucrats were required to approve virtually all enterprise transactions. The costs of state monitoring of

the economy were high and added to inefficiency and inflexibility. In addition, political control considerations, designed to help the ruling group remain in power, add to the costs of the Yugoslav firm (Pejovich 1990: 128). All of this is true, but again, none of this is a feature of labor management per se, but rather of Yugoslavia's particular system of economic regulation.

Transaction costs are increased further as a result of *the location of decision making in the labor-managed firm*. As we saw in the discussion of Alchian and Demsetz, to guard against shirking, overseers--management--are needed to assure that every worker contributes. On the Alchian and Demsetz model, since participatory democracy precludes decision-making by qualified specialists and, more importantly, because the worker's councils approve the hiring of managers as well as the hiring and firing of workers, labor-management cannot be efficient. Yet this contradicts the theoretical premises of property rights theory. In their theoretical firm, Alchian and Demsetz argue that the workers themselves wish to hire a manager to guard against shirking--the very model of labor-controlled firms. But Alchian and Demsetz, as well as Pejovich, believe that only non-democratic hierarchy--which they believe to be typical in an efficient (capitalist) firm--can bring about economic progress (although, as noted above, they claim this control relation is nonauthoritarian). Workers can hire a manager to guard against shirking but must then abdicate

their rights to control their own labor. This would seem to nullify the contract basis of property rights theory: you cannot contract your own slavery.¹

According to Pejovich, "To make the labor-managed firm more efficient it would be necessary (1) to transfer to the manager a broad range of property rights, the most important being the right to hire and fire workers and the right to be independent from the collective's preference; and (2) to design a new penalty-reward system for the manager that would give him or her incentives to seek and pursue policies that maximize value. The problem is that if those changes in property rights were made, they would de facto, if not de jure, do away with labor participation in the management of business firms (Pejovich 1990: 129).² In other words, no labor-managed firm can be efficient, as long as relations within the factory are participatory-democratic.

Pejovich further argues that the institutional structure of Yugoslavia's system retards development by reducing the social opportunity set--the options available within the system. There are four problems here. The first is

¹ According to Demsetz, a slave is not really a slave. While a firm that hires slaves may be seen by some to not pay the full worth of its wages, this is not the case for Demsetz: "It might be thought that a firm which uses slave labor will not recognize all the costs of its activities, since it can have slave labor by paying subsistence wages only. This will not be true if negotiations are permitted, for the slaves can offer to the firm a payment for their freedom based on the expected return to them of being free men. The cost of slavery can thus be internalized in the calculations of the firm. The transition from serf to free man in feudal Europe is an example of this process" (Demsetz 1974: 32). As Brenner (1985a: 16, n. 12) points out, this position is inconsistent with the reality of serfdom and slavery because "serfdom in its essence was noncontractual".

² As I will show in the next chapter, this position is exactly the same as that of many Chinese economists and is the intellectual force behind the idea of contracting in China.

the *employment problem*. The structure of Yugoslavia's firms gives workers a disincentive to expand employment within the firm. The reason is that workers determine their wages by assigning a certain percentage of company revenues to the wage pool. The more workers there are, the smaller the portion each worker receives. The second problem is *the allocation of risk*. The labor-managed firm does not allow for diversification or transfer of ownership, thereby limiting the ability of firms to take risks. According to Pejovich, risk-averse individuals are able to block potentially innovative moves by risk-takers due to the collective and rigid structure of collective decision-making. Third, *investment decisions* favor short term profits rather than long range productivity gains. This comes about because workers possess ownership rights only while they are employed at a firm, thus limiting their time horizon and adding pressure for immediate results. Finally, there are few *incentives to innovate* in the institutional structure of the Yugoslav economy. Like the allocation of risk problem, Pejovich attributes this problem to the fact that groups, rather than individuals, must approve new strategies. Convincing a group entails higher transaction costs than convincing an individual, thus dampening enthusiasm and room for innovation (Pejovich 1990a: 130-131).

What about the shop floor, what about technology and technical innovation? If they are the key to the failure of Communist economies, and the key to success in the new era of Postfordism, then we had better understand what is happening there. Technology and technical innovations, it turns out, are nearly as political as elections and tax policy. In an excellent study of

technological innovation at three large US firms, Thomas explains how and why particular technologies are chosen.

According to Thomas, based on his case studies “...we are forced to conceive of the relationship between technology and organization as *mediated by the exercise of power*, that is, by a system of authority and domination that asserts the primacy of one understanding of the physical world, one prescription for social organization, over others” (Thomas 1994: 5). Positive political economy generally views technology as an exogenous variable. Amsden, on the other hand, tends to view technology as a choice taken. Her view is an improvement over PPE views, because it shows the social nature of technology. But she puts too much faith in technology and technocrats. Why does the Korean shipyard or steel maker choose the right manufacturing technology? For Amsden, it appears as a rational choice. But according to Thomas we need to look deeper, because “it is *purposive action inside organizations to alter structure by means of technology that separates organizations that create or successfully adapt to radical new technologies from those that don't*” (Thomas 1994: 210).

Thomas gleans four insights from his case studies. Despite proclaimed rationality, the choice of new technologies is rarely a straightforward decision. Instead, technological choice presents an opportunity for different groups to insert their world views into factory organization (Thomas 1994: 6). Second, technology presents an opportunity for different actors to enhance their status, “That is, new technology may be far less attractive for what it does than for what it says symbolically about its creators and proponents”

(Thomas 1994: 6). Third, the power structure of an organization influences technological choice, just as the choice of technology can be used by groups to enhance or preserve their power. And last, *cooperative* approaches to labor-management relations may facilitate more effective and creative use of technology. In sum, “Rather than being objective, technology is *infused with objectives*” (Thomas 1994: 8-9). And rather than simply being a choice of what is more efficient, any choice of technology is profoundly affected by, and profoundly affects, the balance of power within firms. There is not “one best way” to organize people and machines (Thomas 1994: 20). Every technological choice is also a social choice.

All of which brings us back, through a roundabout way, to the question of explaining property reform in China. For if the role of the state, regional dynamics, and factory organization are all crucial for efficiency, these facts call into the question the compelling, but perhaps too simple explanation that China’s efficiency is a result of property rights, especially property rights between enterprises. And if every technological decision in a firm is a political decision which results from, and changes, power relations within the firm, then we would expect property reform to similarly be shaped by, and to shape, power relations within the firm.

Similarly, when Chinese economists adopt a property rights approach, it brings Chinese economics into synch with Western economics, facilitating world acceptance of Chinese economists as legitimate practitioners. For the Chinese state, property reform helps attract foreign investment. Further, private property has attractive associations with the prosperous West, and

marks a distance from the old regime. Property reform, especially privatization, also helps China fit in with international ideological and policy trends. The focus of this dissertation is not, however, the intent of the reforms but the process of change. Specifically, I aim to show that the need to legitimize property reform has altered the course of property reform in China.

Armed with the insights of the new development literature, let us now return to Nee's explanation of emergence of the TVE sector. While the transaction cost approach helps us comprehend why, *given the current situation in China*, TVEs are a rational choice, transaction costs do not tell us why or how the current situation developed.¹ To explain why wealth would be subject to confiscation, we need to understand the ideology and discourse of wealth in China, the material situation of the Chinese people, and the articulation of China's local economies into the national and international markets. Communist ideology in China was especially sensitive to egalitarian impulses, and this focus on group welfare was reinforced by institutions which emphasized collective labor and welfare. The poverty of many of China's people, combined with their lack of skills, again reinforce the idea that those who get ahead are doing so unfairly and at the expense of others. We need an

¹ This stands in contrast to some of Nee's other work, where he focuses more on the origins of reform economic institutions in China. For instance, he pointed out that in the economic reform in rural China, it was the relative strength of the peasants, including their ability to determine their level of output, which forced the state to recognize private farming. According to Nee, peasants responded so vigorously to the initial reforms that the state was forced to formally approve more radical reforms, without which "new peasant entrepreneurs were vulnerable targets for the hostility and suspicion of rural cadres and villagers" (Nee 1989: 179).

understanding of how rural farm production was organized before reform, and how reform unleashed a workforce ready and able to work in factories. And finally, it is important to note that many of these TVEs serve as subcontractors to state factories and foreign joint-ventures, and the joint-ventures, especially, seek out TVEs for their superior connections and relative stability (Interviews 4, 8).

To explain the difference between rural industrial reform, focusing on TVEs, and urban industrial reform, which has focussed unsuccessfully on state industry, we need to use ideology and subjectivity, and to examine the structure of production. The explanation for this divergence goes well beyond incentive structures and transaction costs to include the hegemonic projects of the Maoist and reform eras. The crux of China's state industrial system was full employment in exchange for control of labor. In the countryside, however, this vision of socialism was displaced by the intersection of two other ideological programs. First, the place of the family as the basic unit of rural life was reinforced under the collective system (Johnson 1983). Second, the regime propagated the idea that factory life was better than farming, and this was combined with the Maoist practice of rural industrialization. While the experience of rural industry and water conservation projects helped to establish subjective (e.g., factory discipline) and objective (e.g., industrial plants) prerequisites for rural industrial advance, the Chinese state was able to rely on peasant families to take over the responsibility for the welfare of displaced farmers (Chang 1992). In the cities, the family as a production and consumption unit was never reinforced as it was in the countryside, and was

consequently not available as a depository for surplus labor--displaced industrial workers became a burden on the state. The emergence of TVEs is also part of a redistribution of industrial production on a world scale examined in the previous section. The strength of TVEs, then, involves much more than simply reduced transaction costs in the present period, but is the unintended result of Maoist policies combined with a complex present, including national and international market forces and, of course, the relative costs of transacting business through various organization forms.

In addition to failing to explain the genesis of TVEs, the transaction cost approach fails to help us understand the likely trajectory of TVEs. How likely is it that TVEs will adjust to changing market requirements and increasing technological sophistication? Are TVEs a form which will remain tied not only to the needs of the world market, but to overseas expertise, or is this a form that is likely to spur its own technological and productivity improvements? Nee seems to assume that innovation will come about as a result of risk taking, but there is no necessary connection between risk taking and productive innovation--risk taking can take the form of speculation. Nee discounts speculation as a possible outcome (although the experience of eastern Europe should reemphasize its potential importance). More importantly, it is not Nee's transaction cost approach that discounts the possibility of speculation, but rather his instincts--his theory provides no guidance here.

Equally important, Nee can't effectively explain the positive role of local governments. In the Postfordist literature, this involvement is taken for

granted, as an inseparable part of the glocalization of politics and economics. Nee, however, views this as a perversion of rational economic organization. He assumes that at some point this "interference" will stop, but local support for development never does--even under capitalism.¹ Governments are not only "efficient" suppliers of guarantees for foreign investors or builders of roads, but also important suppliers of information, customers, markets, and expertise.

Similarly, the Postfordist and statist literature may provide a better explanation of how and why China's bureaucrats have been won to reform. Winiecki, it may be recalled, thought that China's cadres would never support reform. But, in the actual course of events, China's cadres have been converted to reform in two ways. First, cadres saw financial advantages to supporting the reforms (part of this was, of course, manifested as corruption--and it happened *after* the ideological constraints on individual wealth accumulation were lifted). Solinger points to a new nexus between bureaucrats and entrepreneurs which has emerged with the reforms. Bureaucrats have become dependent on entrepreneurs for income--not necessarily for personal use, but even income to run local governments (Solinger 1993). Like local governments everywhere, a revenue squeeze has forced them to become entrepreneurial in order to survive. When Thomas studied technological innovation, he noted that technology is shaped by those who implement it. This is not a perversion of technology's neutral character, but an inalienable

¹ For instance, the state of Alabama gave Mercedes a US\$253 million package of capital investments and tax breaks to land the company's US\$300 million plant and the 1500 people it will employ. For more general views on the role of local government in economic development, see Amin (1994).

part of innovation. Groups seek to manipulate how technology is implemented in ways that assure their own survival. It is not surprising to find that bureaucrats have similarly shaped economic policies in a way that benefits their position, thus making it more acceptable to them.

Second, Winiecki believed that bureaucratic rent-seeking would increase as the memories of the Cultural Revolution faded. Cadres who once feared “mass action” to criticize their corruption (perhaps Winiecki is unconsciously showing here part of the rationale for the Cultural Revolution), would no longer face popular disapproval. But part of the project of any passive revolution is the professionalization of the state. Deng’s reforms have, at least in part, “rationalized” the Chinese bureaucracy, making cadres more responsible to rules and thus more likely to carry out the reform initiatives sent from above (Whyte 1989: 248-254).

Winiecki argues that in a situation where property rights are set up to allow for rent seeking, but rent seekers are prevented from realizing their rents by reforms, either reforms will be sacrificed, or a more democratic political system, with a new system of property rights, will have to be installed (Winiecki 1991: 26). China has not taken either of these paths, for reasons which Winiecki and NEH theory fail to grasp. China’s strategy of allowing the private sector to grow and using foreign investment, rather than privatizing the state sector first, allowed China to take advantage of its cheap and disciplined labor force to become a major exporter, as well as to satisfy pent-up consumer demands at home. Exports were crucial in allowing China to keep reform alive despite a fluctuating political situation. But since no new legal

system has been established in China, Winiecki believes that no real reform has ever been accomplished in any centrally planned system (change has required the overthrow of the old state). Again, however, the new development literature alerts us to take a more nuanced stand, to see that rules are often in flux at times of transition, and for good reason: once they are set, they are much more difficult to change. Since many different groups are affected by change, they are often unwilling to agree to rules which will hurt their interests.

The battle over defining interests in the battle over property reform is the subject of the next chapter.

CHAPTER II

DEFINING AND REDEFINING PROPERTY

It is not wrong to say that the nature and intent of a society reveal themselves in the legal and customary concepts of property held by various members and classes of that society. These property concepts do not change without an incipient or fundamental change in the nature of society itself. The history of property relations in a given society is thus, in a way, the history of the society itself (Schurmann 1956: 507).

In the second chapter, I reexamine the core concept of chapter one, property. First, I examine the concept's different meanings in Western political thought. Next, I survey the changes in the conception of property during the history of the PRC. These changes tell us that the meaning and significance of property is a highly political issue, both in the West and in China.

What is property?

In the first chapter, I discussed property reform and the property rights school. In this chapter, I will backpedal a little bit, and ask a fundamental question: what is property? Which is not to say that the property rights school is unclear about what they mean by property; as was indicated in the

last chapter, for them, property is a bundle of rights involving the ability to gain from possession or legal ownership. In this chapter, however, I want to indicate how the act of defining property is immediately political, and often politically difficult. As the history of Western political thought demonstrates, the question of how to define property is intimately involved with how to define a proper social order. And as the History of the PRC indicates, defining property has been no less problematic, and political, in recent Chinese history.

Western conceptions of property

Property is a common term, but its meaning is far from transparent.¹ As Reeve states, "Once we move beyond the level of extreme generality, it is not easy to elucidate the concept of property, any more than, for example, the concept of justice" (Reeve 1986: 6). As with other terms which Raymond Williams (1977) called "key words," property never has a settled meaning in discourse because the definition of property is closely bound up with social

¹ An overview of positions on property is found in Reeve (1986). Ryan (1989) offers a concise history of the concept of property in political theory. Hegedus (1988) similarly provides a short, clear exposition of various positions on property in social science. Macpherson (1978) offers a selection of classic writing on property. Anderson (1974: 25-29) notes the importance of the rediscovery and deployment of Roman law, and the Roman conception of absolute property, in the late Middle Ages. Interestingly, he notes the connection between absolute right of property and absolute sovereignty in the rise of the Absolutist state. Schurmann (1956) provides an important account of property in China prior to 1949 (see also Myers 1982). Good summaries of the "property-rights" or new institutionalist view of property can be found in Caporaso (1989) and Barzel (1989). Bates (1988), Bromley (1989a and 1989b) and Lazonick (1991) provide good critiques of this literature.

relations of power.¹ Property is difficult to define because of its social, relational nature: property is not a thing. Things, tools, factories: these *things* only become *property* in a society.² Property requires a set of social relationships in which things become more than things: they become ownable, they become property.

The social nature of property is displayed when we examine the different attributes which, combined together, take into account the most common definitions of property. Andras Hegedus (1988: 205) offers a short list of these attributes which I draw from to make the following distinctions:

- (a) Property involves control over producers--in the case of the modern industrial enterprises we are concerned with in the reform of Communist economies, this involves controlling the labor of hired workers and the formal and real subsumption of labor.
- (b) Property involves control over the material conditions of production: factories, land, tools, ideas.

¹ Nietzsche (1989:26) notes the connection between the power to define terms and power in general, arguing that we should “conceive of the origin of language itself as an expression of power on the part of the rulers, they say ‘this is this and this,’ they seal every thing and event with a sound and, as it were, take possession of it”. See also the interesting discussion of key words, and their evolution in politics and political science, in Ball, Farr, and Hanson (1989), especially the essay by Farr (24-49).

² cf Rousseau (1964:141), in which he argues that private property is the cause of civil society: “The first person who, having fenced off a plot of ground, took it into his head to say *this is mine* and found people simple enough to believe him, was the true founder of civil society.”

- (c) Property involves control over the distribution of the results of production--what to sell, who to sell it to, and how to divide the proceeds from sales. This is the right of appropriation.
- (d) Finally, property involves the ability to alienate, or even destroy, means of production. This subsumes the juridical aspect of property, which is the formal access of owners to a, b, and c above. Juridical ownership of property, however, does not always translate into real power. Workers under Communism, remember, were the juridical owners of property although they lacked a, b, and c.

In the rest of this chapter I will focus on the ideological struggle to redefine the basis of economic power in China. The concept of property is inseparable from conceptions of society. To redefine property, economists had to redefine how history works and what constitutes socialism. The transition from Maoist discourse consisted of a series of displacements: of “mode of production” in favor of the “economy,” of the economy in favor of the firm, and from class to individuals.

In the next section, I examine how the concept of property has been used in political debates in the PRC, and demonstrate that the meaning of property has never been fixed but has shifted with different political situations. I then examine the attempts of reform economists to redefine property and allow for private or quasi-private property. This project turns on two related theoretical points: first, that ownership relations are defined primarily in legal

terms, and second, that political power determines the nature of the economic base. This brings up an interesting coincidence between the radical Maoism and reform economists. The theoretical bases of reform thought are essentially the same bases on which the radical Maoism based its political economy. This historical irony is no innocent coincidence, however, as both the Gang of Four and the reformers have the same political project: a passive revolution which keeps the Party in power while transforming the economic base.

The importance of ideology

Before examining economic theory in China, some readers may want clarification as to why the study of what Chinese economists write is important. Why should we care what Chinese economists write, when they are forced to write in a highly political atmosphere which probably inhibits the free expression of ideas? First, these writings serve as pointers to real problems. Just as in a computer program a pointer is an “empty” variable whose sole purpose is to direct the program’s attention to the “real work” which lies elsewhere in the program, these economic writings point to the real problems of the economy. They serve to legitimate change by changing definitions, widening the acceptable scope of argument, introducing new terms and attacking formerly orthodox positions.¹

¹ Some general work on the intellectual atmosphere and proclivities of Chinese economists are Lin (1981), Hsu (1989, 1991) and Halpern (1985, 1986).

Second, to the extent that the writings reflect political goals rather than free inquiry, they actually take on a *greater* importance as indicators of what those in power want to see China become. We take the writers at their word because it is what most Chinese will see.¹ Whatever views the author may hold, they have produced a public document which may (or may not) have real impact on the world. As with reading literature, there is always a problem of interpretation, but there is no guarantee that the original author of a text has a better understanding than outside interpreters of what she or he wrote.² An author's own views on their texts should be taken as no more than an interpretation, and judged as valid on the same basis as other interpretations: attention to text and context wrapped in a convincing argument.³

Since this chapter depends so heavily on reading it is necessary to define what I intend to do when I read a text. I will be performing a *symptomatic*

¹ This is a postulate of several different schools of interpretation. For instance, Lacan insists that "truth manifests itself in the letter rather than the spirit, that is, in the way things are actually said rather than in the intended meaning" (Gallop 1985: 22).

² "The work that the author wrote is not precisely the work that is explicated by the critic. Let us say, provisionally, that the critic, employing a new language, brings out a *difference* within the work by demonstrating that it is *other than it is*" (Macherey 1978: 7). It becomes other than it is in the act of reading, and since we have no access to the text except through reading, the text is *always* other than it is, or was, before the reading commenced.

³ A different reading strategy is proposed by Stanley Fish, who moves away from the text by arguing that the interpretive strategies we share with others in our discrete interpretive communities determine what we understand when we read (Fish 1980). Although this is different from the strategy pursued here, it does support two of my main points: that the meaning of the text does not lie in the author's intent and that critical reading can bring about knowledge of the text which is not explicitly stated in the text itself.

reading of texts on property in China.¹ A symptomatic reading distinguishes between the “unconscious (or less than fully conscious) theoretical problematic implicit ‘in’ (yet not in) a text from the total semantic content of the latter, and its concomitant *resituation* of a text within a conceptual framework defined by questions that the text has never explicitly posed (i.e., that it was radically *unable to pose*)” (Freedman 1990: 313). A text may be unable to pose its real problematic because of explicit political pressure; it may also be that ideology itself prevent writers from recognizing the real import of their writings. The problematic, the real of the text, may not be the manifest content of the text. In this way it resembles Freud’s work on dreams, where the manifest content serves as a rebus for the true meaning of the dream. The symptom, then, can become explicit only through the work of the analyst-patient dyad. Similarly, the real within the text becomes explicit only after theoretical work has been performed on it.

A symptomatic reading can be contrasted with two other common types of reading, reflectionist and hermeneutic.² A reflectionist reading assumes that the text reflects historical reality. This type of reading tends to hide the varied and complex ways in which a text mediates reality. An extreme example is a literal reading of religious texts such as the Bible as genuine historical or scientific documents. A symptomatic reading is also different from a hermeneutic reading, in which a text is read as a set of signifiers which

¹ The term comes from Althusser and Balibar (1970).

² An excellent discussion of these theories is Allen (1987). See also Eagleton (1983).

correspond to something in another system.¹ Here a likely error, and one related to the problem or authorship, is to read motives into texts: to see economists as metonyms for rational discourse, Western ideas, or pragmatic policies.

Economic ideology is particularly important. Economics, as we will see below, has been construed as the basis of CCP legitimacy. The explanations of economic changes are more important indicators of regime priority than, say, essays on Mao's thought. It was through economic ideology that the fundamental tenants of radical Maoism were replaced by the pragmatism of the reformers. In addition, as students of economics and economists in other countries have noted, economic writings have a scientific cache and a policy impact which leaders seek out as a means of enhancing their own image.² What Chinese economists wrote is an excellent guide to the priorities of the Chinese reform regime, and therefore the close reading offered below helps to

¹ Thus Macherey: "Knowledge is not the discovery or reconstruction of a latent meaning, forgotten or concealed. It is something newly raised up, an addition to the reality from which it begins" (Macherey 1978: 6). In other words, we cannot read a text for the code which reveals its real meaning, but instead we must produce through critical reading--thus the title of his work, *A Theory of Literary Production*.

² Wood (1995) presents a strong case for reemphasizing the role of economic ideas in explaining international economic policy. Hall (1989) discusses the role of Keynesian economic ideas in various Western countries. Krugman (1994) discusses the role of economic ideas in US politics. Schamis (1991) discusses the role of neoliberal economic ideas, increasingly common internationally in the 1970s and 1980s, in the southern cone countries of Latin America. Desai (1994) discusses the role of economic ideas in "thinking up Thatcherism."

delineate theoretical difficulties which, in turn, illuminate real problems in the legitimation of property reform in China.

Property in the PRC

Foundations

Different conceptions of property existed in Pre-Liberation China. Traditional Chinese conceptions of ownership, backed by the power of the state, included joint-family property (each male in the family owns a portion of the family property), limited tenure (use rights rather than ownership were granted) and prior option (the right of family members to cancel property transactions made by other family members). Although, from the Tang dynasty forward, property was increasingly alienable, these traditional conceptions, backed by social and religious customs, prevented the emergence of absolute property which emerged under the Absolutist state in the West (Schurmann 1956: 507).¹ The Nationalist's Legal Code of 1930 codified a Western-derived conception of absolute property right, but recognized the validity of older conceptions, "thus making it doubtful to what extent the concepts formulated in the Code were to be put into practice in the society itself" (Schurmann 1956:

¹ Myers (1982) argues that by enforcing traditional concepts of property and contracts, the Qing state greatly enhanced the ability of farmers to carry out trade and merchants to carry out trade. Although possession was separated from ownership, possession was secure enough to encourage improvements on agricultural land (1982: 291). However, this dual system made it difficult to carry out land reform, accentuating the problem of unequal wealth distribution and probably making it difficult for any regime with moderate agricultural policies such as the Nationalists to transform the rural sector.

508). In addition, no distinction was made between ownership and possession (Schurmann 1956: 509). Ironically, then, it was the Communists and not the Guomindang who universalized a Westernized view of property in China.

Universalizing a Western conception of property did not, however, mean that the “property question” was solved through revolution. In urban post-Liberation China, the real battle about the property question was not whether or not capitalism would be allowed to flourish in China; the CCP left no doubt that the role of capitalism would be limited. The real battle was the factory-by-factory war over the strategy of implementing social ownership. Would China follow the Soviet Union's hierarchical path, or would it continue pre-Liberation traditions of worker-controlled factory regimes? The Communists had entered the cities at the end of the civil war as both liberators and conquerors: liberators of war- and inflation-weary workers, and conquerors of regions they had largely abandoned after 1927, and in which they had only small bands of reliable supporters. Stephen Andors notes that “while the question of state power had been resolved on the national level, inside the factories, which were to be the center of China's modernization, the struggle for power was just beginning” (Andors 1977: 47). The importance of the battle for industry (and not just industrialization) is emphasized by an article in the *People's Daily* in 1953 (Chi Yun 1953: 291): “We must look upon this period of transition to the industrialization of the state as one equal in importance and significance to that period of transition of the revolution towards the fight for political power....” With little experience in the urban areas, the CCP turned to the PLA, the small number of Party loyalists in the cities, and skilled, literate

workers for leadership in the factories (Andors 1977: 48). And they turned to the Soviet Union and to national patriotic capitalists for aid in recovering production after Liberation, both of whom favored strong managerial prerogatives.

The battle between different management systems was closely related to theories of property. For some, worker control was at least as important a manifestation of socialist ownership as the state's formal juridical ownership. This is reflected in the first national labor system under Communist rule, the East China or Shanghai system. In this system, "collective leadership in the factory was exercised by a [committee] while the factory manager was responsible for carrying out and organizing the production operations" (Andors 1977: 51-52). Workers participated in management through factory committees, and these committees supervised most aspects of factory operations. In the context of Soviet management methods, the Shanghai system represented a real effort to assert worker control, in spite of the material constraints which China faced.

The alternative to the Shanghai system was the Soviet model, based on "One-Man Management," in which the factory manager had essentially complete power. The Soviet system was appealing because Soviet methods were, at the time, considered to be the most advanced example of socialism. The Soviet management system was also a step toward Soviet-type planning, another landmark in the building of socialist society (Andors 1977: 53-54). Although strict one-man management had a relatively short reign in China, falling out of favor in 1955, the Soviet model remained in many ways the basic

model for factory and industrial management, replacing the more revolutionary model of the Shanghai system. The commanding role of the Soviet model was, however, contested, first during the Great Leap Forward and then during the Cultural Revolution.

Prior to the Great Leap, in 1956, the Party--spurred on by the "high tide" of collectivization in the countryside, and well ahead of the initial schedule--converted all forms of private ownership into state enterprises or joint private-state concerns in which the state assumed virtually total control. The "problem" of ownership was "solved" on the Soviet model: all socialist ownership became ownership by the whole people--state ownership. Of course, it is evident now, if it was not then, that this was hardly a solution. It ignored the issues of how to run the factories, how to assert worker control and how to eliminate the vestiges of capitalist methods within the factory. From the state's point of view, state ownership did little to facilitate planning of production or increase material output, despite the claims of Soviet advisors. The state ownership system would come into its most sustained criticism at the hands of radical Maoists during and after the Cultural Revolution.

Radical Chinese political economy

The debasement of daily life in post-Cultural Revolution China--including the growing cynicism about politics amongst the population--was accompanied by some of the most insightful autocritiques of Communist society to emerge from the entire experience of Communism. Leftist critics in China sought to find the cause of the general disillusionment with socialism, even while their

shrill and often violent campaigns tried to force a false revolutionary enthusiasm unto an exhausted and unwillingly Chinese public, thereby increasing public alienation. The rebirth of critical socialist theory began with Mao's critique of Stalin's economic theory and continued in the work of Zhang Chunqiao and Yao Wenyuan.

Origins: Stalin

Stalin's ideas on the economics of socialism were codified by Soviet economists in *Political Economy: A Textbook*, based on Stalin's (1952) *Economic Problems of Socialism in the USSR*. The *Textbook* was a case study in economic determinism. In the *Textbook*, "...production relations (which Stalin defined as comprising the ownership system, mutual relations within production and the distribution system)" were seen as "...invariably, almost automatically [adapting] to new economic imperatives and [following] developments in social productive forces" (Christensen and Delman 1983: 10). The adaptation of the superstructure to the economic base was a "general law"--a law that was applicable to all modes of production. According to Stalin, however, there were also laws which were specific to one (or more) modes of production. The law of value--the basic law of commodity production--was one such specific law, and Stalin decreed that the law of value was not applicable

to socialist society: "... the law of value cannot under our system function as the regulator of production" (Stalin 1952: 22).¹

Mao's critique

In the late 1950s and early 1960s, Mao produced a critique of Stalin's view of economics and history. Mao concurred to a limited extent with Stalin's view of the specificity of certain economic laws. In particular, "the law of value does not have a regulative function [in socialist society]. Planning and politics-in-command play that role" (Mao 1977: 147). Mao's view is unambiguous: politics, not economics, is the crucial factor in the transition to socialism. But it was not possible, or even desirable, simply to declare the abolition of the commodity form, even while socialism was suppressing the law of value. Mao argued that "...even under completely socialized public ownership, commodity exchange will still have to be operative in some areas" (Mao 1977: 140) and that "...commodity circulation, the commodity form, the law of value, these, on the other hand, cannot be destroyed summarily" (Mao 1977: 131).

These qualifications to Stalin's view of commodity production are important and are closely related to Mao's view of the role and meaning of ownership in socialist society. For Mao, the transformation of the ownership system from private to state property was an immense victory, but it was

¹ Stalin actually admits the presence of commodities under socialism, but commodities only circulate between different forms of ownership (collective and state) and not within the state sector. The law of value cannot function due to presence of social ownership and proportional development (Stalin 1952: 22).

only the beginning of the real battle, which was to transform the relationship of the masses to their work and to the economy in general. As Mao put it: "There is *no* difference between collective and people's ownership with reference to capitalism, but the difference becomes fundamental within the socialist economy. The [Soviet] textbook speaks of the two forms of ownership as 'sacred and inviolable.' This is allowable when speaking of hostile forces, but when speaking of the process of development of public ownership it becomes wrong. Nothing can be regarded as unchanging. Ownership by the whole people itself also has a process of change" (Mao 1977: 68). Mao opposed the simplistic view that once state ownership was established, the economy would achieve unbounded affluence and harmony: "In a socialist society crises do occur, mainly because of the ownership system..." (Mao 1977: 89).

To combat economic determinism, Mao proposed his own outline of a socialist political economy:

In writing a political economy of our own we could begin with the ownership system. First, we describe the conversion of the ownership of the means of production from private to public... At the same time, we must describe how people's ownership itself changes: the system of transferring cadres to lower levels, administration by different levels, right of autonomy of enterprises, etc. Although alike in being owned by the whole people, our enterprises are variously administered... But whether centrally or locally administered, the enterprises are all under unified leadership and possess specific autonomous rights.... Changes in the ownership system in a given period of time always have their limits, but the relations among people in productive labor may well, on the contrary, be ceaseless in change (Mao 1977: 111).

Economic change constitutes only a single step towards the transformation of society. Without changes in the thinking, habits, and common sense of the masses--changes which will allow the masses to control production--a change

in the economic base will not lead to socialism but instead regress back to capitalism.¹

Mao's views on the difficulty of socialist transformation meant that class struggle continued during the transition to communism. Since the ownership system could not determine social transformation, the elimination of private property did not automatically decrease the threat of counterrevolution. As a *People's Daily* editorial put it in 1964: "Socialist society covers a very long historical period. Classes and class struggle continue to exist in this society, and the struggle still goes on between the road of socialism and the road of capitalism. The socialist revolution on the economic front (in the ownership of the means of production) is insufficient by itself and cannot be consolidated. There must also be a thorough socialist revolution on the political and ideological fronts" (in Selden 1979: 508). And Mao added later:

In a word, China is a socialist country. Before Liberation she was much the same as capitalism. Even now she practices an eight-grade wage-system, distribution to each according to his work and exchange by means of money, which are scarcely different from those in the old society. What is different is that the system of ownership has changed. ...Our country at the present time practices a commodity system, and the wage-system is unequal too, there being the eight-grade wage-system, etc. These can only be restricted under the dictatorship of the

¹ It is important to emphasize the gulf between Mao's rhetoric and his willingness to enact or allow for radical changes which would threaten bureaucratic rule. As Kraus puts it, "Despite the consistency of Mao's distaste for bureaucratic ways, one cannot fairly portray him as merely the adversary of the bureaucrats... Mao was the patron of the industrious official, the innovator of organizational techniques which continue to govern after his death. Of course Mao was clearly identified with opposition to bureaucratic faults, he was no less obviously associated with the proud success of a social group he helped to fashion" (1981: 11-12). See also Whyte (1989).

proletariat. Thus it would be quite easy for people like Lin Biao to push the capitalist system, if they came to power (in Christensen 1983: 79).

After Mao called out the PLA and dispersed the Red Guards in 1968, ending the radical phase of the Cultural Revolution, the mantle of radicalism was left entirely in the hands of those who would be known after their political downfall as the Gang of Four, especially Zhang Chunqiao. And while the Gang did make some important theoretical innovations, their theories, like Mao's, ultimately failed to cross the line from a critique of revisionism within the Party to a call for removal of the structures which preserved the degenerating Party/state system.

Zhang Chunqiao and the Gang of Four

Zhang's 1975 essay, "On exercising All-Round Dictatorship over the Bourgeoisie," displays both the theoretical tendencies of the Gang and the real limits of their program. By 1975, questions about ownership were part of the political struggle between the Gang of Four and their bureaucratic opponents. Zhang maintained that "the system of ownership in China has changed, ... the proletariat and other working people in China have in the main freed themselves from the shackles of private ownership, and... China's socialist economic base has been gradually consolidated and developed" (Zhang 1975: 7). Like Mao, Zhang did not view this as the end of the issue: "However, we must see that the issue has not been entirely settled with respect to the system of ownership. We often say the issue of the system of ownership 'has in the main been settled'; this means that it has not been settled entirely, neither has

bourgeois right been totally abolished in the realm of the system of ownership” (Zhang 1975: 7).

According to Zhang, while the transformation of the base, the economic infrastructure, was a crucial step toward socialism, it was possible to mistake this transformation of the *economy* for the transition to *socialism*. Zhang argues:

It is perfectly correct for people to attach importance to the decisive role of the system of ownership in the relations of production. But it is incorrect to attach no importance to whether the issue of the system of ownership has been resolved in form or in reality, to the reaction exerted on the system of ownership by the two other aspects of the relations of production--the relations between men and the form of distribution--and to the reaction exerted on the economic base by the superstructure; these two aspects and the superstructure may play a decisive role under certain circumstances. Politics is the concentrated expression of economics. The correctness or incorrectness of the ideological and political line, and the control of leadership in the hands of one class or another, decide which class owns a factory in reality (Zhang 1975: 7).

The political stakes in these theoretical battles are quite high, and thus Zhang goes for what he assumes is the jugular of the careerist: the question of leadership. When Zhang explains what ownership really means in a socialist context, he argues that the question of ownership boils down to a question of leadership: “Moreover, we must see that both ownership by the whole people and collective ownership involve the question of leadership, that is, the question of ownership by which class, not just in name but in reality” (Zhang 1975: 7). Here, then, political power determines the nature of the economic base.

It was much safer for the Gang to raise the question of leadership than to raise the questions of class within socialist China and the need to overthrow the machinery of the state. If the Gang could effectively prove that their rivals

for the Party leadership were “capitalist roaders” and/or “revisionists,” the Gang itself could claim leadership positions and assume power on the basis of their political purity. Perhaps the Zhang- and Yao Wenyuan-supported “Shanghai school” of economics, which moved closer and closer in the mid-1970s to a theory of class rule within socialist China, would have eventually led the Gang to different conclusions (Christensen and Delman 1983), but it seems extremely unlikely that the Gang would have followed that theory to its logical conclusion--social revolution based on the masses.

The thesis of class rule was a more radical line than the leadership tack taken by Zhang, and the Gang’s use of the leadership question as the central point of their attack shows the bankruptcy of their platform: it was not the masses, but the (rival) leaders, which were the subject of cultural revolution. The Gang of Four did not rally the masses to take a real leadership role by controlling the means of production, but instead Zhang and the others saw the Chinese people as victims of feudal culture and capitalist bureaucrats, victims in need of correct (i.e., the Gang’s) leadership.

Changing views of ownership

The theoretical attacks of radical Maoists on orthodox conceptions of socialist society left the would-be reformers with a problem. While they disagreed with the radicals on virtually all fronts, they too found the orthodox system lacking. Hua Guofeng represented exactly the opposite of the reformer’s emerging program: where Hua tried to keep many of the rhetorical devices of the late Mao period alive while reverting to more traditional planned

economic methods, the reformers wished to abandon traditional planned economics while reviving the orthodox political system. To do this, they had to refute the radical's ideological offensive, which linked the corrupt political structure with a decayed economic base. Meanwhile, the historical proximity of the Gang, popular affection for Mao, and the political structure of the Party/state all argued against the possibility of a repudiation of the Stalinist model tout court. The regime faced a potential legitimacy crisis and was still reeling from the turmoil of the late Mao period.¹ What therefore emerged in reform thought was a dual movement: a movement to transcend the limits of state socialist economics by establishing the possibility of alternate forms of property while also reestablishing the legitimacy of the orthodox political system. Although I will question the success of this work on the theoretical level, this remains the essential project of China's passive revolution.

From late 1977 until early 1979, the Chinese press was engaged in an all-out campaign to discredit radical Maoism (personified in the Gang of Four) and dissociate the CCP from the excesses of the late Mao period. Criticizing the Gang's economic theories, or, more accurately, its theories of political economy, was *the* crucial aspect of this campaign--and the property question was at the forefront of the Gang's political economy. The initial theoretical moves against the Gang used the Chinese version of Soviet Communism which had its golden period in China circa 1956. As Joseph (1984) has argued, the critique of the Gang was a continuation of the line struggle within the Party

¹ See for instance the discussion of "serious labor and employment problems" in the *People's Daily* in 1980 (Zhao 1980).

which began in the 1950s. And as Feuchtwang and Hussain (1983) have pointed out, many of the economists who were attacking the Gang were the same economists who attacked Leftist policies in the 1950s and 1960s.¹ Discrediting the Gang of Four and radical economics was the immediate political goal of the campaign, but the theoretical, and therefore actual political results of the campaign went beyond another critique of leftism. What is most interesting in this period is that the *real object* of this campaign was not discovered until near its end, and, more remarkably, the real object turned out to be none other than *the same object, stemming from the same theoretical bases*, as the Gang of Four: the economic-ideological system which emerged from China's attempt at socialist construction. But the Gang's theories led to class and struggle, while reform theories led to individuals and competition.

These post-Mao attacks on the Gang's economic policies were perceived by many Western observers (Lin 1981) and received by many Chinese economists (Chen Shenshen 1989) as a liberation. But this liberation must be understood in its particular context and given a precise meaning. The liberation of Chinese economists did not constitute an end to political interference in their work. Robert Hsu's work shows this tension. While he argues that "[o]ld doctrinaire beliefs that were the foundation of the earlier policies and system have been increasingly criticized and discarded. Old ideological taboos have been breached..." (Hsu 1991: 1), he also notes that "[i]t

¹ Given this, it is interesting to note that Zhang Chunqiao first national political intervention was an attack on these economists, published in *Jingji Yanjiu* in 1958.

is primarily the political leaders and their ideology that determine economic practice and set the tone and limits for economic theory..." (Hsu 1991: 9). The liberation of Chinese economics, as Lin called it, was a very *particular* emancipation: Chinese economists were freed from the necessity of confronting the Maoist critique of socialist construction. This was, then, in many ways, a *real* emancipation--Chinese economists were more free to borrow concepts from abroad and to use international experience to bolster their arguments. In addition, they were freed from the often-suffocating need to dress their theories in Maoist political language. This was not, however, a *complete* emancipation: "Politics still remains firmly in command after the death of Mao and the downfall of the Gang of Four, though in the form of the elevation of economics" (Feuchtwang and Hussain 1983: 8).

Chinese economics in the post-Mao era is closely entwined with the politics of the Chinese state. The attack on the Gang was only the first salvo of a continual war of position among different factions of the Chinese leadership, a war in which economists and their theories were weapons (Fewsmith 1994: 9). Given the tight connection between economists and the state, and between economic ideas and power struggles, it is not surprising to find, as we will later in this chapter, the transformation of economic ideas into economic policies of the state. The focus of this chapter, however, is the theoretical positions which have been taken which justify reform policies. Specifically, I will examine how economists in the post-Mao era have sought to redefine property to allow for a multiplicity of property forms in China.

The attack on the Gang was ideological in two senses. In a broad sense, it attacked the theories of radical Maoism, and theory is often used as a synonym for ideology. More technically, it was ideological because it did not address many of the problems raised by the Gang or the problems posed by China's political and economic development. There was no real attempt to understand how the Gang got power, or why students and then workers had responded to the original call for Cultural Revolution. In all these respects, the official critique of the Gang can be contrasted to the work of Democracy Wall writers such as Chen Erjin, who examined both the causes of the Gang's rise to power and the problems posed by China's development. While Chen's work also argues that politics determines the transition of ownership relations, he further argues that the institutional basis of ownership relations must change or the change becomes false. And while for Chen political leadership determines the nature of a mode of production, it is not formal leadership by a Party, but real control of political apparatus by people which determines whether such a transition is socialist.¹

¹ This disparity between Chen Erjin and reform economists is not surprising given the context in which the two theories were produced. Chen Erjin wrote during the campaign to study the concept of the dictatorship of the proletariat in 1975. The context in which he wrote meant that the object of his study, if not his results, were relatively clear: the object was to critique the socialist system; as a relatively independent author, the results of his study were the result of rigorous thinking and only secondly a result of immediate political expediency. The context of the official campaign to critique the Gang was quite different. In this campaign immediate political results were the order of the day, and real theoretical work was secondary. In this sense, it is not surprising that theoretical work went on "behind the backs" of these Chinese economists, and that they ended up in 1979 with a whole new set of theoretical propositions on the importance of a commodity-market economy without first recognizing this telos in theoretical terms. And while they were here in 1979, it

When Chinese economists first went about the critique of the Gang, they used the Chinese version of Stalinism¹ which had flowered in the First Five Year Plan and had its golden age in the Liu-Deng “recovery” period of the early 1960s. But this tool was doubly inadequate to the situation. On the one hand, it had been discredited by the Gang. On the other hand, economists themselves were dissatisfied with the Soviet model--many having been involved in the (rightist) critiques of Soviet economics around the Law of Value debates in the late 1950s and early 1960s--and they were soon chafing to go beyond the limits of a critique based on Stalin’s version of socialist society (Reglar 1985). Theoretically, then, the immanent critique of the Gang was destined to be dead-end.

Politically, too, the critique of radical Maoism was inadequate. The leadership sensed that no purely theoretical or political distancing of the Deng regime from the Gang would be enough to legitimize the government in the eyes of a cynical population. Economics would be the new modality of legitimation, but the command economy model was not seen as adequate for

was only in 1989 that they were admitted (in the run-up to the 4 June). And only in the last couple of years has this been formulated in what might be considered its natural home, property rights theory.

¹ As Joseph (1984) points out, the criticisms of the Gang were *not* Stalinist in the way they treated enemies. Where in Stalinism, “...political disagreement, before it can even be expressed by *both* sides in the debate and discussed at the base, is immediately reduced to a phenomena of criminality and desertion to the class enemy; and the ‘opposed extremisms’, right and left, are immediately identified with one another...” (Timpanaro 1975: 24), this was not the case with the Gang, who were tried (at least technically) for acts, rather than ideas. In this sense, the Gang was much more Stalinist than the reformers, and the marked, though incomplete, decriminalization of political thought in China represents an advance over the Mao period.

assuring the kind of economic growth necessary to sustain the regime. As we will see, an immanent critique of the Gang from a traditional Communist point of view seemed to lead to the need for a worker-controlled decentralization-democratization, but this quickly proved to be a politically less tolerable solution than the emerging moves towards “market socialism.”

The next section examines the critique of the radical Maoism by reform economists. There are two aspects of this critique which are particularly interesting. First, as an immanent critique, the criticism of the Gang led to a workerist (Yugoslav or “third way”) position. This immanent critique, however, is always articulated with the political needs of the regime. The regime’s need for legitimacy forces the immanent critique to be combined with a vulgar economic determinism which undermines the workerist stance. Finally, a new theoretical basis for property in China is “discovered” in the idea of a multiplicity of forms of property under socialism, and the subject of economics is revealed to be individuals and firms. The explicit ideological stance of the regime, then, moves from discussions of workers’ rights and responsibilities to discussions of property, and from property to the rights and responsibilities of firms and managers.

Economics was to play the role of rejuvenating the entire of ideological apparatus of Chinese socialism. Not, as in Hua Guofeng’s vision, because rising standard of living would cause the masses to embrace socialism, but because economics was to replace the ideological apparatus of Chinese socialism on both an individual and societal level. On a personal level, “get

rich” was to replace the need for class struggle, while on a societal level economic growth replaced progress toward socialism.¹

The theoretical labor of reform thought was handled by two “determinations.” The first is that political power determines the nature of the economic base. The second is that ownership relations are determined by changes in the legal structure. The similarity to the Gang is striking: where the Gang saw political leadership as the crucial variable, reformers similarly saw Party power as determining the “socialist” nature of China. Where the Gang saw changes in ownership occurring at the legal level (and therefore the need to deepen them), reformers emphasized changes in ownership at the legal level (which were therefore open to legitimate legal changes under Party rule).

Determinism

In the previous chapter we saw that property rights theory declared itself an economic determinism, but became a political determinism whenever confronted with the task of explaining history. This occurred because the assumptions of PPE never held true, and thus recourse was always sought in the creation of dysfunctional political institutions, such as property rights. In

¹ The positions adopted by Chinese economists are in many ways similar to project of the English journal of literary criticism, *Scrutiny*, as seen by Eagleton: “*Scrutiny’s* historic function (complex and changing though it was), was at one level reasonably plain: it was to bring about a drastic reconstruction of forms, values, discourses and lineages within the aesthetic region of ideology which, at a point of serious historical crisis, would play its part in revitalizing and reproducing the dominant ideology as a whole. Indeed, it was much more than a question of refashioning the aesthetic region of ideology: it was a matter of effectively *substituting* that region for ideology as such” (Eagleton 1978: 13).

the following paragraphs a similar schizophrenia is apparent in the treatment of economics and politics by reform theorists. Where reformers seek to formulate an economic determinism to justify the economic aspects of reform, they are forced into a political determinism when confronted with questions about the nature of reforms. In other words, they use economic determinism to defend the economic aspects of reforms, and politics to determine the socialist nature of property.

Reformer's claimed that the Gang's theories were a political determinism,¹ whereas Western writers have seen the reformer's thinking as a species of economic determinism (Meisner 1985; Dirlik 1988, 1989).

Determination can be thought of in three ways: as placing constraints on actors, as external causation, or as internal causation. For instance, according to Nick Knight, Mao's views on determination shifted over the years (Knight 1990). In *On Contradiction*, Mao identifies many possible social elements as having causal efficacy, but stayed within an orthodox marxist position in regards to historical determination. In orthodox thought, the economic base is separated from a political-ideological-institutional superstructure. The forces of production (the base, or: the means of production and labor power) "play the decisive role"--determine the structure of the social formation--in "normal" times, and the relations of production (the superstructure) determine social struggles only when they block the continued expansion of the forces of

¹ According to Xiao Liang, the Gang's conception of the relationship between politics and economics had to be criticized, and "theoretical inquiry [into the relationship between politics and economics] went hand in hand with the repudiation of the Gang of Four" (Xiao Liang 1988: 6).

production. The base retained the prerogative of ultimate historical determination and the superstructure was granted little autonomy (Knight 1990: 20-21). In *On New Democracy*, Mao uses the term basis (genju) to denote the combined causality of political and economic factors. Perhaps not surprisingly for an adept political actor, Mao's theoretical work gave space to politics as a possible determinant of history in all periods, and not just in times when the superstructure blocked the expansion of the base (Knight 1990: 26). Mao moved from viewing the economy as an external source of change to seeing the economy as a factor which set boundaries on the political possibilities of a historical conjuncture.

The economic determinism of reform economists once again stresses an external model of causation. The doctrine is based on a theory of stages, and blessed by selective quotations from Marx, Engels, Lenin and Mao. While Marx, Mao, and even the Gang all would agree that socialism could not be built if the economy did not develop, in the reformer's view, the idea that socialism requires a strong economic base becomes a justification for doing anything to improve the economy because the base determines the superstructure. The class, political, and ideological transformations which previous theories of socialist transition had enumerated are simply ignored in favor of focusing on economic development.¹ In the relationship between politics and economics,

¹ As a *People's Daily* editorial stated in 1980, "The consolidation of the state, the stability of society, the improvement of the material and cultural lives of the people are ultimately contingent on the development of production..." (*Beijing Review* 7 January 1980: 15). This view holds virtually absolute sway now, e.g. Lin Zirong (1995: 39).

economics is in the driver seat, and politics is merely given the role of reacting to changes in the economic base.¹

The most striking aspect of this version of economic determinism is its view of history as “governed by the operation of objective laws rather than by human desires.” This deterministic thinking, “serves less to convey an optimistic faith in the historical inevitability of a socialist future (although the inevitability of communism is of course ritualistically proclaimed) than it does as a warning that objective reality imposes stringent limits on the possibilities for human action and social change” (Meisner 1985: 8). The economy is the engine of social change, and since the economy, and economic laws, determine social relations, economics (supposedly) determines the structure of ownership. This puts into question even the nationalization of China’s industry in the 1950s, often referred to now as a “mistake”, as at least too hasty: “The changeover of private enterprises to joint private-state operation...developed a bit too fast.... The vast numbers of small enterprises in industry and especially in commerce had a positive role to play in the economy” (Xue Muqiao 1981: 32).

If economics is *supposed* to be determinant, but if, *in fact* politics--in the form of incorrect policies--determines the economic course, *then we must conclude that it is politics, and not economics, that ultimately determines the establishment, maintenance and transformation of economic institutions.* The

¹ Williams (1977: 75-89) provides an excellent discussion of the relationship between base and superstructure in marxist thought, and also a thorough discussion of the issue of determination.

economic determinism of the reformers, like that of property rights theory, is simply impossible to apply to historical analysis. Economic determinism contains, as it were, a secret compartment in which all of political, legal, and social changes are smuggled into the analysis. The changeover to state ownership in China *was not* determined by economics or the unalterable laws of history but by politics; in this case, *incorrect politics*. "The trouble didn't lie in the socialist system, but in mistakes in our work. So long as we grasp and act according to the objective economic laws of socialism, protect the enterprises' right to autonomy and the workers' democratic rights, correctly handle the relationship between the state, the enterprise and the worker and thus enhance the initiative of all three, the superiority of the socialist system will become manifest" (Xue Muqiao 1981: 55-56). Yet again, as with property rights theory, once pure economic explanations are abandoned, materialist explanation is abandoned too. The image of politics sitting above and determining economics is not sufficient. Incorrect policies must be understood to be the result of many factors: institutional (lack of democracy), the low level of development of the productive forces, the international situation (relations with the USSR in particular), and the historical experience of Yenan. The problem with economic determinism in property rights theory or reform literature is that it handcuffs itself and misses materialist explanations which are not in the narrowly defined real of the economy. Like a frustrated citizen,

reform theory sees that all is not well in the economy, throws up its hands, and says, "it's the politicians."¹

An additional complication is that, according to the Stalinist framework which the reformers were using, changes in the legal ownership of property were fundamental to defining the new society as socialist:

Because the ownership system has been changed, socialist production relations have replaced capitalist production relations. The workers and other laboring people have been changed from the exploited and oppressed into the owners of the publicly owned means of production and the masters of the country under proletarian dictatorship. The fundamental change in production relations opens up the possibility of a substantial development of the social productive forces and guarantees that the social productive forces will increase at a speed unmatched in the old society. In short, the socialist economic structure has a definite content and scope both in fact and in theory, and we cannot allow it to be messed up and distorted (Hu 1979: 19-20; my emphasis).

It is, however, difficult to assert that nationalization went too fast while also holding a Stalinist definition of socialism as nationalization; without the economic and legal transformation of property, what role did the Party/state serve and what was the rationale for the Communist revolution? The solution to this dilemma was found in the Gang's own theory of leadership: leadership, not economic, political, or legal change now determined the nature of the social formation.

¹ This privileging of economic has taken hold globally in the past twenty years. The strength of the perception of the objective nature of economic law has been noted by Fredric Jameson and Slavoj Žižek, who writes, "nobody seriously considers alternatives to capitalism any longer, whereas popular imagination is persecuted by the visions of the forthcoming 'breakdown of nature,' of the stoppage of life on earth--it seems easier to imagine the 'end of the world' than a far more modest change in the mode of production..." (Žižek 1994: 1).

The work of Lin Zili and You Lin provide an example of the attempt to meld an explanation of the most important political event of the time, the Cultural Revolution, with a doctrine of economic determinism. According to them, in the theory of historical materialism, economics determines politics, and politics in turn reacts on economics (Lin and You 1979: 87). To understand the import of this formulation, we must understand how Lin and You define politics. Lin and You define the economy as actual social production (production, circulation, and distribution) (1979: 88). Politics, in turn, are the basic economic interests of the proletariat, *concentrated in the hands of the Party and the state* (1979: 90). Politics, then, is an extension of the struggle for economic development, and politics is reduced to the role of the Party.

Politics can affect economics, but while “Marxists always recognize the potential counteraction of politics to economics,” “they never recognize that politics determines economics” (Lin and You 1979: 91). Lin and You give politics at most an “active reactive” (*nengdong de fan zuoyong*) role, “...assisting the socialist *economy* to consolidate and develop while eliminating the *economic and political* power of capitalism and guaranteeing the fulfillment of the *economic* tasks and the realization of the basis *economic* interests of the proletariat and the laboring people (Lin and You 1979: 97; my emphasis). Three of these points are *solely* economic, while the fourth places politics *after* economics. Not surprisingly, given their definition of politics as economic interests “concentrated in the hands of the party and state,” the influence of politics on economics looks a lot like the traditional role of the Party/state under Stalinist Communism.

Economic determinism, however, is difficult to maintain in face of political upheaval. The economic determinism of reformers runs into its own contradictions. First amongst these contradictions is the need to explain the Gang and the “errors” of socialist construction. Lin and You explain the Cultural Revolution as a result of the backwardness of China’s economy. But if the base determines the superstructure, then no “backwards” politics should be possible under socialist relations of production. The reformer’s solution to this problem is now well-known: the assertion of feudal remnants which led the rise of the G4’s “feudal fascism.” However, the charge of feudalism was difficult to make without also implicating the entire Communist Party, past and present, in a great attempt to ignore the laws of history.¹ It is difficult to argue that feudal remnants remain and that the economy is determinate without coming to the conclusion that the socialist revolution was premature and the Communist Party out of step with history.

What makes institutions socialist?

Lin and You attempt to explain how socialist institutions are created in the course of socialist revolution. Earlier, I showed that the G4 emphasized that the economic institutions of socialism would have to be created after the

¹ Rapp has noted this tension in Chinese discussion of the Asiatic Mode of Production: “If the problem of China’s [feudal] past was the problem of direct oppression by a centralized, despotic *state* rather than simply the oppression of a landlord or patriarchal exploiting *class*, then the already legitimated condemnation of [feudal] survivals in the socialist epoch would include, indeed focus on, structural problems with the socialist state itself” (Rapp 1987: 713).

conquest of political power by the proletariat. Lin and You try to square this conclusion, which is based on the history of Communist revolutions, with their economic determinism:

The socialist economic system cannot be produced in a capitalist society. It must be built by the proletariat using the state political power seized through revolution. The proletarian state plays a very important role in building and consolidating its economic base, but we cannot arrive at the conclusion that "politics determines the nature and the direction of the development of economics" [as Lin and You claim the Gang did], for without acute contradictions between capitalist production relations and capitalist productive forces, there would be no socialist revolution; nor could a socialist economy be built (Lin and You 1979: 92-93).

Thus, although the revolution decided the fate of these social formations, Lin and You claim that it was only because of the contradictions in the base that the revolutions took place. This is a return to Mao's conception of change in *On Contradiction*, where the superstructure had an important role to play only when the conditions of the base had set the stage for the superstructure.

Lin and You need to explain the establishment of new institutions under Communist rule, and they recognize that political power--the state--was crucial in establishing these institutions. Lin and You's work shows the difficulty of any attempt to separate the base from the superstructure. A base-superstructure dichotomy only works for a static analysis: at point A in time, the base was more advanced than the superstructure, and therefore the superstructure needed to be altered. However, in a fluid situation, base and superstructure interact to constantly (re)produce a social formation. Laws, industrial organization, property relations, trade relations, theory, etc., can be separated from techniques the means of production and labor power in an

analysis of a situation. But in the analysis of historical change, the base and superstructure are not separable categories but interrelated components.

Lin and You's position is untenable theoretically, but politically, as noted above, it helped serve to discredit the idea of political or ideological struggle at a time when there were many who might have supported such a course.

Dirigiste replaced socialist planning, and as Dirlik (1988) has pointed out, an old version of socialism, seen as the way to smooth out the bumps of the capitalist road, replaced a class struggle view of transition to socialism. The point here is to highlight the political nature of this transition: in deciding on state-led development, a decision was made about who would gain power and who would lose. In order to get such a program through, they needed to build political support.

What is ownership?

What is ownership under state socialism? The answers given by different theorists differ on details, but they center around the concept of a plurality of possible forms of property under socialism, specifically forms which allow for decentralized control of productive units. Given the contentiousness of the property question throughout the Mao period, the first theoretical writings had a dual objective: to discredit radical Maoism, and to pose the question of property as a technical question to be solved by the newly objectified science of economics. This movement is part of the general orthodoxy of Chinese political thought in the post-Mao era, and we see it demonstrated in the writing on ownership in the early Deng era.

An early essay on ownership found four definitions of ownership in China. In the first view, property “constitute[s] a kind of legal terminology or legal relationship, which not the subject of political economy (Wang, Du and Wang 1981: 5). The second view reduces the importance of legal relations in favor of the “objective and material nature as economic relations” (Wang, Du and Wang 1981; 5-6). In the third view, ownership has a dual meaning. On the one hand it is a legal relation of possession, while on the other hand “it is essentially a particular form of combining labor power with the means of production.” This merges the first two meanings while placing emphasis on the “material” relations of labor as the ultimate determinant of ownership (Wang, Du and Wang 1981: 6). The fourth view stresses the importance of labor power, arguing along somewhat Lockean lines that ownership is determined by who uses labor power to transform material.

What, then, constitutes “ownership by the whole people”, the form of ownership characteristic of socialism. “Ownership by the whole people means that all members of society share equally in possession of the means of production.” This type of property, however, does not and cannot, for the foreseeable future, exist in China: “During the historical stage of socialism, not only at the present stage, even in the future, ownership by the whole people cannot exist.” Showing the effects of battle with the Gang, the authors attribute this lack of real socialist property to the remaining class struggle in China. This view, however, could not be maintained because one cannot justify the project of the Communist Party in post-Mao China by reference to class struggle. Therefore the authors re-define ownership to a tautology which

justifies the current ownership system: “Ownership by the whole people is a form of public ownership under socialism, but it is neither the only form nor the highest form” (Wang, Du and Wang 1981: 8). This definition makes for a much more flexible system, allowing experimentation on issues which the authors believe there is a consensus on in China: the need to make enterprises economic entities, reduce bureaucracy, establish a commodity economy (Wang, Du, and Wang 1981: 11).

Immanent readings

The *form* the critique of the Gang took was that of immanent criticism: the texts of Gang were read, then critiqued from the vantage point of a correct knowledge of the subjects discussed by the Gang.¹ This is reflected in the titles of the articles, e.g.: “A refutation of the ‘Gang of Four’s’ fabrication--the duality in socialist production relations’.” This immanent criticism, however, forced reformers to stay largely on the theoretical ground traversed by the Gang. While the radical Maoism could be refuted, more or less successfully, through this immanent critique, it was impossible to develop a market-based alternative while remaining within debates about bourgeois right and property relations under socialism. This led to the following problems. First, the need to address the concerns of the Gang led writers towards positions such as “worker democracy” which were at odds with the political program of Deng Xiaoping.

¹ This was not a symptomatic reading. There was no attempt to construct a meaning, but simply an attack on the explicit political views of the texts.

Second, supporting new formulations about the primacy of productive forces was difficult when talking about the Gang, because the questions which the Gang brought up hinged on mass-leader relations, and because, as noted above, explaining the very existence of the Gang seemed impossible in purely economic terms. Conscripting the terms of Stalinism into the debate undermined the reformer's case for reform in many ways, thus making the critiques of the Gang a purely transitional stage in reform thought, but one which is important if we want to understand the dynamics of property reform in China.

Zhang Wenxiao's work shows how an immanent reading led writers into a strained theoretical impasse. Zhang examines the following quote from the Shanghai economic school's political economy textbook:

Under capitalist conditions, "that a person can exercise control over another's activities and social wealth is because he is the owner of the exchange value or money. He carries with him in his pocketbook his social power and his links with society." Under socialist conditions, because of the implementation of the commodity system, every enterprise (in fact the leadership of every enterprise) is given this power to some degree. Only because of this power can it be linked with society. This then is the economic condition which gives rise to production for value and profit (in Zhang Wenxiao 1979: 38-39).

I will first quote Zhang Wenxiao's response, then examine the two quotations together:

The leadership of each socialist enterprise exercises only the power delegated to it by the state, which represents the whole laboring people. The money for the enterprise account is not owned by the enterprise or by the enterprise leadership. How can we say they control the same "social power" as the capitalist or that they will inevitably "follow the economic condition giving rise to production for value and profit?" (Zhang Wenxiao 1979: 39).

In choosing to take the Gang on through an immanent criticism, a point-by-point rebuttal, Zhang Wenxiao accepts the Gang's terms as the terms of the debate. The Shanghai quote makes the point that the marxist critique of capitalism is based on commodity exchange, and extends the critique to China's socialist system. In refuting the Shanghai text, the reform economist is forced to 1) fall back onto a theory of the "identity" of the interests of workers, state, and enterprise; 2) return to the Stalinist dogma that money in a socialist system is not money as it is understood under capitalism but merely a marker of social value, and, similarly, that commodities do not exist under socialism; 3) ignores the power of managers and the question of the organization of work. Yet the reforms as a practical program have attempted to separate individuals from enterprises, bring Chinese currency into line with Western understandings of money and credit, and increase the power of managers. An immanent critique based on Stalinist conceptions was obviously not leading reformers in the directions they wanted to go.

Power in the enterprise

Based on an immanent reading of the Gang, and sometimes on their own experience within production units during and after the CR, reformers were forced to acknowledge tensions within production units. But these tensions were downplayed by insisting on the fundamental harmony of socialist production relations:

In socialist enterprises, we cannot deny the existence of contradictions between the enemy and ourselves in the interpersonal relations of the production process, but in general, the contradictions are mostly

contradictions among the people. This is because the leadership and the masses in the enterprises all serve socialist production and state power under the proletarian dictatorship. They are all masters of production. Their interests are ultimately identical (Xu 1979: 64).

While Maoism was never wholly consistent in its treatment of issues of worker power and class in Chinese enterprises, it is clear that the thesis of a new class forming out of China's cadres was the most worrisome for critics of the Gang. For instance, the statement that, "At present, a network of capitalist roaders has been completed in the whole country. It controls the socialist economy. It has become an ownership system of capitalist roaders" (*Political Economy* textbook, quoted in Zhang Wenxiao 1979: 50) brought a vigorous reaction.

Against this, theorists argued that

In socialist society, the state political power of the proletariat determines the socialist public ownership of the means of production....Socialist public ownership in turn determines authority over state enterprises. That is to say, *it is the system of enterprise ownership that determines the enterprise authority, and not the other way around*. If the authority of some state enterprises were usurped by the new and old bourgeoisie, then the production and operation of these enterprises would follow the capitalist road, but as long as the state political power of the proletariat has not degenerated and as long as the highest authority of the Party and state is still in the hands of a leadership core which firmly upholds the Marxist-Leninist line, the ownership of state enterprises, even if their management has been usurped, will not change its nature (Xu Dixin 1979: 79, my emphasis).

This represents a return to the question of leadership, and does not look at concrete relations in the factory but depends on Party dictatorship. Any relations within the enterprise are acceptable, as long as they occur with the Party/state in change.

If the Gang of Four was not always consistent in its application of theory toward the question of power within enterprises, others inspired by the

Cultural Revolution were more explicit. As Sheng-Wu-Lien saw it, "The rule of the new bureaucratic bourgeoisie must be overthrown by force in order to solve the problem of political power...The "Red" capitalist class gained an almost overwhelming ascendancy...the property (of the means of production) and power were wrested away from the hands of the revolutionary people and returned to the bureaucrats" (in Mehnert 1969: 84, 87).¹ There was a differentiation in the interests of bureaucrats, including and most specifically Party cadres, and the masses. Only an overthrow of these institutions would result in a movement towards socialism.

The failure of the Cultural Revolution or the political adventurism of the late Mao period to solve the problem of leader-mass relations led some leftists to seriously reconsider the need to expand an understanding of the superstructure from ideology to also include institutions. Thus Chen Erjin argued that there were two stages of proletarian dictatorship. In the first,

¹ On the question of class, too, the immanent critique of the Gang led writers to concede that class could exist within socialist society, but mainly as a remnant of the old society. For instance, Xue Muqiao explained the class nature of China's socialist society as follows: "The bourgeoisie ceased to exist a class when payment of their fixed interest was stopped in 1967, which meant they could no longer exploit people by their ownership of the means of production. Of course, a small number of people among them are hostile to socialism and the bourgeois ideology still has much influence on society at large. Instead of being proof of the continued existence of the capitalists as a class, however, this only indicates the presence of the remnant forces of the bourgeoisie. No new society can be entirely free from the remnants of the old one. This situation, coupled with the bourgeois influence from other countries, accounts for the fact that class struggle is not entirely over. In particular, the ideological struggle between the proletariat and the bourgeoisie will go on for a long time. Ideologically China suffers from the influence of the bourgeoisie as well as that of the feudal class, and a struggle must be waged against both" (Xue Muqiao 1981: 268).

force was necessary to defeat counter-revolutionaries and nationalize industry.

In the second, however,

...the structural system whereby power was coercively monopolized by the minority served to induce immense changes within the party, and in class relations as a whole, as these changes then gradually--and inevitably--began to render the party organization (that is, the power-holding clique within the party) more often than not an *obstacle* to the achievement of the marxist revolutionary project. Hence, organizational leadership cannot be said to represent the most fundamental aspect of party leadership (Chen 1984: 166).

Chen's position directly confronts and subverts Zhang's emphasis on leadership and correct ideology as the sole guide for socialist transition. While leadership matters decisively in the first phase of the proletarian dictatorship (Chen 1984: 93-94), it is *inevitable* that leadership and ideology will degenerate without democracy, and socialist property will become the private property of a bureaucratic class. Organizational leadership cannot be the basis for socialism: a party which remains divorced from the masses is susceptible to revisionism, and no change of leadership can ever be enough to assure continued progress toward socialism. Thus, *institutions* of democratic rule are necessary to insure the transition to socialism (Chen included a two party system, separation of powers and protection of human rights among his demands; Chen 1984: 222-231).

Like the Gang, Chen argued that the formal change of ownership in China did not mean the end of class rule. But Chen went beyond the Gang's critique of leadership and proposed the class theory which seemed pregnant, but was ultimately aborted, in the Gang's work: "Nationalization' and 'collectivization' are nothing more than newly disguised versions of private

ownership, for they involve merely a transformation of ownership of capital by the capitalist to ownership of privilege by the bureaucrat!" (Chen 1984: 192). The bureaucrats formed a new class in China, a class which had usurped public property and political power.

Chen's dismantling of the ownership-as-leadership position advocated by Zhang is balanced by an attack which anticipates the economic determinism of the reformers. Chen, well aware of Stalin's definition of socialism and anticipating the use of economics to displace politics under Deng, argued for a definition of socialism which escaped the determinism of Stalin, the Gang and reformers. Chen's definition of socialism reads:

The replacement of labor performed on a constrained and coercive basis by labor which is freely and enthusiastically given, the liberation of the productive forces via the liberation of worker, and *the active transformation of the worker into the true master of society, state, means of production and activity of production*; that is to say, the vigorous development of socialist production and the creation of an abundant social material base genuinely owned by the working people themselves, by means of democratic self-government on the part of the worker, and through the continuous realization of a higher degree of organization of social labor, and the continuous adoption of new and higher modes of social production, and continuous discovery and utilization of new, scientific techniques of production, the continuous augmentation of a scientific synthesis between the state-planned economy and the socially autonomous market economy; and, lastly, the continuous inducement of the worker into further participation in the sphere of politics so as to perfect distribution according to labor and to make management increasingly scientific (Chen 1984: 137; my emphasis).

Society under the Stalinist (and Maoist, and now Dengist) system was reduced to a dichotomy between administrators and producers (Chen 1984: 119), a system in which private property had been reestablished, although now it was the private property of the bureaucratic class. Chen emphasizes that only by placing control of production *and* politics in the hands of the masses--

hegemony--mediated by democratic institutions, can society move toward socialism.

The reply of the reformers to the problems of leadership-mass relations posed by the Cultural Revolution was not as heterodox as Chen Erjin's. Instead, the response of Xu Dixin quoted above is typical: "...the leadership and the masses in the enterprises all serve socialist production and state power under the proletarian dictatorship. They are all masters of production. Their interests are ultimately identical" (Xu Dixin 1979: 64). These interests are identical, in a classic tautology, because China is socialist and under socialism the interests of the leaders and masses are identical: "Interpersonal relations in the capitalist production process are class relations between the exploited and the exploiter. The socialist revolution and the socialist form of production reject these antagonistic interpersonal relations in the production process. Instead, they introduce a new content into these relations (Xu Dixin 1979: 63).

While reformers were insisting on the identity of interests between masses and leaders, since they had accepted the terms of the debate posed by the Gang, i.e., they accepted that the question of leader-mass relations needed to be raised, they needed to explain the divergence between mass and leadership attitudes displayed in industrial settings. This led, in a more restrained form than that demonstrated by Chen Erjin, to a call for more democracy:

The means of production and the products of the enterprises in this sector are the public property of the state representing the interests of the whole people and should, in principle, be managed by the state in a unified way. But the complexity of such an economy makes it impossible for the state to handle all of them directly. It can only leave

the job to the several hundred thousand enterprises in the country.... But in the absence of democratic management and measures which link its business performance directly with the financial interests of all its members, the workers and staff, who only receive their shares in the products on the principle of "to each according to his work", can hardly see the identity of interests between them and the enterprise, let alone between them and the state (Xue Muqiao 1981: 51).

This is a classic statement of the need for syndicalism to achieve the socialist goal of worker control in a complex economy. While it skirts the issue raised by the Gang of the necessity of commodity exchange when independent production units meet exchange their products, it does address the fundamental critique of socialist dissidents in China: the divorce of the masses from control of production.

Yet the impulse toward a workerist solution to the crises of the late 1970s (or 1980s) has never had much currency in China.¹ We can discern four basic reasons why these workerist position failed to build political backing in China. First, most workers are not prepared, nor do they care to, run their enterprises. Walder has pointed out the one ironic effect of the anti-material incentive campaigns of the post-CR era was to make workers more sensitive to material issues (Walder 1982: 1986). Further, workers were cynical about politics in the workplace, having seen politics and political slogans being used to cover hierarchal relationships between workers and supervisors. The cover of political purity was used to cover-up career motivated behavior. This

¹ Gorbachev and his early economic advisors, such as Abalkin, also flirted with the idea of workerist reform. Thus Abalkin argued, "Self-management at all levels is a key element. The workforce at state enterprises must be given real power at their workplace" (Abalkin 1990: 34).

environment obviously would work against motivating workers to political action, or to believing that they were soon to control their places of work.

A second reason for the failure of workerist reforms is that getting managers to give real power to workers would require protracted struggle on the factory and perhaps Party levels, and this was not something China's leaders were anxious to promote. Even assuming that workers could be moved to try to reduce management power, managers had shown to be adept at keeping power and redirecting campaigns aimed at them and their power. Given this, and the reformers desire to quickly redress the lagging economic situation, the idea of beginning a new struggle for power within the factories must have been particularly unattractive to the reform leadership, which in any case had not been big supporters of workerist position earlier. The type of worker control which came out of the critique of the Gang has not been championed at the highest levels of the Chinese leadership.

A third difficult issue is whether worker-managers could really solve the problems posed by economic development. Workers would face all the problems which faced China's professional managers--determining what to produce, how to do it efficiently, dealing with the welfare state which was the Chinese state enterprise, how to integrate independence and planning. Giving power to the workers would only be a step toward solving these problems, and it would, as noted above, be a very costly step in terms of possible political disturbance. Given the cynicism and lack of education of much of the urban workforce, whether worker-owners would have known what to do is questionable.

The fourth reason for the failure of workerist positions is the Solidarity trade union movement in Poland. Although it comes well after the criticism of the Gang is over, the effects of Solidarity combined with Deng's strengthened hold on power to eliminate initiatives for grass-roots democracy, as also happened with the Democracy Wall movement. As with Hungary in 1956, the Chinese leaders saw Solidarity as a warning. But rather than opt for political solutions--Hundred Flowers or worker control--they opted for attempting to increase production, to increase the standard of living. Given the low level of living standards in China, the fact that they had not risen much since before the CR, and the predisposition of the reformers, this was the obvious choice. Without Poland, workerist plans might have gotten a better shot, but there is little doubt that China's leaders feared the workers more than bureaucrats.

To what extent these indicators are generalizable would require further study. Burawoy's (1985) work indicates vast worker discontent and obsession with material goods in pre-1989 Hungary. Bureaucratic politics certainly plays a role in every Communist state, making any attempt at workerist reform potentially explosive, with the possibility of protracted confrontation at the point of production. The world system also discourages workerist reforms in favor of management-oriented reform which helps (re)create the institutions of Western capitalism. And the fear of worker discontent of factory management turning into discontent with the Party-state, especially given the close ties between these in the factories of Communist states, would indicate that this factor too plays an important role in discouraging worker-oriented reform.

Why reform the property system?

Why reform the property system? Chinese theorists give the same “common sense” answer as the World Bank: to increase efficiency. It was not easy, however, for Chinese economists to make this argument. Examining theoretical work on this question highlights the schizophrenic combination of economic and political determinism examined above. Efficiency has been construed to mean that more is produced, regardless of the conditions of production or how the results of production are distributed.

This position has its roots in property rights theory, although its deeper roots go back to Locke (see chapter four). For Coase, the problem of externalities boiled down to one question, “It is all a question of weighing up the gains that would accrue from eliminating these harmful effects against the gains that accrue from allowing them to continue” (Coase 1960: 26). How should these costs be determined? Coase argues for an “opportunity cost” method of accounting. In this system, value is determined by “comparing the value of the product yielded by the factors in alternative uses or by alternative agreements” (Coase 1960: 40). This method, according to Coase, leads to an interesting outcome. Instead of taxing those who create externalities, it may be desirable to allow these externalities to exist if they increase the total social product (Coase 1960: 40).

Richard Posner’s *Economic Analysis of Law* (first edition, 1973; third edition 1986) is an attempt to put Coase’s “opportunity cost” analysis to work by applying it to legal theory. The limits of the opportunity cost approach are

demonstrated in Edwin Baker's (1975) critique of Posner. Baker argues that Posner's work favors the rich and propertied over the poor and propertyless. Posner argues that in cases where property rights are under dispute, the issue should be decided in favor of those who would use the rights most efficiently, a concept similar to Coase's opportunity cost. Baker's critique begins by examining Posner's definitions of efficiency and of value. Posner defines efficiency as "exploiting economic resources in such a way that human satisfaction as measured by aggregate consumer willingness to pay for goods and services is maximized" (quoted in Baker 1975: 4). Posner defines value in a similar way. Value is also willingness to pay, and "Willingness to pay is in turn a function of the existing distribution of income and wealth in a society" (in Baker 1975: 4). Baker then goes on to show that Posner's approach:

I. Favors the claimant of the right whose use is productive over one whose use is consumptive.

II. Favors the rich claimant whose use is consumptive over the poor claimant whose use is consumptive (Baker 1975: 9).

The rich are favored over the poor: in the second case, because the rich consume more, and thus their consumption adds more to the "aggregate human satisfaction." Since rich people own a disproportionate proportion of productive assets, they are similarly favored by decisions which favor productive resources over consumptive resources, criteria I. Using Posner's

criteria and definitions, the rich--the propertied class--would be favored in almost every case (Baker 1975: 9-12).

Since Posner notes that willingness to pay is “a function of the existing distribution of income and wealth,” Posner must show that the original distribution of wealth in society was just. Posner need not show that the current distribution of wealth in society is equal, only that the original distribution can be justified, because under Posner’s assumptions there would be no way for a just distribution of income to become unjust through the normal functioning of the economy. Using Posner’s own approach, Baker demonstrates that the initial distribution of property was not necessarily, or even likely to have been, just. For instance, in the enclosure of the English commons, the claims of rich and large landowners, who would use the land to produce for exchange, would be favored over peasants who used the land and consumed much of what they produced (Baker 1975: 21-22). Chinese economists have similarly advocated production over distribution or ecological efficiency issues.

Dong Fureng

Dong Fureng, for instance, has written on the question of reforming the property system since 1979. Dong was an important player in the debates about the law of value under socialism in the 1950s, and a contributor to the economics of planning. Along with many of his colleagues, he fell out of favor and out of sight in the Cultural Revolution and the post-CR period. Dong trained in the Soviet Union from 1953-57. He became a professor at Beijing

University and deputy director of the Institute of Economics in the late 1970s, when Dong reemerged as a major figure in the movement to broaden the scope of ownership under socialism. Dong's articles in the late 1970s and early 1980s began by attacking the rapid socialization of property which occurred in the 1950s. Sounding an argument we will examine more closely below, Dong argued that property should take the form which allows the greatest productive efficiency (Dong 1982: 128). He put forth the proposition that socialist ownership can take many forms. In China, however, socialist ownership (ownership by the whole people) was seen as equivalent to state ownership, and this type of property was given priority by the state. This position on ownership on the part of the Party and state led to several problems. First, the state's administrative organs took the place of economic organs. Previous attempts at reform did not touch the issue of state ownership, and "the question has always been merely one of ascertaining the level of government to which these enterprises should be subordinate" (10). Second, state ownership "meant that the administrative organizations of the state government, taking the place of economic organizations, directly controlled and conducted all the economic activities of the enterprise" (10). According to Dong, this led to bureaucratism, commandism, blind leadership and "doing things in accordance with the wishes of a superior government officer": in other words, "everything that violates objective economic laws" (10).

Dong argues that the economic base and the superstructure are separate and operate according to different objective laws. A state socialist

economy, Dong argues, needs “value, price, commodities, currency, markets, banks, credit and loans, interest, budgets, costs, profits, bookkeeping, economic contracts, wages, bonuses, and so on” (11). Finally, Dong argues that the system of state operation separates rather than integrates workers and management of enterprises: “The workers in an economic organization should have the right, on the premise of defending and promoting the common interests of the working people as a whole, and under the guidance of unified planning, to integrate the interests of the unit with their own personal interests, directly taking part in management” (16). In the context of the evolution of Chinese economic thought in the 1980s and 1990s, in which nary a word is spoken about the importance of worker control for the socialist project, Dong’s allusion to workers seems heroic. But even here, it easy to see that worker control is external to the real logic of the Dong’s work, which instead emphasizes Keynesian macroeconomic guidance as a replacement for the state’s direct role in production (of course, promoting Keynesianism may seem heroic in the China of the 1990s, where monetarism and anti-inflationary policies have taken the fancy of China’s leadership). Dong’s worker control scheme amounts to little more than a form of enterprise corporatism in which workers would see their interests as identical to those of the firm rather than those of the working class as a whole (or, as under the old system, the state). There is a telling silence on the questions of class and class struggle in the study of economics and property.

Private property will not subvert socialism in China: “As long as socialist state ownership plays a dominant role in the economy,” Dong argues,

“the existence and development of a sector of private ownership is not likely to breed capitalism” (Dong 1982: 128). This is strange and strained logic. There is nothing here to distinguish socialism from capitalism except state ownership, a system which has been found by Dong and most other reform economists to be inefficient--and therefore unacceptable. Whereas, for Mao and the Gang, the existence of commodities and the law of value meant that China was still in a state of transition, the rediscovery of these categories by reform economists is used by them to justify promotion of the system in which they originated: again, private property. Dong’s work demonstrates the importance placed on prioritizing the objective nature of economic laws, specifically the laws of a commodity economy. In the place of government or worker control, Dong nominates “economic interests” as the motivator of efficient economic behavior.

The reform of ownership is crucial to the whole project of reform because ownership touches on the key issue: redefining the subjects of political economy, from the economy to the firm to the individual. As long as enterprises are seen as part of a regulated state and society, they could not be exposed the market. Once, however, the definition of socialist ownership was widened, enterprises could be seen as independent economic entities. Viewed thus, they could then be subjected to various other reforms: most importantly, they would no longer be tied to plans and to the old labor system. As Dong argued, “If we do not carry out reform of the forms of socialist ownership, it will be impossible for our structural reform of the economy to succeed. There is no need for us to conceal the fact that in our structural economic reform, we must

reform the forms of our socialist ownership.” Highlighting the importance of ideological work in property reform, Dong continued, “In fact, if we clearly explain the reasons for it, people will understand the necessity of doing that and this will be conducive to the deepening of the structural reform of the economy” (Dong Fureng 1985: K8). This redefinition of ownership follows the pattern we saw in examining the Wang, Du, and Wang essay. Ownership is seen as malleable and differentiated in the socialist system, “...in other words, if we regard the ownership of the means of production as the sum total of the actual relations of production and as the social mode that combines laborers with the means of production, we should admit that there have been profound changes in the forms of the socialist ownership by the whole people” (Dong Fureng 1985: K14).

The justification for the new forms of ownership is simply efficiency: if a different type of property allows for higher production, it should be adopted. When Dong ponders the question of whether the retreat from state property is a “historical retrogression,” he argues that “we should consider whether these various forms of socialist ownership are conducive to the development of the productive forces and then decide whether the existence of these forms is reasonable. For developing the productive forces is the fundamental task of socialism” (Dong Fureng 1985: K18).

Economic laws are trans-societal--they operate under all social systems.¹ “The operation mechanism of the commodity economy, as a form of economic operation, is imbued with an objective law and it is very hard to distinguish between socialism and capitalism. Particularly in the international market, participants in different societies can only act according to the common rules of the international market. It is therefore impossible to find the differences from the operation mechanism” (Jiang Yiwei 1989: 48). It is no longer a question of socialism or capitalism, but merely a question of correct or incorrect policies, a question best determined by technically competent bureaucrats.

1984: The enterprise becomes the center of reform

The year 1984 marked a significant change in economic policy in China. The focus of policy from this point on was the urban economy, including issues of price reform, foreign trade, and inflation. Topping the list of reform objectives was, and is, enterprise reform. It is in enterprise reform that the abstract theories of economists take concrete form, and it is in these theories that the redistribution of power which the theories and the policies they spurred can be best seen. In policy, 1984 marked the emergence of the factory director responsibility system (FDRS) and the expansion of contracting as means of assigning responsibility for economic performance. Fewsmith (1994:

¹ As Milton Friedman told Zhao Ziyang: “For example, the fundamentals of chemistry and the basic principles of economics are applicable to all countries. The most basic principle is the relationship between economic prosperity and private property rights” (Chang Wu-chang 1989: 26).

130) argues that at this point , “Neither ideologically not intellectually was China prepared to make an epistemological break with socialist economics.” By this, Fewsmith means that China was still influenced by Eastern European economic theories and policies. The policies advocated at this time, however, represent a real break with both Maoist and non-Maoist conceptions of socialism and socialist economics.¹ The embrace of commodity production, individuation of class membership, the indefinite postponement of the elimination of private ownership of the means of production, and the shift of economic science from a political economy of society to a narrow focus on the firm all mark important breaks with socialist economics as it had been studied in China.

In 1984, China proclaimed that enterprises would be the focus of reform efforts. Toward that end, the State Council issued Regulations on State-Owned Enterprises. These regulations gave enterprises important powers. In its ten points, the regulations allowed enterprises to sell above-contract or quota production and to develop new products “needed by the state and by the market.” The regulations allowed prices to swing up to 20% from established prices, gave enterprises the right to choose suppliers, to divide up their funds among several uses within the factory (wages, investment, etc.). It gave enterprises the right to lease or transfer fixed assets, provided the funds obtained were used for technical transformation. Enterprises were further

¹ The classic critique of the market socialism position is Luxemburg (1970: 33-90). See also Mandel (1988). For support of this position, see Nove (1983).

given the right to establish their own internal structure, establish bonuses, and engage in transregional or transdepartmental joint ventures. However, these regulations stipulated that factory directors would be appointed from above (Xinhua 1984: K15-K17).

Economic policy since 1984 has shown a marked consistency on two issues: first, the need for enterprise autonomy and the idea that the firm is should be the center of economic planning and growth, and second, the importance of individualizing economic responsibility, both in the person of factory directors and among workers. Both policies have roots in the theories discussed above, and both represent an important break in Chinese economic and social theory. The consistency of economic policy can be established by quoting from important policy documents.¹ The "Preliminary 1986 Plan for Economic System Reform," written by the Overall Program Group of the State Economic System Reform Commission, associated with Zhao Ziyang, stated that, "The vitality of enterprises is a key point on which we must focus" (20) and "Internally, enterprises should further develop different kinds of economic responsibility system based on contracting" (21). A year later, the State Council's Office of the Leading Research Group of the Economic System Reform Program argued that, "During 1987, infusing vitality into enterprises and fully bringing out the enthusiasm and initiative of enterprises and workers--the key link in economic system reform--must be continued" (35). The same

¹ The following policy documents are collected in a special issue of *Chinese Law and Government* (volume 25, number 3, Fall 1992), edited by Stanley Rosen and Gary Zou.

group's program for 1988 once again listed reform of the operation mechanism as the top priority, pushed the contract system and the idea of the firm as the basis of economic activity (76-77).

Reform of enterprises required different forms of property relations, but it was simply not feasible to end state ownership. Instead, different forms of transitional property systems were suggested with the hope of either moving towards the replacement of state ownership or, more commonly, mimicking private property without having to go through the politically costly process of formally privatizing state industry. The two most common methods of changing ownership relations have been contracts and shareholding systems.

What is a contract system?

If contracts are binding agreements between two or more entities, China still lacks a "real" contract system, for, as we will see, the binding nature of contracts in China remains unclear. It is clear, however, that the movement to institute a contract system in China involves the *attempt* to make binding agreements between different entities within the economic realm, and between the government and economic units. These attempts, moreover, have altered the relationship between economic units and the state, even as they have disappointed their more avid supporters by failing to completely transform this relationship. Contracts were pursued for two reasons: their binding nature was to provide the hard constraints on budgets which the old system failed to

provide, and the negotiated nature of contracts was to allow the government to guide industrial policy.¹

Making contracts involves the problem of establishing who within the enterprise has decision-making authority. The attempt to make enterprise directors this legal person involved the expansion of political discourse discussed earlier. This issue, however, continues to be a bone of contention with the conservative opposition, and it is posed in much the same terms as dissent in the former Soviet Union toward bureaucratic “pirate-ization” of former state properties: that is, using or taking state property to make personal profits.² For instance, conservatives may regard this attempt to institute an “owner mentality” in managers as a means of establishing a reactionary social system. According to one critic, “[the ownership mentality] means that the head of a plant or a unit should manage, run, and take charge of his own plant or unit as if it were his ‘private property.’...According to this logic, China’s slave owners and feudal rulers would have to be considered the forerunners of people having the ‘ownership mentality’” (Liu Runwei 1993: 10). These conservative critics contend that the ownership mentality leads to corruption as state and public property becomes a private source of income for a small group of managers and cadres.

¹ An oft-noted reason for contracts is to change the subjectivity of the parties: to make enterprises realize they are “real” economic units and not appendages of the state administration, to make them “feel” independent (e.g. Lu 1995).

² Nelson and Kuzes (1994: 121-154).

Critics aside, there are problems establishing enterprise directors as legal personages in charge of factories. According to Yang Yongping, the CMRS “should be regarded as a sort of collective contracting, with the whole body of staff members and workers jointly bearing the risks. As for the manager acting as the legal representative of the enterprise and signing the agreement on behalf of the staff members and workers of the enterprise, he is only the principle responsible person, not the contractor;...In reality, regardless of the size of the enterprise, the manager does not have the ability to carry out individual contracting, much less individually bearing the risks” (Yang Yongping 1990: 39). Directors’ administrative status and frequent transfers undermine their ability to elicit obedience from an enterprise’s permanent work-force, and also makes it difficult for them to establish and carry-out long-term plans. This problem will be examined in detail in the next chapter. There are also problems arising from the difficult juxtaposition of the enterprise as economic and social unit, and therefore determining what the enterprise director should be maximizing.

Shareholding

The battle over defining ownership necessarily spilled over into the debate on China’s stock system. Four basic forms of the stock system have been proposed. First, a fully Westernized system of individual ownership could emerge. The other alternatives fall were a system of “public” ownership in which municipalities and large institutions hold the vast majority of shares, or as a system of cross-ownership by enterprises themselves might be

established. A fourth possibility was a system of labor shares given to workers.

Support for a Western-style system was based on the belief that this system would decrease inflationary pressure by reducing funds for consumption.¹ Further, enterprises, it was argued, cannot truly act as shareholders, and thus individuals are the most rational candidate for ownership (Zhao Linru 1989: 36). The socialist credentials of individual shareholding were established by arguing that it allows for the free expression of the individual (Zhang Weiguo 1989: 48).

Public ownership, in the form of ownership by lower-level governments, was advocated by many solely because it was seen as a genuinely socialist method of property reform. More pragmatically, others saw community shareholding as a way of increasing pension funds, an important point in light of deconstruction of China's welfare system and the age structure of its population. Inter-enterprise shares are also viewed as less problematically socialist than individual ownership, but there appear to be more problems with the mechanics of this system than the other two. Both of these social solutions must answer questions such as how and whether collectives can truly act as share-holders: will a town shut down its own factory? Will an

¹ Wu and Cheng (1989: 29). Similar alternatives were represented in the early stages of Hungary's reforms (Swain 1989: 24-26). The importance of international capital should also be noted when discussing the formation of equity markets. International investors require a certain amount of disclosure and control before they are willing to invest. It would complicate matters to have to convince international investors to share control with "labor shares" or other, less Western forms of equity ownership.

enterprise endanger its relations with suppliers? Once such systems are in place, will it be possible to transfer shares? Such questions are just part of the larger difficulties of building a share-holding system in China.

Labor shares “refer to shares for which workers of shareholding enterprises use their labor, technology, labor experience and so on as a form of payment for their purchase, and which are a part of the total share capital of the enterprises. Enterprise workers who hold the labor shares may take part in the operation and management work, share profits and bear risks in proportion to their amount of shares” (Zhai Junchen 1989: 33). The amount of shares a worker receives would depend on: potential labor capacity, including education, physical condition, accumulated labor time and experience and technical grade, and contributions within discrete amounts of time, including quality of work (Zhai Junchen 1989: 34). In this system “the abstract and vague property right of the existing enterprises and the ownership by a small group of people is expanded to real ownership by the whole staff of such enterprises” (Zhai Junchen 1989: 35). “In an enterprise that issues labor shares, holders of capital shares are of course owners of the enterprise's property. They enjoy the ultimate right of ownership of the enterprise” (Zhai Junchen 1989: 35). But as we have seen, property and ownership are slippery, and what the ultimate right of ownership means is not spontaneously clear.

China's stock system has developed fairly rapidly over the past few years (Zhang 1992). At the end of 1992, there were 3700 shareholding enterprises in China, and this number does not include FIEs and TVEs. About 520 of these issued stock only to their employees, while about 180 issued

stocks publicly, and a total of 70 firms were listed on the two Chinese stock exchanges. These funds represented by stocks represented 13% of total bank savings deposits at the end of 1992 (PRC Yearbook 1993: 112). Several firms have listed American Depository Receipts on the New York Stock Exchange, while more have listed "H" shares on the Hong Kong exchange. Originally, publicly traded shares within China were divided between "A" and "B" shares. Chinese could buy A shares, while B shares were for foreign purchasers. A long slump in the B share market from 1993-1994 convinced the government to allow Chinese to purchase B shares, blurring the distinction. A shares are also, at least theoretically, held by the state and the enterprise (legal person shares). The state shares and legal person shares, however, have a murky status--they are not denominated as normal shares (i.e., the state's controlling interest is not represented by its control of 50 per cent plus one share). In addition, the status of all shares remains unclear. There are no voting rights attached to shares, and difficulties in determining real capitalization and earnings make it difficult to determine book values of shares. Although the new company law of the PRC states that, "shareholders of a company, as contributors to its capital stock, are entitled to owners' asset returns and the rights of major decision-making and choice of managers, in proportion to the sizes of their contributions; the company is entitled to the entirety of the legal person's rights to the property constituted by shareholders' investments, and enjoys civil rights and assumes civil responsibility as defined by law" (Li Zhangzhe 1994: 43), this does not seem to be the case in actual listed firms. The Chinese markets in Shanghai and Shenzhen are thus driven by rumors of

political change and not by earnings or market news. This has made the situation ripe for speculation, with the entire market making huge swings in daily trading--as high as forty per cent. There is some hope that newly founded pension and unemployment funds will invest in the market, providing long-term investors to stabilize the market, but the government has limited them to owning ten per cent of the market's shares.

The main debates on share holding now revolve around the pace and scope of listing companies (for a summary see Li Yining 1994). Some argue that the pace needs to slow down while China reforms its accounting systems. These people believe that the speculative nature of the markets makes it unwise for new companies to list. Others argue that the more companies which list, the less money will be available for speculation and the more share holders will be able to compare economic results between firms. At this point, the government has put a temporary halt to new domestic listings while bigger, more modern, and well-placed firms seek to tap overseas market to expand and update their equipment.

Current debates¹

Debates on property, I have argued, never end, so it is not surprising to find that the debate on property reform in China continues. It continues, however, within the theoretical boundaries established in the works examined above. After 1989, there was a temporary upsurge in public writings opposing

¹ Some recent summaries of various positions are Lin Fan (1994), Yang (1995) and Xiong (1995).

property reform. Privatization was linked to “bourgeois liberalization” (Zhi 1990: 32).¹ But even this “hard line” stance allowed a role for private property, if not in large and medium state enterprises (Zhi 1990: 35).

In the 1990s, there are still supporters of state industry. Liu Qu, Minister of the Metallurgical Industry, a post-Mao stronghold of conservative reformers, has argued that many of China’s heralded reforms have occurred on the back of state enterprises: “...without the support of state-owned large and medium-sized enterprises, it would be impossible to grant preferential policies to township and town enterprises and foreign-funded enterprises” (Liu Qi 1994: 33). Liu also opposes privatization of large and medium enterprises, arguing that it would not solve economic problems and that, “In China, the outcome of privatization implies social unrest and endless disasters” (Liu Qi 1994: 33). Meanwhile, Yuan Mu, director of the State Council Research office, warned that privatization “would mean the end of the Communist Party” (Yun 1994: 51). On a related note, Li Peng announced on October 1994 that one-third of China’s state-run companies will be privatized in the next five or six years or face bankruptcy (Agence France Presse 27 Oct 1994: 50).

Another thread in the continuing debate is the currently fashionable use of the term “modern enterprise system.” The search for a modern enterprise system was spurred by “Comrade Deng Xiaoping’s major speeches during his visit to the south in early 1992.” Essentially, however, the modern enterprise system is simply another way of talking about the changes described earlier in

¹ See also Zhou (1989) and Fu (1989).

this chapter: making the firm the center of economic policy, making individuals responsible for firm performance, changing legal property rights to make it easier to determine the “efficiency” of different enterprises and allow the market to play a larger role in determining output and prices (Li Tieying 1994: 43). A modern enterprise system would rely on scientific management, that is, “relying on science, technology, and systems, to fully bring into play the various resources within enterprises so that they are developed in a way which contributes to the best possible performance of the enterprise so that enterprise’s vigor and competitiveness are strengthened” (Li Tieying 1994: 47). And yet, the Party still plays a role, supporting, “the enterprise managers in exercising their functions in accordance with the law, in perfecting systems, and in actively participating in major decision making affecting the reform of enterprise systems and the improvement of enterprise performance” (Li Tieying 1994: 47).

The strongest recent trend in writing on property is the explicit endorsement of a property rights perspective deriving from the Western theories of Demsetz, Alchian, Coase, and North. This is both a logical outcome of earlier development of Chinese thought on property in the reform period, and the triumph of logic over the pragmatism with which Chinese reform is so often credited.

It marks the logical outcome of the writing examined earlier in the chapter because, as I argued in the last chapter, property rights theory represents a species of economic determinism. Like property rights theory, Chinese economists accepted economic determinism. In addition, the

determinism they embraced focused on theoretical formulas remarkably similar to property rights theory, especially the separation of ownership and management used to justify enterprise reform and idea of independent commodity producers as the basis of economic growth.

If this movement to property rights theory represents the ultimate triumph of theory over practice in Chinese economics, it also culminates the long struggle of Chinese economists to make themselves scientific in the Western mould. By embracing Western theory and methods, they enjoy the support of the international community of economists and the institutional support of Western grant-making foundations and international organizations such as the World Bank.

In many ways, Chinese economists are now using property rights theory to put a scientific stamp on the work examined earlier in this chapter. For instance, one of the main tasks of economic ideology in the 1980s was the displacement of economic subjectivity from classes to firms, and within firms to individuals. Lu Jianjie argues specifically that changing the subjectivity of the economy, towards firms and managers, is necessary for effective reform (Lu 1995: 23) Using property rights theory, Chinese economists have another tool to explain why enterprise managers need power: they must be the “ultimate agent” of the state, in the principle-agent relation formed in state-owned enterprises (Zhang 1995: 5-6). Unfortunately, neither “the people” nor the state can properly fulfill the role of principle. Basing himself explicitly on the work of Alchian and Demsetz examined in the last chapter, the author concludes that state-owned enterprises cannot be efficient (Zhang 1995: 6).

Not all Chinese economists are happy with the methods and conclusions of the Chinese property rights school. Gao Hongye (1995) argues that the Alchian-Demsetz model is not applicable to large firms. It doesn't deal with the problem of diffuse ownership under capitalist joint-stock companies. It also fails to deal with the problem of information within the firm. Specialization makes it impossible for any one person to understand the processes involved. Without market prices, these intrafirm information differences make it impossible to assume that discipline can be established within the firm based on a single manager knowing what to expect of his staff. The bigger the enterprise, the less need there is for privatization. Gao concludes that the basis for privatization does not lie in its inherent efficiency, but in the world-wide wave of privatization which is sweeping China along in its wake, regardless of the real needs of the Chinese economy (Gao 1995: 20)

Yang Shiwang argues that not all of the problems of the old system were caused by public ownership, and therefore property reform is only part of effective reform (Yang 1995: 10). But Shan Dong disagrees, saying that, "completing the reform of the system of socialist state ownership is the cornerstone for the construction of the socialist market economy" (Shan 1995: 40). In an echo of the economic determinism commenced in the earlier period, Shan argues that the property rights system must be developed in accord with "the objective demands of the socialist market economy" (Shan 1995: 40). Li Chengrui agrees, arguing that "The basic and key problem in establishing a modern enterprise system is smoothing out the property right relations of SOEs" (Li Chengrui 1995: 49-50).

Economists have set the theoretical tone for reform. Meanwhile, important changes linked to the debates on property reform were occurring in state industry, even as privatization and other forms of radical property change were avoided in the state economy.

CHAPTER III

LABOR AND REFORM IN CHINA

All economic change is a change in the economic community -- a change in the community's methods of turning material things to account (Veblen 1948: 234).

In a passive revolution, the legitimacy of property reform must be created. Chinese workers have resisted those aspects of property reform which threaten their interests as they emerged from the pre-reform production regime. The Party/state, meanwhile, has acquiesced to worker's demands to insure social tranquility, while simultaneously changing the production regime itself, thereby laying the ground for future changes.

The basis of workers' politics lies in the production regime. The state socialist system produced a consciousness which emphasized equality and security, and workers' resistance to reform was based on these values. Bureaucrats, especially local-level bureaucrats, feared worker response to changes, and thus were slow to implement changes, showing the power of both workers and the consciousness created by the old system to slow the transformation of property. Workers' power, however, was limited. When reform proved too difficult within the old system, the policy became one of evoking change from outside the old system through the introduction of new

forms of enterprises, including TVEs and FIEs, and from inside by changing relations within factories. In this chapter, I will document changes in the production regime in China, emphasizing how workers have been able to alter the course of reform and how reform has brought about changes in the position and subjectivity of workers. These developments are important because they highlight the role of a neglected actor in China's property reform, urban state workers. They also highlight the important power changes going on in state enterprises, and that property reform is occurring in sectors other than TVEs and FIEs.

State workers have engaged in activities intended to increase, and more recently, simply to maintain, their economic position. They have been able to do so because of the structure of Chinese industry, which has meant that managers must coax increased effort, and agreement to changes, through negotiation rather than restructuring of the labor force. In the end, however, the position of state workers attempting to maximize benefits within the changing situation in China has proven untenable. State workers lack the organizational power to unite their struggles with those in new production platforms. The story of worker resistance to property reform is a story of a Pyrrhic victory which disguises a real loss only now being revealed to these workers. This approach indicates that we should not approach the question of property reform only from the standpoint of *implementation* (convincing bureaucrats to carry out measures) or *economic rationality* (converting to private property because of its superior rationality). Instead, privatization

must also be understood in *socio-political*--or class--terms, in particular, emphasizing the role of workers in shaping economic reform.

What is a production regime?

The sociologist Michael Burawoy has offered an interesting way to examine the origins of workers' power. His work places production--the relations in production--at the center of working class political formation. The working class, he argues, "has made significant and self-conscious interventions in history" (1985: 5), and these interventions were decisively shaped by production. As he states his thesis (1985: 7-8):

The process of production decisively shapes the development of working-class struggles. This thesis can be sustained only if the process of production is seen to have two political moments. First, the organization of work has political and ideological *effects*--that is, as men and women transform raw materials into useful things, they also reproduce particular social relations as well an experience of those relations. Second, alongside the organization of work--that is the *labor process*--there are distinctive political and ideological *apparatuses of production* which regulate production relations. The notion of *production regime*, or, more specifically, factory regime embraces both these dimensions of production politics.

Production is therefore much more than an economic act--it is also a political and ideological act, and it has crucial importance for the development of a social formation as it shapes not only material products but a subjective understanding of the process.

Production regimes are made up of four components: the role of the state, the reproduction of labor power, the labor process, and market context. The state can play an external or an internal role in production. A state which plays an external role in production regulates only the interactions between

productive enterprises, not what goes on inside these enterprises. Few modern states play such a laissez faire role in production, and the Chinese state is no exception. The Chinese state plays an internal role in production, through its regulation of working hours, conditions, and employment eligibility. This would be true even if Chinese state enterprises were privatized. The fact that much of China's production is, however, directly organized and carried out by state units run by cadres employed by the state greatly increases the penetration of the Chinese state into the factory. This has a very important political consequence: the state is directly involved whenever workers and management have conflicts. Every economic protest is immediately and irreducibly a protest against the Party/state.

The reproduction of labor is the reproduction of the human workforce needed for production. The transition from feudalism demonstrated that access to the land--the ability to survive without selling one's labor power--is a crucial variable in determining the politics of industrial production. A labor force which has its roots in the countryside is less likely to be organized. For instance, Perry (1993) found in her study of the early Chinese labor movement that there were important differences within the Shanghai working class based on their ties to the land. Unskilled workers had an attachment to the city which was temporary and insecure. Skilled workers, who had committed to urban life, were much more likely to engage in union activities.

A second important aspect of the reproduction of labor power involves how labor gains access to food, housing, and education. In urban China during the Mao era, and in most state enterprises today, many goods are distributed

through the productive enterprise itself. Most importantly, access to housing is still largely a function of how successful the enterprise itself is at negotiating with local officials for permission to build housing (Logan and Bian 1993; Lin and Bian 1991). This mixture of reproduction with production, and the state with production, means that many issues of reproduction are immediately concerned with the state.

The labor process refers to how things are produced. The crucial feature here is whether or not the real subsumption of labor has taken place. The formal subsumption of labor represents the aggregation of workers into factories to produce, and is symbolized by craft production. Skilled workers work for an owner, but control the production process through their monopoly of skills. The real subsumption of labor takes place when owners take control of the actual production process through the implementation of new machinery, new divisions of labor, or both. Given the authoritarian nature of the Chinese state and its deep penetration into the realm of productive enterprises, it may seem strange to ask whether the state controlled the production process. In fact, as will be explained further below, the nature of the state socialist economic system in many countries engendered a system where workers had significant control over the process. Equally important is how the system is controlled. The Chinese system has been highly politicized, and it is important to examine the extent to which this has been overcome under the reforms, both in state enterprises and in foreign invested enterprises. Finally, market conditions can vary from the severely limited markets of

command economies, to the anarchic markets of small capitalism, to the limited markets of oligarchic systems.

Types of production regimes

Market despotism refers historically to early stages of capitalist industrialization and “Satanic Mills” of extreme exploitation.¹ At this point, production was still dispersed among many different factories, and thus market despotism is characterized by anarchic markets with cutthroat competition. It is also at this stage that the real subsumption of labor takes place as capitalists do more than simply provide a common space for handicraft production, but actually take control of the processes of production themselves. The anarchy of the market leads to despotic control of the production process as capitalists seek to control their costs in a predictable way (Burawoy 1985: 89). Workers under market despotism are completely expropriated of the means of their subsistence and their dependence on particular capitalists is “consolidated by a reservoir of surplus labor” (Burawoy 1985: 89). The role of the state under market despotism was extremely limited, seeking only to preserve the external conditions of production and the conditions for the autonomous working of the market--the night watchman state. While this was the first type of industrial capitalist organization of production, it was far from the only form. As Burawoy notes, “the four

¹ On early industrialization in Britain, see Lazonick (1990), North (1981: 143-157).

conditions of market despotism are rarely realized simultaneously” (Burawoy 1985: 90).

A look at cotton spinning in Republican China reinforces this point, but also indicates that historical research is likely to uncover greater divisions within the working class than would be apparent from Burawoy’s model. For instance, the silk industry in China in the 1920s was a form of market despotism: many different production regimes in anarchic market conditions with a state which did not intervene inside the factory. In the Shanghai silk mills, silk reelers worked in some of the worst conditions in all of China’s industry. “Rock-bottom wages, long hours, frequent punishments, and seasonal layoffs combined to make silk reeling one of the least desirable jobs a woman could find” (Perry 1993: 168-169). This led to a high turnover rate, but because of the unskilled nature of the work and the ready supply of labor, this did not harm production: “...there were always enough illiterate, untrained young women to replenish the ranks” (Perry 1993: 169). This shows the effects of the reproduction of labor: access to the land--the ability of young women to return home if conditions became unbearable--made it difficult for these women to organize. Those women not still tied to the villages were often working to supplement the low wages of their husbands. Despotic conditions reigned for the reelers, then, but the more skilled weavers had a different experience. Known as the labor aristocracy (*guizu gongren*), these workers did not join the massive unrest of Shanghai labor in the 1920s. Instead, it was not until their privileged position was threatened in the 1930s that they became active.

Advanced capitalist societies have spawned “hegemonic” regimes.¹

Under the hegemonic regime, force is rarely used; instead, “The interests of workers and capital were concretely coordinated through a common material interest in the expansion of profit. Workers were constituted as individuals-- industrial citizens with rights and obligations” (Burawoy and Lukacs 1992: 4). These correspond to the Fordist factories examined in chapter one, although the cooperate nature of new production examined by Elam (1993) shows that hegemony also plays a role in Post-Fordist production. In advanced capitalism, the state plays a direct role in factories by issuing laws which regulate how work can be done and how industrial disputes are to be resolved. In addition, the state plays a supporting role in assuring the reproduction of labor power, through the provision of education. Equally important, the introduction of the welfare system has made it easier for companies to adjust their work forces during economic slowdowns by providing a safety net for workers. These safety nets not only prime the Keynesian pump but also decrease the likelihood of labor unrest resulting from lay-offs. Crucially, however, the capitalist state remains separate from the factory apparatus--the capitalist company is not part of the state. As with market despotism, the uncertainty of the capitalist macro-economy, dependent on the market for validation of production values only after the product has in fact been produced, leads to a tightly planned production environment. The highest efficiency is necessary in order to assure

¹ The study of shop-floor relations under advanced capitalism has enjoyed a renaissance over the past few years. Amin (1994) collects some important contributions to this literature. See also Elam (1993), Thomas (1994).

the economic survival of the firm, although there are likely to be fewer competitors and therefore higher profit margins. Relations in production--the design and execution of production--is tightly planned and supervised by the capitalist to assure the most efficient production, which is required for success in the market. The state depends on the factory to extract resources from workers, which the state then takes away, in part, in the form of taxes (Lindblom 1977).

As under capitalism, state socialist production regimes can be hegemonic or despotic. There are four basic features of state socialist production regimes: First, the Party/state has a direct role in the production facility. Second, central appropriation of surplus leads to shortages of raw materials and appropriate technology, what has come to be called a shortage economy. This makes it difficult to carry out the type of tightly planned intra-factory management of the production we saw characterized capitalist hegemonic systems. Third, the transparency of appropriation of surplus makes it necessary to employ a large ideological apparatus to justify the system. Finally, the power of management varies in reverse proportion to the availability of commodities outside of state control: when the market offers alternatives, the management has less direct power over workers (Burawoy and Lukacs 1992: 32).

In despotic regimes under state socialism (bureaucratic despotism), workers evince a marked dependence of management, which controls access to both the means of production and the means of reproduction (Burawoy and Lukacs 1992: 33). Hegemonic regimes under state socialism, in contrast, are

characterized by management's efforts "through financial incentives, bonus systems and piece rates, the distribution of overtime, or participation in lucrative 'economic work partnerships'" (Burawoy and Lukacs 1992: 33), to gain the active support of workers for production goals. The despotic form of state socialist production regime covers more firms in the early period of economic construction, while hegemonic forms of production regime became increasingly common with a maturing economy and attempts at economic reform. As under hegemonic regimes in capitalist systems, hegemonic regimes under state socialism are characterized by a de-linking of benefits from the workplace as national social security are put in place.

Different factory regimes lead to symptomatic politics. State socialist economies are supply constrained, and this leads to two typical responses. First, uncertain supplies make rational planning by enterprise management difficult because the quality and flow of supplies is irregular. To cope with this, workers are given wide scope to control actual production processes (the relations in production). Under capitalism, the uncertain macro situation led to tight planning of the production process; under state socialism, macro planning results in micro level anarchy, as factory managers are forced to rely on workers to adjust to the irregular production schedule produced by the malfunctioning of the planning system. Second, because fulfilling production plans demands worker control, and because irregular supply patterns make periods of "rushing" inevitable, "core" workers emerged within the enterprise. Highly valued for their skills, knowledge, and relations with other workers,

management seeks to cultivate good relations with these workers to insure that plans can be fulfilled.

Finally, under the state socialist mode of production, appropriation of surplus value is transparent: it is obvious that the state is appropriating the value and redistributing it. Under capitalism, however, the production and realization of surplus value takes place at two different times. Surplus value is created in the production process, but it is only realized in the market. The appropriation of surplus value appears to the worker, and the capitalist, to be a result of profit made in the marketplace rather than exploitation at the point of production. Since appropriation under state socialism is obvious, it requires *legitimation*--it needs to be explained. This means that formal ideology plays a more obvious role in state socialist production regimes, as the workers need to be convinced that the surplus value they are producing is actually going to benefit them. As with painting socialism, workers were constantly made aware that they were not living in the workers' paradise the factory directors were directing them to paint. Thus "...the production regimes of state socialism engender *dissent*. Like the consent under capitalism, dissent toward state socialism is not simply a mental orientation; it is embedded in distinctive and compulsory rituals of everyday life" (Burawoy 1989: 3). This dissent, moreover, takes on some important aspects of socialist ideology, especially its emphasis on equality. "Resentment is not leveled at inequality per se, since everyone wants to be rich, but against undeserved wealth accumulated through the exploitation of contacts of scarce skills" (Burawoy 1989: 15). The corruption of achievement criteria under state socialism leads workers to value

equality as a way of opposing undeserved accumulation of wealth. This forms the basis of a socialist class consciousness: "The class consciousness that emerges is of a negative character, opposed to hierarchy, bureaucracy, injustice, inequality, and inefficiency. It recognizes the systematic and class origins of pathologies. By itself this critique of state socialism does not carry with it a positive program. Rather, the potentiality of this negativity to become a positive program is determined by the lived experience that goes along with it, the distinctive routines of production and its regulation" (Burawoy 1989: 16).

Chinese factory regimes

When the CCP won the civil war, there was no immediate transformation of factory regimes. Much of China's industry had already been nationalized under Guomindang rule, especially in the Northeast, where industry had been under Japanese control. Since the CCP took power first in the Northeast, the pattern they established there was important in determining factory regimes in the early Liberation period. The CCP operated under a general imperative to "maintain production," and this led to a "soft line" on capitalists. Mao stated that China was willing to "do business" with all but the most reactionary elements, both internationally and domestically. Liberation, Mao said, did not, and was not intended to, mean the complete elimination of capitalism and capitalist property on Chinese soil; Liberation instead meant that China entered into a period of "new democracy," a period of class alliances in which the peasants and petty bourgeoisie united under the

leadership of the proletariat. The only groups unambiguously excluded from the new alliance were the landlords and the representatives of bureaucratic and foreign capital (Mao 1949a: 177). Mao also stated that certain elements of the capitalist sector “will be an indispensable part of the whole national economy” (Mao 1947: 174; see also Schurmann 1968: 221). The lack of industrial experience and administrative talent in the CCP (outside the army, which was still fighting at this time) meant that industrialists, skilled workers and technicians from the old system were indeed crucial to the success of newly acquired industry. “The essence of economic strategy under the ‘new democratic state’,” Riskin writes, “was to permit private capitalism some leeway and motivation to encourage its productive potential, but to harness it to the goals and priorities of the new state” (Riskin 1987: 39), and this was a pragmatic policy in a period of limited CCP administrative capabilities.

Despite this soft line on capitalism, the CCP’s ultimate aim was to create a socialist economy on the Soviet model, meaning nationalized industry. Nationalization in China began with large-scale industries, which were already highly concentrated in ownership--many having been run directly by the Guomindang (Riskin 1987: 43). The “Common Program,” which served as China’s constitution from September 1949 to 1954, divided the economy into four sectors by level of public ownership, with state ownership being the highest form, followed by cooperatives, joint state-private enterprises and private enterprises (in Selden 1979: 190). While state property was to be “the main material basis of the People’s Republic for developing production and bringing about a prosperous economy...”, the CCP was willing to tolerate a

plurality of property forms, at least in the short run. The 1954 State Constitution echoed the Common Program in its acceptance of different legal forms of property.

These formal and constitutional steps were not, however, the whole story. For the CCP, under the influence of Stalin, socialism meant nationalized industry; there was, however, intense debate about the pace, style and extent of nationalization. In addition to the importance of Soviet advice, the CCP valued nationalization for practical reasons similar to those which had operated in the period after the October Revolution. In the short term, the CCP felt that nationalization would aid in controlling productive industries in the urban areas, giving the Party power to combat inflation, provide equipment for the war in Korea, give material reassurances to the masses and establish political control. Unless the Party acted immediately to restore production and improve living conditions, workers might quickly become dissatisfied with the new state (Mao 1949b: 181). The need to consolidate state power took precedence over creating revolutionary or radical regimes within factories or experimenting with worker control: the ownership issue was temporarily but summarily settled by giving the Party/state control rights in the factory, in addition to the formal ownership of industry by the state. Soviet and even capitalist methods¹ were proven and therefore safer than experiments in worker control at a time of great national need. In the long term, the Chinese saw that Communist society would require great material wealth, and they

¹ The notorious gang-boss system persisted well into the CCP period. See Brugger (1976: 90-95).

believed that Soviet-type economies, with the means of production in state hands, would grow faster than capitalist economies.¹

The real battle about the property question was not whether or not capitalism would be allowed to flourish in China; the CCP left no doubt that the role of capitalism would be limited. The real battle was the factory-by-factory war over the strategy of implementing social ownership. Would China follow the Soviet Union's hierarchical path, or would it continue pre-Liberation traditions of worker-controlled factory regimes? Stephen Andors notes that "while the question of state power had been resolved on the national level, inside the factories, which were to be the center of China's modernization, the struggle for power was just beginning" (Andors 1977: 47). With little experience in the urban areas, the CCP turned to the PLA, the small number of Party loyalists in the cities, and skilled, literate workers for leadership in the factories (Andors 1977: 48). These groups tended to take an "ultra-left" line of worker control. But the Chinese also turned to the Soviet Union and to national patriotic capitalists for aid in recovering production after Liberation, both of whom favored strong managerial prerogatives.

This is reflected in the first national labor system under Communist rule, the East China or Shanghai system. In this system, "collective leadership in the factory was exercised by a [committee] while the factory

¹ Again, the lack of administrative expertise played a role here. Soviet advice was important not only because the Chinese lacked experience in managing an industrial economy and industrial firms, but because those who were trained as administrators were trained with Soviet methods (Brugger 1976: 76).

manager was responsible for carrying out and organizing the production operations” (Andors 1977: 51-52). Workers participated in management through factory committees, and these committees supervised most aspects of factory operations. In the context of Soviet management methods, the Shanghai system represented a real effort to assert worker control, in spite of the material constraints which China faced. The alternative to the Shanghai system was the Soviet model, based on “One-Man Management,” in which the factory manager had essentially complete power. The Soviet system was appealing because Soviet methods were, at the time, considered to be the most advanced example of socialism. The Soviet management system was also a step toward Soviet-type planning, another landmark in the building of socialist society (Andors 1977: 53-54). Although strict one-man management had a relatively short reign in China, falling out of favor in 1955, the Soviet model remained in many ways the basic model for factory and industrial management, replacing the more revolutionary model of the Shanghai system. The commanding role of the Soviet model was, however, contested, first during the Great Leap Forward and then during the Cultural Revolution.

The Great Leap Forward

The Great Leap (1957-1959), and the decentralization associated with it, changed the structure of the economy in crucial ways. According to Riskin, the Great Leap, “rejected the model of central administrative planning in two fundamental ways. First, it substituted spontaneously initiated, mass economic activity for the blueprints worked out by professional planners.

Second, it gave great economic and political authority to local and regional units--the communes and provinces, respectively" (Riskin 1987: 82). Granick (1990) has shown that this decentralization eventually led to some quasi-market exchanges between enterprises and governmental units. It also gave local governments a vested interest in local industry. But these property rights remained in the hands of bureaucrats and administrators, and not in the hands of workers.

The growing separation between middle-level administrative personnel involved in planning, finance, payroll and inspection and non-administrative workers worried China's leadership, especially Mao. During the Great Leap, administrators were "sent down" to become the technical leaders of production workshops and participate in manual labor (Andors 1977: 71). The Party encouraged the establishment of a revolutionary factory regime known as the "two participations, one reform and triple combination," or 2-1-3 system. Riskin summarizes the 2-1-3 system as follows: "Two participations' refers to the participation of workers in management and of cadres in labor; 'one reform' refers to the reform of irrational rules and regulations; 'triple combination' refers to technical work teams, consisting of workers, technicians, and administrative cadres..." (Riskin 1987: 120). This system greatly undermined the planning system, limiting bureaucratic information gathering and control over output (Riskin 1987: 120). Although the 2-1-3 system was prominent in the Great Leap era, Andors points out that the more conservative system of "factory manager responsibility under the leadership of the Party Committee" remained on the books (Andors 1977: 95). Thus, when the Great Leap turned

into a disaster (for reasons not related to worker control), the old system was ready to be reinserted into the factories. The idea of replacing administrative planning with mass control had a short life, losing its place during the Liu Shaoqi-Deng Xiaoping-led recovery period in the early 1960s.

The Cultural Revolution

The Cultural Revolution (1966-1969) brought about changes in factory management, and also brought factionalism and the differentiation of the Chinese industrial workforce to the forefront. The stated goal of the Cultural Revolution in industry was to replace the authority of careerist bureaucrats and technocratic experts with people who possessed revolutionary enthusiasm, those who were both red (politically involved) and expert (technically competent). There were some potentially important changes in the organization of factories in the Cultural Revolution. One innovation was the establishment of workers' management teams. Designed to increase worker participation in management, at their best these teams helped provide a check on management practices, a forum for worker grievances and an arena for workers to exchange ideas on how to improve production (Bettelheim 1974: 21-32). Although there were places where the revolutionary system actually resulted in a degree of worker control, or at least participation, the politics of factionalism, favoritism and careerism, combined with the lack of permanent institutions under mass control, led to the degradation of factory life, especially in the 1970s.

If the Cultural Revolution did not transform workers into masters, it did bring out the latent cleavages of the Chinese system. Workers who participated in radical CR groups came from groups which had been discriminated against in the previous period: "Discontented workers consisted of four primary groups: contract and temporary workers; workers in the part-study and part-work program; apprentice and unskilled workers in the large factories, and individual workers; and workers from small factories" (Lee 1978: 130). These cleavages increased as the CR hit the factories. For instance, when the CR slowed production, factory managers "laid off the contract workers and sent them back to rural areas, thus intensifying their discontents" (Lee 1978: 131). Skilled and unskilled workers also squared off in a manner similar to what we saw in the Shanghai textile mills of the Nationalist period: the most radical workers were unskilled and apprentice laborers, while skilled workers tended to line up behind conservative groups (Lee 1978: 133). Thus, as with the pre-Liberation mills, skilled workers had greater ties to the prevailing system. As we shall see in the post-Mao period, it is these skilled workers, whose privileged position was now threatened, who will become the backbone of resistance to property reform in the urban areas.

The influence of radical workers was very weak compared with that of more conservative workers. Conservative workers dominated larger state factories; it was in smaller factories, with less political control and fewer state workers, that radicals held the most power (Lee 1978: 134). Moreover, what interested workers in the CR was not ideology or power, but money (Lee 1978: 129). As the CR entered factories and weakened the Party structure, the

workers saw a chance to reverse their relatively declining fortunes.

Throughout the PRC period, production had been stressed at the relative expense of worker welfare, and worker demands for higher pay were denounced as “economism.” As the Party weakened, however, local Party cadres engaged in their own form of economism to try to save their jobs and reestablish order:

When the Party leader in industry came under attack, and their methods of mobilizing the conservative workers were openly denounced. They made unconditional concessions to the grievances of the workers by abandoning whatever responsibility they had. Subscribing to the idea that ‘economic problems can be set free, and the wage scale can be attacked,’ the Party leadership suddenly changed course from excessive concern with production to an excessive concern with the economic well-being of the workers” (Lee 1978: 138).

Economism severely disrupted the economy, and the consciously politicized atmosphere of the time added even more disruption. At one point, seventy thousand workers left their posts at the Daqing oil field to “exchange their revolutionary experiences” (Lee 1978: 139).

In the aftermath of the CR, the pre-CR mix of moral and material incentives was replaced by exhortations to follow Mao on a path of selfless devotion to the revolution. Mao had urged students, whose concern with ideological purity made them less susceptible to economism, to join with workers and thus reduce the workers’ propensity to economism (Lee 1978: 139). In an attempt to “learn from Dazhai and Daqing,” two famous sites of revolutionary productive activity, workers were forced to sit through long study and struggle sessions where their ideological credentials were scrutinized; work performance became less important than the ability to appear ideologically pure. The removal of material incentives undermined living standards and

demoralized workers, who became cynical about “revolutionary enthusiasm” in the workplace. Indeed, the disappearance of production incentives made workers more concerned with material well-being and forced them to use political channels to gain material goods.

Thanks to the work of Andrew Walder, we have an excellent portrait of Chinese factory life in the post-CR world of factionalism, cynicism, and economism. Based on extensive emigrant interviews in Hong Kong, Walder’s book provides important insights and information regarding China’s prereform factory system. Walder terms China’s enterprise system neo-traditional, a combination of modern bureaucratic norms with personalist client-patron relations. Neotraditionalism has several features. First, political loyalty is rewarded with career opportunities. Second, clientalist networks are created in which loyalty is exchanged for career opportunities. Third, interpersonal networks are used to obtain approvals outside of official procedures.

Walder’s work, then, provides not only an important portrait of Chinese factory life, but also an important interpretation of that life. Neo-traditionalism, argues Walder, is the institutional manifestation of the strange combination of Leninist organization and personalist incentive structures in Chinese industry. Despite the strengths of both the empirical content of Walder’s book and of his interpretation, there are two problems with his work. First, Walder’s schema does not appear to allow much room for change. The system appears as *sui generis*, evolving from China’s specific historical situation without much specification of what features of China’s system lead to the creation of China’s version of neo-traditionalism. For instance, Walder’s

system does not allow for any variation in the role of the state and suppresses the role of ideology, and both of these factors are important in explaining changes during the reform period.¹ Second, as Perry (1993) has argued, Walder focuses on how the state has shaped the working class and does not examine how the working class has shaped the state. Since my argument is just the opposite--that the working class has shaped reform policies as much or more than the state has shaped the working class during the reforms--I of course find his analysis too top-heavy, without enough room for the considerable initiative of the working class under state socialism. Given these weaknesses, I will use Burawoy's concept of production regime to reinterpret Walder's work. I find Burawoy's framework more useful for comparisons between the reform and post-reform systems. Burawoy's framework allows us to make an interpretation of Chinese factory largely in line with that of Walder, but allows us to better understand how and why factory regimes are changing in China, and what that may mean politically.

Relations in production

There seems to be a great difference between core workers in Chinese firms and core workers in other state socialist economies. In other state socialist economies core workers were those with the greatest skills and held their position as a result of their ability to direct production in spite of chronic shortages and their ability to assure plan attainment in "rush" periods. The

¹ It should be noted that he has not explicitly used the neo-traditional framework in his later writings on industry in the reform period.

more political nature of determining core workers in China stems from two sources. With less mobility and a greater degree of dependence, Chinese workers had to work harder to insure good personal ties in order to get access to consumer goods, housing, and promotions. This was especially true in the period Walder studied, the late-Mao period where the legitimacy of tying material incentives to productivity was severely questioned, leading to a more political distribution of goods. A second feature which Walder does not mention plays an important role: the difference between Chinese planning and economic planning in other state socialist systems. China's planning was never as comprehensive as that of the USSR. Most importantly, China's plans were "loose" and easily attained (Granick 1990). Since plan goals were easily attained, there was less need for rushing, thus providing room for lower-level management to build political networks at the expense of economic efficiency.

Walder argues that we should be cautious in using "moral economy" approaches to worker resistance under state socialism. As Walder makes clear, the moral incentives and egalitarian rhetoric of the Mao period were not all they seemed from official pronouncements: "What looks like a moral incentive to a distant observer, however, is in fact a system of reward that uses career incentives and the factory's considerable resources to reward "moral" behavior and political loyalty, as defined by party and management, and to penalize their opposite" (Walder 1986: 132). This led to competitive selflessness: "A calculative orientation is demanded by the environment, precisely because the definition of "good political thought" shifts with the

political winds” (Walder 1986: 146). In this atmosphere, attempts to weed out factionalism and personalism in the enterprise in the late Mao period had the perverse effect of increasing factionalism and personalism as workers and bureaucrats sought political protection from the various campaigns through the establishment of patron-client ties (Walder 1982: 229-231). Moreover, the spartan lifestyles promoted in the 1970s made workers more concerned with material goods (Meisner 1986: 385). But there is a limit to Walder’s insight: Walder correctly wants us to question the “reality” of the slogans passed down to and repeated by workers. On the other hand, we should not underestimate how the experiences of workers shape their consciousness toward a “real” moral economy. In a situation where inequality results from political manipulation rather than individual economic skills, workers will be convinced by what they see (not what they say) that equality is a legitimate goal. Conversations with workers in China today indicate that the feeling that many of the newly wealthy got their wealth more through guanxi than hard work has not gone away with the reforms.

Reproduction of labor power

The most outstanding feature of Chinese factory regimes is the link between worker and enterprise. State socialist workers are more dependent on their firm than capitalist workers, and Chinese workers are more dependent on their enterprises than workers in any other state socialist country. Chinese factories differ radically from Western conceptions of the economic firm

(Walder 1986: 11).¹ The Chinese enterprise not only engages in the production of goods, but is intimately involved with the reproduction of labor power. The enterprise is a focal point of the delivery of public goods. Enterprises in China have their own network of schools, hospitals, and most importantly housing (Logan and Bian 1993). In the Mao era, enterprises were often the only outlet through which to get consumer items, such as bicycles, radios and watches. The worker's dependence on the enterprise went well beyond that of workers in other state socialist countries, especially during the 1970s as eastern European countries moved towards government and market distributions of similar services.

In a very real way, where one worked determined how well one lived in China (Lin and Bian 1991). In China, "employment in the state enterprise is not primarily a market relationship. It is a position that establishes the worker's social identity and rights to specific distributions and welfare entitlements. Moreover, the enterprise exercises authority over not only over one specialized role, but over the whole person: the state factory is a branch of government and, through the factory's party branch, exerts a measure of the state's political rule over the worker as citizen" (Walder 1986: 16). Workers usually received their positions as a result of assignment by a state-run labor bureau. Except for the *dingti* system, whereby children of workers were allowed to replace their parents, there was no guarantee of assignment to a

¹ *Western* firms probably vary quite a deal from the popular academic conception of the firm. See Lazonick (1991: 191-227) and Amin (1994).

state enterprise.¹ Labor turnover was further curtailed by the extreme rarity of firing. Finding work in another state enterprise was difficult because it involved getting approval from your own unit. If you were a good worker, the enterprise would not want to let you go, and if you were a trouble maker, other enterprises would not want to have you. Most dismissals resulted from political problems (Walder 1986: 142).

Worker's dependence went beyond mere dependence on the enterprise as an economic-social-bureaucratic unit: workers were not only structurally dependent on enterprises, but personally dependent on supervisors (Walder 1986: 20). Supervisors had great latitude in distributing goods. The personal nature of dependence in the Chinese firm brings about another central feature of Chinese factory life, the importance of stable vertical ties cultivated by the Party and management among a devoted minority of workers. These loyalties mix official the personal ties to create a social cleavage widely reflected in the perceptions, interests, and political actives of the workers. These clientalistic relationships, moreover, are marked publicly, which helps to draw worker wrath toward other workers rather than management. Workers attempt to influence their position through cultivation of personal ties (Walder 1986: 12). "The central feature of this institutional culture is a network of patron-client relations that link the party organization and shop management to a minority of loyal workers on the shop floor" (Walder 1986: 24). While Walder argues that, "Party-clientalism is not comprised of personal ties that exist separately

¹ For an extended, if difficult to read, examination of the dingti system, see Korzec (1992: 18-24).

from the formal organization of relationships and roles: it emerges from standard party recruitment and leadership practices--indeed it is created by them" (Walder 1986: 25), it is important to remember clientalism was also a result of the loose economic planning structure of China's industrial system.

The role of the state

The state and the Party have played a critical role in Chinese enterprises. The state determined what should be produced, with what machines and materials it should be produced, and to whom the product should be distributed. Financing as well was handled by the state. In addition, the Party exercised control of the factory through the system of Party secretaries in the factories, thus further strengthening the role of politics in the administration of the factory. As in other aspects of Chinese life, the ill-defined nature of authority in Chinese factories gave supervisors great lee-way to implement their preferred policies. This problem also remains, although a more serious problem now is corruption, which is defined in different ways but which ultimately stems from the misty nature of the official roles of cadres in the production system.

Other important features of the Chinese factory regime included the Party's ability to eliminate informal political associations. This power is still great but not complete, as the frequent crackdown on non-official trade unions makes clear. Finally, the differentiation of the Chinese workforce in the Mao era, which has become even more pronounced, though with different effects, in the Deng era, should be emphasized. The workers Walder describes were the

privileged core workers of China's state socialist industrialization--workers in large state enterprises. Workers in smaller state enterprises and collectives, as well as temporary workers, did not gain the complete benefits which made up the famous iron rice bowl of lifetime security and enterprise supplied benefits. In addition, the hukou system of rural and urban registration kept these populations largely separate, creating a second core-periphery relationship between urban workers and rural farmers and workers.

The structure of China's working class into core and peripheral workers helped to deflect criticism from the Party. Deep cleavages between activists and others, especially, divided the work-force (Walder 1986:167). In addition, the stagnant living standards of the late Mao period placed younger workers against older workers. Moreover, Chinese industry is less centralized than in other state socialist systems. This contributed to the looseness of the economic structure, and also to divisions between sections of the workforce. Workers in enterprises controlled by the center and by large cities tended to have higher benefits than those in enterprises run by smaller cities and in rural industries.

The market

China's pre-reform economy was a planned economy where markets played a limited role. Especially in industrial production, both inputs and outputs were tightly controlled by government authorities. Of course, the system was not complete, and several features of China's development made its system unique. The emphasis on regional independence is one, and the

focus on rural industrialization is another. Most important, the relatively loose plans allowed for some above-quota exchange. These exchanges did not increase efficiency but further tied workers to firms because goods gained through trading allowed the workers to have a better standard of living.

Wage reform

In previous chapter we saw how the Hua Guofeng interregnum and the early Deng period were period of intense political debate on the question of property. Wage reform had an important impact on the outcome of those debates. The early attempts to increase efficiency in enterprises by increasing individual rewards was unsuccessful because of the egalitarian norms created by China's state socialism production regime. This failure helped bring home the need to change the subjectivity of Chinese workers. Smashing the iron rice bowl is, after all, only another way of saying that workers as individuals, rather than as a class, should gain the rewards of living in China's socialist society.

Wage reform presents an opportunity to examine how the structure of production in China effected working class politics. The Chinese workforce after the CR was highly sensitive to inequality because inequality had been a result of personal connections rather than personal ability or group productivity. While workers might have been open to suggestions by the Party/state to link wages with personal ability, in the immediate post-Mao period they also knew the system was not capable of distributing bonuses on the basis of merit, and they thus forced the Party/state time after time to adopt egalitarian methods of wage distribution.

After the CCP took power in 1949, it moved slowly toward reforming the wage system. Worker's wages maintained essentially the same proportions as in pre-Liberation China between 1949 and 1956 (Chossudovsky 1986: 103). The Chinese were determined to create a system of Soviet-type planning, which required Soviet-type wages and compensation. In the late Stalin period, piece rates were seen in the USSR as the best method to realize the socialist principle of "to each according to their work." Accordingly, the Chinese set out to establish piece rates in the Movements to Set New Records, begun in late 1949 in the Liberated areas. The way norms in Chinese factories were established was "to hold production competitions according the Stakhanovite system of the USSR" (Brugger 1976: 125). By 1956, a Soviet-style segmented wage system, based on piece rates, was adopted, with eight levels of wages for blue-collar workers and an even more differentiated scale for technical workers and administrators. Although formally based on the results of the Movement to Create New Records, in many areas the Soviet-type system simply froze pre-Liberation wage differences in place. Piece rates came under attack during the Great Leap, but were restored in many areas during the Liu-Deng interregnum in the early 1960s. During the Cultural Revolution, wages in the upper and middle ranks of workers were frozen, and some workers in the upper levels, along with many administrators, received wage cuts and demotions. Piece rates were largely eliminated (this is a big difference between Chinese and Soviet industrial systems), as were bonuses tied to individual output. In the late Mao period, the 1956 wage system was slowly reintroduced, but the big push for wage reform did not come until 1977.

The first post-Mao wage increase took place in the form of bonus payments in 1977-1978. The bonuses were to be distributed on the basis of merit, that is, work performance. The distribution of bonuses brought about struggle within the ranks of workers. Older workers, who still made the highest wages, argued they deserved higher pay on the basis of greater family responsibilities and seniority. Older workers were largely able to get their way, relying in part on political connections to assure their share of the bonus money.

In 1978-1979, another wage hike, again to be based on merit as judged by work performance, was carried out. As in the previous attempt, little heed was actually paid to worker merit. Groups of workers discussed who should receive bonuses, and the vigorous disagreement and lengthy discussions dragged out the wage and bonus allocation process for months. Like the distribution of work points during the Dazhai period, the procedure was divisive, time-consuming and demoralizing (Walder 1987: 28). In 1979, veteran workers virtually halted production in protest when the distribution of wage supplements was halted (Walder 1987: 28). Given the group-evaluation process, it is not surprising that once again merit was not the decisive factor in determining wage bonuses. As Shirk explains, "Although the object of the 1978-79 wage increase was to reward productivity, seniority and political affiliation influenced the outcomes as they had in the previous [1977-78] increase" (Shirk 1981: 582). In the 1977-78 wage adjustment, 60% of workers got raises, while in 1980, 40% received increases (Shirk 1981: 581, 582).

While politics were still a factor, the large percentage of workers covered by bonuses, and the group nature of their distribution, shows that workers were working against the arbitrary distribution of rewards through personal networks. A second feature to note is that the early problems with bonuses indicated a significant difference between industrial and agricultural reform: the viability of individual sanctions. While family responsibility systems could effectively isolate individual production units, in large factories individual production was highly effected by many other factors: the state plan, the effectiveness of other workshops and other workers in one's own shop, the availability of raw materials, etc.

The difficulties involved are captured by Walder: "In 1980, one chemical plant that initiated an equal incentive saw production soar, but also coal consumption, costs and a lowered profit margin, therefore profits declined. They then gave the same incentive to lower coal use, which resulted in production below original levels, and the plant began to lose money. Management then suspended all bonuses, alienating workers" (Walder 1987: 31). In Shanghai, workers determined to get higher bonuses staged a strike at a dumpling factory. Some workers demanded work that was easier and more profitable. The head of the striking group was removed from his post, while other workers lost pay and two workers were handed additional fines (Shanghai City Service 1980).

Methods of production, and not simply rewards for output needed to be changed to create the systems of individually sanctionable workers envisioned in economic theory. These difficulties are shown by two State Council circular

banning year-end bonuses at the end of 1979 and Spring Festival 1980 (Xinhua 1980, Beijing Domestic Service 1979), despite the push at this time to link wages and effort (Shao Min 1979). There was simply too much corruption in the process of distributing bonuses. In Hefei, the chemical works distributed radios to 1620 workers “under the pretext of assisting staff and workers in study in order to enrich their cultural life...” (Hefei Anhui Provincial Service 1980).

Workers devised different ways of getting around the proscription that bonuses be paid to efficient workers. For instance, when authorities put pressure on groups to give the bonuses to only some workers, workers often rotated who got bonuses (Shirk 1981: 585). The reimposition of piece work also proved divisive. “The press may press Stakhanovite-type ‘advanced producers’ who overfulfill their quotas by large margins, but in interviews workers express anger at them for forcing frequent readjustments of the quota” (Shirk 1981: 590).

Wage reform was important for several reasons. It indicated that responsibility systems would be more difficult to implement in industry than they had been in agriculture. The struggle over wage distribution also highlighted the impact of China’s production regime, particularly its reinforcement of standards of egalitarianism. It wasn’t that all workers thought they should earn the same amount, it was simply that rationalization did not accord with the norms created by the previous production structure, which had assured workers better earnings for seniority. Wage reform was read by the workers as undermining the seniority system and thus eliminating

the one objective determinant of wages.¹ Wage reform was read by the central officials of Party/state as a means by which enterprises were expanding payrolls without increasing profits, and thus they sought a method to restrain spending by enterprises. The method they chose again had roots in the agricultural reforms: contracting.

Worker power in a worker's state

How is that workers were able to gain the leverage to change the shape of reform policy? Kelliher (1992) found two main reasons peasants were able to grab power from the state and take the lead in property reform: first, agriculture was crucial to state goals. Without better harvests, the entire modernization program would start from an unbalanced position, and the regime's urban goals would fall victim to a backward rural sector. Second, indecisiveness on the part of the state opened up gray areas which peasants were able to take advantage of to press their own preferences. These forces were at work in the urban areas, too: agricultural reform was important largely because agriculture was thought to hold back the real goal of the four modernization, improving the industrial base. In addition, there has yet to be a firm consensus on strategy in the urban areas. While these general trends in state policy are important, it is more helpful to break down, and add to,

¹ This made it obvious that ideological work was required to change subjectivities within enterprises, as was argued by a Commentator article in *Worker's Daily* in 1980 (Commentator 1980).

Kelliher's list to discover six main reasons for workers power in the reform period.

First, while worker power was never on the agenda of reform elites in Beijing--worker democracy was mentioned, but never taken seriously--the *formal* ideology of state socialism has a logic of its own. Just as this formal ideology makes it difficult to publicly renounce the costly benefits of state workers, it also means that issues such as worker democracy remain on the agenda: they are spoken of, and these rituals allow some space for worker activity.¹ There are also non-elites who remain committed to workerist conceptions of socialism, if only because it appears to increase profits.² This is where what Scott (1985: 339) called the plasticity of ideology plays an important role: workers have been able to use the ideal state portrayed in official ideology to create a space to make demands the actual state would rather see eliminated. Second, the Party/state did suppress workers as much as they dared, and continues to search for activists who instigate local actions and especially those that try to form organizations. But worker activities resulted from the structural positions of workers. Since all state workers were placed in a similar position vis-a-vis the state and the reform process, and since they shared similar histories, they reacted in similar ways and thus

¹ For an example of a workerist position on ownership, see Zhang Chaozun (1984) and He Jianzhang (1984: k10), and more generally the work of Jiang Yiwei (e.g. 1990: 28-33). For an argument directly attacking workerist conceptions of ownership reform, see Jiang Xuemo (1984).

² For instance, see the story of a Shanghai factory which has been purchased by its workers in (Browne 1994).

worker activism was very widespread. Similar stories can be told for workers in large collectives. Repression on a mass level would have been costly, and perhaps impossible to maintain. The state has not shied away from repression, but it has limited its extent, because it was simply not possible to put out all the fires.

Third, and connected to the cost of repression, is the importance of industry as a source of state *revenue*--production had to be maintained to supply central coffers (Shirk 1989). The first phase of enterprise reform centered around making enterprises more responsible for their economic efficiency, and the method of achieving this was increasing the portion of profits retained by enterprises. Profit retention quickly spun out of control, however, as enterprises and localities engaged in heavy spending, draining central coffers and threatening massive inflation. Increasing enterprise autonomy, the mantra of reform in state socialist reform across the globe, had run into problems in China, as it had in eastern European countries where it had been tried intermittently throughout the post-World War Two period. The loss of revenue scared China's central planners, who have sought since that time to find policies which invigorate enterprises while simultaneously maintaining or expanding tax collection and government control over the financial system (White 1993: 131). In 1994, the state has tried to implement a new tax system, based on business taxes and a value-added tax, to sure up revenue collection and divorce itself from its dependence on state industry (O'Neill 1994). This tax, however, cannot mask the dependence of the state on revenues from industry, which was still about two-thirds of revenue in 1993.

Fourth, the nature of China's labor market has had an important impact of workers' power. The secular growth of the labor force increased fears of mass unemployment, making rationalization less desirable, especially in the face of the problems of returning sent-down youth (in the initial reform period), the increasing velocity of labor mobility from the countryside, and accelerating additions to the urban labor force from the post-Cultural Revolution baby boom.

Fifth, the experience of the Cultural Revolution, the revolution and the civil war, have made Chinese leaders fearful of unrest in a palpable way. This can be seen in the attempt to draw a "line" on inflation, which, if passed, would lead to social chaos.¹ The emphasis on stability is real, even if the methods are repugnant, and even if the definition of stability put forward by the government does not translate into a lack of violence by the state against the people of China. Finally, the structure of China's state enterprises, their status as social as well as economic units, gives workers power. Without the power to dismiss workers, managers are forced to elicit cooperation from workers in other ways. This power, of course, is contingent upon workers limiting management's control over the labor market, which has been a continuing focus of the reform period.

¹ Both this and the previous point can be seen in light of what Bialer (1980: 161) calls "anticipatory response," bureaucrats acting *as if* worker protest was certain and thus trying to eliminate the reasons for unrest before they emerge. See also Cook (1993: 40).

Changes in the production regime under reform

The initial plan of reform in industry was to increase efficiency by restoring “balance” to the industrial field and making enterprises more responsible by increasing the portion of profits retained by enterprises (White 1993: 130). Problems with enterprise responsibility systems on a macro- or inter-enterprise level (overinvestment, increased payments to workers rather than increasing productivity) moved the Chinese regime to try out a system of “simple” taxation, known as tax-for-profit (*ligaishui*). The failure of tax-for-profit in China was closely tied to the production system; once China had committed to contracts and responsibility systems, the entire system depended on these systems, and they could not be removed piecemeal:

The internal reforms urged on large enterprises laid the groundwork for the later return to enterprise contracting. The managerial responsibility system was based on a nested set of contract relationships in which subunits such as workshops and individual managerial personnel contracted to remit a certain amount of profit in return for a certain level of wages and other rewards. The factory manager signed a contract with the department that appointed him specifying his tenure, responsibilities, powers, rewards, and punishments. The contractual form of the relationship between different levels of the administrative hierarchy within firms, which of course was inspired by the successful agricultural responsibility system, was established in 1985. It was only a small step from the managerial responsibility system to the enterprise profit-contracting system when, in 1987, the fall of Hu Yaobang changed the political context (Shirk 1993: 296).

The adoption of contracting reflects the influence of the (early) success of the agricultural reforms, but it is also a result of the structure of production within Chinese enterprises. The Party/state needed to maintain employment levels, and therefore sought to increase efficiency without disrupting employment patterns. This led to the implementation of responsibility systems on intra-

and inter-enterprise bases. "Macro" economic rationality was not possible without "micro" reform, and thus after the failure of *ligaishui* in 1987, ideological workers in China redoubled their efforts to support internal enterprise reforms.

Many supporters of contracting systems do not see it as the final form of the new industrial structure. Instead, because China's reforms are incomplete, the contract system is seen as useful.¹ The logic behind this goes as follows. Without true markets and prices, enterprises cannot be expected to be fully rational economic entities, and thus some administrative guidance and control remain necessary until macro-economic regulatory mechanisms are perfected and the state can perform its regulating function through monetary and fiscal measures. The implementation of the contract system, at least in formal terms, has been extensive. By the end of 1987, 82% of large and medium state owned enterprises had implemented some form of contract system (Byrd 1991: 32, n. 1).

Difficulties emerged quickly after the contract system was implemented on a wide scale. For instance, the dysfunctional market which confronts China's enterprises makes it difficult for the state to enforce the terms of contracts because enterprises can, often legitimately, claim that losses are not within their control. The very fact that contracts are negotiated undermines their ability to provide the kind of "hard" restraints which a real market

¹ Some economists were pushing contracting as Trojan Horse for more radical plans. As one economist told Shirk, "We pushed contracting because we couldn't find any better method to resolve the ownership problem...and it was a step on the way to a joint-stock system" (in Shirk 1993: 313, n. 35).

provides, and which it was hoped contracts would mimic. Contracts actually widened the scope for bargaining between enterprises and supervisory agencies. Before, plan targets were negotiated between enterprises and the government; under the contract system, almost every aspect of enterprise life can now be negotiated with the state. The dysfunctional market combines with the negotiated nature of contracts to complicate the establishment of baseline values for enterprises (expected profits, growth, tax revenues, etc.) due to both the distorted macro-economic structure and the unique history of Chinese enterprises. Also, contracts may not provide significant sanctions against money-losing enterprises. Enterprises under contract do not necessarily separate government and economic functions; as Xu and Wang argue (1990: 48) "the task of coordinating the relations between the Party, government and factories is still arduous." There also may be a conservative bias in the contract system: if enterprises continue to contract for goods which they already produce, the existing product structure could become frozen and lead to a lack of innovation and the continuation of the production of unneeded goods (Xu and Wang 1990: 49). The base figures for contracts are usually derived from the position of the enterprise, rather than comparing the performance of the enterprise with other enterprises of a similar type and may hide the hidden potential of the enterprise (Yang 1990: 38). The supervisory bureau which negotiates the contract is often not the same as the entity which negotiates tax payments, usually a finance bureau (Yang 1990: 39). The Contract Management Responsibility System may also foster undue inequality: there may too great a disparity between worker and manager

incomes, which is unfair if the manager cannot really accept the risk for the enterprise (Yang 1990: 40).

Types of contracts

The negotiated nature of contracts, and the lack of universal criteria, are exemplified in the numerous types of contracts which have been and are being used. To take five examples (Byrd 1991: 17): first, double contracting and single linkage--in which enterprises contract for tax and profit, and link wages with profits and taxes; second, responsibility for annual increase in profit remittance--in which enterprises give the government a fixed amount of profit which increases by a certain percent each year; third, remittance of a fixed base amount of profit, sharing of above quota profit; fourth, fixed profit remittance or loss targets, for low-profit or money-losing enterprises, in which these enterprises keep all profits; and finally, sectoral input-output responsibility systems, in petroleum, steel and iron, non-ferrous metals, coal and chemicals, and railways, posts, and civil aviation. These different contract types help, in Chinese terms, to adjust reform to local realities, but they also take for granted that enterprises are not simply economic entities, and thereby blunt the momentum contracts were supposed to generate for China's enterprises to become "real" economic enterprises.

The type of contract management responsibility systems which has gained the most attention is the factory directory responsibility system (FDRS), in which the enterprise director selection process is made public, sometimes based on applications solicited through advertisements, and pays

the director a part of increased profits (Byrd 1991: 18). A modified FDRS involves selecting the factory director through competitive bidding. In this second version, candidates make bids regarding what profits they believe the enterprise can produce for a period of three years. Supervisory organs get 40% of the vote, the local finance bureau getting 20% of the vote, and worker representatives getting 40% of the vote. This is designed to overcome the short-sighted nature of planning under contract systems by contracting the value of the enterprise rather than merely short-term contracts; again, however, it is difficult to value Chinese enterprises in the absence of better-functioning markets.

The FDRS system was to alleviate many of the problems with contracts noted above. FDRS was to clarify the legal position of the enterprise and the enterprise director, making the director responsible for enterprise performance and thereby increasing the director's feelings of responsibility for the enterprise and h/er motivation to increase enterprise performance. A crucial aspect of the FDRS was the separation of economic management from Party interference. According to the author of the most thorough study of FDRS, "In the typical Chinese factory as of 1978 the local Party secretary was in total command" (Chamberlain 1987: 631). The goal of the FDRS was to increase the autonomy of enterprises, but not to grant them full independence—contracts, it should be remembered, where a method which was designed to allow the state a role in directing enterprise activity. FDRS was an outgrowth of the system of "Factory Director Responsibility Under party Committee Leadership," the first formulation of state/enterprise/Party relationships after

the 1978 plenum. Under this original system, the Party was to remain in command, but “collective leadership” was to prevail, which granted enterprise managers a slightly better position than they held in the late Mao period (Chamberlain 1987: 638). This formulation, however, did not recognize the independent operation of economic laws within enterprises, and therefore left politics in command.

The second post-Mao formulation of state/enterprise/Party interaction was “Collective Leadership by the Party Committee, Democratic management by Staff/Workers, Factory Director in Command of Administration.” This system of “divided responsibility” was explicitly designed to get the Party out of daily economic work: “Equality of party secretary and factory director was the key innovation of this reform” (Chamberlain 1987: 640). This system, however, failed to solve the problem of political and economic power within enterprises: “The only problem with the formula of ‘divided responsibility’ was that it did not work. There were ambiguities in the legislation, as well as in the models themselves. Moreover, there was stiff resistance to change from all quarters--from Party members unsure of their new roles and reluctant to yield power; from managers, many of whom were unwilling or unprepared to take the necessary initiatives” (Chamberlain 1987: 641).

FDRS was begun in May 1984. Under FDRS, the Party is no longer the core of enterprises; the Party is replaced by the economic manager: “...the factory director has been empowered to determine long-term and annual plans, decide on major technological improvements, appoint and dismiss administrative personnel, reward and punish staff/workers, modify plant rules

and regulations, and 'handle matters as he sees fit in any urgent situations'" (Chamberlain 1987: 645-646).

Implementing FDRS was complicated by a lack of skilled personnel, but the major failing of FDRS was that it failed to move the Party out of the enterprise. The Party/state failed FDRS (rather than FDRS itself being a failure) because the Party/state did not implement it in a vigorous manner, and failed to implement the systemic changes necessary to alter the role of the Party in enterprises: "FDRS has not succeeded primarily because authorities have not carried out the requisite structural reforms. The boundaries between Party and management are insufficiently firm" (Chamberlain 1987: 650). The Party continued to rule the factory roost: "When it comes down to the question of 'who's in charge of the enterprise?'--when push comes to shove--the Party committee and its secretary still prevail. In this regard, they would appear to have three major structural levers at their disposal: their power to "supervise" enterprise operations; their continuing role in personnel management; and their disciplinary authority over all members of the Party organization" (Chamberlain 1987: 651).

What caused the Party/state to waver in its implementation of FDRS? What systemic factors needed to be addressed for it to be implemented? We know from reading the economic journals and opinions of top decision makers that they favored removing the Party from economic work, in principle and on a practical level (Rosen and Zou 1992). The Party remains part of the structure of state industry because the rationalization of enterprise workforces and incentive systems would have provoked sharp protests from

workers, and, given the possibility of unrest, the disintegration of the political apparatus within the enterprise was unacceptable to the Party. It is not that bureaucrats, even those within the Party, prefer to stay in factories or fear only the loss of their personal power: it is that removing the Party from Chinese enterprises is much more than merely increasing economic autonomy and efficiency; it is a highly political act with strong political repercussions, because of the unique nature of Chinese factories. According to Chevier, by 1986 it was clear the FDRS was not working as planned. While politics in Beijing played some role in undermining the FDRS system, the politics of FDRS was essentially local: "... the FDRS had been eroded as it was integrated into its local bureaucratic environment" (Chevier 1990: 110). This local bureaucratic environment, moreover, was one of growing worker dissatisfaction, culminating in demonstrations in support of students during the 1986 protests which led the fall of Hu Yaobang. Thus it was not Hu's fall which led to more conservative policies, but growing unrest which placed pressure on the Party and opened up the way both to remove Hu and implement more conservative policies.

Implementing contracts in the post-FDRS period

The case study material which this section draws upon is certainly biased: it has almost undoubtedly been approved for publication by the Party/state and is meant to educate economic and ideological workers on the correctness of implementing contracts. Nevertheless, these studies indicate broad patterns within the contract system which my interviews confirm have

occurred within state enterprises. In addition, because of this semi-official (or: officially approved) status, what they highlight indicates what the Party/state wants to see happen.¹

According to the "Provisional Regulation of the Contract Management Responsibility System for the State-owned Industrial Enterprise," issued 27 February 1988 by the State Council, "The principle of the CMRS is the separation of ownership from management on the basis of socialist public ownership" (Article 2). The basic items in the contract are "to contract the remitted profits to the state, to contract fulfillment of technology upgrading projects and to link the total wage bill with enterprise performance" (Article 8). The contracting persons differ depending on the size of the enterprise: "In most cases, the local industrial bureau is the contractor on behalf of the government to sign the contract with the company....For large key companies, the government asks several bureaus jointly to sign a contract, while for small consumer companies, the so-called general company, which is supposed to be acting as a kind of holding company under the industrial bureau, will sign a contract on behalf of the government" (Chen 1995: 78).

Contract systems were designed to assign responsibility, thereby making it easier to increase efficiency because it would be easier to reward those who performed better and to punish those who did less than others. For instance, the contract system was used at the Shanghai Number Twenty Eight Textile Mill to "liberate" (fenjie) individual departments by allowing them

¹ The following case studies were taken from Liu and Zhou (1992: 370-493).

to implement their own plans. Contracts, moreover, help break the iron rice bowl by linking performance and reward. In order to avoid the problems of implementing a reward-based system, discussed earlier, these case studies stressed the importance of linking wages, rather than just bonuses, to worker's contributions to production. Thus at the Number Twenty Eight Textile Mill twenty-four percent of wages were made variable according to effort. The ability to grant pay increases was given to work shop and technical departments instead of residing with higher authorities in order to further the connection between individual effort and monetary reward. The scope of bonuses was reduced, and were now given only for meeting monthly goals. Technical workers' wages were also made variable. The most important things, according to the factory manager, were to protect the link between profits and bonuses, and between total wages and department targets.

At the Weifang Number Two Textile Printing Factory, contracts were used to "perfect the management system" and improve quality. Quality management teams were established at the factory, work shop and work team level, including full- and part-time quality inspectors. Systems of quality management including self-inspection, mutual inspection and the quality control by part- and full-time inspectors were implemented. Quality control was to become "a state of mind" from the start to the finish of production. A similar system was to be established to measure the use of materials, control procurement, and increase technical skills in the work force.

At the Dezhou Glass Factory, contracts were used to break both the iron rice bowl and the "iron chair" of officials. Here, as elsewhere, contracts

were used to open top administrative posts to competition. Since 1988, economic management positions were opened to bidding in a process similar to the modified FDRS system described above. By rationalizing management, management staff has been reduced 39.3%, from 318 to 193. Bids for management positions are evaluated according to publicly defined criteria. Once a person is selected, a contract with specific targets is fixed. Progress is checked twice a year, and a thorough evaluation is made once each year. Incompetent officials are replaced. The winner of the bidding contest has the power to appoint his staff, but still reports to the Party committee. To break the iron rice bowl, the internal labor market within the enterprise was opened to allow bidding for better jobs with higher pay. Workers were placed in new positions on the criteria of "first educate, then post; first test people for ability, then hire." Workers who lost their positions were to be retrained. Piece rates were instituted wherever possible. In addition to individual contracts, contracts were signed within the factory with smaller units, who were then responsible for profits and losses.

Elections emphasize how changing subjectivities play an important in implementing changes in Chinese factory regimes. In the Cultural Revolution, workers were expected to directly control factories, with almost no specification of the institutions through which workers would rule. In the "normal" factory regime, we see that a certain class solidarity was produced through the production process of state socialism in China. Workers came to value equality and thus a corporate mentality of equality was created and preserved. Through elections and bidding for jobs, however, the process of

differentiating workers from one another and legitimating differences in performance is brought to the fore. When workers see managers (even if it is only top management) elected according to success in meeting goals, it functions as a way of legitimating differences between workers, even as it excludes how people get in position to bid for management positions and the criteria by which performance is judged. Also, the individuation process of voting and contracts helps avoid not only the old solidarities but ideally obviates the need for collective bargaining.

These case studies tell us that contracts are used to carry out many of the same programs that were being attempted when Byrd and his World Bank team studied enterprises in the early 1980s. There were still, in 1991, problems in firing and hiring workers, and resistance to pay incentives, evidenced by the need to institute piece rates and the emphasis on differential pay. These problems persist today (Huang, Yan, and Lou 1995: 47). There are also indications of what makes a successful reform effort. Successful reform is, as Byrd suggested, accompanied by reduced management levels, which helps convince workers that management is serious about profitability. In addition, the same policies we will see proposed on a national level are useful on the local level in smoothing the transition: training and re-training, as well as assuring retirement and other benefits are paid are important bridges which allow workers breathing space in which to adapt to the new regime. The contract system in the 1990s is still dealing with many of the same problems which have plagued reform since the beginning: worker resistance to differential pay, the inability to commodify labor and the related problems of

overstaffing and undertraining. But the context of reforms has changed: the problems of state enterprises are only part of the industrial picture now, and even state enterprises face a new context of markets and fiscal pressures.

The new labor process

The production process in Chinese industry has changed dramatically since the Mao period (see charts V-VII). While Chinese enterprises do not now, and may never, look like Western enterprises, significant changes have occurred. There is much more emphasis on rational, planned Western-style management within the factory, individual bonuses are given out for fulfilling broad goals rather than narrow quotas, and enterprise managers have significantly increased their powers. These changes are balanced, however, by the continuing limits on enterprise director's autonomy presented by the presence of the Party/state. Although safety issues continue to concern workers, with the partial exception of the coal mining industry, there has been less protest regarding the implementation of new work rules than in the determination of wages. Change also varies between production platforms. Many state enterprises are constrained by the continued involvement of the Party/state and the remnants of China's planning system; foreign enterprises, on the other hand, have a largely free hand to arrange production.

Management autonomy

According to a World Bank researcher, despite problems with the CMRS, "...where implemented well and where other conditions are ripe, the

contractual responsibility systems do lead to major changes in the structure and orientation of enterprises, in the position of the enterprise director, and in the relationship with the supervisory agency" (Byrd 1991: 23). Byrd continues, "Overall, the key factor leading to improved performance has been the enhanced position of the enterprise director, both externally vis-a-vis the supervisory agency and other government organizations and internally in relation to the Party Committee, lower-level management and workers" (Byrd 1991: 25). Among centrally owned factories, 5-10 percent reported management autonomy in 1980, while 70-80 percent reported management autonomy in 1989 (ZGSHKXY 1992: 11-12).

These figures may be improving, slowly, but government interference still occurs in a significant number of enterprises. At a 1992 meeting, representatives of 55 test point enterprises complained of continued government interference and contradictory regulations regarding state-enterprise relations (Ren 1992: 75). A large survey of 450 managers at different levels of 105 enterprises along the Changjiang River and in the Huabei region asked whether state enterprise losses were due to personnel problems or anarchic management practices, that is, problems exterior or interior to the enterprise. More respondents (35.96%) felt that the environment was the biggest problem. But 23.75% believed management was to blame, and another 18 percent believed they were somewhat to blame (Qiye Nijing Guanli Kejizu 1992: 69-70). At the test point enterprises, too, internal management problems were cited as of almost equal concern as government interference (Ren 1992). Another survey, this one of 285 large and medium

enterprises in Zhejiang, found that 7.6% had “big troubles” with government interference, while 77.5% found the situation improving. About two-thirds did not have difficulties with government price controls, while 26.9% still felt the government interfered with wage policies (Zhejiangsheng Xingxi 1992: 67-68).

As autonomy has increased, managers' perceptions of themselves, their enterprises and the place of the enterprise in the economy have shifted. Party-enterprise director relations remain a concern due to continued Party interference, but the situation has improved in most enterprises (Huang, Yan, and Lou 1995: 48). Profitability and economizing have become the most important goals of enterprise directors in the state sector (Lin Yimin 1992: 386). Increased factory autonomy, including increased freedom in both internal and external relations, leads factory managers to focus on profits (Lin Yimin 1992: 386). According to Lin Yimin, three factors were at work here. First, vertical control was weakened, as the plan became less important and enterprises looked towards markets and local governments for inputs and markets for finished goods. “Second, the emphasis by the central leadership on profitability increasingly weakened, and in effect made redundant, the political functions of economic organizations” (Lin Yimin 1992: 387). This meant that the formal aspects of political control, such as meetings, were given less prominence in factory activities. And third, “as the workplace was depoliticized, political mobilization gradually gave way to bonus as the primary incentive to work and to elicit extra work effort” (Lin Yimin 1992: 387). The partial failure of contract systems stems then, not from the failure of contracts and the propaganda of reform to change management's attitude

toward profits and efficiency, but from the structure of Chinese industry, and the power of workers to manipulate the environment in ways that undermine the economic rationale of autonomy. Autonomy has led to increases in welfare and salaries, but not increased per person profits or government revenue (ZGSHKXY 1992: 15).

Management changed their attitude towards profits and also towards internal management. Factory directors tried to establish Western-style production processes, "namely, a management centered hierarchical authority structure characterized by such features as standardization and routinization of work, formalization and impersonalization of organizational relations, and specialization of task" (Lin Yimin 1992: 394). Enterprise directors hoped that these rules--if "well established, enforced, and followed,"--would transform their factories into the sort of productive communities they were taught reigned in the West. These types of systems were examined in the case studies in the pervious section. The failure of this "unobtrusive" management led to some enterprises to impose of taylorist factory regimes, but "obtrusive control turned out to be counter-productive and tended to increase manager-worker frictions" (Lin Yimin 1992: 395).

If factories could not be turned into bureaucracies, and workers did not respond to taylorist control, the only alternative, given the fixed nature of China's labor market, was to bribe the workers into higher productivity. The World Bank found that "worker-oriented actions" such as distributing profits among workers undermined incentive systems and state revenue, while over-investment and expansion continued, also resulting in a loss of government

revenue (Byrd 1991:12-13). All analysts point out that this is a structural problem and not a problem of workerist ideology in the management corps.¹ Thus Chevier argues that "The failure of the FDRS helps us to understand the real status of Chinese managers in state enterprises as members of the local power elite, that is as *community leaders* who share in the informal decision-making process of the local community and who bestow protection and leadership on the enterprise, which is also a communal structure. If they are powerful and enjoy good connections, they can shelter their enterprise from squeeze and help it gain access to the profits from speculation, legal or illicit" (Chevier 1990: 120). Walder (1989) also argues that we must understand the increased wages of state workers, at a time when many factories are losing money, in terms of a community of interests resulting from the structure of productive units in China

The attempt to use increased wages to elicit worker performance was not a panacea. Pay issues continue to be contentious in state-owned firms. "In order for material incentives to be effective, rules of meritocracy have to be established and enforced" (Lin Yimin 1992: 397), and it is not clear that all workers are exposed to pay regimes which reflect merit. In foreign-funded enterprises, there is greater stratification but also greater mobility which possibly justifies wage differentials (Feng and Xu 1995: 41). Just as we saw in the early reform period, merit pay often increased dissension and was therefore

¹ "Top management appears to have viewed the enterprises' social obligations as a burden and as a constraint on its business operations rather than as a positive goal" (Byrd 1992: 352).

used less frequently. Egalitarian practices continue to be important, as evidenced by the attempts to overcome these practices in the implementation of contract systems in the previous section. According to two Chinese economists' investigation of factories, "workers could accept that managerial and technical staff received double or treble their salary, while managerial and technical personnel could accept income differences between them of three or four times" (Feng and Xu 1995: 41). Factory work, moreover, is often team-oriented, and it is difficult to distribute wages to individuals, further spurring a more egalitarian distribution of wages against the wishes of management and official state policy (interviews 10, 17).

As a result of these problems, material incentives were largely used as means to keep morale from falling, rather than as leverage to induce extra work efforts (Lin Yimin 1992: 400). Walder notes that, "Directors who fail to deliver higher bonuses, or new housing units, or upgrade the quality of meal services, will be faced constantly with low-grade labor problems: absenteeism, breakdowns, tardiness, high rates of lost and wasted materials (Walder 1989: 251). The dependence of workers on the enterprise has also come to mean enterprise dependence on workers: in the absence of a labor market, workers are essentially the property of enterprises, and if the enterprise is to get productive labor out of its workers, it must coax them into the effort (Walder 1989: 252). Walder explains that

In a political system in which the organized expression of group interests is regularly prevented, there are no regular means by which managers can quickly be informed of labor grievances....Labor-management conflict is not played out on a formalized legal battlefield. Conflicts and resentments are partially hidden, expressed in the quality

of one's work, in minor acts of insubordination, gossip and complaints to any and all who will listen. Receiving only impressionistic intelligence through his subordinates, the manager lives in a state of foreboding about public opinion in the factory, unable to gauge the situation precisely through formal grievance procedures or resignation rates" (Walder 1989: 252).

The problem of "internal management chaos" is not rare. A survey of forty enterprises showed that the enterprises shared the same problems, "namely: the enterprises did not carry out management in a disciplined fashion; work and rule enforcement were lax; raw materials were not carefully accounted for; internal supervision was lacking; inspections were not strict; every level of management suffered from the factionalism 'sickness' (maobing)" (Xiao 1995: 69). In short, management had little control over the factory in these loss-making enterprises. Another investigation of state enterprises termed the lack of strict management a "serious problem" (jiandi buli) (Lianhe Diaocha Zu 1995: 140). A survey of 100 enterprises and 10,000 workers by the Chinese Workers' Movement Institute found that "When staff and workers were asked to evaluate the relationships between those working in enterprises in 1984, 1988, and 1991, they stated unanimously that conflict between managerial staff and workers was the most conspicuous aspect" (Feng and Xu 1995: 40). The reaction of workers meant that managers had to moderate any plans to implement "rational, Western-style management" programs--an example of class action in the base units of the social system modifying reform edicts coming down from the center, efforts which have support at all levels of the Party/state.

Not surprisingly, the transformation of the labor process is most advanced in foreign-funded firms (Interviews 3, 4, 10, 11, 12, 13, 14, 23, 24, 25). According to my interviews, managers in joint-ventures have control of the production process: they determine what will be produced, in what manner, with what materials, and on what schedule, subject to the loose enforcement of law (Interview 34). The most important government intervention in the factory occurs during the planning and investment phases, when the government may attempt to place certain demands for employment, housing construction, etc. This is also true in the fastest-growing sector of foreign-funded firms, joint ventures which take place within state firms. State enterprise directors promise autonomy to foreign managers, and this autonomy is largely realized (Interviews 34, 27).

Most of the troubles foreign firms have with labor in China seem rooted in China's labor and employment practices, in which workers in joint-ventures are given, or demand, many of the benefits traditionally associated with state workers. Although the exercise of these state socialist rights is less common in JVs, they still interfere with what would be considered normal practice in the West. Governments strapped for cash wanted ventures to accept part of the welfare burdens of state enterprises, but joint ventures refuse (Fujian Sheng 1995: 127). One manager related the following story. A line worker with whom he was friendly suddenly went missing and the manager figured he had quit his job. The worker showed up some months later, and the manager greeted him and asked how he was doing. The worker replied he was returning to work. Confused, the manager asked what had caused his extended absence, and the

worker explained that he had been called up to play on a municipal soccer team, with full pay from the factory, as was usual practice. No one had informed the foreign manager because it did not seem unusual to them (Interview 34)

Hiring and firing is largely controlled by management. One restriction to this freedom to hiring and firing is the requirement that a certain part of the workforce represent different investors in a joint venture. If a JV has four local investors, and the jobs are desirable, each investor may reserve a quarter of the spots to place “their” workers in the firm. According to my interviews, the local investors did not object to firing a worker which they had sponsored, but required that the replacement come from the same bureau as the dismissed worker (Interviews 25, 4, 34). Bonuses and salary are similarly in the hands of managers, but again there are some bureaucratic requirements. Local bureaus require that workers for foreign firms are paid through FESCO, which takes a large percentage of their earnings. Many foreign businesses which hire Chinese workers try to get around FESCO by paying a minimum official salary and giving the workers the rest “under the table.” This is much more common with white collar workers than production workers (Interview 25). Local bureaus may also require a minimum wage, although enforcement has not been strict or evenly applied. Firms owned by Taiwanese and Hong Kong firms are notorious for avoiding paying minimum wages (Interview 18)

Power over bonuses and salary are used by foreign managers to get control of the production process. One manager related to me how he began imposing fines for “typical” Chinese factory worker behavior--playing cards,

napping, arriving late, having coworkers punch the clock for late-arrivals and no-shows, etc. At first, his measures had little effect, despite many fines being imposed. He then discovered that the person who distributed pay packets was intimidated by workers and had restored their pay rather than suffer the approbation of fellow workers. The manager, a very large, bearded Australian, then took the distribution of pay on himself. With the strict enforcement of fines, the workers soon ceased the fine-provoking activities (Interview 34).

This example may not be typical in all firms. First, there is the problem of imposing the fines in the first place. In the firm mentioned above, the factory had a Hong Kong resident as a floor manager, and this "outsider" status gave him the freedom to impose the fines. A Chinese manager may face the same pressure from workers not to impose fines as the Chinese pay clerk faced in trying to collect the money. In addition, the *China Labor Bulletin* has documented many cases where workers were forced to pay fines in a transparent attempt to reduce effective wages (Interview 18; *CLB1* (March 1994: 7)).

Chart VIII summarizes these changes. In SOEs, only around 4% of managers decide production plans alone. In over three quarters of SOEs, production planning decisions were made by enterprise-level committees, but less than 10% of SOEs make production planning decisions with the Party committee. The situation is similar in TVEs, with about 73% of production planning decisions made by enterprise-level committee. A greater proportion of TVE managers, nineteen percent, make these decisions alone, while only 1% of TVE production planning decisions are made with the Party committee.

Dealings with workers show a greater difference. Less than two percent of dismissals are done by enterprise managers alone in SOEs, compared with 22% in TVEs. While this may be an artefact of enterprise size, another important distinction is the involvement of worker and staff congresses. In SOEs, over half of dismissal decisions were run through workers and staff congresses, while in TVEs less than 15% were. One third of SOEs had workers and staff congress participation in wage determination, while less than 5% of TVEs did. Workers obviously held more status at SOEs than TVEs (Liu 1995: 14-15).

Reproduction of labor power

It is in the reproduction of labor power that China's production system differs most radically from most capitalist production regimes. As we saw earlier, worker dependence on the firm in China was much greater than their counter-parts encountered in eastern European state socialism. Reproduction of labor power within the state sector has not changed drastically. Workers have resisted challenges to their security, and the "iron rice bowl," which is constantly threatened in China, has yet to be well and truly broken. The situation is quite different, however, for workers in non-state sectors. Here, benefits are few and far between, and much of the dissatisfaction among non-state workers stems from this lack of benefits. The lack of benefits is made worse by the lack of market alternatives: a poorly developed housing market, limited access to medical care, pensions, and unemployment insurance. These are all high priority items on the state's agenda, but the state finds itself in a

difficult position: China competes on the basis of low wages, and social packages are costly in a situation where capital has the advantage of mobility.

In the state sector, benefits remain tied to the workplace. Workers in state enterprises generally get housing from their unit, and this housing is usually considered better than alternatives. Workers in Beijing without housing benefits may share homes with their parents (Interviews 20, 21, 24). At the home of one worker I visited, two generations live in a two-room apartment, with the second generation sharing their room with their child. Many local peddlers who lease stalls from the government sleep in their booths rather than returning to cramped family housing provided by a spouses' work unit. These people see their family only once a week (Interview 22). Other benefits follow the same pattern: without workplace access, health care and other insurance is either difficult to obtain, expensive, or both (Interview 10, 17). Many workers told me that the best of all worlds is to have one member of the family work in a state enterprise to get the benefits associated with state work while another worker worked in an FIE for higher monetary wages.

The need for housing is often one of the biggest labor issues in JVs, especially those in SEZs. The women who power Guangdong's export-oriented sector live in spartan and cramped dormitories. Shenzhen workers complain that housing costs eat away most of the higher wages they earn. At a former JV in Zhuhai, in which the foreign portion was leased to workers, the workers' first action was to commence the construction of worker housing (Interview 34). The cost of housing was also one of the main complaints of workers who

struck a Hong Kong-owned computer disk manufacturer in early 1994 (Zhang 1994).

The World Bank has entered into a project with the Chinese state to develop a housing market. The Bank has given China a grant to experiment with privatizing housing in four cities (Beijing, Yantai, Chengdu and Ningbo). Independent housing suppliers and financial institutions would combine to allow workers to buy their own housing. These intermediaries would be profit-oriented. It is estimated that the project will take about two years to evaluate, and the project's manager expects it to "spread like wildfire throughout China in four to five years" (Foo 1994: 28).

China has attempted to integrate international experience into its reproduction of labor power, and the Chinese state is aware of the importance of separating the reproduction of labor power from the enterprise. While economists push for workers to bear a greater part of the social security expenses, "in accordance with international experience," there are few precedents for displacing so many people from state socialist benefit programs (Ling and Sun 1992: 63-69). According to Shi and Hu (1992), China originally attempted to create a social security system based on the state and unions rather than enterprises. However, during the Cultural Revolution, union work was suspended and the Party and state also had difficulty functioning, which left all responsibility for social security to enterprises themselves. This greatly increased the rigidity of the labor market, as workers had to stay at the same firm in to insure they received benefits. This has also left large state enterprises with heavy burdens, such as retirement benefits--as much as 50%

of current wage bill is paid by some state enterprises as retirement benefits (Shi and Hu 1992: 106).

Reform of the social security system began in 1986, with the establishment of unemployment insurance, which was necessary because of the attempt to institute a contract labor system. In 1987, units were required to develop retirement plans, and more recently, units have been requested to develop alternate health plans. Today, more and more effort is being focused on creating a social security system.

Creating a social security system requires more than simply creating policies and finding ways to fund them. It also requires ideological work. People view benefits such as free medical treatment as a reflection of the superiority of the socialist system (Shi and Hu 1992: 107), and taking these benefits away therefore calls the superiority of that system into question. Creating a social security system will allow these benefits to be replaced in ways which will allow more flexibility in the labor market. If China fails to make workers understand the need to change the nature of their benefits and thus fails to create a social security system, it will endanger the socialist system (Shi and Hu 1992: 108).

Interestingly, a few pages later these authors attempt to explain the socialist nature of social security in China by contrasting it with social security in the capitalist West. Most important, the socialist social security system is based on public ownership, while capitalist social security is based on private ownership. Moreover, under capitalism social security is a method of controlling the army of the unemployed and maintaining the power of the capitalist state. Social security protects the capitalist system by ensuring the

reproduction of labor power (Shi and Hu 1992: 110-111). The authors fail to note that pages earlier they had themselves argues that social security was required to maintain the socialist system, and that less and less of China's production is taking place in state enterprises. Other economists have been more explicit in detailing the reasons social security is important. Li Yining has emphasized the importance of taking care of the employment problem. His reasons are clear: 'Inflation brought harm to the great majority of people, but in general no one would come out and take the lead in creating disturbances. The unemployed have no income, and it would be possible for them to evolve into a problem involving social security or political opposition forces (Lin 1994: 57). Some economists, such as Wu Jinglian, argue that inflation is a real danger in implementing a social security system. They believe that "the problem of unemployed should be solved by an improved social security system, and China must not pay the price of inflation for it" (Lin 1994: 57). Wu also complained that without a social security system, "whenever the workers are said to take to the streets, banks issue 'stability and unity loans'" (Lin 1994: 58).

Similarly slippery theoretical tools are used to explain unemployment. According to Ling and Sun, "The first question of labor economics is the question of the form of labor under socialism" (Ling and Sun 1992: 55). Under China's socialist system, labor performed for independent commodity producers is not private labor, but "sectional" (jubu) labor (Ling and Sun 1992: 56). This allows them to deny labor a true commodity status in China. Unemployment is considered a problem, caused by labor's commodity nature

under capitalist conditions. Labor power under socialism is not a commodity under socialism because workers are not separated from the means of production (they are part of the sectional labor force). Under state socialism, workers have a duty to work (since they use proceeds from the social accumulation of capital), and they have a right to work, since they are the origins of social capital (Ling and Sun 1992: 57). While there is no unemployment under socialism, universal employment requires universal social ownership. Once again, China's low level of development provides economists an escape clause. With a low level of development comes different forms of ownership. Thus, universal employment is impossible at this time (Ling and Sun 1992: 58): the impossible is made possible, and there can be unemployment under socialism--*"Dismissing surplus workers is a requirement of a socialist commodity economy"* (Ling and Sun 1992: 58, my emphasis).

The new social security reforms are more than a change of policy. As with other policies we have studied, they involve a change in the subjectivity of Chinese workers. Social security reforms are designed to increase personal responsibility by increasing individual contributions to the system. Workers as individuals rather than workers as members of the enterprise community or workers as a class will be the responsible party. The reforms are touted as increasing personal mobility by delinking benefits and work place, which will certainly benefit many workers, but will also hurt workers who are older or have fewer skills. Unemployment insurance is to provide not only money, but also help finding a job and if necessary training (Shi and Hu 1992: 110).

The role of the state

The role of state in production follows a rather simple rule: the bigger the factory, the more government interference (ZGSHKXY 1992: 12). In an article based on survey, discussion and analysis of 855 enterprises (146 large, 397 medium and 312 small) in 40 cities (Tong 1990), found that enterprises had the following rights:

The right to use their retained funds and to manage fixed assets, 76 percent; the right of independent production, 70.3 percent; the right to make personal arrangements and to distribute wages and bonuses, 63 percent; the right to determine the form of wages and the way to distribute bonuses, 62 percent; the right to independent operation, 61 percent. The other two points were the right to retain foreign exchange and the right to invest and to establish joint ventures. Since the enterprises were controlled by their superior departments, they basically had no rights in these respects. Only 78 enterprises, or nine percent, had implemented the right to refuse indiscriminately charged fees (Tong 1990: 43).

Among the most common problems were interference by government departments and indiscriminately charged fees (Tong 1990: 43). About 12 percent said they were seriously affected by indiscriminate fees, a fifth said they paid no such fees, while three fifths refused to pay them (Tong 1990: 44). There was little use in turning to the courts for help, as only 16.5 percent of enterprises reported that they gained an impartial hearing for their complaints (Tong 1990: 44).

According to another large survey, managers of state enterprises have largely attained management autonomy within factories, but their relations

with outside groups remain a problem (ZGSHKXY 1992: 19).¹ The ability of enterprises to gain access to state financing, including loans, is tied to maintaining or increasing employment (1992: 20). The state continues to control loans, and control over the financial system is an important aspect of government control over the economy. Due to the difficulties of shutting down state enterprises, however, the government is limited in its ability to use loans to discipline factories. Indeed, when the strike wave of early 1994 hit state industries unable to pay workers because they were unable to get loans, the central government ordered the banks to reopen to infusion of funds.²

The state has less of a role in FIEs. Where FIE partners are government bureaus or state enterprises, they may be subject to similar ties on financing as state enterprises. Because of foreign funding and the desire of local and central government officials to attract foreign investment, however, the interference is usually a lot less than in state enterprises.

Some of these differences can be seen graphic form in chart IX. In production planning, about 27 percent of SOEs make decisions alone, while almost 58 of TVEs make these decisions alone. Almost 48% of SOEs make

¹ Autonomy has sometimes led to corruption rather than innovation. In Shunde "managers who once dutifully followed the party line now often have so much autonomy that they can treat state assets like personal property; some even pass managerial control on to their sons or other relatives." This situation has led some state factory managers to oppose privatization even as cities push property reform to relieve themselves of financial burdens many of these enterprises represent (Leung and Smith 1994).

² A similar problem plagued the first years of the Yeltsin regime in Russia, as the conservative head of the central bank continued to dole out loans to failing enterprises, increasing inflation.

production planning decisions in concert with government agencies, compared to about 20% for TVEs. In determining wages, one-third of SOEs have their wages determined by government bureaus, while another 17% decide wages in cooperation with the government. In TVEs, less than 10% have wages determined by government bureaus, and almost 80% determines wages without government interference (Liu 1995: 14-15).

Local governments also play a role in industry, often as boosters of industry. Local governments try to attract industry to their cities through subsidies and loans, some of which are “under the table” and therefore “corrupt.” Some of these deals probably benefit the local economy:

Although such microinterventions by local government exert a softening effect on the firm’s budget constraint, local corporatism can enhance the firm’s competitiveness in domestic and world markets by offering subsidies, facilitating horizontal and vertical economic integration, providing access to credit capital, and investing in infrastructure such as schools, roads, public transportation, and other services. In short, local governments may provide the backing and resources needed by entrepreneurs to compete effectively in an economy characterized by partial reform, in which the still-dominant redistributive institutions interact with market forces in a manner that subordinates market institutions (Nee 1992: 4).

This brings us back to the discussion in chapter one of the importance of local governments in planning development, not only in China but globally.

After many years of deliberation, the PRC passed a national labor law in 1994, to be effective 1 January 1995.¹ The law states basic worker rights: it stipulates a minimum wage, maximum working hours, working conditions,

¹ The text of the law can be found in FBIS-CHI 19 July 1994: 18-26.

bans child labor, and allows workers to “participate in and organize trade unions” (Article Seven). It stipulates the conditions for contracts, and allows for collective bargaining through unions. It calls on the state to set up a social security system (Chapter IX). It allows workers to settle disputes through mediation, arbitration, or by filing a legal suit--it does not stipulate the right to strike (Chapter X). It does not stipulate a role for the Party, but neither does it deny the Party a role in the enterprises.

Markets

Markets largely determine the direction and velocity of production, but bureaucrats also play an important role through financing, and through direct and indirect directives to factories. There are three markets: markets in inputs, in labor, and in products produced by the enterprise.

Labor Market

The labor market remains undeveloped in the state sector. It is difficult to fire workers or lay off workers during slack periods. Ideologically, a labor market can only be justified as non-exploiting because, under conditions of public ownership, the wage relation is an equal exchange (Xiao and Lin 1993: 88). But following the economic determinism which pervades reform theory, these conditions, however, are always suspended to account for China's low level of development. While new workers have signed contracts since 1986, and contract workers now account for about sixteen percent of the workforce, there is little evidence that formal, legal appearance of contracts has changed

de facto job security in the state sector. While the state has promoted labor service bureaus to help people find work, city residents take one of three routes to employment: get a job in the state sector, a foreign enterprise, or go into business for themselves or a private firm.

The outstanding feature of the labor market is the surplus of workers. China's workforce is growing fast, and as many as 90 million more people will reach working age by the year 2000. Moreover, the ability of rural industry to absorb these workers is being called into question. Where rural industries took in 12 million new workers a year from 1984 to 1988, they took in 2.6 million from 1989-1992. Estimates of China's "surplus workers" range widely, but all indicate huge numbers of "unproductive workers." "More than a third of Chinese workers in state-owned enterprises are redundant," says the chief management consultant of McKinsey and Co. The same survey estimated that state owned detergent makers use ten times as many workers as similar plants in the West, while a Shanghai petrochemical enterprise estimated before its listing on the Hong Kong stock exchange that 40% of its workers were devoted to non-core activities (Fluendy 1994: B3). Another analyst believes that 214 million Chinese are essentially unemployed *right now*, their position hidden by state subsidy (Kwan 1994: 9). If every enterprise in China laid off just one worker, lay-offs would total seven million (Cheung 1994: 18). China's Ministry of Labor forecasts that by the year 2000, 68 million people will be jobless in the cities, and over 200 million rural residents will be without work (AP 17 August 1994).

The potential for unrest is enormous, and has not escaped the attention of China's leaders. The Ministry of Labor has been working on a number of emergency measures to cope with the growing ranks of urban unemployed, according to Ministry official Zhang Xiaojian. These measures include determining society's "tolerance level" of unemployment. Similar to the "alarm line" for inflation, which officials estimate, if crossed could threaten the country's political stability (Cheung 1994). The Ministry of Labor is reportedly focusing on three areas: mediating labor disputes, retraining workers, and setting up workable welfare schemes, especially pension plans.

Trade Unions are also playing a role in dealing with the problem of unemployment. Trade unions are waging a high profile campaign to supply unemployed workers with relief aid, claiming the move is essential for maintaining stability, reports say. In Shanghai, ACFTU sent teams to member's houses to hand out money. The Shanghai textile union reportedly helped forty percent of its half million members find new jobs after they lost their jobs at state-owned textile mills (Hong Kong Standard 11 June 1994: 6).

It is against the background of the huge surge in new workers, increased migration from the countryside and interior provinces, and possible redundancies in industrial employment which industrial policy must now take place.

Markets for supplies and goods

According to an Academy of Social Science survey, about 80% of goods produced by state firms are sold on the market, and similar percentages of raw

materials are now purchased on the market. This varies, however, by sector, and industries producing intermediate goods and raw materials, such as steel and coal, may have to sell more to the state in favorable markets, while left to their own in soft markets. Similarly, enterprises may be assured raw materials by the state in tight markets, but have the freedom to purchase materials on their own in weaker markets. This makes it tougher to make money. Moreover, even on marketed goods, the prices of goods are influenced by the plan and government controls on inflation (ZGSHKXY 1992: 23). Many market transactions, though, may be little more than disguised exercises of guanxi relations (Christiansen 1993: 421).

China has seen an unprecedented increase in worker activism since 1994. How does this relate to changes in the production regime examined in the previous section? What are its political implications? Information on popular protest in China is difficult to obtain, and it is impossible to verify its accuracy. Hong Kong papers often present rumors as fact, and reports are often based on second-hand sources. On the other hand, the stories I heard from Chinese intellectuals, workers, Hong Kong labor activists and Hong Kong newspapers were remarkably similar. This may represent a vicious circle of rumors becoming fact by their mere repetition, but I feel that it probably indicates at least the dimensions and types of problems reported below are accurate, even if any individual case is questionable.

The unrest is a result of the changing production regime in state industry and the introduction of new production regimes in other industrial

sectors. The Party/state feared unrest, and the working class was able to convert this fear into the maintenance of benefits. This fear of unrest spurred the Party/state to attempt to circumvent the state sector by modernizing other sectors first. This strategy was effective in attracting international and domestic investment, and has also helped push China toward a market-based economy. However, the success of non-state production platforms has greatly increased the pressure on state enterprises, which are saddled with many features of the old production regime (especially, high benefit costs and close ties to the state, which reduce market opportunities). The result has been a rapidly increasing percentage of state enterprises operating under a loss (possibly half in 1995), which, in turn, has made it difficult for these enterprises to meet their social obligations. Moreover, this unrest is symbolic of the uneven development of law, ideology, and production in China. Law and ideology have fallen far behind production, with the consequence that workers are trying to complete the project we saw economists beginning in earlier chapters: reconstituting themselves as bourgeois subjects to find protection from the capitalist exploitation of Dengist development.

Worker activism in China

This recent wave of unrest is the sixth major outbreak of worker unrest since 1949 (Chan 1993: 33-34). The first wave of unrest occurred in the period immediately following Liberation. As we saw earlier, workers here were struggling against the implementation of Soviet-type production regimes, and also against the change in function of unions (from representatives of workers

to representatives of the Party) under the new regime. The second wave occurred in 1956-57, and ended with the arrest of workers and the dismissal of the Lai Ruoyu, head of the ACFU (on this period, see also Perry 1994). The third period occurred during the Cultural Revolution, and was also examined earlier. The fourth period coincided with the death of Zhou and Mao and the fall of the Gang in 1976. The fifth period coincided with the democracy movement of 1989. As with the peasant power Kelliher examined, worker power in each of these strike waves was closely bound with the power of the state. Each of these movements occurred at times when the power of the Party-state, "for one reason or another, was weak, withdrawn, or internally divided" (Chan 1993: 34). After examining more closely the 1989 workers' movement, I will go on to examine the connections between that struggle and the current unrest, and then detail the new wave unrest.

1989

Several writers have noted the importance of workers to the 1989 protests (Munro 1990; Perry 1991; Walder and Gong 1993; Chan 1993). Whether it was the student's inexperience, their lack of a comprehensive understanding of democracy, their connections to the Party/state, or simply their elitism, it has become clear that the failure to connect with the nascent workers' movement undermined the chances for the 1989 movement. Despite the student/worker schism, the 1989 movement was very important for the development of worker struggles in the 1990s, and so I will examine workers' roles in the 1989 movement before turning to the current wave of unrest.

Perry (1994) argues that the strike wave of 1957 represents a precedent for the “unprecedented” appearance of a bottom-up workers movement in 1989. As she points out, workers have risen several times in PRC history, and have asserted what they see as their rights. There were, however, two great changes which have taken place since 1957 which change the nature of the 1989 movement and makes the workers’ movement of the past five years very different from that of the first 40 years of PRC history. First, foreign and private capital play a greater role in China today than at any time since Liberation. These changes, examined in the last chapter, change the nature of work as well as who is working: the production regime of FIEs is different from even reformed SOEs, and this produces both different politics and a new division within the working class. The second change is the regime’s abandonment of socialism as a goal (which does not preclude using the Party/state as the form of political control). This has forced a change in the type of protest and the goal of protests in China. Protests since 1989 (and, I would guess, since 1985 when we get the information) have been concerned with similar issues to those of 1957: corruption, wages, working conditions. But workers see themselves as separated from the project of the Party/state. While leaders of the recent worker movements were careful not to question Party rule per se, they made it clear that the Party had indeed made economic growth its sole basis of support, and thus the idea of “perfecting the socialist system” becomes nothing more than a codeword for acceptance of the Party/state political machine in exchange for greater protection of workers. Participants in the 1989 protests made comments such as, “I think

communism is too remote; we are being cheated; it is a policy to keep the people ignorant" (AMRC 1991: 24). This is much more harsh than the judgements made by workers or intellectuals in 1957. "What the Communist Party created is entirely unconvincing" workers complained. Another worker could not find any disadvantages to the capitalist system (AMRC 1991: 74). Where criticisms in the 1950s, and even during the CR, were directed at the system in the hope of "perfecting" it and moving closer to socialism, the question of "system" has become irrelevant as workers seek merely to protect themselves.

Originally, workers appeared at the Square to "take a look" at what the students were doing. The demands of the students struck a resonant chord with many Chinese, who sought ways to help the students. This appears to be how the leaders of the first independent worker federation in China, the Beijing (nee Capital) Workers' Autonomous Federation (WAF) was founded. The workers had little time to organize, and most members joined at the Square; there was only one, poorly documented attempt to organize at the workplace. Workers in other cities followed the Beijing lead, but none of these organization appear to have attained the size or coherence of the Beijing WAF (Walder and Gong 1993; AMRC 1991).

Labor leaders learned two things from 1989. First, although the students appeared to be natural allies, actual work with the students proved more difficult than expected. Second, the existing Party-union structure was too dominated by pro-management, or even pro-student (but anti-worker)

political institutions to serve as an effective vehicle for worker demands. This drove home the need for a strong, independent workers' movement.

Labor activism since 1989

The recent wave of labor unrest has appeared in three places: among state workers, among workers in the FIE sector, and also among activists looking to form free unions. While this does not guaranty working class unity, it shows that the changes in the economy are affecting all aspects of the working class. Attempts by intellectuals and activists to link the various working class struggles have been severely repressed, and so the efforts of state workers and FIE workers remain localized: the spontaneous unrest among workers in both the state and FIE sectors revolves around workplace issues--wages, benefits, and working conditions (Interview 10-19, 21).

Privatization has not appeared as a major issue among workers; for workers, it makes little difference if enterprises are privately or state run if they are denied benefits and left out of enterprise decision-making. In both sectors, the partial nature of change in the production regime is the key issue: while the relations in production in many industries have changed, and while the market plays a greater role, the reproduction of labor is still seen as the responsibility of the enterprise in the SOEs, while workers in FIEs seek many of the same benefits (Interview 16). As China attempts to de-link reproduction from production, the protests mount among state workers and retirees. This problem is compounded by actions in FIE sector against the extreme conditions in many of these firms. The state has now placed itself in this

controversy through the establishment of the first-ever PRC Labor Law (effective 1 January 1995) and the attempt to put Party controlled unions affiliated with the ACFTU in FIEs, but it will take time to determine how far China can push foreign firms on labor issues when many firms are in China because of low wage costs and a low incidence of labor unrest.

While 1993 and 1994 saw accelerating labor protests, strikes and other worker actions have occurred throughout the reform period. The current acceleration in labor unrest began, rather than ended, with the suppression of the 4 June democracy movement. According to the *Asian Labor Update* (ALU), a Hong Kong-based publication, over 50,000 workers were involved in strikes and other protests from July 1989 to December 1990 (ALU October 1991: 13). Based on a report by the All China Federation of Trade Unions, ALU reported that protests included, "strikes, rallies, and petitions, and were mainly concerned with poor--or non-existent--wages, and a lack of basic necessities such as clothing and health care" (ALU October 1991: 13). At this time, state and collective enterprises were the hardest hit. ALU listed several examples of the types of protest, from small-scale actions to protests in involving thousands of workers. One especially large protest occurred in Zhejiang, where "more than 10,000 employees from 110 enterprises protested in late 1990 in support of a woman worker who was apparently mistreated." Over one hundred workers at a lumber company in Heilongjiang province staged a go-slow because they had received no new shoes for three years, and their wages were too low to buy gain, clothes, and firewood. In other cases, workers staged protests because they were forced to go without pay for several

months, and because retired workers were ejected from a hospital because their company failed to pay their medical bills (ALU October 1991: 13).

Protests grew again in 1993 as reforms in state industry threatened enterprises' ability to pay workers and taxes, which in turn undermined local revenue and made it difficult for governments in less developed areas to pay government employees or provide relief for displaced workers or retirees.¹ Meanwhile, a growing sense of frustration at the poor conditions in FIEs spurred on the most massive wave of unrest to hit that sector since China opened its doors in the early 1980s. In 1993, 12,358 disputes were taken to arbitration, up from 8150 in 1992 (SCMP 7 May 1994: B3).

Specific examples of worker actions show that workers in SOEs were generally fighting defensive battles to maintain their livelihood, while FIE actions increasingly took an offensive position of asserting their rights. The latest wave of worker unrest further divides state workers. In addition to the permanent/contract worker division, which reinforces the old/young division, the most recent actions in SOEs have occurred mainly in struggling enterprises, especially those in the interior, in basic industries such as mining, and in the retail sector (Interview 16). These are the sectors most under pressure from the market, and the protests were not concerned with issues such as "breaking the iron bowl" but with the basic issue of getting wages, retirement and health benefits, and simple survival. In healthy state

¹ Li Boyong, China's Labor Minister, estimated that in the first nine months of 1994, three million workers had not received wages because their companies were losing so much money. In addition, 490,000 retired workers had not received pensions (AP 11 December 1994).

industries, the iron rice bowl is expensive, but managers have been willing to tolerate these benefits in exchange for increasing power over the process of production and increasing productivity. Where the market is good, maintaining the iron rice bowl is easier than incurring the wrath of workers. In Dalian, the local government reacted to groups of protesters by paying workers special allowances of 200 Yuan. In addition to the payments, Dalian has reissued ration books to cope with inflation. Dalian's mayor's plan to declare two state-owned firms bankrupt in 1995 also provoked protests (Macartney 1995).

As in the Soviet Union, the coal industry is among the hardest hit by reform, and because of the conditions of production involved in mining, it is also among the areas with the greatest worker solidarity and the largest worker actions.¹ Industrial unrest was highest in the depressed coal and textile sectors, where incidents "were occurring once or twice a week" in Hubei, Heilongjiang and Liaoning provinces (Lam 1994b: 1). Ten thousand miners in Heilongjiang struck in January 1994 to protest low wages. The strikers received New Year's bonuses and called off their action (Lam 1994a: 1). In February 1994, six thousand miners staged a strike at the Jinzhu Shan coal mine to protest the fact they had not been paid in three months. In addition, resentment against cadres ran high: "According to the workers, mine cadres had exploited their position to amass benefits for themselves, so there existed a rather marked disparity in wealth" (Fang Ming 1994: 12). In this case too, the

¹ On the Soviet miner's strikes, see Mandel (1990).

government quickly stepped in to assure payment of wages, and thus although the action was large, it was short-lived.

At struggling production firms, the government's austerity program has meant the end of loans which had kept the enterprise afloat and allowed them to continue production and pay wages. Some state factories, no longer able to pay salaries, have instead given their workers goods from their warehouses for employees to sell on their own (Lam 1994a: 1). Even prosperous cities such as Tianjin and Shanghai have been hit by this problem, but it appears to be concentrated in the interior.

Government policy has been to meet the demands of workers, exchanging payment for social peace.¹ Recently, however, this policy has run into opposition from lower-level leaders (Leung and Smith 1994). Officials at the lower levels have balked at payments, preferring to let enterprises go bankrupt in hopes of installing new enterprises which would contribute to local coffers rather drain them through subsidies (Interviews 16, 18). Inflation, which along with unemployment are the two biggest worries of officials concerned with social unrest, is another reason that local officials want to stop subsidizing money-losing local enterprises. With inflation in some cities reaching thirty per cent a year, local governments fear that continued subsidies will cause them to lose control over prices, leading to wide-spread unrest (Interview 17). While local governments may have good reason to stop payments to local enterprises "bleeding red," the State Council was "taken

¹ This was also the pattern in the Soviet Union under both Brezhnev and Gorbachev (Cook 1993).

aback at their refusal” to pay, but it was unclear how successful the center would be at forcing localities to pay up (Lam 1994b: 1). In an indication of the importance of state industry for local revenue, not only were industrial workers hit, but civil servants and teachers were also suffering as they were receiving their pay only irregularly (Interview 16). It should also be stressed that buying off workers was only part of the government’s response; repression was also used to avoid strikes from spreading. *The South China Morning Post* reports that the para-military People’s Armed Police have been deployed to “restore order” to cities and towns hit by unrest (Lam 1994a: 1).

Strikes in the state sector

In early 1994, workers in Guangdong undertook a two month strike to oust their factory manager, who they described as “an incompetent brute” (Gilley 1994: 8). A shop-floor worker was appointed in place of the factory director. In this case, five hundred workers at the Shaoguan Mineral Refining Plant in northern Guangdong struck for nearly three months, during which time they were paid their normal wages by the China Non-Ferrous Metals Corporation, the parent of the Guangzhou factory. Not that the wages amounted to very much, averaging only 200RMB per month, forcing many workers to moonlight to survive “[We] ousted Zeng to save ourselves” Tang Zhenmao, the new head, said. Demoting and firing managers, which economic theory has fingered as the party responsible for economic performance, occurs with some frequency. This is a trend that has seems to have held throughout the post-4 June period. A section chief at the Zhuzhou Spark Plug Factory in

central Hunan, Hu Xuande, was dismissed from his post and became a gate guard at the factory. According to the report, though, he did not complain: "I was not born to be a manager of an enterprise" he said (Xinhua 1992).

FIE sector

Worker activism has also increased in FIEs, and the pattern of this activity follows from changes in the production regime in the export sector. As more and more workers become permanent workers in FIEs, and permanent residents of special economic zones such as Zhuhai and Shenzhen, they have begun to mount protests to defend their rights and demand benefits. The largest sector of the export economy's workforce, migrant women, however, has been relatively quiet. At this point, it is difficult to know how long their quiescence will last or determine its causes, but this is the pattern we would expect from studying production regimes. Permanent workers with ties to the city depend on their employment not only for immediate income, but also for the ability to have a family and plan for the future. Migrant workers, however, retain tighter connections to the countryside. Many are simply looking for a way to increase their family's income, while others are building up savings before they begin their own families. These workers have a smaller stake in issues such as working conditions, and their ties to the countryside militate against organization. When migrant workers have engaged in activism it has followed the pattern Perry (1993) saw in Republican Shanghai--that is, migrant workers tend to engage in activity based on common place of origin: "Many migrant workers employed in FIEs arrive in groups from the same

village and form 'fraternities'. When a member of a village fraternity suffers unfair treatment or abuse by a boss, other members of his/her fraternity will organize solidarity action. This is how most industrial actions have been staged in export processing zones"(CLB # 3 (May): 11).

Proximity to Hong Kong and the international nature of FIEs has meant that worker activity in southern FIEs and export-oriented firms has received extensive coverage in the Hong Kong press. In addition, a series of large-scale disasters resulting in dozens of deaths has brought attention to the conditions of China's export workers, both in Hong Kong and Beijing. This is especially true with the now infamous fire disasters of FIEs in southern China. In 1991, 80 workers killed in a Dongguan factory fire. In 1992, a fire at a Taiwan-owned textile factory killed 61. Then on 19 November 1993, eighty-four workers were killed and 45 injured at Zhili toy factory in Shenzhen. Another six were killed at a fire in a Hong Kong-owned factory in Shenzhen in July 1994 (Lo and Lee 1994).

According to the *China Labor Bulletin*, at the end of 1993 there were 167,000 registered FIEs in China, employing over 6 million workers (CLB 1994 #3: 9-11). There have many industrial disputes in the this sector of the economy in recent years. In Shenzhen, 471 major disputes were recorded from early 1992 to early 1994. These disputes, including instances of "collective petitioning," involved more than 9,000 workers. Over 10,000 workers took part in 30 strikes and go-slows. In Fujian, there were 47 major slow-down strikes in the first half of 1993, forty percent of which were in FIEs. This represented a three-fold increase from the 1992 total. Disputes increased over

82 percent from 1992, to 582. In Xiamen alone, 460 disputes were recorded in 1992, up from 50 in 1992.

Worker actions in FIEs

Shen Zhen taxi drivers struck in March 1994. While drivers earn 2000-3000RMB a month, they must pay for their own housing, and rent costs about 1,000 RMB/month. In addition, workers receive no medical benefits. The strike was announced on the radio, through handbills, and on Hong Kong television. The strike committee originally planned to hand in a petition, but decided not to when they saw that the police were waiting for them when they showed up at the city government headquarters. The workers wanted to form a union, to prevent the government from issuing two thousand new driver permits, and sought a reduction in the cost of taxi rental. The government reduced the number of new licenses to 500, agreed to investigate changes in the taxi rental rate, but would not agree to a union. The government's approach was fairly sophisticated, agreeing to some demands while also threatening to revoke the licenses of drivers who continued the strike after the negotiations. This broke the ranks of the drivers, and the leaders quickly called off the strike on the end of the second day (Shen Di 1994).

In Zhuhai, the special economic zone adjacent to Macau, workers struck to protest low wages (below the official minimum wage) and long working hours (above the official 44 hour work week--in fact, they were working twelve hours a day, seven days a week). After three days, the strikers, about 2000 of 4000 workers in the Hong Kong-owned factory, were on strike. The factory, which

produces computer diskettes for export, reached a government mediated agreement with its workers which reduced hours and increased pay (ALU #11: 17-18).

Workers at another Zhuhai FIE, this one owned by the Japanese electronics firm Canon, staged a strike in 1993. Eight hundred workers walked off the job to protest managements' offer on wages. Workers were offered a 7% raise by the company, which they rejected since it did not even cover inflation, running at about 20% annually in the city. Although the Canon workers receive 30-50% more than workers in state-run enterprises, 520-600RMB a month compared to SOE wages of around 400RMB, they lack the benefits provided to state workers, such as housing and medical care. The Canon workers demanded a 30-50% pay increase and housing benefits. The strike lasted four days, after which the workers agreed to return to work when the company agreed to consider their demands.

In March 1993, 3,000 workers at a shoe factory owned by a Taiwanese businessman struck for two and half days to protest non-payment of wages. The government intervened and the factory owners agreed to pay the back wages (CLB March 1994: 11). Another Taiwan-owned company, this time the first Taiwan-invested retail store in Shanghai, was struck in January 1994. The company announced on 6 January that the entire month's bonus, 50 RMB, would be deducted if a worker reported late to work once during the month. Further, the company announced that it was requiring a 500 RMB "security warranty" from each worker. According to the *China Labor Bulletin*, employees "suspected that the new management regulations were aimed to

alienate older employees, e.g., requiring all female employees to wear make-up, so they would resign.” A strike was called for 7 January. The workers demanded the replacement of the current short-term contracts with permanent contracts; withdrawal of the new disciplinary regulations; wages and bonuses comparable to those in the same sector; and no retaliation against strikers. The company’s union helped mediate the strike (CLB #1 (March): 7)

Mistreatment

Cruel treatment of workers, recalling the “satanic mills” of early capitalism, has also occurred in China (Brauchli and Kahn 1994). For instance, in a well-known case in Fujian, a female worker was severely beaten and placed in a cage for stealing two pairs of shoes (Ngai 1994: 10). At a Guangdong FIE, workers were subjected to unreasonable fines. Forty-six different rules were instituted, with the result that eighty percent of all workers had to pay some fine each month (Ngai 1994: 10).

The mistreatment of workers has been used by the conservative opposition to reform. According to a report by Agence France Presse (in SCMP 19 December: 8), a *Legal Daily* (18 December 1993) article claimed that “patriots should never accept to recreate the tragedy of slave workers on socialist soil’ the newspaper said in a virulent article headlined ‘a few words with foreign businessmen’.”

The government has responded with the new labor law, a renewed effort to place unions in FIEs, and an attempt to enforce laws that are on the books. It is also hoped that the new social security system will help quell the unrest.

Han Dongfang

The Chinese state, through economic theory and policy, has tried to reconstitute workers as individual subjects outside of class interests. This is the point of the contract system and other various responsibility systems. This has occurred through real changes in the production process, which have attempted to create individual responsibility in real, concrete terms (although it sometimes fails because without real changes in the production process, contracts just bring up the unfairness of individual rewards). One result of the discrediting of the Maoist version of socialist construction has been the difficulty of placing worker demands in terms which workers can understand. Chan (1993) argues that the All China Federation of Trade Unions and some other elites have been trying to represent workers' interests, but have failed to gain the trust of workers, a failure accentuated by the poverty of discourse in China. As we saw in chapter three, "The social discourse of the 1980s was dominated by the language of 'Reform', i.e. the language of the reforming social engineers. That this language could take the offensive and become 'morally correct' was due to the fact that the Marxist-Maoist language of discourse had been discredited.... Although the conservative engineers would have wanted to retain part of the language of Marxist-Maoist discourse...they have found that reliance on such rhetoric only backfires" (Chan 1993: 50). Thus ideology plays

the crucial role of preventing the effective articulation of ideas, which in turn reinforces the spontaneous nature of worker protests: localized issues and a failure to articulate demands on a class rather than local-enterprise basis. "In short, the workers' advocates are confronted with two crippling disabilities: first, the fact that their language of discourse has been placed on the defensive, and that even the constituencies they claim to represent sometimes have difficulty perceiving the real content of the rhetoric; and second, and worse yet, that they have sometimes been mistaken as ideologies working on behalf on the conservative social engineers" (Chan 1993: 52). This has forced the workers movement to sound its demands in bourgeois terms: any workers' movement in China will be a movement for bourgeois norms; workers are being prepared for a transition-normalization by China's passive revolution.bourgeois revolution. In what way will workers be working towards bourgeois goals? First, they seek to represent their interests in terms of rights based on individuals. Second, they largely seek the kind of protection which have been granted workers in advanced capitalist states. This trend is illustrated in the ideas of Han Dongfang.

Han Dongfang has emerged as the best-known Chinese labor leader, although he has not been allowed inside for several years. A co-founder of the Beijing Autonomous Workers' Federation, Han perfectly fits the times: he seeks to reconstitute labor on the basis of workers as citizens of the enterprise, with rights and duties. In a formal sense then, Han is backing down from the regime's claim that the workers own the factories, but Han is fighting for the

political space which will allow workers to protect themselves in the real world of late twentieth century Chinese economic development.

Jailed for his role in the 1989 protests, Han was released for medical treatment and went to the US to recover from TB, and has not been allowed to return to China. Han and others seek to separate the labor movement from political movements. "I would like to stress, the struggle for labor rights is a human rights movement. However it is not a political movement (for democracy itself), even though it is related to politics. In that sense, the labor movement should not be struggling for any political system" (Han 1993: 22-26). This represents both continuity with the Chinese tradition of "remonstrance" towards rulers and an important break with the history of Chinese labor. In the Cultural Revolution, for instance, issues of political and economic control were closely bound together. As we saw in the examination of the discourse on property, it was argued that it was impossible to separate economics from politics. If the labor movement of 1989 sought democracy but not the overthrow of the Party/state, Han now seeks capitalist work rules within the framework of the Party/state governance. The main function of labor movement is education, to "to make Chinese workers aware of their own situation." The labor movement "will inform [workers] of workers' situations in the West; this is not to say that Western workers enjoy a very high social status, but just to make Chinese workers conscious of the international labor standard. This will enable them to make a comparison, then the decision is up to them. If they are satisfied with their own conditions after comparison, that's fine" (Han 1993: 23). Just as we saw with the Belden's peasant, a new

vocabulary is needed to put expression to the new challenges facing Chinese workers. And just as managers sought their power in the discourse of Western economics, Han and other labor leaders are seeking to find political space with which to fight managerial abuse in the Western ideals which have served to protect Western workers.

Challenging Party rule will not necessarily mean changes for the better, because political allies are simply not dependable: "The labor movement should not be mixed up with the struggle for political power, or else the movement will be used by politicians to seize political power. Once they achieved their aim, they may forget about the workers' interests" (Han 1993: 23). Even the labor movement itself cannot be trusted, since it could turn on its own members. Thus the movement itself must accept that workers may come to oppose the very forces which helped free them: "Through our education activities we may inspire the formation of many free trade unions. At the end, these unions may even disagree with our view on unions, that doesn't matter. After all, union matters should be determined by workers themselves. We will continue our work in other factories or places, our sole aim is to let Chinese workers have their own trade unions which do not need to obey others' will and free of anyone's control. This is including us--unions should not be controlled by us too" (Han 1993: 24).

In addition to not challenging Party rule, Han does not challenge the precepts of reform, only the anti-worker way in which reform has been implemented: "Undoubtedly, the future of China lies in reform and opening up, apart from reform there is no way out. But the question is how to reform? Do

we abandon social justice?" (Han 1993: 26). "The free labor movement will not challenge any ruling power. Further it never advocated overthrowing the government. We only ask to reinstall workers to the social status which they deserve" (Han 1993: 26).

Since the 1989 founding of the Beijing Autonomous Workers Federation, there have been other attempts to form worker organizations. In December 1991, China's Ministry of State Security "targeted 14 underground labor groups in Beijing, each with a membership of between 20-300" (ALU January 1992: 11). In addition, at this time Beijing authorities continued to search for ACFTU cadres who were "disloyal," in other words, sympathetic to a relatively autonomous organization of workers (ALU January 1992: 11).

In January 1992, an independent trade union was established in Beijing. The union, first calling itself the Preparatory Committee of Free Trade Unions of China, modeled itself on the Solidarity union in Poland (ALU April 1992: 11). The Manifesto issued by the group represented their positions as follows, "Reflecting the current atmosphere of repression against independent democratic activity, [the manifesto] states 'Do not look for a free trade union to join'. Rather, workers should 'first link up with friends who share similar goals'. Groups should 'first organize within their own units or locally, then gradually expand their network'. However, the Committee is clear the unions should carry out 'safe...activities in the form of underground organization' (ALU April 1992: 11). The Manifesto achieved an "extensive distribution," "shocking the Ministry of Public Security" (Nu Nu 1994).

In 1994 more independent worker organizations were established. One such organization is the League for the Protection of the Rights of the Working People in the People's Republic of China. This group was not based exclusively on the working class, and was open to "workers, peasants, intellectuals, entrepreneurs and businessmen." Moreover, "Only the corrupt officials and those unscrupulous merchants who collude with them to grab super profits are not working people" (HRWA 11 March 1994: 10). Who are the working people? "...all those who have contributed their mental or physical power to the creation of the spiritual and material wealth of society are working people, including workers, peasants, intellectuals, entrepreneurs, and businessmen. Only the corrupt officials and those unscrupulous merchants who collude with them to grab super profits are not working people. the political value orientation of the Chinese intellectual class is pro-democracy, and the working class and peasantry are all the more pro-social justice. The League will integrate these two tendencies and make social justice and political democracy its goal." The goal is to establish a nationwide network to exchange information, mediate conflicts "concerning working people," and to organize and publish research of use to working people.

The group was founded in March 1994 by Liu Nianchun, Wang Zhongqiu, and Yuan Hongbing. (Liu Nianchun is the brother of Liu Qing, who helped edit the *April Fifth Forum* during the 1979 democracy movement). The group claimed a national membership of 120. They stated they had no intention of becoming a political party or challenging the rule of the CP. Instead, the group's main activity was to issue five proposals to the NPC, calling for the

right to strike, agricultural unions, reporting officials' property, protecting the rights and interests of mingong, and improving trade union representation in foreign funded enterprises. These proposals were necessary because "It is a basic requirement for social justice that state power must be just, clean, and wise. In order to meet that requirement, state power must be subjected to the control of powerful citizens' rights and activities" 7. The specifically mention the problem of abuse at FIEs: "Confronted with capitalist owners and their managers, workers and employees can only protect their own interests by invoking the specific rights of citizens bestowed on them by law. Absolute power corrupts absolutely. Unrestrained wealth will also alienate into a source of social injustice. And the citizens' rights--the right to strike included--constitute a basic factor restricting the unjust use of wealth" (7). Although they use the term worker, and are especially concerned with the abuse of workers, this group appears to have more affinity with progressive-era attempts to improve worker conditions than working class demands for political or economic power. In this sense, they continue the Chinese tradition of remonstrance or cleaning up capitalism.¹

Another recently formed group, this time more focused on the working class as a class, is the Workers Square Group out of Shenzhen. The group is named after the mimeographed paper put out by three now-arrested Shenzhen labor activists (Li Wenmin, Kuang Le-zhuang, and Liu Hutang). Again

¹ Nathan (1985) shows how Chinese dissidents have tended to focus on perfecting the state rather than changing its nature or the rulers. Dirlik (1988) has shown the Chinese tendency to view capitalism as perfectible.

looking to Solidarity for inspiration, they argue that, ““Employers, unions and government officials have been shielding one another....They ignore regulations, abuse the lawful rights of workers and humiliate workers’ dignity.” The solution to the workers’ problem lies in organization: “But why do so many of our wishes remain mere illusion even until today? Why are we still alone in disputes? The answer is that we haven’t united....The improvement of working environments, improvement of living conditions, shortening of hours and increase of wages will not be bestowed on us. it’s something we must fight for. If we unite we will become a strong force”. The mimeo was a forum to expose, “the crimes of capitalists” (Chan Wai-fong 1994: 5).

All of these organizations are an attempt to “put a head” on the scattered and partially effective protests throughout China. Labor leaders recognize the need for the institutions and discourse which will allow workers legitimately to seek their interests. The repression of the Party/state has not been able to stop either local level activism nor the creation of new labor organizations. Repression has, however, effectively prevented these two elements from connecting, and thus severely limited the effectiveness and power of the Chinese labor movement.

CHAPTER IV

THE PROBLEM OF LEGITIMACY

China's immediate reaction to the collapse of these communist regimes [in Eastern Europe] was recentralization, but the Chinese government soon realized that its legitimacy could only be sustained by economic growth (Montinola, Qian and Weingast 1995: 70).

But, in reality, old Deng knew the economy was the key. He has opened it up, and as a result China has seen more progress than we demanded at Tiananmen (Zha 1995: 12).

Perhaps no idea has been repeated more often, with more universal assent, than that China's reforms have represented moving legitimacy from some form of Communist legitimacy-- "ideology" --to economics: putting real, concrete, sensuous objects in the hands of Chinese. This, indeed, was the announced intention of the Deng faction at the famous Third Plenum of the Eleventh Central Committee in late 1978. This is, however, more complicated than simply switching to a more rational system. A system which, in the long run, might provide a greater amount of material goods for a greater number of people may also, in the short term, threaten the values and livelihoods of significant parts of the population. In the Chinese case, the movement to make economics the core of regime legitimacy involved a complicated process of redefining the key terms of economics. In property reform, the regime

further found it necessary to make concessions to state workers in the interest of social stability--meaning, of course, the survival of the CCP regime.

In this chapter I will take a deeper look at the general relationship between legitimacy and property reform. I will argue that the case of reform under a passive revolution has special characteristics which make legitimation both more difficult and more important than in other transitions (see chart XI). This is largely because property reform in other types of transition gains legitimacy by being part of a greater social transformation, while in the case of a passive revolution, as in China, the regime must proceed carefully in any attempt to change property relations.

Legitimacy

Legitimacy can be defined as the reciprocal relationship between rulers and ruled whereby both believe in the right of rulers to make and enforce rules and the obligation of the ruled to follow those rules (Rigby 1982: 1). A legitimacy crisis occurs when two things happen. First, portions of the ruling group question its right to rule. Second, the ruled question the ruler's authority *and* formulate alternatives to the ruling order (cf. Heller 1982; Habermas 1975; Przeworski 1986). A legitimate property system, then, consists of a definition and distribution of property which is actively supported and protected by some social groups, and accepted by a majority.

Many discussions of legitimacy start with Weber's famous set of three ideal types of legitimacy: rational-legal, traditional, and charismatic.¹ Under legal-rational systems, legitimacy is established on the basis of "a belief in the 'legality' of patterns of normative rules and the right of those elevated to authority under such rules to issue commands" (Rigby 1982: 5). Traditional legitimacy rests on "an established belief in the sanctity of immemorial traditions and the legitimacy of the status of those exercising authority under them" (Rigby 1982: 5). Charismatic legitimacy rests on "devotion to the specific and exceptional sanctity, heroism or exemplary character of an individual person, and of the normative patterns or order revealed or ordained by him" (Rigby 1982: 5).

Revolutionary periods have been associated with charismatic authority. The problem, however, has been naming the object which has the charisma. In the Russian case, was it Lenin or Trotsky, who was arguably more popular and a more heroic figure. Was it the Party, or an individual? Angus Heller argues that, after the October Revolution, the Bolshevik regime did not seek legitimacy (Heller 1982). Instead, the Bolsheviks understood their tasks to be world-historical. The order they were overseeing was only temporary. The *real* revolution would come when workers took control in the core capitalist countries, after which they would help Russia join the ranks of advanced countries.

¹ For a discussion, see Giddens (1971: 154-163) and Habermas (1975: 95-102).

The failure of Western revolutions brought about the need for the Soviet regime to legitimate itself. The battles of the 1920s, Heller argues, need to be viewed in terms of a quest for a means of legitimating the regime. Where Trotsky sought to avoid the issue by continuing the revolutionary idea of permanent, international revolution, Bukharin sought legitimacy through steady increases in standards of living (Cohen 1980). In the end, however, it was Stalin who won the battle for Party power on the basis of charismatic leadership combined with terror.

After Stalin's death, a new mode of legitimation was carried out. Feher characterizes this new mode as paternalism. Paternalism has three characteristics. First, it puts an end to the massive projects to rearrange society exemplified by Stalin's industrial and collectivization programs. Second, it promises increased living standards, a de-politicization of daily life, and the acceptance of tacit rather than explicit support for the regime. Third, it seeks to keep its power-elite in line by offering stability and access to wealth (Feher 1982: 70-71; see also Bialer 1980).

Weber's framework is a poor guide to determining what is entailed in the loss of legitimacy. Weber's definition is based on a master-servant dichotomy--power-holder and powerless object of authority--and calls upon behavioral regularities as the determinant of legitimacy. This notion has been under sustained criticism for the past twenty-five years as political scientists have tried to understand relationships of power which are not immediately observable (Isaac 1987). Moreover, recent work has called into question

whether observable behavior is really an adequate measure of regime legitimacy (Zizek 1994).

If Weber's conception of legitimacy is dependent on a master-servant dichotomy, another version of legitimacy in political science has relied on consensus as the defining feature of legitimacy. Almond and Verba define the civic culture as "neither traditional nor modern, but partaking of both; a pluralistic culture based on communication and persuasion, a culture of consensus and diversity, a culture that permitted change but moderated it" (Almond and Verba 1965: 6). This civic culture was characteristic of the Anglo-US democracies, and present as an aspiration in other Western democracies. But even in Communist countries, consensus predominated, at least in the need for those countries to persuade their citizens to actively participate in politics (Almond and Verba 1965: 4).

Consensus was not an issue for proponents of the totalitarian school.¹ While they might agree with Almond and Verba that Communist countries utilized mobilization strategies, they believed that these strategies were imposed on the population from above. Legitimacy was replaced by terror as the mode of reproduction for political rule, although many authors questioned how long this rule of terror lasted before other recourse was had to other methods of legitimation. The consensus view was also attacked by leftist writers such as Marcuse (1964). For Marcuse, both capitalism and

¹ On totalitarianism, see Nee and Stark (1989: 3-9), Johnson (1970), and Fleron (1969). Giddens (1981: 244-245) attempts to raise the concept from the grave as part of a critique of state power.

Communism represented the triumph of instrumentalist ideas and institutions over those which represented human needs. Capitalism and Communism represented total systems which enveloped individuals and eliminated their freedom.

In the 1970s and 1980s, when the Communist states looked like they had weathered the worst storms and would be around for a while, scholar's attention focused on how these system reproduced themselves. This took the form of studying leadership succession (Bialer 1980) and also in studying how popular consent was achieved. Rather than assuming either consent or heavy repression, scholars tried to discover how consent was produced and dissent dissipated. These studies included specific studies on legitimacy (Rigby 1982), a move towards a sociological-institutional explanation of Communist societies (Nee and Stark 1989), and convergence theories, which posited a more optimistic version of industrial society arguments than represented by Marcuse or Habermas (1968; see Fleron 1977).

The post-Mao legitimation crisis

China's path towards legitimacy was very different from the USSR's. The question of legitimacy did not arise until well after the revolution in Russia, and was eventually solved by Stalin with a combination of charisma and terror. On the property question, the legitimacy of property was assured by granting greater powers to peasants and workers. After Stalin, a paternalistic regime emerged which exchanged security for tacit acceptance of Party rule. Only one form of property was allowed: state property. Although forced on

Russia, state property acquired legitimacy over time as groups, including bureaucrats and core workers, developed a stake in the new system. In China, legitimacy was immediately a crucial issue, and was dealt with by a combination of modes of legitimation, including charismatic, existential, and even the establishment of order and the beginnings of rational-bureaucratic system (for a brief discussion, see Harding 1987).

This system was challenged intermittently by Mao. It was also undermined by world events, especially by the increasing abandonment of aspects of socialism by other Communism countries. The loss of charismatic leadership when Mao died thus represented a real problem for the regime. Did it constitute a legitimation crisis? Recall that a legitimation crisis requires both a crisis of faith within the regime and a viable opponent to challenge the regime's power. If we view the Maoist and conservative wings of the Party as representing different interests rather than merely different Party factions, then the 1970s represent a legitimation crisis. In this sense, a real change of regime was possible. In retrospect, however, this seems implausible, and there was almost nothing to indicate extra-Party challenges to Party rule.

What made the situation critical, however, was the loss of faith in the current system, from top to bottom. Although no alternative existed within China, the rise of Asian NICs and the secular decline of state socialist countries indicated that the traditional model of state socialist development was inadequate. Communist states' legitimacy rests at least in part on a world historical model which proclaims their system to be superior to capitalism (Di Palma 1991: 50). In the 1970s, this claim was being proved

wrong by capitalist countries and being abandoned by other state socialist countries. Moreover, both the general population and the leadership were dissatisfied with the economic results of the previous fifteen years. The crisis of legitimacy experienced in the late 1970s was, then, a crisis of the *potential* loss of legitimacy accompanied by a loss of faith within the core support group of the regime. It was real in that without a replacement for Mao's charisma, a sustained crisis of faith would have led to the establishment of alternative groups challenging for power.

The process of legitimation varies between different types of transition; the type of property reform sought is linked to the type of production regime which precedes the transition. In revolutions from below, property reform is linked organically with the revolutionary movement. In transitions, property reform is linked to the process of normalization, and thus achieves legitimacy by association with democracy and rule of law. This legitimacy, however, does not necessarily last beyond the immediate transition period, after which political concerns based on production politics can slow, block, or modify change. In passive revolutions, the regime attempts to slowly change the property relations and the production regime, but since social stability is a foremost concern, the regime attempting a passive revolution will try to mollify core constituencies even as it pushes ahead with reform and represses political dissent.

Legitimacy, property, and regime transitions: revolutions

The explosion of TVEs in China in the late 1980s and 1990s depended on a previous transformation of rural agricultural production relations. Whether one terms these changes privatization or simply property reform, crucial changes occurred in the rural property relations in the early 1980s. Why was property reform so quick, and successful, in rural areas where it has been protracted, and led to losses, in state industry? I propose that rural property reform had the form of a revolution from below, and that the reason rural property reform was a revolution from below was because of the production regime in rural China.

The structure of production has had an important impact on the way property reform has been carried out in China. Under Mao, peasants retained greater control over the process of production, and had easier access to the means of production and reproduction (reproduction of labor power and the labor process), while in urban China the formal subsumption of labor took place and workers became highly dependent on enterprises for reproduction. In addition, in rural China, collectivization maintained and reinforced the family as a production unit (Johnson 1983; Chang 1992). When presented with a possible opening at the beginning of the reform period, peasants seized property rights from the collective in the name of the family. The family as a unit of production had retained ideological legitimacy both as a concession to adult males in rural China and as a way of increasing production through private plots. Furthermore, the peasants' access to the means of production, and their experience with controlling production, made the transition to family

farming relatively smooth. In urban China, in contrast, private forms of production were not only ideologically prohibited, but in fact completely disrupted by twenty-five years of socialist construction. The structure of production in urban China produced workers concerned with stability and equality, values which would be undermined by changes in property relations. This called forth the need to focus on legitimacy, especially as the regime itself felt that its legitimacy was at critically low levels. In addition, it was more difficult to defend the emergence of private property in urban State enterprises than the de facto privatization of farm land in China. This was especially true for both Party and administrative cadres, who faced the loss of control over their economic units without entrepreneurial opportunities correspondent with those open to rural cadres. Finally, sensitive questions such as the status of hired labor were raised in urban reform (White 1987). The need to rally elite opinion was greater in urban China, and thus there is a long record of the theoretical attempts to justify urban property reform, whereas rural reform has largely been justified post facto by increased output. These differences are summarized in charts I-III and chart X.

Barrington Moore said that "The process of modernization begins with peasant revolutions that fail" (Moore 1966: 453). In this chapter I will demonstrate what Moore means: peasant power has toppled regimes, but has been unable to consolidate rule in its name and peasants have often ended up

as the victims of the revolutions they began.¹ Thus China's peasants forced property reform on the state, but were unable to maintain the initiative. Instead of true family farming, they have achieved partial privatization, but have lost the power they had in the early 1980s to influence state policy.

Daniel Kelliher argues that peasants drove the rural reforms, forcing the hand of the state and making the Party/state accept reforms far more radical than they had contemplated in beginning the reform process. As Kelliher summarizes his argument: "Peasants played an active, creative role in the reform era. Although they never possessed a coercive capacity to make the state act against its will, they nevertheless asserted their power to influence, alter, and even create the substance of fundamental rural policies. Under Deng, peasants exercised this narrow species of power, creating possibilities that state leaders had not conceived of and leading the state to choose the peasant creations as policy" (Kelliher 1992: 25).²

¹ Moore continues by saying that the process of modernization culminates with "during the twentieth century with peasant revolutions that succeed." He is quick to point out, however, that the term "peasant revolution" refers not to who gains the most, but which group was the decisive force in toppling the old regime.

² Nee (1989) supports the Kelliher's view of the role of peasants. Zweig (1985) and Hinton (1988) argue the opposite, that decollectivization, like collectivization in the 1950s, was forced on the peasants from above. Their evidence indicates that where peasants were less responsive to the idea of family farming, they were concerned largely with issues of equality. Bureaucrats and cadres were more concerned with the questions infrastructure, maintenance, the efficiency of small-scale farming, and the problems associated with dividing resources such as orchards. These issues continue to concern policy makers and peasants; see *China News Analysis* #1524 (15 December 1994) and #1533 (15 April 1995).

The aftermath of the Cultural Revolution set the context of rural reform. Although largely an urban movement, the CR had many repercussions in rural China. Perhaps the most important policy for rural China was the “learn from Dazhai” campaign. Although never fully implemented nationally, it had an important impact on rural life throughout China. This ideal(ized) brigade became the focus of intense study throughout rural China. Under the Dazhai system, peasants received work points based on both attitude and the amount they worked. Work points were determined in group meetings. Sessions began with individuals stating how many work points s/he deserved, followed by discussion among the group to determine whether the requested amount was appropriate. Initially, the system worked reasonably well. Individuals gave the regime’s preferred response, denigrating their performance and vowing to work harder; the group responded by increasing the point total. Rice yields initially increased (Unger 1985: 127).

As time wore on, the system wore out. In the late 1960s, the size of work teams was doubled, making evaluations more difficult. “Saving face” for the family became more important than the revolutionary desire to follow Mao’s path of selfless sacrifice. Peasants began to resent receiving fewer points, fearing they would be perceived as lazy. Nepotism emerged as families backed up inflated claims from kin (Unger 1985: 117). Individuals began overstating their own contributions. Meetings became raucous, and team leaders began to assign work points based on previous evaluations rather than go through the messy affair of public meetings. This had the effect of freezing social status and removed incentives to improve performance.

Agricultural reform after Mao concentrated on two main areas. On the one hand, the state made administrative changes in prices and production requirements which allowed for greater diversity in agricultural production. On the other hand, the state instituted new responsibility systems, reducing the size of "responsible" units and providing the opening through which peasants were able to push their own vision of reform.

How were peasants able to gain the power to shape reform? According to Kelliher, peasants gained some leverage because of the importance of agriculture to state goals: without a strong agricultural sector, industrial reform, which was the real focus on the reform program, would never take off. Another reason was that there was no consensus on agricultural reform, which made state goals unclear to lower-level cadres who were to implement policy. Indecisiveness on the part of the state gave peasants the room to assert their desires and force the state to acknowledge their preferences as policy.

There were two constraints on state action: internal disagreement within the state and the language of political discourse (Kelliher 1992: 71-76). Internal disagreements took place at all levels. At the elite level, there were conflicts between the "petroleum faction" and the reform faction led by Deng (Fewsmith 1994; Cumings 1983). There were also conflicts within Deng's own reform coalition, such as the split between Chen Yun and Deng, which emerged only later in the reforms. Furthermore, there were conflicts between cadres who had gained power and prestige during the Cultural Revolution, and old cadres who were victims of the CR and had been slowly rehabilitated after 1971. Also important was the lack of a vocabulary with which to express the

reform program. The terms of reform were considered pejorative--private property was synonymous with exploitation and backwardness. This is part of what spurred the drive we will examine in the third chapter to destigmatize the terms of reform by ideological workers (see chart X summarizing the changes after rural reform. See also Blecher 1985).

What made peasants effective actors? How were they able to overcome the problems of collective action in the face of a strong state? Kelliher argues that the relationship of peasants to the means of production and to each other, their relations in production and relations of exploitation, placed them in similar positions and made possible the sort of massive but spontaneous behavior which characterized the early reform period. In contrast to the immobile society theorized by the totalitarian school, and the limited view of social activity presented by bureaucratic approaches to Chinese politics, Kelliher shows not only that peasants were active in determining the course of reform, but they were effective precisely because of the structure of state socialism. The individualized sufferers of Party rule that the totalitarian school posited caused them to forget that under state socialism "...people are atomized as members of a class. Workers under state socialism live lives defined by the state as appropriate for workers. Peasants live within social forms approved for peasants" (Kelliher 1992: 30-31).

Kelliher does not emphasize internal differentiation within classes under state socialism. He also fails to address the issue of regionalism. While these points attenuate his thesis, they main point still holds: the common relationship to the means of production, and means of exploitation (property

relations) which peasants and workers faced under state socialism gave them an opportunity for collective action which was denied them by the authoritarian political structure.

The limits of this power were quickly demonstrated by the renewal of state authority in the countryside. Here the Chinese state was able to take advantage of internal differentiation within the peasantry to unite with the bolder, and increasingly wealthy, elements in the rural areas. Party propaganda chief Deng Liqun, while Party propaganda chief in 1982, stated the case for uniting with rich peasants rather clearly: "With the great changes that have occurred in the countryside, it is no longer appropriate to continue the class line of 'relying on the poor and lower-middle peasants.' What should our work line be, then? Some cadres have suggested that we rally and organize the advanced elements (*xiangjin fenzi*) in the villages and rely on them....I think that until we have a better method we should try this" (in Kelliher 1992: 225). Supporting the entrepreneurs in the rural areas offered the Party/state several advantages: "First, the entrepreneurs and bigger farmers were perfect models: other peasants could be expected to envy their wealth and emulate their success. Second, the state could assume that these richer households were politically reliable. They had an overwhelming personal stake in consolidating the reforms. The entrepreneurs in particular acted as the unconscious champions of reform policy throughout the process of privatization. Finally, these technically skilled, better-educated people represented an alternative to the older cohort of rural cadres" (Kelliher 1992: 226). In the urban areas, the process of creating a bourgeoisie has been much more complicated and drawn

out, but the logic of relying on a new class base for political support makes sense in the urban areas just as it has in rural China.¹

Another reason the peasants lost power was that the state clarified its goals and cadres learned how to navigate the new system, peasant power in China waned. The role of cadres varied considerably during the period Kelliher examines. By the mid-1980s, cadres were performing both entrepreneurial functions and engaging in outright corruption, in both cases taking advantage of the connections they had made as political functionaries (Oi 1986).

Why was privatization, or at least pseudo-privatization, the outcome of these peasant struggles? First, privatization represented the desire of Chinese peasants to regain control over their lives from a system which placed their needs at the bottom of the list. In addition, Kelliher argues that there is a “logic of collectivization” which emerges in the rural areas of a state socialist system. When one aspect of economic life has been privatized, the full gains of this change can not be achieved unless other changes are made: “More than other types of reform, therefore, privatization tends to snowball, careening beyond whatever limited goals the leaders envisioned” (Kelliher 1992: 177-178).

¹ On the emergence of an urban bourgeoisie, see *CNA* 1529 (15 February 1995); Wank (1995); Chang (1994). Chinese entrepreneurs, however are “the clients of officialdom” and “their enterprises rest on very unholy alliances with the public sector” (*CNA* 1529: 1). This provides support for the regime, but may block the democratizing impulse normally associated with the bourgeoisie.

Hegemony, Ideology, legitimacy and social change

Communist parties used to claim that world history was on their side. According to their theoretical framework, capitalism not only exploited workers, but was ultimately untenable as a social formation and would be inevitably replaced by communism. Today, the opposite is proclaimed throughout the world: Communism not only oppressed people but is ultimately untenable as a social formation, and its replacement by capitalism is inevitable. Theory and theoretical claims such as these are important because they help to legitimate sets of social relationships, most importantly in the eyes of ruling groups, but also among the ruled. The process of establishing legitimacy requires the creation of subjects who actively support or at least submit to the claims of ruling groups. Ideology as social-political discourse plays a crucial role in this process under state socialism. As Di Palma notes, "...a focus on legitimacy highlights the importance of political discourse in driving practices of communist power, in contributing to their abject failure, and in shaping societal defenses against them" (Di Palma 1991: 55).

Individuals become subjects when they are interpolated into ideologies. This is similar to familiar concept of socialization, but is demarcated from that term in two ways. First, socialization focuses on individuals who come to know their place *as* individuals, while the use of the term interpellation focuses on the idea that individuals becoming subjects do so not as individuals but as members of classes. Second, the focus on ideology means that there is no "proper" socialization, that interpellation is always uneven and internally inconsistent. Although this interpolation is never perfect, without a counter-

hegemony to help them “think through” the spontaneous reality of lived experience and establish their own institutions (and therefore their own bases of real, material power), subordinate classes can only disrupt the balance of social forces at a certain conjuncture, fomenting a rebellion which allows another class or class faction to gain power. The institutions which instruct individuals in the various (official) ideologies of a social formation represent real power.

Ideology has two aspects. What I will write as *Ideology* is the site of subject formation, and *ideology* is political consciousness linked to class positions.¹ Ideology represents a process of subject formation. It is a representation of the imaginary relationship of individuals to their real conditions of existence (Althusser 1971: 162), or: “that aspect of the human condition under which human beings live their lives as conscious human actors in a world that makes sense to them in varying degrees. Ideology is the medium through which this consciousness and meaningfulness operate’ (Therborn 1980: 2). The question of the “truth” of an Ideology is thus irrelevant: Ideology is neither true nor false--it is the consciousness of people of their social situation, what makes them subjects capable of action. In the production process, both commodities and Ideology are produced.

¹ Definitions of ideology are discussed in Larrain (1991).

Subjectivity is always, however, overdetermined.¹ In addition to the spontaneous Ideology of lived experience, subjects are also interpolated into ideologies.² (i)deologies are not produced in the production process; they are more like political doctrines: they represent class positions in the field of theory and are disseminated through various state apparatuses. (i)deologies are produced by knowledge workers and are an attempt to naturalize a set of class positions and the subjectivity produced at the point of production. Ideology is produced at the point of production, in lived experience, but Ideology must be “spoken” through ideologies: myth, folklore, existential-religious, nationality, gender, family. Individual subjectivities represent both the effects of address (how we are known to others) and how we come to know our own subjectivity through material practice. In China, economists represent factions of state which are attempting to alter the economic base of Chinese society. Their contributions to theory represent an important political intervention because the discourse they create, backed by the power of the state, becomes the language with which all actors must speak to make their claims in the political arena. As we saw in the last chapter, labor activists such as Han Dongfang now use the language created by Deng’s ideological workers to express worker demands.

¹ “Even in the most class-oriented and class conscious societies, the other fundamental forms of human subjectivity coexist with class subjectivities” (Therborn 1980: 26).

² Interpolation is “the process of social identity formation whereby human subjects are inserted into pre-given social practices, and learn how to ‘properly’ participate in them” (Therborn 1975: 99).

We know, however, that reproduction of ideologies and social formations is problematic, and thus it follows that, “[those] who have been subjected to a particular patterning of their capacities, to a particular discipline, qualify for the given roles and are capable of carrying them out. But there is always an inherent possibility that a contradiction may develop between the two....the effects of a contradiction between subjection and qualification are opposition and revolt or underperformance and withdrawal (Therborn 1980: 17). Space for this opposition is created at the point of production, in the subjectivity created in the process of production. This subjectivity can then be used as a tool of organizing against official ideological doctrine. As we saw in the case of state socialism, the conception of the subject presented in official ideology and the experience of the subjects of state socialist production regimes was quite different. This contradiction is a source of rebellion, where the letter of official ideology can be used to make gains for the subjected population.

Ideology produces neither radical nor reactionary subjects: it simply produces subjects. Rebellion, however, must link with ideology to form a revolutionary movement. Rebellion requires a counter-hegemony, the formulation of alternative ways of understanding one’s subjective experiences and the institutional space to put these new understandings into practice.

Hegemony organizes consent--it provides a rationale for the way things are. It is crucial to remember that theoretical-ideological hegemony is never complete, however, and therefore hegemony has an institutional component: all hegemony requires violence (Anderson 1976-77). This material/violent aspect of hegemony exists in the *same space* as the ideological/consensual:

they are separate modalities of the same hegemonic moment. While hegemony organizes consent, it does not guarantee approval of a social order--*hegemony is based on state power--the power of coercion.*

A hegemonic ideology limits political action by limiting the ways subjects think through experience and relate it to others. It does this in two ways. First, through the organization of production, as we saw in the discussion of production regimes above. Second, it limits thinking by controlling discourse, by determining the meaning of words and therefore (imperfectly) delimiting the frontiers of thought. An example of this is the account Belden documented of Communist cadre's attempt to make a Chinese peasant understand the nature of the system which oppressed him:

Ever since the Qing dynasty, Ma revealed, his family had been poor tenants, renting land and never having any of their own. Every year he raised eight piculs of millet and every year he had to give four of these piculs to Landlord Wang. He could afford no medicine for his wife whom he feared was dying. Two years before, his father had died and he had not been able to buy the old man a coffin, but had to wrap him in straw. Now he was thirty-five and still poor and it looked as if he would always be poor. "I guess I have a bad brain," he would say in summing up the reasons for his poverty.

Then the cadres would ask: "Are you poor because you have a bad brain or because your father left you no property?"

"I guess that's the reason; my father left me no property."

"Really, is that the reason?" asked the cadres. "Let us make an account. You pay four piculs of grain every year to the landlord. Your family has rented land for sixty years. That's 240 piculs of grain. If you had not given this to the landlord, you would be rich. The reason you are poor, then, is because you have been exploited by the landlord" (in Blecher 1989: 16-17).

As Blecher shows, "[Ma] knew he was poor. He also knew he was paying a great deal of rent to the landlord. But he could not draw what to us appears the

obvious causal link, not because he was stupid, but at least partly because the hegemonic discourse of the day made it difficult for him to do so" (Blecher 1989: 17). The counter-hegemony amassed by the institutional power of the Communist Party allowed it to transform the consciousness of the peasant by presenting an ideology which explained his position in the world in a way which was simply not possible in the spontaneous setting of old China.

Peasants and workers are subjects. As both Althusser and Anderson have noted, though, the term subject exhibits a "curious ambiguity" because "it signifies at once active initiator and passive instrument" (Anderson 1980: 18). The totalitarian school over-emphasized the extent to which workers were subject to the Party/state, and workers as the active subjects of history have and continue to play an important role in determining the course of Chinese politics. Specifically, I argue they have played an important role in determining the course of property reform in China. But the creation of subjects resides ultimately in the institutions of hegemony, institutions which are created through the expansion of discourse and the implementation of new production regimes legitimized through that discourse. Workers play an important role in Chinese politics, but their power is limited. Workers have altered the course of property reform in important ways, but they cannot stop the process of change. Workers lack the ideological basis on which to establish hegemony, and are therefore limited to fighting within the system.

As Moore's lament on the fate of peasants demonstrates, China's experiences in the 1980s are similar to what happened in the transition from feudalism in Western Europe. The transition to capitalism is one of the most

venerable and disputed questions in social science.¹ The failure of peasants to secure their interests in this transition is closely related to the reasons why Chinese workers have failed to secure their interests in the reform of the property system in China: they both have failed to gain hegemony.

Why did the transition from feudalism occur? In the first instance, it was a result of class struggle between peasants and their lords. Peasants were able to free themselves from feudal obligations due to their struggle against the power of the noble class, "...the appearance for a short time...of free peasant property was the direct outcome of the class struggle between landowner and peasant" (Hilton 1976: 25). The strength of western European peasants forced the aristocracy there to adopt to changing relations of power. Technical changes instituted by peasant farmers made farming more profitable, freeing up wealth with which small-scale handicraft production could take place. It is important to emphasize that relationship to the means of production had a huge impact on whether and in what form collective action can take place: "The place individuals come to occupy in the scheme of the productive forces form the practical basis of their talent and capacity for organization as a class.

¹ Brenner's work represents just one position in a long-going and highly divisive debate. Katz (1989, 1993) provides support for Brenner's position. A collection of critiques of Brenner's work by historians is found in Aston and Philpin (1985), which also includes a lengthy rebuttal by Brenner (1985b). Wallerstein (1979) argues that markets provided the dynamism of the transition to capitalism, which is the object of Brenner's critique (1977). For a related, earlier debate, see the essays collected in Hilton (1976). Moore (1966) and Anderson (1974) focus on later periods, but provide important insights into the political dynamics and outcomes of this process. North and Thomas (1973) provide an institutionalist view of transition. For a critique, see Brenner (1985b).

Thus, for example, the patterns of land use and technology among the peasants in medieval Europe gave rise to their capacity for concerted action” (Katz 1989: 178). In addition, it is important to note that internal differentiation also greatly effects the capacity of a class for collective action:

Economic conflict, particularly between wealthier and poorer peasants, was not uncommon. To be sure, conflicts within the village were always sharply circumscribed by the conflict between the village and the lords. Against the nobility, their common antagonist, they maintained their unity; in other respects, large and small holders were increasingly divided. Moreover, the peasants’ achievement in securing the conditions of free tenure contributed to growing land transfers, disrupting the ancient tenemental arrangements that had given peasants villages their internal solidarity and resilience. This, is their cohesion made successful struggle against the lords possible, their very success against the lords destroyed the rationale for concerted action (Katz 1993: 376).

After the initial destruction of the feudal system, landlords were able to take advantage of the newly divided peasants to assert the primacy of capitalist property.

While the peasant’s class struggle lead to the transition, their vision of free property was appropriated by the ideological representatives of the nascent bourgeoisie and entrepreneurial aristocracy. Locke’s work is the outstanding example how the peasant’s ideology of property was transformed into a system which would lead to the emergence of capitalist wage labor. Locke (1960, especially 285-302) begins by asserting the equality of all people and the right of all to as much property as they can mix their labor with, with two provisions: first, that “there is enough, as and good left in common for others,” and second that no man has so much that part of what he has spoils before it can be used (Macpherson 1962: 200-201). According to Locke, the earth was given to humanity in common. Since this gift was given to all, it was

necessary to have the restraints on property holding mentioned above: that “enough, and as good” be left for others, and that no person take more than they could use before the product spoiled.

The right to appropriate the fruits of the earth are derived from the property each person has in themselves: each person has property in their own labor. By mixing one’s labor with the earth, one gains a right to the fruits of the earth: “Every man has a property in his own person; this nobody has a right to but himself. The labor of his body and the work of his hands we may say are properly his” (in Arthur 1985: 44). Thus in Locke’s theory, the right to property is derived from possession, possession of the power to labor. The labor theory of property, combined with the two strictures noted above, would have placed severe restrictions on the accumulation of property. Locke overcomes the limitations he placed on property through the introduction of money.

Money never spoils, and even more important, money allows for commerce which, in turn, increases output. Since everyone is better off in a money economy, whether or not they have property, Locke allows for unequal property in the name of an increase in the general welfare. Locke’s theory is thus relieved of the need for everyone in society to have property. Indeed, even the alienation of the property each person has--their labor power--is sanctioned by the doctrine of increased general welfare. Thus the peasant’s right to land has been transformed in to the right to hire wage labor, and this right became the cover under which the peasant land was appropriated in the transition to industrial capitalism.

Transitions

The outstanding feature of normalizing transitions, as opposed to revolutions from below or above, is political and ideological “normalization,” which has come to democratization and the rule of law. This normalization “brings along” property reform and therefore the legitimacy of property reform is organically linked to the transition process. Formal and legal property reform may thus be easily accomplished in a normalizing transition. However, real changes in property relations are much more difficult to accomplish. Normalizing transitions have a shorter “grace period” than revolutions from below, and sectoral interests emerge relatively quickly. Among the important determinants of these sectoral interests, and therefore of the effectiveness of property reform, are production regimes.

Shock therapy, therefore, had questionable economic premises (Amsden et. al. 1994), but it had a solid political rationale. As Zagorski has shown in the Polish case, the transition period is an “extraordinary period” in which “...support for systemic transformations is determined more by the hope of improving living conditions than by the perceptions of present actual conditions” (Zagorski 1994: 357). Radical reforms must be implemented quickly, before society is redivided by particular interests, because “Once the ‘extraordinary period’ ends, the systemic and public resistance to drastic changes would make them very difficult, if not impossible, to implement” (Zagorski 1994: 359). The factors which contribute the ability to make radical economic reforms (“...the readiness to make personal contributions and

sacrifices, the lack of well established political representations of particularistic interests, the persistence of the artificial unity that was necessary during the fight against the powerful and monolithic enemy, and the tendency of politicians as well as the public to think more in terms of the common good than in terms of fragmented political interests") last only a short while (Zagorski 1994: 360).

Property reform in Russia has taken a very different path from that of China, because of different types of transition and different types of production regimes. Because of Russia's transition from Communist rule, legal property reform was able to gain acceptance in a much more rapid period than it has in China. In contrast to China, reform in the urban sector has proceeded faster than reform in the rural sector. But politics at the level of production have prevented Russia's radical, but largely legal, property reform in the urban areas from having the dynamic impact that China's piecemeal property reforms have had. Since 1989, approximately half of all industrial assets in Russia have been privatized; the percentage in rural areas is much lower. The differences between Russian and Chinese reform can be traced to differences in the type of transition each experienced and the way production was and is organized.

Debate over property reform in Russia

Before the transition from Communism, property reform in urban Russia was in a pattern quite similar to what we have seen in China. That is, it had the form of a passive revolution, and the resulting need to legitimize property reform was much greater on the theoretical level than it has been since. I will review some of these efforts before examining property reform in the post-Gorbachev era.

On 29 September 1989, the USSR Supreme Soviet's Committee for Economic Reform concluded the drafting of a law on property ownership in the Soviet Union (FBIS-SOV 2 October 1989: 43). The draft law was the most important of five draft laws on the economy: laws on ownership, land leasing, a single tax system and the socialist enterprise. To the participants in the parliamentary debate, the effectiveness of the other laws depended on property reform. The deep divisions this law highlighted between Western-oriented reformers, Communist-oriented bureaucrats, and the small but vocal collection of intellectuals and activists advocating a "third way,"¹ continue to divide the Russian political landscape.

The property law was prepared by Leonid Abalkin, then Deputy Prime Minister and Chair of the Committee on Economic Reform. The Law was submitted to the parliament on 2 October, and debate began immediately (FBIS-SOV 5 October 1989: 42-43). Several issues were raised. The

¹ Gorbachev himself at times advocated this position. See for instance his article on socialism published in *Pravda* in November 1989 (FBIS-SOV 27 November 1989: 70-80).

importance of attacking reform as a whole, rather than piecemeal, was stressed, as was the importance of property reform as the center of the whole reform project. The Abalkin plan proposed that forty percent of state enterprises (by value of capital stock) would become joint-stock enterprises by 1995, with an additional one-third being leased (Planecon Report, 1 December 1989: 2).

While the deputies debated property reform, two important conferences were taking place. The first was held by the Party Central Committee in early November. Two things stand out about this meeting. First, the discussion of private property was remarkably blunt, even though this meeting took place under the auspices of the highest body of the Soviet Communist Party. The second outstanding feature, and one that turned up continually in the Soviet debates, was the regionalization of opinion. Delegates from Lithuania, for instance, stood firmly in favor of privatization of property and giving republics and autonomous regions control over natural resources found in their territory (FBIS-SOV 9 November 1989: 95, 101).

The second conference, the All-Union Scientific-Practical Conference on Problems of Radical Economic Reform, both continued and broadened the debates of the Soviet Deputies and the Central Committee conference on reform. Before the conference, a blueprint for radical economic reform was published (FBIS-SOV 7 November 1989: 76-86). The "ultimate purpose" of radical economic reform was, "...a healthy economy capable of providing for the high efficiency of production, the people's well-being at the level of modern living standards, social justice, and the solution of the most serious economic

problems” (76). The first step towards these goals was described as recognizing, “*First--the diversity of forms of social ownership¹ and their equality and competition as the fundamental basis of the citizen’s economic liberty affording them an opportunity to make the best use of their capabilities and creating strong personal and collective economic motivation. The diversity of forms of social ownership is not a transitional, bit a normal condition of the socialist economy*” (77). The blue print mentioned four additional basic features of the new economic system they hoped to build. First, labor’s claim to ownership is based on earning and contribution, not sharing (in Chinese terms, no more “eating from the same big pot”). The second feature is the use of markets as the “principle form of coordination of the activity of participants in social production” (77). The third feature is a developed system of social safeguards, As the document states, “An important feature of the new socialist economy is the balance of economic efficiency and social justice” (78). The fourth and final feature is state regulation of the economy through “direct management of state enterprises, price control, taxes, tax breaks and penalties” (78).

Under the plan, state enterprises would switch to leasing, or be converted into joint-stock, cooperative, or public enterprises. Some enterprises, such as the power system, rail, air, and sea transport and defence industries would continue to be run by the state, and their employees would be

¹ Chinese writers such as Dong Fureng have similarly stressed the diversity of possible forms of ownership as part of the attack on state ownership in early phase of reform. See chapter four below.

part of the civil service. Anti-monopoly legislation would be implemented to prevent unfair rents from being extracted. Self-management and self-financing by republics, regions, and municipalities is another aspect of these proposed reforms. Gorbachev personally chaired this conference, underscoring its importance. It also gained relevance because of its temporal relationship with debates in the Supreme Soviet. Yet the Supreme Soviet did not pass the property law, but referred it out to the republics for consultation. Obviously, property reform was as contentious as it was important.¹

The idea of economic restructuring continued to gain momentum through the summer of 1990, but foundered at the end of the year. During the debate, however, Russia began to plot an independent course which influenced the privatization plans of Anatoli Chubais's State Property Management Committee (Nelson and Kuzes 1994: 24). As the Soviet Union disintegrated, political backing for privatization grew among those who wished to challenge the power of the Communist Party. Three different plans for privatization emerged at the end of 1990. The first was Soviet Prime Minister Nikolai Ryzhkov's plan for a "regulated market economy," which included many features of an economic reform proposal that had been presented by Abalkin the previous October (Nelson and Kuzes 1994: 24). After Ryzhkov's speech announcing the plan on 24 May 1990, the public panicked, hoarding staples and clearing stores of their inventories. The second plan was the Shatalin 500

¹ At this time, debate on the question of private property was also driven by the success of co-ops, and the resentment they had created in large parts of the population. The co-op movement largely collapsed with the end of the Gorbachev era. On co-ops, see Greenspon (1989).

day plan. Under this plan, prices would be deregulated and large industry privatized in “one great leap” -- a 500 day long march to capitalism. The third plan was Aganbegan’s compromise plan, which was a “inconsistent, contradiction-ridden compromise” between the Ryzhkov and Shatalin plans (Nelson and Kuzes 1994: 26).

By mid-1991, new legislation encouraging private enterprise was on the books, and at the time of the August coup, 110,000 cooperative enterprises were registered (Nelson and Kuzes 1994: 29). In addition, in July, Russia had approved the use of Personal Privatization Checks, which could be used to purchase state assets. The August coup attempt yielded Yeltsin both power and prestige, which he used to put forward a “radical” plan to transform the Russian economy along the lines proposed by Western economists such as Sachs and Aslund. In October 1991 Yeltsin declared a one-time switch to market prices. According to Nelson and Kuzes, Yeltsin adopted the Aslund-Sachs formula for political reasons: “It would unambiguously show, as Gaidar later explained, that the government was finally doing *something*. With clear, clean leadership, Aslund had crafted a daring vision for economic leadership. Yeltsin would find out whether or not it was good economics” (Nelson and Kuzes 1994: 37).

With political power firmly in his hands, Yeltsin moved to increase the pace of privatization, but at the same time, he ran into the kind of political opposition and policy confusion which has delayed the proposed changes up to

1995.¹ Changing course from the summer, Yeltsin followed his October decree on prices with a December 1991 decree which declared that personal privatization checks could not be used in 1992 (Nelson and Kuzes 1994: 44). Instead, "...workers would be given, at no charge, shares representing 25 percent of the fixed capital of privatizing enterprises where they were employees. These were to be non-voting shares. Workers could buy an additional 10 percent at a 30 percent reduction. Five percent of the shares were tagged for the managers of enterprises, who could also buy an additional 5 percent. The Russian government would own 60 percent of an enterprise's shares at first. Ten percent of that amount had to be sold within a month and the remaining 50 percent within six months" (Nelson and Kuzes 1994: 44-45).

Moscow turned into a giant experimental zone for privatization plans. One plan for privatization tried in Moscow proposed to convert workers into owners by converting leased enterprises to private enterprises. Yet the plan was largely abandoned by August. Why? First, the city government became convinced that workers were not the best managers. In addition, bureaucrats and enterprise managers were using the law to enhance their own position (Nelson and Kuzes 1994: 48-50). 3). Despite this, 9000 enterprises were privatized in Moscow in 1992. In late 1992, Yuriy Luzhakov, Moscow's mayor, was still criticizing the Moscow property committee for its failure to properly plan the transition to private property (Gurvich 1992: 85).

¹ See Bekker (1995), Narzikulov (1995), Nikolayev (1995).

Under increasing political pressure, Yeltsin again reversed course, and voucher privatization was reintroduced in mid-1992. Conservative Yeltsin critics, trained in Western economics, argued that by giving away property Yeltsin was undermining its value and economic effectiveness. Leftist critics, meanwhile, argued that the nomenklatura were controlling the process and workers were losing out. At this time, the social and political goal of distributing property to the populace was more important than increasing efficiency in the eyes of the Congress (Nelson and Kuzes 1994: 65). Then on 14 Aug 1992 Yeltsin made another decree on vouchers, allowing their use for purchase of shares in mutual funds which would, in turn, invest in a number of enterprises, thus reducing individual risk. Vouchers could also be sold on the open market (Nelson and Kuzes 1994: 70). As of 1995, the voucher privatization phase had ended, and the second phase, monetary privatization, was scheduled to start. However, the Duma has not approved the start of this phase, and another struggle between Yeltsin and the Duma is brewing over this issue (Khorev 1995: 56-57).

Changes in property relations in Russia

The formal, legal battle to transform property rights in Russia has been hotly contested, but equally problematic has been the arguably more important transformation of production itself. After extensive participant research in Russia, Burawoy and Krotov concluded that despite important legal changes, the Russian production regime was largely unchanged. Profit-seeking through commerce was rampant; much less common was the

implementation of new ways of producing which would lead to Western-level efficiency (Cook 1995; Burawoy and Krotov 1993a: 52). This is partly a result of Yeltsin's blunder of decontrolling prices within the context of monopolistic control, which allowed profit-seeking without increases in efficiency. Even worse for the Russian economy, profit-seeking managers increasingly abandoned control of production to workers. As under the Communist system, the secret of enterprises success in Yeltsin's Russia was bargaining with external organization and not control of the process of production (Burawoy and Krotov 1993b: 76). Labor shortages gave workers power within enterprises (Interview 35). Simon Clarke argues, "The fundamental barrier to privatization lies in the fact that there has been no fundamental change in the social relations of production, on the basis of which productive assets can be transformed into capital" (Clarke 1993: 200). Privatization, then, has often been "pirate-ization," whereby bureaucrats gain legal control of property through connections rather than economic success.

Yet even formal and legal change has been blocked in agriculture (Van Atta 1994). Why have Russia's farmers been less active in seizing land than their Chinese counterparts were a decade earlier?¹ In terms of the production regime, Chinese and Russian agriculture are very different (Brooks 1990). Russian agriculture is highly subsidized; Russian farmers receive benefits

¹ One of the most important reasons is that agricultural interests have been able to present a united face to the central government, both as lobbyists and as elected representatives (Van Atta 1994). This fact is important, but it is more important in explaining why reform hasn't been evoked from above more than why it hasn't fomented from below.

more like Chinese state workers than Chinese peasants. Russian farms were run more like factories than Chinese farms, and thus Russian farmers had less control of the production process. Both of these factors give farm leaders in Russia much more power than the already formidable power over inputs which Chinese rural cadres possess. Moreover, Russia's farm leaders are more like state functionaries than locally-based team and brigade leaders in China, and thus have more to lose and less to gain from the transformation of agriculture. China's rural cadres were able to turn their connections into profits after reform; Russia's farm leadership has been turning their connections into profits for decades. Finally, the ideology of family farming has much less currency in Russia than in China. Russians talk about importing US-style family farming, while the Chinese refer to their own agricultural history. Property reform in Russia is different from property reform in China along the lines we would predict from the production regime hypothesis. These variables are summarized in charts XII and XIII.

Passive revolution

I introduce the South Korean case here to illustrate the concept of passive revolution. The concept of a passive revolution, (a "revolution from above") comes from theorist's attempts to explain the "revolution/restoration" dynamic first apparent in the conservative response to the French revolution.¹

¹ The most concise statement of the concept is in Gramsci (1971: 106-120). For general discussions, see Adamson (1980: 186-196); Sassoon (1987: 193-217)

A passive revolution is one in which elites are able to reform existing institutions without changing the underlying structure of social power. For Barrington Moore (1966: 433-452) the classic examples are Germany and Japan. In both countries, industrialization was carried out “without the radical cataclysm of a proletarian revolution” (Adamson 1980: 201). Gramsci discusses this in terms of the conservative reaction in Italy to the French revolution, and the old feudal classes change from a hegemonic force to a part of a governing coalition: “The old feudal classes are demoted from their dominant position to a ‘governing’ one, but are not eliminated, nor is there any attempt to liquidate them as an organic whole; instead of a class they become a ‘caste’ with specific cultural and psychological characteristics, but no longer with predominant economic functions” (Gramsci 1971: 115). This passive revolution is possible because no class is able to present itself as a potential hegemonic force -- a force capable of intellectual-moral leadership, capable of presenting its program as a universal program for the entire nation.¹ The lack of class power allows the state, “captured” by a small class fraction, to become the dominant force in national politics. The likelihood of a passive revolution is further increased when international political and economic forces threaten a country with dynamic new ideas--thus the French revolution and the Russian revolution both spurred reform efforts to avoid the politicization of the masses

¹ On hegemony, see Gramsci 1971: 219-269. See also Anderson 1976-77 and Adamson (1980: 169-201).

evidenced in these revolutionary movements.¹ Without a class force to lead the way, the transmission of new ideas is left to intellectuals, and “the conception of the State offered by them changes aspect; it is conceived of as something in itself, as a rational absolute” (Gramsci 1971: 117). The state, then, becomes a means of political transformation itself, rather than a means by which a social class asserts its universalist aims.

The predominance of the South Korean state can be understood in these terms. Korea’s passive revolution led to the truncated nature of politics in Korea, which alternated between long periods of harsh repression and short bursts of mass political action. While the state was “overdeveloped” by Japanese colonialism, it was easily challenged from within after the Japanese surrender (Cumings 1981). Nationalist activists set up a People’s Republic of Korea based on People’s committees. The US Army command, however, destroyed the power of the people’s committees. The US then proceeded to destroy labor unions and peasant associations. Since most industry was in Japanese control, the native Korean bourgeoisie was small and tainted with collaboration with Japanese imperialism. With popular classes repressed and no bourgeoisie or traditional class to claim power, the power of the US Army fell to the state. As Choi summarizes the situation, “Postliberation Korean politics, then, has to be understood in historical terms: the harsh nature of colonial rule, the way in which the Pacific war ended, the temporary

¹ “Passive revolution became an attractive when a regime possessed domination but lacked hegemony and needed to curb a progressive force, preferably without any resort to violence, or at least without protracted struggle” (Adamson 1980: 186).

immobilization of the Japanese coercive apparatuses, tremendous population movement, and the sheer politicizing force of historical events. To this we must add additional -- and what proved to be decisive -- structural factors: the unnatural division of Korea, occupation by foreign troops, and the insertion of US and Soviet interests into Korean politics" (Choi 1993: 16). The politicization of the masses, however, was temporarily dissolved by the war and Rhee's harsh repression after the end of the fighting.

Given the ideological nature of the division of the Korean peninsula, capitalism was the only choice of a development strategy. A new bourgeoisie emerged during the war with the North and in the subsequent period of heavy American aid, making its living off government contacts and contracts. This set the pattern for the entire history of South Korean development: the bourgeoisie has been closely tied to the government, dependent on the state for protection, access to credit, repression of labor, and guidance for investments in new areas of production. Even Korea's giant chaebol were created by preferential government policies designed to produce a new phase of Korean industrialization based on Korean competition in higher technology goods. The result is that "the Korean bourgeoisie remains, despite its wealth and increasing political influence, a decidedly unhegemonic class, estranged from the very society in which it continues to grow" (Eckert 1993: 96).

With the backing the US government and the ideological weapon of anti-communism, the state in South Korea was able to guide Korea's economic development and weather repeated mass mobilizations for democracy (e.g., 1960, 1971, and 1980). When the authoritarian regime faltered in 1987, it

fell to a coalition of popular and middle classes, spurred together by the ideology of minjung and the rallying image of the Kwaju massacre.¹ Big business continued its policy of non-support for democracy, but the state's continuing demands on big capital in Korea neutralized the chaebol, which had come to resent the level of state control of the economy.² With the apparent achievement of democracy, the coalition faltered. The split between the working class and the middle class, symbolized the split of Kim Dae Jung and Kim Yong Sam, was a split over the meaning of politics and economics in the new era. Working class views of democracy "gave centrality to the concepts of equality, social justice, and community" (Choi 1993: 40), while middle class views were focused on the decompression of political space and free elections. Similarly, working class views of the economy emphasized redistribution, while the middle classes were more comfortable with a continued focus on economic development (Choi 1993: 32).

In China, property reform has proceeded cautiously, in ways that we would expect from studying the idea of a passive revolution and production regimes. Thus, China has generally given in to state worker demands and

¹ The minjung movement was a cross class coalition against authoritarianism, based on labor, student, and religious movements. See Koo (1993b).

² "Under the Roh regime the upper bourgeoisie consciously strove to convert its economic power into political power as it became increasingly distrustful of the regime's economic policies, which were inconsistent" (Choi 1993: 47).

implemented property reform slowly in the state sector, assuring social stability and the continued loyalty of a key constituency. In addition, the regime has attempted to bolster the legitimacy of reform through an ideological campaign to redefine economic terms. By slowly transforming the production regime in the state sector, along with producing a new discourse to explain those changes, the state is laying the foundations for a change in property relations. In the discourse of labor activists, we witness the change in subjectivity. Workers are now industrial citizens, fighting for rights. Individuals are the core of the struggle, dealing with individual firms and enterprises.

The possibility of debilitating labor unrest remains, but in many ways the labor unrest of the past two years conforms to the needs of the regime rather than indicating a potential crisis. Labor is fighting battles on the regime's terms in TVEs, or fighting rearguard battles in struggling state industries. China's passive revolution has been remarkably successful because the Chinese Communist Party has attended to the demands of urban workers while slowly undermining the ideological and production platforms on which state worker's power was based.

CONCLUSION

Thus a revolution of behalf of private property in the means of production has a good chance of succeeding in some phases and not in others. It may be hopelessly premature and but a minor current in the fourteenth and sixteenth centuries and yet be hopelessly anachronistic in the second half of the twentieth. Over and beyond the concrete historical conditions at a given moment in a particular country, there are worldwide conditions, such as the state of technical arts and the economic and political organization reached in other parts of the world, that influence heavily the prospects of revolution (Moore 1966: 427).

I have argued that two factors are crucial in explaining the course of property reform in China: the type of regime transition and the production regime. These combine to set the structural conditions of possibility for property reform. Specifically, they determine the degree to which a state must consciously legitimate property reform.

Property reform is highly political. Efficiency is a factor, but, a highly political one. The equation of private property with efficiency is ideological, because efficiency is determined by many factors, and private property may not be among the more important of these many variables. Property reform redistributes social power, and therefore requires legitimation. Legitimizing property reform has been a central task of China's passive revolution.

In China, we have examined the course of legitimation on two levels. On the ideological level, there was an attempt to redefine key terms of economics, and well as the subjectivity of economic actors. At the level of production, the regime has played a patient game of placating state worker's demands while simultaneously transforming the production regime within factories, thereby increasing the pace of change in subjectivity and opening the way for property reform.

China's passive revolution is different other passive revolutions. As Moore pointed out, "the methods of modernization chosen in one country change the dimensions of the problem for the next countries who take the step..." (1966: 414). The emergence of Communism in China is inexplicable without reference to the failed attempts at modernization by more conservative leaders in the first half of this century, and of course the October Revolution in Russia. Similarly, the rise of Japan and the Asian NICs, as well as the experience of Maoism, changed the options available for Deng. To argue, as I have done, that China is undergoing a passive revolution is not to argue that China is repeating the experience of any other country. Instead, the concept demarcates some important aspects of the transition. In the next few paragraphs I will try to set up some of the political problems which may emerge from China's passive revolution.

No passive revolution has come to a peaceful end. Italy, Germany, and Japan all became fascist regimes intent on imperial conquest. The more modern and more moderate example of South Korea also presents a chronicle of violence and repression in the midst of building both a bourgeoisie and an

international economic power. One reason that passive revolutions feature so much violence is the removal of a class imperative for democracy. Those who argue that markets and entrepreneurs spur democracy miss the point that when business has been tied closely to the state, it has acted more as an obedient partner than as an agent for change. Civil society, those middle classes who joined forces with students and workers to force Korea's transition in 1987, were forced into the role of democracy's champion by business' abdication of that role.

If China's passive revolution yields a business class tied to the state, democracy in China will be a long time in coming. The diverse middle classes which are so important to a functioning democracy are much less effective as catalysts for democratic transition. The diversity of interests within civil society make it difficult to coordinate a long-term movement for change. The transition literature has been criticized for its emphasis on pacts (Karl 1990). But pacts are, in fact, easier to make than negotiating diverse demands of civil groups. It takes much longer for these groups to unite into a cohesive political force than business, whose interests are more focused.

Even as China embraces different forms of property, the effects in class terms are unknown. Passive revolutions require passive class forces. At the current time, China's nascent bourgeois have, as Engels once phrased it, "exchanged the right to rule for the right to make money." In *China Pop*, Zha Jianying (1995) relates the story of her friend, a radical literary critic fond of Lacan and Foucault. She marched with the students in 1989. Unwilling to abide by the political strings attached to her literary job, she left for the private

economy. Today, she is an entrepreneur, running a women's fashion boutique. If China's property owners remain cynical and dependent on the state, marketization may have little impact on political opening.

Economically, property reform may continue to be slow, but effective. Workers will be slowly forced out of state factories, but probably into the arms of sufficient social security and economic growth so as to present a minor threat. China's leaders are too sensitive to the problems of unemployment to allow it undermine their regime. With the possible exception of Italy, other passive revolutions which have lasted as long as China's has have lasted until their nations had achieved rough economic parity with leading economic states. On this measure, China's passive revolution will be around for some time longer.

Obviously, then the emergence of a Chinese bourgeoisie is an important subject of future study. With a politically quiescent working class, the role of property holders, not educated middle classes, is the key to breaking the political bonds of a passive revolution. If entrepreneurs remain tied to the state, China's property relations will remain muddled, and therefore more subject to corrupt appropriation by cadres. And, if entrepreneurs remain tied to the state, much more time, and force, will be required for China to become more democratic.

Changes in state factories also must be further examined. Among the many questions which need to be addressed are differences between regions, the effects and costs of social security measures and unemployment schemes, and generational differences in attitude. Another area for further research is

a comparative analysis of China's local development strategies with those of other developing countries. Placing China's TVEs in a global context would, I think, show that they are both a product of China's reforms and the shifting of production in a post-Cold War, post-Fordist world.

Property reform has an impact far beyond economic efficiency: it changes social power and politics as well. Precisely because it is so important, property reform can and should be studied from many perspectives: economic, sociological, and political. The theme of this is that the implementation of capitalist property relations from above, China's passive revolution, is a complicated and contested process. This process, and its impact on China, will continue to be important subjects of study for decades to come.

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APPENDIX I
CHARTS

CHART I

Changes in composition of production enterprises in China, 1980-1990

	percentage controlled by state sector		
	<u>1980</u>	<u>1985</u>	<u>1990</u>
number of enterprises	22.10	19.61	17.93
number of employees	64.59	68.65	68.42
number of workers	57.96	45.69	45.00
gross value of industrial output	75.97	64.86	54.60
net output value	81.50	74.51	70.07
product sales revenue	81.45	73.93	69.83
original value of fixed assets	91.07	86.40	80.68
net value of fixed assets	90.27	85.22	79.78
total assets	85.92	78.74	75.77
total profits and taxes	86.41	80.07	77.25

Source: PRC Yearbook 1993: 442

Chart II
Gross Industrial Output Value
 unit: 100 million Yuan

	Total	State- owned enterprises	Collective enterprises	Private enterprises	Other
1978	4,237	3,289	948		
1980	5,154	3,916	1,213	0.81	24
1985	9,716	6,302	3,117	179.5	117
1986	11,194	6,971	1,752	301	163
1989	22,017	7,858	7,858	1,058	758
1991	28,248	14,955	10,085	1,609	1,600
1992	37,05	17,824	14,101	2,507	2,634

Source: PRC Yearbook 1993: 457

Chart III
Labor Force
Unit: 10 thousand persons

Year	Total of labor force	State-owned units	Urban individual laborers
1978	40,152	7,451	15
1980	42,361	8,019	81
1985	49,873	8,990	450
1986	51,282	9,333	483
1989	55,329	10,108	648
1991	58,360	10,664	760
1992	59,432	10,889	838

Source: PRC Yearbook 1993: 493

Chart IV
Number of Enterprises by form of ownership

Year	Large and medium state enterprises	State-owned enterprises	Collective enterprises	Township and village enterprises	“Other” forms of ownership
1978	.44	8.37	26.47	16.41	----
1980	.47	8.34	29.35	29.35	.04
1985	.79	9.37	36.78	36.78	.17
1986	.88	9.68	40.01	40.01	.24
1989	1.23	10.23	39.59	39.59	.72
1991	1.45	10.48	38.92	38.92	1.08
1992	1.70	10.33	38.45	38.45	1.42
1993	1.85	10.47	38.21	38.21	3.21

Source: Zhongguo Gongye Nianjin 1994: 986

Chart V
Production Regimes at the beginning of the reform period

	Rural	Urban
Access to means of reproduction	Yes	No
Subsumption of labor	Formal	Real
Ideology	Low	Low
Subjectivity	High	Low
Role of the state	Mixed	High
Market	Low	Low

Access to means of production: ability to reproduce labor power outside of state channels

Subsumption of labor: control over the production process

Ideology: formal ideological-theoretical status of private forms of property and production

Subjectivity: formal ideological-theoretical status of unit-class in control of privatized property

Role of the state: state role in production and reproduction of commodities and labor power

Market: degree of production distributed through market channels

Chart VI**Production Regimes 1984**

	Rural	Urban
Access to means of reproduction	Yes	No
Subsumption of labor	Formal	Real
Ideology	Mixed	Low
Subjectivity	High	Low
Role of the state	Mixed	High
Market	Mixed	Low

Access to means of production: ability to reproduce labor power outside of state channels

Subsumption of labor: control over the production process

Ideology: formal ideological-theoretical status of private forms of property and production

Subjectivity: formal ideological-theoretical status of unit-class in control of privatized property

Role of the state: state role in production and reproduction of commodities and labor power

Market: degree of production distributed through market channels

Chart VII**China Production Regimes 1993**

	Rural	Urban
Access to means of reproduction	Yes	No
Subsumption of labor	Formal	Real
Ideology	High	Mixed
Subjectivity	High	Mixed
Role of the state	Mixed	High
Market	High	High

Access to means of production: ability to reproduce labor power outside of state channels

Subsumption of labor: control over the production process

Ideology: formal ideological-theoretical status of private forms of property and production

Subjectivity: formal ideological-theoretical status of unit-class in control of privatized property

Role of the state: state role in production and reproduction of commodities and labor power

Market: degree of production distributed through market channels

CHART VIII
Decision-making power within enterprises

	d1	d2	d3	d4	d5	d6	d7	d8	d9	d10
SOE										
A	4.3	3.4	5.2	1.7	4.0	1.8	2.0	1.8	5.5	7.4
B	76.3	9.7	73.1	31.3	62.1	48.4	63.3	37.6	65.8	66.6
C	8.8	84.9	13.8	14.6	9.3	16.2	23.4	36.1	14.6	19.0
D	10.6	1.9	7.9	52.4	24.6	33.6	11.4	24.5	14.1	7.0
N	912	784	871	902	903	839	869	665	875	812
TVE										
A	19.4	19.7	28.2	22.0	20.4	19.9	9.4	9.8	19.6	26.6
B	72.7	32.0	59.3	50.2	63.6	68.1	58.5	42.7	60.7	595.7
C	6.8	47.2	9.6	13.4	12.0	7.6	28.2	43.2	18.2	11.9
D	1.1	1.1	2.9	14.4	4.0	4.3	4.0	4.3	1.4	1.8
N	278	269	280	277	275	276	277	234	280	278

SOE: state-owned enterprise

TVE: township and village enterprises

A: Proportion decided by enterprise manager alone; B: proportion decided by enterprise-level committee; C: proportion decided in conjunction with Party committee; D: proportion decided in conjunction with worker and staff congresses; N: sample size.

d1: Production planning; d2: appointment of enterprise management; d3: chao gong; d4: dismiss workers; d5: determine bonuses; d6: determine wages; d7: make investment decisions; d8: make decisions on mergers; d9: distribution and use of profits; d10: temporary stoppage of production

Source: Liu Xiaoxuan 1995: 14-15.

CHART IX

Decision-making power under various forms of ownership

SOE	d1	d2	d3	d4	d5	d6	d7	d8
A	25.7	80.1	30.9	13.8	15.9	34.0	28.6	56.1
B	47.5	19.9	51.8	50.9	15.9	16.6	57.1	37.1
C	26.8	0	17.4	35.3	68.3	49.4	14.4	6.8
N	933	933	933	845	933	933	878	843
TVE								
A	21.8	60.0	3.5	4.2	18.6	9.2	16.0	52.4
B	20.4	24.2	29.8	23.6	27.0	11.7	59.6	35.3
C	57.9	15.8	66.7	72.2	54.4	79.2	24.5	12.3
N	285	285	285	284	285	283	282	252

CHART IX

Decision-making power under various forms of ownership

SOE	d1	d2	d3	d4	d5	d6	d7	d8
A	25.7	80.1	30.9	13.8	15.9	34.0	28.6	56.1
B	47.5	19.9	51.8	50.9	15.9	16.6	57.1	37.1
C	26.8	0	17.4	35.3	68.3	49.4	14.4	6.8
N	933	933	933	845	933	933	878	843
TVE								
A	21.8	60.0	3.5	4.2	18.6	9.2	16.0	52.4
B	20.4	24.2	29.8	23.6	27.0	11.7	59.6	35.3
C	57.9	15.8	66.7	72.2	54.4	79.2	24.5	12.3
N	285	285	285	284	285	283	282	252

Chart X**Change in rural production regimes**

	1978	1984	1993
Access to means of reproduction	Yes	Yes	Yes
Subsumption of labor	Formal	Formal	Formal
Ideology	Low	Mixed	High
Subjectivity	High	High	High
Role of the state	Mixed	Mixed	Mixed
Market	Low	Mixed	High

Access to means of production: ability to reproduce labor power outside of state channels

Subsumption of labor: control over the production process

Ideology: formal ideological-theoretical status of private forms of property and production

Subjectivity: formal ideological-theoretical status of unit-class in control of privatized property

Role of the state: state role in production and reproduction of commodities and labor power

Market: degree of production distributed through market channels

**Chart XI
Types of Transitions**

<u>Type of change</u>	<u>Social groups involved</u>	<u>goal</u>	<u>status of the state</u>
Revolution from below (France 1789, Russia 1917)	Active participation by significant portion of popular classes allied with fractions of elites	Social justice	Seeks overthrow of state and replacement with revolutionary state
Transition (Russia 1991--, South Korea 1987)	Elites (especially elites with weak or broken ties to the state) with popular support	"Normalization" to democracy and Western-style institutions	Transform state, reign in rogue elements, such as military and security apparatus, and subject to regular, legalized popular scrutiny
Passive revolution (South Korea 1960-1979, China 1978--)	Elites within the state	Economic modernization	Strengthen and professionalize

Chart XI Types of Transitions (continued)

	<u>ideology of property</u>	<u>duration of legitimacy</u>
Revolution from below (France 1789, Russia 1917)	Organic: grows out of class struggle	long
Transition (Russia 1991--, South Korea 1987)	Semi-organic: is appropriated from International discourse	temporary
Passive revolution (South Korea 1960-1979, China 1978--)	Created from above of national and international elements stressing economic modernization	

Chart XII
Rural Production Regimes at the beginning of the reform period
In China and Russia

	Rural China	Rural Russia
Access to means of reproduction	Yes	Limited
Subsumption of labor	Formal	Real
Ideology	Low	Low
Subjectivity	High	Low
Role of the state	Mixed	High
Market	Low	Low

Access to means of production: ability to reproduce labor power outside of state channels

Subsumption of labor: control over the production process

Ideology: formal ideological-theoretical status of private forms of property and production

Subjectivity: formal ideological-theoretical status of unit-class in control of privatized property

Role of the state: state role in production and reproduction of commodities and labor power

Chart XIII**Urban Production Regimes in China 1978 and Russia 1991**

	China Urban	Russia Urban
Access to means of reproduction	No	No
Subsumption of labor	Real	Formal
Ideology	Low	High
Subjectivity	Low	Low
Role of the state	High	High
Market	Low	Mixed

Access to means of production: ability to reproduce labor power outside of state channels

Subsumption of labor: control over the production process

Ideology: formal ideological-theoretical status of private forms of property and production

Subjectivity: formal ideological-theoretical status of unit-class in control of privatized property

Role of the state: state role in production and reproduction of commodities and labor power

Market: degree of production distributed through market channels

APPENDIX II

INTERVIEWS

October 1991-February 1992.

I conducted interviews in Beijing, Tianjin and Shanghai. Interviews were loosely structured, informal, and interviewees were promised anonymity. The selection process was strictly non-random: I interviewed people with whom others could make contact for me, or who agreed to meet me after "cold calling." Interviews with joint ventures were usually set up through phone calls or scheduled after brief visits to JV factories or offices. I often worked with a partner who was interested in doing import-export business with China. Interviews with joint ventures were either office visits or office visits combined with second sessions, usually meals. On two occasions, we visited productive facilities.

Interview 1: Xiangmu Jingji with a very large state-owned industrial enterprise in Beijing.

Interview 2: Account manager with large state-owned industrial enterprise in Shanghai.

Interview 3: Manager of joint-venture shipping company, Tianjin.

Interview 4: Manager of joint-venture textile company, Shanghai.

Interview 5: Director and vice-director of small state-owned Chemical and food processing enterprise, Tianjin.

Interview 6: Purchasing director of state-owned department store, Tianjin.

Interview 7: Purchasing representative, US-owned clothing chain, Shanghai.

Interview 8: Director of China operations US clothing manufacturer, Shanghai.

Interview 9: Director, Shanghai office, US-owned transportation firm.

1994:

I was based at the Chinese Academy of Social Sciences, Economics Institute. Interviews were of three types: interviews with academics and specialists on economic reform; interviews with workers; interviews with TVE managers.

Interviews with academics were both formal and informal. Introduced myself as a graduate student doing research in political science. Interviews took place at homes and at offices, and usually involved several meetings.

Interviews with workers were informal. I introduced myself as a tourist rather than an academic. All interviews took place as simple discussions, usually at people's homes, and I never indicated that what was said would be published. All the workers I interviewed worked for state enterprises in Beijing or for the petty private sector.

Finally, I interviewed managers at three TVEs in southern China. My access to these firms was gained by my introduction as the replacement for a Hong Kong-based representative of a US-based toy manufacturer. I followed the current (US citizen) representative and had excellent access to factories. After my tours, the representative announced that the company had, in the end, chosen another person to be the liaison.

Interview 10: Academic researcher, CASS.

Interview 11: Academic researcher, CASS.

Interview 12: Academic researcher, CASS.

Interview 13: Academic researcher, CASS.

Interview 14: Academic researcher, CASS.

Interview 15: Academic researcher, CASS.

- Interview 16:** Academic researcher, Institute of Modern Market Economy.
- Interview 17:** Academic researcher, Department of Sociology, Beijing University.
- Interview 18:** Researcher, Asia Monitor Resource Center, Hong Kong.
- Interview 19:** Robin Munro, Human Rights Watch, Asia, Hong Kong.
- Interview 20:** Worker, Beijing state-owned enterprise, construction unit.
- Interview 21:** Worker, Beijing state-owned enterprise, construction unit.
- Interview 22:** Leaser, state-owned store, Beijing.
- Interview 23:** Manager, state-owned hotel, Beijing.
- Interview 24:** Worker, state-owned hotel, Beijing.
- Interview 25:** Beijing representative, Harbin-based state-owned manufacturing enterprise.

- Interview 26:** Retired worker, Beijing medium-sized state-owned enterprise.
- Interview 27:** Assistant Bureau Chief, Ministry of Internal Trade
- Interview 28:** Assistant Manager, Tianjin Trading Company
- Interview 29:** Manager, Dongguan TVE.
- Interview 30:** Manager, Dongguan TVE.
- Interview 31:** Manager, Dongguan TVE.
- Interview 32:** Field representative, US-based toy distributor, Hong Kong.
- Interview 33:** Guangdong Province export coordinator, Dongguan.
- Interview 34:** Retired manager, Zhuhai FIE
- 1995:**
- Interview 35:** Moscow, September 1995, with V. Gimpelson, sociologist.