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SOCIALIST ECONOMIC DEVELOPMENT IN THE 21ST CENTURY

A CENTURY AFTER THE BOLSHEVIK REVOLUTION

Alberto Gabriele and Elias Jabbour



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ROUTLEDGE

Socialist Economic Development in the 21st Century

Over a hundred years after the first socialist revolution broke the global monopoly of capitalism, a new class of socialist-oriented socioeconomic development is coming to the fore. Capitalism is still dominant worldwide, although its hegemony is no longer undisputed, and humankind is now faced with a key existential challenge. This book proposes an alternative path to overcoming the worldwide crisis of globalized capitalism. It offers a novel, balanced, and historically rooted interpretation of the successes and failures of socialist economic construction throughout the last century.

The authors apply a multidisciplinary, holistic, and purpose-based methodology to draw basic lessons from stylized facts, emerging in different areas of knowledge, ranging from political economy to biology, and from key national socioeconomic experiences, with a particular focus on China. The book is divided into two parts. The first is mainly theoretical and general in nature, identifying the major contributions bequeathed by the hard sciences to their social counterparts. Consistent with these findings, the authors offer a stylized interpretation of the contemporary state-of-the-art debate on the core concepts of economic science and advance a few elementary theories about what socialism in the 21st century could look like. The second part analyzes and discusses the core features of a few select experiences, which have evolved in certain countries since 1917, some of which are still unfolding.

The book will find an audience among academics, researchers, and students in the fields of economics, political science, history, and geography, as well as, policy makers, particularly in developing countries.

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Impossible to forget an old and familiar pizzeria called Ai Tre Scalini located in the Torre Maura district (Via del Picchio), Rome. It was our last refuge after hours of arguments.

“Listen! Behold, a sower went out to sow. And as he sowed, some seed fell along the path, and the birds came and devoured it. Other seed fell on rocky ground, where it did not have much soil, and immediately it sprang up, since it had no depth of soil. And when the sun rose, it was scorched, and since it had no root, it withered away. Other seed fell among thorns, and the thorns grew up and choked it, and it yielded no grain. And other seeds fell into good soil and produced grain, growing up and increasing and yielding thirtyfold and sixtyfold and a hundredfold.” And he said, “He who has ears to hear, let him hear.” (Mark 4: 3–9)

Foreword

At the dawn of the second decade of the new millennium, the COVID-19 epidemic is causing a loud explosion of all the contradictions typical of the mode of production of capital. These contradictions had been hidden under the post-2008 liquidity splurge, but at the end of the day, they did little but only further inflated the global speculative bubble. The nightmare that the world as a whole is experiencing now is still a consequence of the systemic overproduction crisis that began in the 1970s and has periodically resurfaced in the subsequent decades.

Covid-19 is not the cause of the global collapse, but has acted as an amplifier of the structural crisis of capitalism, just as the 2008 subprime mortgage crisis was only the detonator of a much more radical and widespread tension that had been piling up over time, the effects of which were far from having been absorbed a decade after the Lehman Brothers' piloted bankruptcy.

After all, the very agents of capital acknowledged by late 2019 the imminence of the explosion of speculative bubbles, and that 2020¹ would be the *annus horribilis*, without imagining the scale and speed of the pandemic and its catastrophic economic impact. In this context, the interruption of payments at the end of September 2019 in the United States represented much more than a wake-up call for all global operators.²

Current events, on the one hand, show with unprecedented clarity all the fragility of a mode of production that perhaps only a generalized super-structural hardening based on a shift towards despotic forms of command might keep in existence. On the other hand, it is becoming all the more urgent to analyze in-depth and with a *laicist* mindset the core features of a still fledgling model that is in many ways distinct from capitalism, although it is still premature to define it as an alternative to the former.

We are obviously referring to the PRC's experiment, which – especially in the last two decades – has undoubtedly become the locomotive of the entire world economic system.

This text is profoundly innovative from this point of view, as it has the merit of being one of the few that – with a meticulous work of theoretical and statistical analysis – tries to provide the reader with a key to interpret the presently existing models of socialism, and in particular the Chinese one.

Moreover, the book is based on rigorous theoretical and statistical analysis and is not conditioned by ideological or partisan biases that would only end up watering down a question of absolute importance. With a very materialistic approach, the authors allow us to go to the heart of the question, showing the existing linkages between ownership relations, on one hand, and the forms and effectiveness of planning/*projectment* tools, on the other hand, where the latter can play a crucial role as a realistic alternative to the anarchy of capital.

Gabriele and Jabbour do not buy into the “political superstition (of) imagining that civil life must necessarily be held together by the state, while, on the contrary, in reality, the state is held together by civil life.” (Karl Marx and Friedrich Engels, *The Holy Family*, 1845, Chapter VI, 3), and put forward an interpretation of the forms of transition from capitalism to socialism that is closer to Lenin’s one, in particular as regards state capitalism.³

Clearly, to dismiss China’s complexity as yet another socialist failure swallowed up by capitalism would be tantamount to falling into a trivial, erroneous, and anti-scientific ideological stance. By the same token, it would be no less obtuse to indulge in a quasi-religious Maoist pro-China attitude, referring to a long gone historical period of which only a few traces remain at an iconographic level. Moreover, such a loony stance ends up serving well the global bourgeoisie and its lackeys, who keep portraying the PRC as a dangerous force of subversion of the world order, to be attacked and suppressed on any occasion. As a matter of fact, it is widely believed by most observers that the ongoing quasi-cold war between the US and the PRC is the most distinctive feature of the present historical period.

In this respect, it is interesting to note that about one year ago an internationally renowned economist, Branko Milanovic, published an article in *El Pais*,⁴ arguing that China’s public sector constitutes barely a fifth of the entire national economy, and therefore the PRC is not substantially different from ordinary capitalist countries.

This thesis is consistent with the argument put forward in Milanovic’s last book, *Capitalism, Alone. The Future of the System That Rules the World*.⁵ As the title clearly anticipates, the author argues that there is no alternative to capitalism, neither now or in the future, and that the only feasible path towards improving the well-being of the poor and moderating inequality is a reformist one that does not dare to challenge the foundations of this mode of production.

Milanovic’s article ignited a debate, to which the two authors participated,⁶ showing that is essential not to fall into oversimplifications, and to avoid parroting the apparently intriguing narratives of *enlightened* world-famous academicians.

The quest for understanding and analyzing without ideological prejudices the complexity of the PRC – and of other socialist-oriented countries – is a duty for all anti-capitalist militants. Each of these experiences is unique, yet they do belong to the tradition and history of the world’s working class

movement, and we can learn a lot from them. In the case of the PRC, moreover, we deal with an immense country that has achieved for decades the most sustained growth rate in history, turning from one of the poorest in the world into the second economy of the planet, and is now endowed with a vast industrial base and very advanced scientific capabilities. To acknowledge such a feat, of course, does not mean to ignore that China's socioeconomic system is also plagued by very serious contradictions, which must be severely criticized.

For these reasons, the text by Gabriele and Jabbour (that I supervised from the very beginning) represents a fundamental starting point: it provides both novel and innovative theoretical and empirical analytical tools, alongside much food for thought. It also sets the stage for pursuing novel and still little-explored avenues of investigation, which are of interest for both academics and activists.

Naples 22nd March 2021

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Notes

- 1 See IMF Annual Report (2019).
- 2 For further information see also Clementi and Schettino (2020), *Crisi, disuguaglianze e povertà*, Edizioni La Città del Sole, Napoli, Italia, 2020.
- 3

The whole problem—in theoretical and practical terms—is to find the correct methods of directing the development of capitalism (which is to some extent and for some time inevitable) into the channels of state capitalism, and to determine how we are to hedge it about with conditions to ensure its transformation into socialism in the near future.

(Lenin 1921, *The Tax in Kind*. See also Giacché V, *Economia della rivoluzione*, Imprimatur, Italy, 2017)
- 4 Milanovic, B. ¿Es China realmente capitalista?, *El País*, 14/04/2020 - <https://elpais.com/ideas/2020-04-14/es-china-realmente-comunista.html>.
- 5 Milanovic, B. *Capitalism, Alone. The Future of the System That Rules the World*, Harvard University Press, 2019.
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Part I

**Capitalism and socialism
as modes of production**



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1 Introduction to part I

Summary

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1.1 Categories and concepts

In this work, we develop a somewhat novel and heterodox view of the global evolution of capitalism and socialism by critically extending the basic interpretative framework of the modern classical economic theory and proposing a partial reinterpretation of the category of the mode of production, in light of the lessons stemming from historical developments in the 20th and early 21st centuries.

We begin our journey by reviewing a number of key stylized facts emerging from recent developments in various scientific fields, which have traditionally been regarded as very distant from social sciences and political economy (see Chapter 2). We show that, when stock is taken jointly and judiciously of these major multidisciplinary findings, the overall *weltanschauung* underpinning the microfoundations of orthodox economic theory is untenably shaken. Therefore, we have to move the landmarks and boundaries of the range of thinkable and scientifically plausible evolution paths for the evolution of human societies. In this context, we focus in particular on the sub-set of emergent phenomena constituted by presently existing and (possibly) newly established economies that are significantly different from the classic capitalist model.

In this introductory section, we propose a few ancillary and taxonomic *operational categories*, which will be further developed and discussed in the following chapters, along with the (always debatable) concept of *socialism* in its entirety.

In this respect, a brief methodological and epistemic digression is warranted. The term *category* is to be understood in the Kantian sense of “*ontological*

predicate,” meaning anything that can be said about an object. More specifically, we use the expression *operational categories* to refer to

the criteria and rules to formulate concepts that give support to the search and application of meaningful operations as procedures. Operational categories...specify the boundaries of replicability of the scientist’s actions regarding the production of facts and their communication to the members of the same linguistic community.

(Ribes-Iñesta 2003)

In the same work, Ribes-Iñesta also ingeniously clarifies the subtle semantic relationship among the terms concept, word, and category:

Scientific theories are special systems for building technical uses for words and expressions denoting and describing the conceptual objects and properties under analysis. The construction of a theory not only involves the identification of empirical referents, but also the definition of how words are used in relation to the properties and features of those referents to yield concepts. To do so, the function of concepts and expressions in scientific language is acknowledged in terms of the logical role they play regarding phenomena and events being referred to, described by, or defined by a theory. These logical boundaries delimiting the use or function of words as concepts are called ‘categories’

We welcome such a rigorous semantic approach and try to maintain a basic consistency with it in the remainder of this book. However, as our discourse often unfolds at a relatively low level of abstraction, we occasionally use the terms category and concept in a substantially interchangeable way.

1.2 Operational categories

The first operational categories we introduce are *socialisticity* and *socialist orientation*. The terms *socialisticity* (a noun) and *socialistic* (an adjective) are very ugly, yet they do exist in English and are useful. The adjective *socialistic* means in accordance with socialism, having the property of being socialist.¹ By construction, *socialistic* is a *comparative* adjective, which cannot be used in a dichotomous and absolute fashion (as opposed to the adjective *socialist*). That is, you can say that country A is *moderately socialistic*, or *more socialistic than country B*, but you cannot say country A is socialistic tout court.²

Its origin is not a happy one, as it was introduced by Abalkin in 1988 to indicate the degree of approximation to what should be socialism, at a time when the USSR was already about to implode.³ However, Abalkin used the term only with reference to property rights, while in this work we employ it in a more holistic sense.⁴

Different from socialistic and socialistic, the pair of terms *socialist orientation and socialist-oriented* are easily understood in their ordinary significance. *Per se*, they are rather vague, aspirational terms that refer to a moral, cultural, and voluntaristic attitude favorable to socialism. However, in the context of the argument developed in this book, we propose to attach to them an additional specific and dichotomous connotation. According to this connotation, an object is socialist-oriented or is not.⁵ We define as socialist-oriented those contemporary and formerly-existing national economies that comply with two necessary and sufficient conditions:

- a) are (or were) run by political forces claiming officially and *credibly* to be engaged in a process aimed at establishing, strengthening, or improving and further developing a socialist socioeconomic system, and
- b) can (or could) in fact be considered to be *reasonably socialistic*, i.e. to have *advanced* towards socialism along at least some (mainly positive) measurable dimensions in a multi-vectorial space representing key structural economic and social characteristics (see Box 1. 1).

Condition a) belongs to the political and historical domain. Therefore, the credibility caveat fully depends on the observer's informed judgment on each country's specific political-historical situation. Condition b), conversely, is predicated on quantitative socioeconomic evidence. Some of this evidence can be relatively straightforward to access (i.e., official statistics on the relative weight of public and private ownership in various sectors, human development indicators). Yet, a deeper, holistic interpretation of quantitative and qualitative evidence also depends, to a considerable extent, on the observer's informed judgment. For instance, in the case of China, there is plenty of statistical information on State-Owned Enterprises SOEs and on industrial and technological policies. Yet, foreign and even Chinese observers markedly disagree on a key issue: whether or not the State exerts (directly and indirectly) a decisively hegemonic role in steering the national economy. This is obviously a crucial (although not exclusive) benchmark to gauge to which extent China's economy can be considered *socialistic*.

We acknowledge that no definition of the term socialist-oriented is bound to be universally accepted. Even if this were the case, *a fortiori*, different observers would likely disagree among them when applying conditions a) and b) on a specific real-world economy. The most obvious example is again that of China. Even accepting in broad terms our definition, some observers would regard China as the most egregious instance of a socialist-oriented economy, and actually one that has advanced a lot towards becoming more *socialistic* in many domains. Others, however, would dismiss China's official claims and declare strategic intentions as meaningless and cynical, and regard its socioeconomic fabric as one more authoritarian variant of market-based capitalism. Nevertheless, notwithstanding its caveat and limitations, we deem that the

category of *socialist-oriented* economy fits our analytical goals, as it will become progressively clearer in the remainder of the book.

We now turn to the term Socioeconomic Formation (SEF). For the sake of this introduction, this term is to be understood straightforwardly as referring to a socioeconomic system endowed with a certain degree of internal consistency and stability, which historically prevails in a given locus identifiable in time and space, with the latter corresponding to a specific nation-state – i.e., a country.⁶ If they are (were) endowed with a sufficient degree of stability and resilience, socialist-oriented economies can be regarded as socialist-oriented SEFs.

In this respect, it is always important to remind that real-world socioeconomic systems only approximately match their abstract archetype. This token applies a fortiori to systems that have come to life historically as the product of long political struggles carried out by the teleological-oriented organization that put forward a strongly characterized project of societal change (as it is the case for those that originated from socialist revolutions).⁷

There are no examples of “pure,” or full socialism. This hardly surprising observation is obvious if socialism is understood in a very strong sense (according to the time-honored normative and humanistic cultural tradition of worldwide socialist and communist movements), as a state of things where major and demonstrable progress has already been achieved in all areas of societal life towards eliminating any form of need-dependency, exploitation, alienation, discrimination, and political or cultural repression, and towards an extraordinary expansion of the freedom of each individual along all her/his existential dimensions.

Alternatively, or complementarily, the property of being socialist might be understood in a much weaker sense, as applying exclusively to the domain of income/wealth distribution. According to such a far less ambitious criterion, a nation-state where the principle to each according to her work is universally applied and no forms of private property and of non-labor personal incomes exist⁸ could be regarded as fully socialist. It is clear that such a purely socialist distributional structure does not exist in any place in the contemporary world.⁹

Therefore, in order to avoid extreme nihilism, and to develop a discourse on socialism that is not blatantly anti-scientific, we maintain that the use of the apparently convoluted term *socialist-oriented* is often necessary to at least strive to approximate a realistic analysis of our subject.

1.3 Capitalism and primitive socialism under the meta-mode of production

Neither the US and the former leading imperial/colonial powers nor any small and middle-sized core industrialized country has ever embarked on a non-capitalist path.¹⁰ However, hard-fought historical progress in several areas – such as the quasi-universal¹¹ spread of core elements of the welfare state,¹² the formal (and, in part, substantial) overcoming of institutionalized racial and gender discriminations,¹³ and the expansion of sexual and reproductive

freedom and of civil rights – profoundly improved the social conditions of working class majorities and underprivileged minorities in the North. Yet, many of these gains were subsequently lost¹⁴ with the advent of the “neoliberal”¹⁵ counterrevolution. The multiple evils of this setback are now self-evident: a progressive deterioration of income and wealth distribution has pushed back inequality to pre-war levels in most countries,¹⁶ paving the way for the present scenario characterized by social disruption, the rise of racism, and the substantial hollowing out of the traditional edifice of liberal democracy.

Socialism, as a mode of production,¹⁷ has taken roots only in some areas of the global South and is still in its infancy. Many large-scale revolutions have taken place in some areas of the periphery and semi-periphery, since the first decades of the past century.¹⁸ Various types of experimental forms of non-capitalist relations of production and exchange striving to overcome capitalist class power have been emerging, following an uneven pattern. Some of them eventually collapsed due to endogenous and exogenous factors,¹⁹ while others have proved resilient (at least so far), and new ones have emerged.

Embryonic forms of socialism – along with capitalism and pre-capitalist modes of production – are now present in some developing countries. Consistently, we refer to them as socialist-oriented SEFs, structured around relatively similar market-socialism models in spite of the very uneven level of development of their respective productive forces.

It can be cautiously and provisionally (due to the little time they have been in existence so far) posited that, in at least some of these countries, the present state of development will be seen in the future, with the benefit of hindsight, as having represented in fact a primitive stage of socialism.

As a result of the uneven and non-linear unfolding of historical processes in the center and the periphery, the contemporary world is characterized by the existence of multiple nation-states and various forms of inter-state cooperation and rivalry. However, taking into account the inescapable, yet evolving constraints imposed by the present global context, where international trade and financial relations are predominantly market-based, significantly different socioeconomic systems and super-structural articulations²⁰ are developing in various countries, and no trend towards universal convergence à la Fukuyama is discernible.²¹ The most likely global scenario in the XXIst century – barring a catastrophic major military confrontation, a far from unlikely eventuality – is constituted by the continuing presence of diverse socioeconomic formations in evolutionary movement and reciprocal contestation.

1.4 Socialist-oriented socioeconomic formations

Several national economies, including the one which might become the largest in the world in the third decade of the XXIst century, are already characterized to a large extent by diverging nation-state-specific mixed socioeconomic systems. In these countries, the capitalist and the socialist mode

of production co-exist, in the framework of a socialist-oriented development strategy where the State exerts a high degree of direct and indirect control over the national economy (see Box 1.2).²²

Our approach develops the idea of multilateral coexistence of different modes of production in a global context where the capitalist mode is likely to remain the dominant one, at least for a long period of time. Such a multiform and evolving world economic system is endowed with sufficient degrees of freedom to allow different socioeconomic structures to develop in different points of space and time.

Market-based relations of production and exchange prevail worldwide, especially in the realm of international trade and financial relations. Yet, they do not mechanically force all national socioeconomic systems to conform to one standard mold. Diverse and idiosyncratic socioeconomic formations pivot around different loci in the market-planning continuum, embarking on uneven development paths and engaging in various forms of inter-state cooperation and rivalry. New varieties of hybrid socioeconomic formations are likely to emerge in the future.

We frame the roots of our analysis in an evolutionary approach that follows in the cultural political economy tradition pioneered by the classical economists and Marx.^{23, 24} Yet, we also try to embody some key lessons based on recent findings in biology, social psychology, neural networks and cognitive science, neuroscience, and behavioral economics.²⁵ In this endeavor, we consider appropriate a relatively high degree of abstraction and aggregation to analyze large and complex systems such as modern human societies. Our main findings are consistent with those that have been advanced by critical political economists since at least the 1960s – contributing inter alia to deal a final blow to the fictitious *homo economicus* anthropology that underpins the hyper-individualistic micro-foundations of the whole edifice of neoclassical economics. Yet, we also propose some innovations that we deem necessary to adapt to the lessons of history and to the reality and challenges of the contemporary world. The core of our argument is that the market-based constraints of the *meta-mode of production* (see below, Chapter 7) cannot be superseded in the present historical phase, and might be progressively overcome only in a very long-term scenario. However, these constraints do not necessarily and exclusively imply the eternity and universality of capitalism. In particular, under socialism (or, more conservatively, under a socialist-oriented strategic development framework) it is possible to accelerate the progress of productive forces, to rein in the irrationalities of capital markets, to overcome to a large extent class-based exploitation in labor markets, and to gradually restrict the operation of the law of value in consumer goods markets. In turn, these achievements can be harnessed to pursue a key normative goal, such as advancing towards a more egalitarian, needs-based, and ecologically sustainable production and distribution system. In fact, unless we find a planet-wide path beyond the presently-dominant mode of production, which is still overwhelmingly capitalist at the global level, *the anthropocene* period may be the end of humanity and of many other species.

**BOX 1.1 A non-dichotomist, heuristic concept of socialism:
towards an index of socialistic development**

One convenient way to conceptualize the differences among socioeconomic systems consists in characterizing them²⁶ according to their position in a multidimensional space, determined by vectors that represent key structural economic and social properties.²⁷ Such characteristics have both positive and normative²⁸ components. Some of these components can be straightforwardly quantified, such as those that convey information on income distribution and human development. Some other ones are usually, such as those that evaluate the overall shares of various ownership in different sectors of the economy. Still other ones can be evaluated only tentatively, on the basis of heuristic assessments which are arbitrary to some extent. This is the case, for instance, of indicators that attempt to quantify synthetically the degree of direct and indirect control on the national economy exerted by private and public actors.²⁹

Socioeconomic vectors belong to two categories. The vectors of the first category represent structural features of social relations of production and exchange, and are thus essentially positive in nature. One of the most important vectors describes the relative weight of the State and of the market respectively in regulating economic activities³⁰—taking for granted that the space of possible states of the world excludes the extremes “no state” and “no market” as they are not sustainable. Another structural vector describes the distribution of the ownership of the main means of production. A third vector, strictly related to, yet not identical to the second one, identifies the class(es), or social group(s) controlling the economy as whole, and determining the joint process of accumulation and technical progress. Other vectors could be identified, referring to other, less crucial positive aspects of a country’s economic and social reality.

The vectors of the second category are normative, and represent the degree of achievement of intermediate (e.g., GDP growth, energy consumption, speed of technological change) and final goals (such as poverty elimination, universal satisfaction of basic needs, equity in opportunities, an ethically and socially satisfactory income distribution, environment protection).

Each country’s socioeconomic system can be identified by a given point in the multidimensional space described above. Many of both positive and normative characteristics described by the corresponding vectors can be seen as describing a higher or lower level of approximation to a pure socialist archetype (a society where the *principle to each according to her work* is fully and universally applied, there are no

(Continued)

forms of private property, and no non-labor personal incomes exist). Necessarily, even the criteria which might allow to define a country's socioeconomic system "*more socialistic*" than that of another country are arbitrary to a large extent, and not all observers can necessarily be expected to agree on their choice. Nevertheless, it is likely that the majority would accept two very schematic criteria, each one valid only in its own sphere (positive and normative respectively).

The positive criterion can be summarily synthesized as follows: the more relevant the socioeconomic role of the state, and the lesser that of private property, the more a country's system is "*socialistic*", i.e. the higher its *degree of (effective) socialistic orientation*. From a normative viewpoint,³¹ the *degree of socialistic orientation* is directly correlated to the measurable achievement of the traditional and relatively less traditional goals of the international socialist movement, such as low social and economic inequality (both in terms of possibilities and outcomes), the universal satisfaction of basic needs, environmental sustainability, and the like.

The concept of (effective) socialistic orientation is based on real and (albeit imperfectly) measurable characteristics of socioeconomic systems, and as such it is juxtaposed to the aspirational and teleological socialistic orientation of individuals, movements or political parties. *Effective* socialistic orientation is conceptually related to complex and multi-dimensional theoretical categories, but it could also be translated into an empiric operational indicator susceptible to statistical measurement.³²

This concept is to be used in a relative, continuous, and heuristic analytical context. In the simplest case, it synthesizes a holistic evaluation. That is, saying that "economy A has a higher (overall) degree of socialistic orientation than economy B" would be like saying "*economy A is 'more socialistic'*" than economy B. The term can also refer in a comparative way to various characteristics that jointly allow observers to make a value judgment on the extent to which an economy exhibits socialist characteristics. For instance, the proposition "*economy A has a higher degree of socialistic orientation than economy B from the vantage point of positive characteristics, but a lower one from that of normative characteristics*" would be tantamount to state "*economy A is more socialized and planned than economy B*", i.e. private property and market mechanisms carry a lower weight in economy A than in economy B. However,³³ economy A's performance in terms of achieving socialist goals – such as fair income and wealth distribution, poverty reduction, environment protection, and the like – lags that of economy B.

Taking into account that social production and exchange relations are extremely complex, and that history itself is dialectic and to some

extent contradictory in nature, there is not necessarily a bi-univocal correspondence between the positive and normative spheres. Yet, the positive and normative dimensions are significantly related to each other. The relationship between systemic structure and economic and social outcomes can be seen as a specific manifestation of the more general relationship between means and ends in the historical-social domain.

BOX 1.2 Socialist-oriented economies and socialist-oriented socioeconomic formations

Contemporary and formerly-existing socialist-oriented economies are those that are (or were) run by political forces claiming officially and credibly to be engaged in a process aimed at establishing, strengthening, or improving and further developing a socialist socioeconomic system. If they are (were) endowed with a sufficient degree of stability and resilience, they can be regarded as *socialist-oriented SEFs*.

Along with the People's Republic of China (PRC) and Vietnam, Cuba is one of the three main³⁴ presently existing socialist-oriented SEFs. As it is based on easily verifiable official declarations and programs, on one hand, and on the objective analysis of its ownership structure and economic governance system, on the other hand, we regard the expression “socialist-oriented socioeconomic formation” as essentially neutral one. On the contrary, any attempt to gauge whether a real-world socioeconomic system is truly socialist or not is a very tricky exercise that – no matter the observer's intellectual honesty – inevitably requires a combination of (tentatively) objective scientific analysis and of value-judgments, and thus carries with it a significant degree of subjectivity. For this reason, in the remainder of this book, we will preferably use the expression “socialist-oriented socioeconomic formation,” rather than “socialist socioeconomic formation.”³⁵

Contemporary and formerly-existing socialist-oriented economies can be further distinguished into two classes. One is constituted by traditional, Soviet-style, centrally planned socialist³⁶ economies. Nowadays, most of them are no longer in existence. Yet, a notable exception is constituted by Cuba, a country that – notwithstanding some partial reforms that have led to a major liberalization in many commercial services sectors, a part of the economy that (along with the exportation of health services) is the most important foreign-exchange earner, and the only one that is presently growing – can still in its essence be regarded as traditionally centrally planned.³⁷

(Continued)

The other category is that of *socialist-oriented market economies*. It is presently constituted by China, Vietnam, and (possibly) Laos,³⁸ three developing countries that we characterize as socialist-oriented planned market economies,³⁹ because. We prefer this definition because:

- i it is not directly and exclusively related to any of the various theories of market socialism;
- ii it does not imply extending a patent of “true” (or untrue) socialist nature;
- iii it aims rather to be factual and neutral.

A socialist-oriented market economy is a mixed national socioeconomic system where:

- a price-based market mechanisms and the law of value constitute the prevalent form of systemic regulation in the short- and medium-term;
- b the relative role of planning and of the State’s direct (via SOEs) and indirect (via publicly-owned finance and other instruments) control on the economy are qualitatively and quantitatively superior with respect to those of capitalist countries;
- c the government officially identifies full-fledged socialism as its paramount long-term goal, to be achieved progressively in a context of rapid socioeconomic development, technical progress, and a continuous evolution of economic governance tools.

Taking into account their distinctive objective and subjective characteristics, planners in socialist-oriented planned market economies are endowed with a wider and more powerful range of tools than their counterparts in capitalist countries. In particular, they can set the share of the surplus at the macroeconomic level, and capture an important part of the latter not only by means of ordinary fiscal policies but also in virtue of the State’s ownership rights on industrial and financial capital. As a result, they can in principle⁴⁰ determine in the short-to-medium run the share, the rate of investment, its broad sectoral composition, the level and composition of social expenditure, and the level of effective demand. In the long run, planners in socialist-oriented planned market economies can set the speed and (to some extent) the direction of capital accumulation, innovation, and technical progress, and significantly affect the structure of relative prices by means of market compatible industrial and other policy interventions. Therefore, they are in a position to consciously and cautiously steer the unfolding of the law of value in order to achieve ex-post socioeconomic⁴¹ and ecological outcomes superior to those that would have been produced automatically by simply following market price signals.

Notes

- 1 The term socialistic has never been widely used. Yet, its origin dates back to the mid-XIXth century (Dictionary com 2019).
- 2 Conversely, you can say that country A is (or is not) socialist.
- 3 The fall of the USSR was a complex phenomenon caused by a multiplicity of factors (the analysis of which goes beyond the scope of this book), but surely was not due to a lack of brilliant economic analysis and of ingenious attempts to improve the functioning of the planning mechanism. See, among others, Khachaturov 1976; Abalkin 1978, 1989; Aganbegyan 1989.
- 4 Abalkin used the term *socialisticnost* (socialisticity) in an influential 1988 paper to indicate the degree of approximation to what should be socialism. However, Abalkin used the term socialisticity only with reference to property rights systems, while in this work we employ it in more holistic sense. Moreover, in our view, his two socialisticity criteria (first, the system must be very productive and innovative; second, it must produce an overall societal outcome that is consistent with socialist goals and broadly superior with respect to capitalism) unduly mix up positive and normative elements, thereby falling into a sort of idealistic trap. So, for instance, Abalkin criticized late Brezhnevian USSR for being very far from what could be considered as properly socialist. Of course, he was right in the substance. However, on the contrary – according to our interpretation – the USSR was quite socialist indeed (even too much, in a way). Yet, it was a type of socialism that (apart from having always been fraught with major shortcomings) no longer worked (see Abalkin 1988a,b,c, 1989; Tedstrom 1990).
- 5 This suggestion does not imply that the original and more general meaning of these terms is incorrect and should be abandoned. The term *degree of effective socialistic orientation* refers to the attempt to measure (and, possibly, quantify) to which extent a socioeconomic system is in fact socialistic, in positive and/or normative terms (see Box 1. 1).
- 6 The concept of socioeconomic formation is a time-honored one, yet is not commonly found in contemporary social science debates. Its historical origin, its meaning, and the specific denotation in which it is employed in the remainder of this book are discussed more thoroughly below in Ch. 4.
- 7 The opposite case could be made for feudalism, a system that arose slowly over time as a product of the leaderless interaction of historical forces.
- 8 Past attempts to set up a fully socialist socioeconomic setting, and to rapidly supersede it in the direction of communism, had to be eventually discarded as they proved non-sustainable (see below, Sections 8.2, 8.3). By the same token, even the most conservative and libertarian governments in capitalist countries cannot fully dismantle the state apparatus, abolish all public services and withdraw completely from intervening in the economy.
- 9 Income and wealth distribution in some countries (such as China and Cuba) was more socialistic a few decades ago than it is now, but it was never fully socialist (see above, note 8).
- 10 The DDR and Czechoslovakia could be seen as partial, circumscribed and ultimately ephemeral exceptions.
- 11 For instance, the US has never had universal mandatory health coverage.
- 12 The diffusion of the welfare state in the advanced West was pioneered by the Roosevelt administration in the US, with its New Deal reforms, and by Social Democrat-led governments in Scandinavia since the 1930s.
- 13 Race discrimination was formally overcome in the US in the 1960s. Homosexuality was de-penalized in West Germany in 1969. Women gained the right to vote in Switzerland in 1971.

- 14 A significant exception is constituted by the domain of sexual and reproductive freedom, the empowerment of women and the advancement of GBLT civil rights. In the neoliberal West, this positive development has been possible due to its class-neutral nature, and has been following a trend common also to socialist-oriented countries and to some capitalist developing countries. An opposite, regressive path has been followed by many other countries in Asia and Africa, that have been disrupted by the intercontinental spread of the jihadist movements born out of the mujahidin war in Afghanistan, and subsequently strengthened the US invasions of Afghanistan itself and Iraq and by the civil wars in Libya and Syria.
- 15 We use the term *neoliberal* in quotes because we consider it to be little more than a hypocritical fig leaf to mask a major step backward towards XIXth century-style, pre-keynesian liberalism.
- 16 The most well-known text on the structural, ontological nature of the long-term trend towards increasing income and wealth within-country inequality under capitalism in Europe and the US is Piketty 2014. In this respect, it might be worth observing that Piketty's research does not discuss another crucial dimension, that of between-country Inequality. Since its inception, capitalism has been generating, reproducing and magnifying worldwide between-country inequality through its manifestations as colonialism, imperialism, and hegemonism.
- 17 The term mode of production is well known. We propose our partly innovative interpretation of this category in Ch.3.
- 18 Radically egalitarian revolutionary political movements, such as the Jacobins and the Communards, had previously come to power precariously for brief periods of time, even before the Russian Revolution. Yet, they never controlled firmly the whole of France, and were never in a position to attempt any form of socialist economic construction.
- 19 After WWII, local revolutionary forces in most Eastern European countries were very weak, and could only seize power thanks to Soviet support. Such a lack of popular legitimacy played a role in hampering subsequent attempts to establish functioning centrally planned socialist economies. However, this matter-of-fact historical observation does not affect the substance of our argument.
- 20 On the concept of articulation see Gramsci 1971; Voloshinov 1973; Hall 1980; Ramos 1982; Clarke 2015.
- 21 See Fukuyama 1992. A corollary of Fukuyama's fallacy is the misleading nature of the term *transition economy*. This term often conveys the explicit or implicit assumption that all countries will eventually converge towards the Western capitalist standard, and has often been wrongly applied to countries that are far from going that way (such as China, Vietnam, and Belarus). Another popular myth about supposedly inescapable long term global trends to be falsified by real dynamic trends is related to a different (yet subtly interrelated) conception of the term *convergence* from the one mentioned above. It refers not to a convergence of economic models, but of *standards of living* between rich and poor countries. Any evidence of a generalized trend towards international GDP per capita convergence has waned in the XXIth century, apart from the cases of China and India (see Wheatley 2019).
- 22 These countries' super-structural articulations are also different from the standard Western model.
- 23 The term *classical economics* was coined by Marx to refer mainly to the theories of Smith, Ricardo, Stuart Mill, and Malthus (see FT 2018). For Marx, of course, the word *economics* was a synonymous of *political economy*, and did not carry the dogmatic and ideological connotations that it acquired in the XXth century. Subsequently, the expression *classical economics* has often been employed in contrast to

that of *neoclassical economics* to refer to the overall body of thought elaborated by all the XIXth century social scientists that shared what is modernly known as the *surplus approach* – including Marx himself.

- 24 By the same token, the study of body organs, their functions and interactions has always been at the core of medicine, and has not been made obsolete by the modern discoveries on the molecular, atomic and subatomic structures of matter. Yet, the latter provide useful insights on the former, and do by themselves constitute the basis for new scientific advances. However, a caveat is warranted with respect to this metaphor. It is meant to refer to the appropriate level of abstraction in applying the evolutionary principle to the study two very different objects, such as nature, on one hand, and human society, on the other. In no way it implies a mechanistic and narrowly organicist and functionalist conception positing that human societies are merely deterministic manifestations of the natural world, where no role is played by individuals and ideas. Such an absurd and dangerous metaphysics has long gone down the dustbin of history along with the Stalinian *Diamat*. We thank Ernesto Screpanti for warning us on this interpretative risk.
- 25 “*The meaning of economic thought cannot be understood without insight into its psychological background. With such insight, however, economic thought can serve as a barometer to gauge the atmosphere of the times*” (Weisskopf W. 1950).
- 26 Our attempt can be compared to Elliot’s “typology of alternative economic systems” (see Elliot 1978). However, Elliot’s goal was that of interpreting Marx’s own view in an epistemologically correct fashion. Conversely, our approach, while inspired by the Marxian theoretical tradition, is a diverse and independent one, stressing the elements of continuity rather than those of reciprocal negation between different socioeconomic formations.
- 27 According to such a mathematical metaphor, most of these vectors are to be imagined as continuous. Of course, the continuity of the vectors and the density of the multidimensional space containing all theoretically possible features of socioeconomic systems has nothing to do with the advisability or not of adopting specific forms of political action (revolutionary vs. reformist/gradualist) on the part of political organizations trying to modify the existing socioeconomic setting in a socialist direction, in the context of a concrete historical situation.
- 28 The distinction between positive and normative enquiry (i.e. between focusing on “what is” and on “what should be” respectively) is an ancient one, and has its roots in Aristotle. This useful methodological distinction, however, cannot be translated into practice in a fully dichotomic way in the realm of social sciences. We basically agree with Yuengert on the need to avoid “*any unwarranted imperialism of economics,*” and to accept with some humility - without prejudice for its relative methodological autonomy – that economic science cannot isolate itself from social ethics, and should rather ultimately be seen as hierarchically subordinated to the latter (see Yuengert 2000).
- 29 Still more debatable are those indicators that attempt to quantify corruption and so-called *economic freedom*.
- 30 This vector is positive by itself, as it describes objective features of the world as it is. However, the way different observers assess it is inevitably influenced by ex ante normative principles, as is always the case in the realm of social sciences. Actually, liberals (in the European sense of the word) and conservatives consider a very minor role of the State as an intrinsic virtue by itself. Socialists, on the contrary, tend to see public intervention in the economic sphere as a potential tool to achieve goals such as rational planning, social justice, and environmental sustainability.
- 31 See Gabriele and Schettino 2012.
- 32 The same token applies to the now well-known Human Development Index (HDI). Few other concepts could be more profound, holistic, and ultimately debatable than that of human development. Nevertheless, various meaningful (if

inevitably subjective to some extent, and not universally accepted) quantitative estimates of the HDI have been produced for several years by United Nations Development Program (UNDP), and are now rightly regarded as a key synthetic development indicator. For instance, the inclusion of per capita gross domestic product (GDP) per se as one of the key variables used to build up the HDI constitutes a highly debatable methodological choice (see UNDP, Human Development Report, various years).

Applying a methodologically similar approach, it is in principle possible to construct up a synthetic *index of socialist orientation (ISO)*. The ISO would partly overlap conceptually and statistically with the HDI (as many normative goals of socialism essentially coincide with those of human development), yet – if properly conceived – it would maintain a sufficient degree of uniqueness and diversity to be regarded as a useful and meaningful indicator in its own right. Inevitably, however, its composition and weighting methodology would still be debatable, more so than in the case of the HDI.

- 33 This contradiction might be due to a host of factors, such as widespread inefficiencies, excessive centralism, or lack of substantial democracy, affecting disproportionately economy A.
- 34 Other, very heterogeneous countries could also be seen as socialist-oriented (i.e. Lao People's Democratic Republic (PDR), Cambodia, Democratic People's Republic of Korea (DPRK), Venezuela, Belarus) to different extents. Among them, however, only DPRK has been around in a form more or less similar to the present one for enough time to be regarded as a SEF – a very peculiar and not very inspiring one, for sure.
- 35 The governments of China, Vietnam, and Cuba have manifested over time (since the turn of century, or before) substantially consistent official definitional approaches to the characterization of their own societies.

In this respect, a significant difference holds between China and Vietnam, on one hand, and Cuba, on the other hand. China and Vietnam tend to prefer the term “*socialist-oriented*”, or equivalent ones, to define the nature of their own national socioeconomic systems. Cuba, conversely, considers itself a “*socialist*” country.

- 36 In our view, notwithstanding their serious defects, these societies (including Cuba) were indeed truly socialist – at the very least, from a positive viewpoint. Cuba's economy, in particular, is still substantially socialist, although it now includes a large and pivotal (for the sake of systemic survival) capitalist component.
- 37 The Democratic People's Republic of Korea is also non-capitalist, and its leaders maintain it is a socialist society. However, its extremely idiosyncratic nature, its unique historical predicament and the dearth of information surrounding its economic and social situation do not allow us to formulate any reasonable proposition or hypothesis about this country.
- 38 Lao PDR is still a very poor country, and the sustainability of its development model is more precarious than that of China and Vietnam. Cambodia might be presently transitioning towards this model as well.
- 39 Other possible matter-of-fact definitions could refer to a modern/Asian market socialism development model. This development model is intrinsically modern, as it emerged only in the last two decades of the XXth century. It can also be characterized as Asian, because so far it can be found only in Asia, but (apart from a some interesting cultural features, that should not nevertheless be overemphasized) there is nothing intrinsically Asian in it that would not allow in principle to replicate it in other regions of the world.
- 40 Of course, a potentiality is not tantamount to a certainty. Planners might fail to properly utilize their superior policy tools, or misuse them to the point of producing outcomes that are not only sub-optimal, but even inferior to those that would obtain under a *laissez faire* scenario.
- 41 Among these outcomes, income and wealth distribution also figures prominently.

2 The hard scientific underpinnings of XXIst century political economy

Summary

2.1. From God to homo economicus. – 2.2. Competition and cooperation. – 2.3. Early critiques of selfishness worshipping. – 2.4. Behavioral games: achievements and limitations. – 2.5. From behavioral economics to neuroeconomics. – 2.6. Neuroeconomics vs homo economicus. – 2.7. Neuroeconomics and cooperation. – 2.8. Neuroeconomics as an underpinning microfoundation of evolutionary economics. – 2.9. Concluding remarks.

2.1 From God to homo economicus

This chapter reviews a set of crucial scientific discoveries that have emerged from several fields of research different from that of political economy. They are the product of a long tradition of investigation, but have jointly reached a critical mass and a decisive impact on our understanding of some crucial features of mental processes and human behavior mainly since the last decade of the XXth century. The major findings we summarily present and discuss here below hopelessly undermine the microfoundations of mainstream economic theory, both in its scientific and logical underpinnings and in its thinly disguised ideological implications. The paramount lesson that social scientists should learn from these major advances in the millennia-long strive to shed light on our inner nature is straightforward: human beings, unlike subatomic particles, are very complex sentient animals, and their behavior is shaped by the forces of evolution and culture in a myriad of ways that cannot be synthesized into a small set of equations in the framework of a reductionist approach. Therefore, there are ample degrees of freedom for judiciously devising different and potentially superior forms of societal organization.

The above considerations run counter the traditional stance of both religious and laicist intellectuals working at the service of the rich. Since the agricultural revolution and the establishment of the first class-based societies thousands of years ago, these social groups have strived to portray the unfair and exploitative social order of their time as eternal, as it was both God-mandated and natural. The two arguments were strictly interrelated and

mutually reinforcing, yet to some extent distinct from each other. The identification of kings and the aristocracy with the divinity was a common trait of all the ancient empires and has been upheld as the most powerful rationale for the maintenance of the status quo, even in the most advanced and industrialized countries in the West, for many centuries after the Enlightenment. In a parallel fashion, conservative intellectuals have strived since antiquity to portray class-based exploitation as natural and inevitable, even thousands of years before the emergence of capitalism. A good example in point is Aesop's fable *The Belly and the Members*, which – according to Livy and Plutarch – was utilized by Roman Senator Menenius Agrippa to demoralize and appease the Plebeians after a revolt in the VIth century BCE.¹

With the advent of capitalism, the surge of the socialist movement, the formal equalization of all citizens with respect to the law, and the slow decay of religious and magic thinking in the industrialized West,² the task of the intellectual defenders of class-based societies became progressively harder. Neoclassical economists largely replaced priests, and the universalistic and rational anthropology of *homo economicus* came to the fore, replacing the pre-1789 theology-rooted three-tiered division of humanity into clergymen, nobles, and commoners. Nowadays, the advocates of the preservation of capitalism are equipped with the most advanced statistical and mathematical tools and XXIst-century computing devices, and they look very modern. Yet, the philosophical and essentialist bottom line of present-day attempts to exorcize and dismiss the eventuality and desirability of socialism is still a traditional narrative portraying the latter as contrary to human nature, i.e. biologically and ontologically implausible, and even perverse.³

This chapter

- i briefly reviews some of the most relevant advances of the contemporary debate on human *nature* stemming from fields of knowledge distinct from social sciences proper (such as evolutionary biology, psychology, and neuroscience) and the emergence of the novel *hard-soft* discipline of neuroeconomics, and
- ii discusses their profound implications for the underlying micro- and macro-foundations of economic anthropology, especially with respect to the critique of the *homo economicus* paradigm and the competition-cooperation dialectics
- iii concludes arguing that these multiple interdisciplinary discoveries in many different yet converging fields indeed constitute a strong argument in favor of the biological and anthropological thinkability and plausibility of socialism.⁴

We are aware that, even if we were able to convincingly make the above-sketched argument, we would be only laying the first brick of a large building. The task of showing that socialism is also practically feasible, sustainable, and advisable is left to progressive social scientists, on one hand, and to the

lessons stemming from the concrete experiments and experiences in attempting to establish and develop socialist socioeconomic systems in the real world. Therefore, the remainder of the book is an exercise in political economy, devoted to a modest attempt to provide inputs aimed at the emergence of a partly novel viewpoint on the nature of socialism and its perspectives in the XXIth century.

We realize that we are swimming against the stream. Far from keeping center stage in present-day social sciences debates and among the public at large, our thematic is somewhat out of fashion. Yet, there are some promising signs, stemming for instance from the centrality that hysterical scare-mongering about *democratic socialism*⁵ (along with sheer racism) played in the campaign for Trump’s re-election in the US in 2020. Socialism in our apparently post-postmodern era is indeed a *vaste programme*,⁶ yet one that is worth and necessary to consider at the present crossroad of history.

2.2 Competition and cooperation

As mentioned in the introduction, international trade and financial relations are predominantly market-based. Yet, far from working according to the textbook principles of perfect competition, these market relations create an uneven playing field populated by State- and non-State actors endowed with enormously unequal economic, political and military strength. This major caveat does not deny the existence of multiple nation-states and of various forms of inter-State cooperation and rivalry. The inescapable, yet evolving constraints imposed by the present global order severely hamper, yet do not rule out squarely the emergence of significantly different socioeconomic systems, that can develop in different points of space and time.

To begin with, the very role of competition and the forms it actually takes are far from unimodal and exclusive, even in capitalist societies. First, although competition within and between human societies is ultimately rooted in the biological foundations of life, it is also first and foremost (like markets) a cultural and historical construct: “*Competition is not Nature’s*” struggle for existence “*but is an artificial arrangement supported by the moral, economic, and physical sanctions of collective action.*” (Commons 1934, p. 713, quoted in Mac-Millan 2012, p. 6). Second, competition is not exclusive to the economic sphere:

As widely investigated in psychology, psychoanalysis and sociology, forms of rivalry and competition, often associated with emotional problems, are likely to play a pivotal role in childhood during family and school experiences.... social environment can also embody forms of competition among persons, groups, classes, institutions and nations based on values not directly economic-driven, such as influence, power and prestige. In this regard, also competition assumes a distinct “institutional” character.

(Hermann 2014, p. 6, Note 5)

In order to maintain a balanced analytical approach, therefore, it is important to avoid falling in the all too common pitfalls of traditional “*economism*”. The economic structure, albeit crucial, is but one of the dimensions shaping human life, and all-too-important and ever-evolving “*cultural factors*⁷ *interact in a complex way both with the economic mode of production (the so-called “material” basis of society) and with the psychological orientations and conflicts of the persons involved*” (Hermann 2014, p. 5, Note 2). Individual economically relevant decisions should not be restrained in the straightjacket of over-simplified (albeit sophisticated-looking) mathematical models either, as they are the product of a very intricate bounded rationality-based process involving both conscious and unconscious mental processes stemming from the interaction of several areas of the brain.⁸

More importantly, both in the realm of biology and in the history of humankind the principle of competition is not the only decisive one, as it coexists with that of cooperation. In the framework of the planet’s long-term climatic and environment trajectory, the interaction between competition and cooperation among living creatures generated complex and ever-changing local and global equilibria, driving the course of evolution and the surge and demise of plant and animal species.⁹

The *Anthropocene*,¹⁰ (i.e., the small subset of this long story constituted by humans’ presence) has been implying profound and ever-increasing changes in the overall pattern of evolution, but has not altered its most fundamental and universal principles: the interaction between the forces of competition and cooperation. The force of competition has been embodied in the mainstream of modern thought since the quasi¹¹-universal acceptance of the Darwinian revolution. Yet, the discovery of the crucial role of cooperation is a more recent scientific advance, still struggling to be incorporated in the contemporary intuitive and heuristic perception of the natural world on the part of the public at large.

In fact, phenomena such as highly sophisticated within-species cooperation among bees and ants,¹² or inter-species cooperation in the form of symbiosis, have long been acknowledged. However, like market failures in the domain of orthodox economics, they tended to be regarded as exceptions that did not question the rule of the absolute supremacy of competition. Only very recently scientific research has demonstrated that cooperation is not an exclusive prerogative of relatively advanced animals, as it predates them by billions of years. In fact, cooperation can act as powerful evolutionary-enhancing mechanisms even in the interaction of non-living agents and played a decisive role in several key passages in the history of life on Earth (such as the transition from unicellular to undifferentiated multicellular organisms).

Actually, the fact that natural selection favors genes that increase an organism’s ability to survive and reproduce can be wrongly understood to show that the world is exclusively dominated by selfish behavior. Yet, since the 1970s, biologists have shown empirically and elucidated that

cooperation can be found at all levels of biological organisation: genes cooperate in genomes, organelles cooperate to form eukaryotic cells, cells

cooperate to make multicellular organisms, bacterial parasites cooperate to overcome host defenses, animals breed cooperatively, and humans and insects cooperate to build societies.

(West, Griffin and Gardner 2007, Abstract)

Scientists have achieved important advances also in their understanding of the genetic and non-genetic (such as transgenerational epigenetic effects, parental effects, ecological and cultural inheritance) forces shaping the intergenerational transmission and diffusion of cooperative behavior, the neurobiological substrate of the cognitive skills necessary for the ability to cooperate,¹³ and the interaction of cooperation with within-group repression of competition – as shown by the example of fair meiosis among chromosomes (Frank 2003; Kasper et al. 2017).

These phenomena are increasingly regarded as providing a solid foundation both to understand the evolution of human sociality, trust, and cooperation, and to regard it as one more manifestation of a universal natural principle (see Maynard Smith 1958, 1982; Alexander and Borgia 1978; Alexander 1979, 1981, 1987; Leigh 1983, 2009, 2010; Jones and George 1988; Lovegrove 1991; Alexander, Noonan and Crespi 1991; Pfeiffer, Schuster and Bonhoeffer 2001; Nowak et al. 2010; Penny 2015; Estrela and Brown 2018).

Nowak (2011) provides a fundamental holistic contribution to the literature on the biological foundations of cooperation and their contemporary sociopolitical implications. Constructing his argument on the basis of a multidisciplinary methodological approach, encompassing biological research, experimental psychology, and game theory,¹⁴ Nowak argues that *indirect reciprocity* is the key mechanism driving human sociality. Indirect reciprocity is a state of affairs where A helps B without immediately expecting a directly reciprocal benefit, but acting according to a group-based collective behavioral pattern where A correctly predicts that one or more third parties will in turn help her too. It evolved through the force of reputation, stemming from bringing or refusing help, spreading over time across many areas of the biosphere, paving the way for the evolution of increasingly complex forms of interaction that eventually led to sophisticated expression and communication through language and institutions (see Milinski 2016). Genes, like human beings, are not fully and automatically selfish after all.¹⁵

According to Novak:

Creatures of every persuasion and level of complexity cooperate to survive...Human society fizzes with cooperation (p. xiii)...Today, the extent to which our brains collaborate matters as much as the size of our brains...The range and extent to which we work together make us supreme cooperators (p.xiv)...our ability to cooperate goes hand in hand with succeeding in the struggle to survive... cooperation is entirely compatible with the hard-boiled arithmetic of survival in an unremittingly cold-eyed and competitive environment. (p.xvi)

The principle of competition coexists and mutually interacts with that of cooperation. The history of humanity is the history of the struggle between cooperation, aimed at achieving collective long-term goals, and the selfish – and ultimately self-defeating – pursuit of short-term interests.

Along with mutation and selection, cooperation is the third fundamental evolutionary force. It is also a more powerful force than competition in shaping and fostering innovation. With the advent of globalization, the never-ending rat race of competitive resource-exhausting growth is becoming more and more unsustainable:

...Today we face a stark choice: we can either move up to the next stage of evolutionary complexity, or we can go into decline, even become extinct¹⁶...we could be on the verge of the next transition in social organization, one of equal significance to the emergence of the first cell... (p.281)

The uniquely human potential ability to understand and steer its own evolution by means of scientific analysis and culture makes cooperation all the more necessary to deal with the intrinsically global nature of present-day development and environmental sustainability challenges.

2.3 Early critiques of selfishness worshipping

The lessons stemming from the findings on the complex evolutionary coexistence of selfish and cooperative behavior, both in nature and in the history of mankind, are to be interpreted along with those emanating from major advances in behavioral economics, experimental neuroscience, and neuroeconomics.

These disciplines have been greatly strengthened since the popularization of revolutionary brain-imaging technologies since the turn of the century, allowing researchers to achieve a once-unthinkable degree of scientific accuracy in domains that until recently were left exclusively to informed intuition and speculation. However, it is important to remind that the apologetic equation between the unbridled and perfectly rational egoism of homo economicus and the maximization of public welfare had been criticized since the very inception of the new science of political economy prompted by the industrial revolution, long time before these modern scientific discoveries.

Adam Smith, wrongly regarded as the founding father of egoism as the exclusive guiding principle of human action, according to which every individual automatically contributes to the society's affluence, was first and foremost a moral philosopher. He realized the severe limitations of *laissez faire*, strived to discover the ultimate causes governing people's motivations and behavior, and argued that they were related not only to monetary incentives but also to a much wider range of societal relations. In his most famous book, Smith also stated: "*No society can surely be flourishing and happy, of which the far greater part of*

the members are poor and miserable”. (Smith 1776/2007, p. 66). Not only monetary incentives, but also a wider range of our relations with others ultimately shape human motivations.¹⁷

Simon (1947, 1957) was one of the first modern economists to criticize the unrealistic assumptions implied by standard models of utility and profit maximization, predicated on perfect information and the seemingly unbounded and effortless computing power of the human brain. Straightforward observation of human behavior shows that people can access and process a very limited wealth of information, and their logical reasoning is routinely intermingled with and affected by the powerful flow of emotions.¹⁸ Even Hayek – the most iconic champion of libertarian capitalism and an implacable enemy of socialism and planning,¹⁹ who denied the very thinkability of socialism – realized that the existence of homo economicus could hardly be taken as a postulate, and ventured into a pioneering study on the functioning of the brain (Hayek 1952). This intellectually brave and honest endeavor did not – unsurprisingly – lead Hayek to abandon his neoclassical ideology. Yet, he was among the first economists to popularize the concept of bounded rationality.

A few decades later, Katona (1974, 1975, 1978) observed that individuals do not react to exogenous stimuli like automatic machines, and their economic behavior is influenced by the environment and its changes. Kahneman and Tversky provided major critical contributions to behavioral economics and the critique of homo economicus foundations. Discussing how individuals make decisions on economic and other relevant matters, they criticized the rationality principle, observing that “*people rely on a limited number of heuristic principles which reduce complex tasks of assessing probabilities and predicting values to simpler judgmental operations. In general, these heuristics are quite useful, but sometimes they lead to severe and systematic errors*”. (Kahneman and Tversky 1974, p. 43). They also argued that the standard neoclassical model of expected utility is a fallacy, among other things, because it assumes that people give equal weight on the prospect of loss and gain. On the contrary, emotion-ridden individuals tend to attach more weight to the former (Kahneman and Tversky 1979).²⁰

Behavioral anomalies also affect decision-making, be they ordinary individuals or entrepreneurs, investors, policy-makers, and institutional actors (see Gowdy 2008; Della Vigna 2009). Major differences in values and economic reasoning and decision-making have also been shown to stem from people’s cultural and religious background, which unevenly affects in particular the relative strength of selfish and altruistic tendencies and the propensity to prefer individualistic or collectivistic approaches to the economic dimension of life (see Hofstede 1991, 2001; Triandis 1995, Munroe 2017; The World Bank 2015). Beyond the realm of experimental psychology and behavioral economics, other powerful and mutually reinforcing elements of a critique of the traditional black-box view of human economic actors as selfish yet omniscient automatons have been provided by several other

disciplines, among them philosophy (Elster 1998), neurobiology (Damasio 1994; Damasio and Carvalho 2013), institutional theory (Bowles 1998), and neuroeconomics.

2.4 Behavioral games: achievements and limitations

Mainstream neoclassical economics “traditionally conceptualized a world populated by rational, self-interest guided, unemotional maximizers” (Kenning and Plassmann 2005, p. 353). The limitations of such a mechanistic, pre-Freudian approach have been criticized even before the surge of modern neuroscience, thanks to the findings of experimental and behavioral economics, that have consistently identified systemic deviations from the homo economicus paradigm. This powerful challenge to orthodoxy was constructed around a few so-called *games*, experiments where people were asked to take clear-cut economic or *quasi-economic*²¹ decisions that involved an alternative between behaving selfishly or cooperatively.

The archetype behavioral games are four.²² The pioneer and best-known one is the *Prisoner’s Dilemma* (PD), where two prisoners are offered a choice: either to defect (accusing the other of having committed a crime) or to cooperate (claiming both are innocent). The payoff structure (years of prison) is structured to make betrayal unambiguously superior to cooperation from a classical, selfishly rational viewpoint. Nevertheless, “Despite understanding that defecting is in one’s best self-interest, decades of evidence from both iterated and one-shot versions of the PD reveal that people willingly cooperate—even with complete strangers.” (Van Bavel et al. 2018, p.3).

In the *Public Goods Game* (PGG), players are given a money endowment and choose between contributing it to a collective pool (thereby maximizing joint wealth) or free-riding, keeping their own money while also taking advantage of others’ contributions. The PGG can be seen as an extension of the PD, but there are also important differences between the two, as the former embodies elements of group psychology.

In the *Ultimatum Game* (UG) the Proposer is given an endowment E , out of which she/he must offer a share to the Responder. However, the Proposer is entirely free to establish the exact share (O) at her/his will, at any level between 0 and 100%. The Responder can either accept or reject, but she/he cannot negotiate the amount. If she/he accepts, the responder receives O and the proposer keeps the remainder ($E-O$). If the offer is rejected, both receive nothing.

A modified and even less democratic version of the UG is the *Dictator Game* (DG), where the Dictator is simply given an endowment and unilaterally decides whether or not to give a part of it to the Receiver, who has no power or say whatsoever.²³

Over more than half a century of experimental and behavioral research carried out in the above-sketched methodological framework have unambiguously demonstrated that in all bargaining games the outcome is never

the unique Nash equilibrium that would result from the interaction among fully rational selfish players (see Güth, Schmittberger and Schwarze 1982; Kahneman, Knetsch and Thaler 1986; Andreoni 1988; Andreoni, Harbaugh and Vesterlund 2002; Camerer and Fehr 2004; Gintis 2000, 2014; Gale, Binmore and Samuelson 1995; Liberman, Samuels and Ross 2004; Weber and Murnighan 2009; Bicchieri, and Jiji Zhang 2008). Players’ choices tend to exhibit a fair amount of consideration for their counterparts’ well-being, showing a nonzero propensity to value fairness as such, and cooperating with others even in contexts where there are no present or future material benefits whatsoever to be expected, or hoped for, from such behavior.²⁴ Moreover, in some games where disadvantaged receivers can only accept or refuse the offers of the proposers, they often choose to lose everything for the sake of punishing what they perceive as the arrogant and unfair attitude of the latter (see Balliet, Parks and Joireman 2009; Grayot 2017). Such a valiant stance cannot be interpreted as a relatively straightforward, collectively rational cooperative behavior. Rather, it reflects an evolutionarily and culturally shaped internal ethical structure that attaches important weight to hard-to-grasp yet real moral values such as justice, fairness, dignity, and possibly vengeance.²⁵

Bargaining games must be credited of the utmost merit of having dealt a first, severe blow to homo economicus from an unforeseen flank. Neoclassical economics – a proud discipline that traditionally boasted to represent a form of knowledge no less *scientific* than that of physics – could hardly set up a credible wall of defenses against experimental science. However, the robustness of these methodologies was limited, because the results of behavioral experiments cannot be easily and mechanically transposed to the real world (see McMaster and Novarese 2016).

One problem was selection bias. Most of these experiments were carried out in North American universities, with participants who tended to be young, highly educated, and idealistic²⁶ WASPs, who could be induced by group dynamics to behave (or pretending to behave) in a fair and politically correct fashion. This problem can be mitigated, but not eliminated, if researchers make a conscious effort to deal with the selection bias. For instance, some blacks might be included in the sample. However, the reality of racism could not be properly represented in such small groups, and in a cultural context such that of Anglo-Saxon universities in the late XXth century.

In sum, to an extent that is difficult to properly evaluate, interactions in small groups and the artificial nature of experiments inevitably tend to show a more altruistic and ethical behavior than one of real humans in the real world, where:

- i selfish behavior can be more easily justified to yourself and to others thanks to the anonymity of market exchanges, the veil of ignorance, and many other factors;

- ii greed, family bonds, and the quest for enhancing individuals' material well-being or simply livelihood reproduction capabilities act more forcefully than in experiments where only small and token sums of money are in play;
- iii a number of social and cultural constructs and structures related to race, nationality, religion, and class strongly facilitate and underpin individual and group-based selfishness;
- iv the poor are physically, geographically, and culturally separated from the rich to the point of being rather easily induced to believe that the latter belongs to an anthropologically superior elite that deserves its privileges (Brezina and Winder 2003; Heiserman and Simpson 2017).

The selection bias and the intrinsic, ontological difference between real social life and controlled behavioral experiments must be honestly acknowledged, and it is impossible to overcome them completely, especially with respect to the selfishness/altruism dialectics. Yet, advances in hard sciences have allowed to make major progresses in another key area: the assumption of perfect information and rationality. Traditionally, experimental social scientists had to rely almost exclusively on participants' behavior and or their subjective interpretation of its roots. The latter is biased by several factors, such as humans' incapability to carry out an objective analysis of the functioning of their own mind and the less-than-perfect verbal representation of individuals' inner thoughts (even in good faith, we are never 100% sincere). Paradoxically, the quest for demonstrating that bounded rationality was a scientific fact was being undermined by bounded rationality itself.

2.5 From behavioral economics to neuroeconomics

The new and fast-advancing neuroimaging techniques and the emergence of *neuroeconomics* – which would not have been possible without the major scientific and technological advances of contemporary neuroscience – have gone a long way to allow social scientists to overcome some major methodological and even hermeneutic problems. Neuroeconomics is making a major contribution to our understanding of human economic behavior upon solid, *hard*²⁷ scientific foundations, thereby de-structuring the *idealistic*²⁸ micro-foundations of neoclassical economics.

Although still a young discipline, neuroeconomics has made some interesting contributions to economic theory... In order to gain a deeper understanding of the 'economic man', neuroeconomics broadens the concepts of behavioral economics by means of neuroscientific tools. These tools enable economic research on brain processes, which in economic research have so far been looked upon as black box. Neuroeconomics deals with measurements of the actual behavior of man and related brain

functions....Keeping all this in mind neuroeconomic researchers may reach their goal: To provide a descriptive decision-making theory, which is not restricted to economic theory and more realistic than that of the homo oeconomicus.

(Kenning and Plassmann 2005, pp. 352–3)

In a major contribution published in 2005 in the *Journal of Economic Literature*, three of the leading pioneers of neuroeconomics observe that:

In the last two decades, following almost a century of separation, economics has begun to import insights from psychology. “Behavioral economics” is now a prominent fixture on the intellectual landscape and has spawned applications to topics in economics, such as finance, game theory, labor economics, public finance, law, and macroeconomics....

(Camerer, Loewenstein and Prelec 2004, p. 9)

Neuroeconomics goes a step further:

While not denying that deliberation is part of human decision making, neuroscience points out two generic inadequacies (of the mainstream approach), its inability to handle the crucial roles of automatic and emotional processes, which are faster than conscious deliberations and which occur with little or no awareness or feeling of effort... Because people have little or no introspective access to these processes, or volitional control over them, and these processes were evolved to solve problems of evolutionary importance rather than respect logical dicta, the behavior these processes generate need not follow normative axioms of inference and choice. Second, our behavior is strongly influenced by finely tuned affective (emotion) systems whose basic design is common to humans and many animals... many behaviors that emerge from this interplay are routinely and falsely interpreted as being the product of cognitive deliberation alone... we have far more introspective access to controlled than to automatic processes. Since we see only the top of the automatic iceberg, we naturally tend to exaggerate the importance of control.

(*ibid.*, p. 10–11)

Orthodox economists tend to see preferences as the starting point for human behavior and behavior as the ending point. Neuroscientists, conversely, do not regard pleasure as the true ultimate goal of human behavior. Evolution did not progressively enhance our capability to be happy – only our ability to survive and reproduce. Pleasure is just a homeostatic²⁹ cue, i.e. an informational signal.

Affect is also a key factor in determining decision making, through affective evaluations of behavioral options, and of course, can easily bias and

distort cognitive judgments, through various mechanisms such as selective recalling of memories, mood-driven perceptions of risks,³⁰ and “*motivated cognition*”.³¹

The importance of neuroscience for economic science cannot be overstated, as:

...neuroscience findings raise questions about the usefulness of some of the most common constructs that economists commonly use, such as risk aversion, time preference, and altruism ...the existence of specialized systems challenges standard assumptions about human information processing and suggests that intelligence and its opposite—bounded rationality—are likely to be highly domain-specific

(*ibid.*, pp. 31–32)³²

A more recent definition of neuroeconomics, of its close relationship with neuroscience and of its usefulness for economic science has been provided by Lazaroïu et al.:

Neuroeconomics is the investigation of how individuals make value-based choices and how the latter are conveyed neurally, cognitively, and behaviorally (the most advancement has been carried out in grasping the sense of rewarding stimuli and how the brain discerns to ascribe them value). Neuroeconomics improves the established economic proposal to shaping decision in two significant manners: (i) integrating inquiry in psychology, breaches of sound judgment are identified and admitted as pervasive (individuals often depend on preconceptions and heuristics that are furthered and influenced by previous experience); and (ii) systems neuroscience has proved that the brain operates in a corresponding, distributed way in order that input is handled synchronously by diverse specially designed systems.... Neuroeconomics covers the investigation of the biological microfoundations of economic cognition and economic conduct.

(Lazaroïu et al. 2017, pp. 1–2)

Neuroscience makes it possible for the first time to directly and objectively identify and (in a way) quantify thoughts and feelings, opening up the “*black box*” of the human mind. This methodological advance, in turn, allows for the scientific identification of psychological regularities, shedding light on the roots of many poorly understood economic phenomena and anomalies in many areas, first of all, that of finance, with all its exuberance and irrationality. *Animal spirits* can now be photographed and measured.

2.6 Neuroeconomics vs homo economicus

Neuroeconomics has identified two key flaws of the orthodox tradition in *economics*.³³ One stems from its inability and unwillingness to acknowledge

the crucial role of automatic and emotional mental processes. These processes unfold faster than conscious deliberations and are not introspectively perceived by the self-aware rational mind, let alone volitionally controlled. People’s behavior is strongly conditioned by affective and emotional routines essential for survival, which have been shaped by millions of years of evolution in humans and animals alike. As these processes operate beneath the level of consciousness, it is natural for self-deceiving individuals to ignore their existence and falsely attribute their output to deliberative thinking.

The overestimation of the role of rational and self-conscious mental processes goes hand-in-hand with the absolutization and universalization of the biological and evolutionary role of innate preferences and the *pleasure principle*. This bias, in turn, leads to hypostatize homo economicus as a rational and selfish single-minded pursuer of *utility*. This is the second major fallacy of the mainstream approach.³⁴ A less parochial, neuroscience-informed perspective, conversely, must take into account that conscious behavior is only one amongst several mechanisms that the brain uses to maintain homeostasis, and regard preferences as transient State variables contributing to survival and reproduction.

This more scientifically reasonable approach is also consistent with the ever-mounting evidence on the in-built propensity of human brains for moral and altruistic reasoning – even if (consistently with commonsensical experience) human ethics and altruism, not unlike rationality, are limited and bounded as well (see Warneken and Tomasello 2009; Filkowski, Cochran and Haas 2016; University of Zurich 2019).³⁵

As mentioned above, neuroscience stresses the relevance of *affect* – with its potential for distorting cognitive judgments – for people’s optional behavioral features, including decision-making. Emotions (along with cultural background) shape risk perception, time preference, and altruistic preferences. Motivated cognition and wishful thinking are pervasive – especially so in financial markets. Domain-specific information processing and bounded rationality are the norm. Constrained optimization market or game-theoretic equilibrium algorithms unduly predicated on perfect or quasi-perfect rationality and full information are no longer conceivable as the “*normal*” behavioral assumption governing human economic reasoning. Radically different approaches – endogenizing the proven scientific fact that brain functioning involves controlled and automatic processes that operate on both cognition and affect – are required for the advancement of the understanding of individuals’ economic behavior.

The main lesson stemming from the powerful critique put forward by behavioral economics and neuroeconomics is straightforward and unambiguous. Evidence provided by these two disciplines, along with other applied and theoretical approaches, findings and evidence have been mounting in recent years, definitely deconstructing the homo economicus fictional character that had been underpinning the neoclassical narrative since the XIXth century.

Sanfey et al. (2006) and Sanfey (2007) discuss some insights on social decision-making stemming from a joint interdisciplinary approach based on the new generation of theoretical models based on game theory and embodying the constraints imposed by known rationality-bounding neural mechanisms. These findings improve our understanding of a number of mental mechanisms underlying social decision-making, such as how social exchange acts directly on the brain's reward system, affective factors influence bargaining and competitive games, and strategic play depends on the ability to assess another's intentions.

Shermer (2007) reports the results of a focused functional magnetic resonance (fMRI) study, that, as he puts it bluntly in the title of his article, “*debunks the myth that we are rational-utility money maximizers.*” Bogliacino and Codagnone (2017) review the results of many experiments analyzing human behavior in complex evolving environments. They show not only the pervasiveness of bounded rationality but also that humans are potentially strong reciprocators, and tend to act as trusting individuals embedded in social norms, concluding that a microfoundation alternative to homo economicus can and should be identified. Onozaki (2018) analyzes market economies as complex and chaotically dynamic systems, governed mainly by the three key forces of nonlinearity, bounded rationality and heterogeneity. Ming-Jin Jiang 2017 reviews that recent neuroeconomic studies have been focusing on “*how social, economic, and environmental factors link to brain function and how these changes in brain function affect our decision making,*” arguing that their findings can contribute substantially to design more effective public policies. Yoshida (2019) also reviews many contributions, arguing that the emergence of neuroeconomics led to the decline of homo economicus.

Meyer (2016) presents an ample review of classical and modern research on homo economicus, Taking stock of his findings, he argues that:

“The Homo economicus paradigm has been present in economic theory for more than a century³⁶ ... It is abstract and pervasive in its nature and has been broadly discussed in the literature. However, many researchers find it imperfect and there has been a growing number of papers which show flaws behind reasoning of this paradigm. ...Time has come to reevaluate its usefulness³⁷

(Meyer 2016, p. 433)³⁸

Fleming (2017) also concludes that homo economicus should be finally be put to rest. In his book (significantly titled *The Death of Homo Economicus*) he dismissively argues that homo economicus³⁹ does not exist at all in the real world.

“Homo economicus” is the totally made-up creature who is the... hero of mid-20th-century economics: going about his daily life with unimpeachable rationality, efficiently calculating ways to maximise his

self-interest. But people don’t actually live like that, as the behavioural economists Amos Tversky and Daniel Kahneman pointed out. It is a refuted model, yet its malign influence persists.⁴⁰

(Poole 2017)

A large part of the international social science community has slowly come to realize that homo economicus microfoundations are no longer tenable as a credible ideological bulwark of Western liberal capitalism in the XXIst century.⁴¹ There appears to be increasing awareness of the ultimate impossibility to save private homo economicus, notwithstanding the extraordinary contribution he has been providing for a long time to the defense of individualism, utilitarianism, and capitalism. An interesting barometer of this trend has been the recent assignment of Nobel prizes for economics to two scholars that (although far from adopting a socialist, radically anti-capitalist stance) provided major contributions to the critique of the economic and anthropological approach of traditional neoclassical theory, Robert Shiller and Richard Thaler.⁴² Robert Shiller got the prize in 2003 for corroborating a famous Keynes’ intuition, positing that markets are not rational, and that their instability is routinely driven by emotion-driven “*animal spirits*.”

Richard Thaler, one of the fathers of behavioral economics, was awarded the Nobel prize in 2007, having waged a

lifelong war on Homo economicus, that mythical species of purely rational hominids who dwell exclusively in the models of classical⁴³ economic theory. In studies that borrowed from psychology, sociology, and plain-old curiosity, Thaler demonstrated that mankind was afflicted by emotion and irrationality, which influences their decision making on everything from retirement savings, to health-care policy, to professional sports.⁴⁴

(Thompson 2017)

2.7 Neuroeconomics and cooperation

From the vantage point of contemporary political economy, the deconstruction of homo economicus is the most remarkable achievement of neuroeconomics. Beyond such a fundamental *pars destruens*, however, recent discoveries made possible by rapid advances in the domains of neuroscience and neuroeconomics are also laying the building blocks of what can be considered a *pars construens* of this major intellectual endeavor. In fact, they allow researchers to better understand the neural mechanisms-based internal logic and consistency that lead human brains to a non-fully-selfish, complex behavior that – under favorable endogenous and exogenous conditions – can uphold a cooperation-oriented social conduct on the part of sentient individuals.

In this respect, it is worth mentioning that the breath-taking acceleration of *hard* advances in this field is very recent, and therefore the overall

interpretation of specific findings varies among neuroscientists themselves. At a higher level of abstraction, a fortiori, the viewpoints of psychologists and psychiatrists have not yet sedimentated into a full consensus on a novel theory of the human mind. Even more obviously, at a still higher level of abstraction, the opinions of anthropologists, economists, and philosophers diverge to a very large extent.

Without pursuing too far such a deep argument, it might suffice to mention that mounting evidence on the multiplicity of brain areas, their functions, and their intricate interactions have revived the ancient debate between the defenders of the substantial unity and relative consistency of human personality and their opponents, some of which go as far as positing the existence of multiple selves in perpetual rivalry for preeminence inside the *Cartesian theater*⁴⁵ (see Ross 2007, 2008, 2010; Grayot 2017).

From the vantage point of our argument, however, we think it is preferable to maintain a more conservative view of human minds, that – departing to a lesser extent from commonsensical intuition⁴⁶ – prefers to approach our internal contradictions as value conflicts internal to the functioning of a unitary, albeit contradictory self. This view is based on the concept of value:

The field of neuroeconomics has been focused on understanding how the brain computes the value of alternative actions during decisions, such as when they are forced to decide between engaging in self-interest or cooperation. ...A central approach to neuroeconomics has examined how value is represented in the human brain and used to guide decision-making. Instead of conceptualizing cooperation as arising from distinct, competing psychological systems, we argue that cooperation, and social preferences in general, should be situated within such a value-based decision framework. Central to this framework is the assumption, found in most economic and psychological theories of choice, that prior to deciding between one or several alternatives, an organism determines the subjective value of each alternative. Subjective value allows comparisons between complex and qualitatively different alternatives by placing them on a common scale.

(Van Bavel et al. 2018, pp.5–6. See also Rangel, Camerer and Montague 2008; Levy and Glimcher 2012; Bartra, McGuire and Kable 2013)

Neuroscientific studies based on a dual *intuition vs deliberation* approach have also shown a pattern suggesting that intuitive-heuristic, shorter decisional procedures tend to be more pro-social, while longer, rational- deliberative mental processes lead to more selfish outcomes.⁴⁷ In sum, there appears to be some truth in the famous say “*If a man is not a socialist by the time he is 20, he has no heart. If he is not a conservative by the time he is 40, he has no brain.*”⁴⁸ This result, however, should not be overestimated, as suggesting a sort of intellectual superiority of selfishness vis a vis naïve cooperative attitudes. In fact, fast

intuition-based decisional processes tend to be privileged in situations where the rewards of any choice (be it selfish or pro-social) are relatively clear and observable in a short period of time. Moreover, a less reactionary, yet possible interpretation of these phenomena is also scientifically plausible. In many circumstances, human pro-social innate *instincts* initially tend to favor a cooperative behavior, but can be progressively weakened and eventually overwhelmed by *cynical*, yet realistic deliberative reasoning if the expected-for benefits of cooperation fail to materialize.⁴⁹

The very validity of the dual approach has also been criticized by recent neuroscientific studies. Van Bavel et al. (2018) illustrate the underlying neural system involved in value computations, showing that recent studies have demonstrated that a value-based decisional framework is more apt to explain human cooperation than a relatively mechanistic dualistic one unduly fixated on the alternative and mutually incompatible activation of one or another area of the brain (see Rangel, Camerer and Montague 2005; Balliet, Parks and Joireman 2009; Levy and Glimcher 2012; Bartra, McGuire and Kable 2013; Navajas, Bahrami and Latham 2016).

Neuroimaging techniques have in fact demonstrated that different brain areas do play distinctive roles in the value-based decisional process, with ventromedial Prefrontal Cortex (vmPFC) activation, in particular, being strongly associated with value-based evaluations involved in cooperative decisions (Zaki, Lopez and Mitchell 2014; FeldmanHall et al. 2015; Hutcherson, Bushong and Rangel 2015). However, the prominent role of vmPFC in cooperation-oriented decisional processes does not imply a dichotomist nature of the decision process, which is a complex one involving the interaction of several areas and appears to be predicated on a pre-existing mental structure that can be interpreted as the *hardware* underlying each individual’s *moral* attitude.⁵⁰

To conclude this section, recent neuroeconomics findings appear to:

- i confirm, by and large, that cooperation is no less *natural* for human minds than selfishness;
- ii show that the cooperation/selfishness contrast is not a black-and-white confrontation between *good* (pro-social) and *bad* (egoistic) areas of the brain. Rather, it resembles more a dialectic *war of positions*⁵¹ taking place in the context of a substratum constituted by an underlying hierarchical structure of internal values;
- iii suggest that this hierarchy structure itself is shaped over time by the outcomes of antecedent experiences, that are taken into account by deliberative mental processes.

In this respect, we advance a tentative and provisional interpretative conclusion. Human brains are quite cooperation-oriented but tend to grow progressively more selfish over time as a result of deliberative reflection based on the sobering feedbacks generated by the outcomes of past decisions involving the

relationship of the individual with the society. However, these interactions are two-way affairs. Human brains' functioning appears to be such that people's behavior is evolutionarily equipped with a so-far untapped potential to respond positively (in a cooperative way) to progressive social, economic, and political changes occurring at the societal level, as the latter is perceived as enhancing the expected rewards of cooperative behavior.

2.8 Neuroeconomics as an underpinning microfoundation of evolutionary economics

The major interdisciplinary discoveries briefly discussed in this chapter are entirely consistent with the alternative vision of the economy which has been progressively developed by the evolutionary economics school.⁵² One of its foundational texts, *An Evolutionary Theory of Economic Change* by Nelson and Winters represented a watershed in the history of economic thought, shaking the pillars of neoclassical orthodoxy. In writing this book, Nelson and Winters set their task at

developing an evolutionary theory of the capabilities and behaviors of business firms operating in a market environment... analyzing a wide range of phenomena associated with economic change – the response of firms and the industry to changed market conditions, economic growth, and competition through innovation

(Nelson and Winters 1982, p.3)

To this end, the authors argue that

a major reconstruction of the theoretical foundations of our discipline is a precondition for significant growth in our understanding of economic change. The broad theory that we develop in this book...incorporate specific assumptions that are at variance with those of the prevailing orthodox theory of firm and industrial behavior...A number of our fellow economists do share with us a sense of general malaise afflicting contemporary economic theory...the discipline has not yet located a path that will lead to a coherent and sustained advance beyond ...modern general equilibrium theory. The discovery of such a path will...require a theoretical accommodation with one or more of the major aspects of economic reality that are repressed in general equilibrium theory.

(ibid, pp.4–5)

In *An Evolutionary Theory of Economic Change* Nelson and Winters

borrow from biology the concept of natural selection to construct a precise and detailed evolutionary theory of business behavior, (marshalling) significant objections to the fundamental neoclassical assumptions of

profit maximization and market equilibrium, which they find ineffective in the analysis of technological innovation and the dynamics of competition among firms... (and develop an) approach (that) is compatible with findings in psychology and other social sciences.

(Nelson and Winter 1982)

In a recent contribution, Dosi and Virgillito propose an enriched version of this intellectual tradition, revolving around

an alternative view... aimed at understanding the economy as a complex evolving system. ...such a perspective attempts to understand a wide set of economic phenomena – ranging from microeconomic behaviours to the features of industrial structures and dynamics, all the way to the properties of aggregate growth and development – as outcomes of far-from-equilibrium interactions among heterogeneous agents, characterized by endogenous preferences, most often “boundedly rational” but always capable of learning, adapting and innovating with respect to their understandings of the world in which they operate, the technologies they master, their organizational forms and their behavioural repertoires.

(Dosi and Virgillito 2017, p. 2. See also Dosi 1982, 2014; Dosi et al. 1988; Freeman and Loucã 2001; Nelson et al. 2016, 2018; Dosi et al. 2017; Winter 2016; Pianta 2016)

We share with evolutionary economists the essential features of their vision. Most contemporary market economies, and the core features of the international economic system, are essentially the product of a collectively non-rational, random succession of adversarial, dialectical, and (much less so) cooperative interactions between unevenly powerful groups of human beings. There is much more equilibrium in a savannah ecosystem than in the digitalized, increasingly interconnected human and ominously expanding human share of the planet’s ecosphere. Yet, given the relatively short history of the unique path of evolution determined by human culture with respect to the rest of the natural world, the possibility of a passage towards a collectively rational, planned, and environment-compatible long-term development path is still there – in theory, at least.

From our vantage point, it is also important to stress that the evolution of human societies, like that of the pre-human biosphere, routinely proceeds along seemingly stable paths, exhibiting not only marginal and incremental changes but is also bound to experience major overhauls – as it happened, for instance, with the extinction of dinosaurs and the surge of mammals. A key feature of humankind’s journey is constituted by the fact that society and culture, themselves a product of human evolution, generate social structures at different levels of generalization and abstraction, some of which constitute permanent features of entire historical epochs. The most important of these structures are the modes of production.

Different MPs and other structures have existed and often co-existed over history (and pre-historical time too). Other MPs can develop in the future. There is no biological or historical/structural compelling reason to posit that capitalism is natural and eternal, and that socialism is anti-natural.

2.9 Concluding remarks

Over millions of years, genetic selfishness and cooperation have always been in a “*dialectical*” tension, during and even before the existence of humankind as a species. Major recent advances in the realms of neuroscience and neuroeconomics have shown that (consistently with our common background with the rest of the biosphere), our nature is characterized by a limited but undeniable propensity for altruism and cooperation, and by the prevalence of bounded rationality in emotions-ridden and imperfectly-informed individuals. Due to these two crucial factors, and to other ancillary ones, humans’ economic reasoning processes and their behavior cannot be monotonically boxed in the homo economicus mechanical optimization stereotype. This major finding hopelessly undermines the ultimate microfoundations of neo-classical economics. Progress in neuroscience and neuroeconomics have also led to posit a contradictory, yet nondualistic value-based structure of the brain, shedding light on the mental processes that can govern both selfish and cooperative decision-making.

In this context, we believe that contemporary progressive social scientists must take stock of the hard scientific findings of neuroscience and neuroeconomics and harmonize them with the holistic and *longue durée* perspective provided by the evolutionary economics approach and by the powerful critical and analytical contributions provided by the Marxian theoretical tradition.

In this context, we conclude this chapter with a tentative working assumption, that we propose as the foundational quasi-philosophical basis of the remainder of our argument. At a very high degree of abstraction, the principle of selfishness can be associated with capitalism,⁵³ and that of cooperation⁵⁴ to socialism.⁵⁵ The concept of cooperation we refer to is essentially the impersonal and unconscious one analyzed above in this chapter, a functional, evolution-driven force that operates spontaneously in nature. As such, the principle of cooperation cannot but condition and affect nature-bound human societies as well. It tends to be embodied to an uneven extent in different societies’ values, institutions, and relations of production and exchange, and has a crucial impact on their historical trajectories and ultimate sustainability. Only indirectly and secondarily the principle of cooperation manifests itself as an ethically- or religion-based form of altruism, as a cultural construction (although the latter, like all ethical and cultural categories, does play a role in human history).

In this context, *capitalism* and *socialism* can be regarded as symbolically and archetypically embodying respectively the twin rival principles of selfishness and cooperation that permeate the history of the Earth and the

evolution of living matter, from bacteria to human beings. In this respect, historical experience and the findings of both hard and social sciences show that there are no biological, historical, or logical compelling elements to posit that capitalism is natural and eternal, and that socialism is not compatible with human nature.

Society and culture, themselves a product of human evolution, generate historically determined, hierarchically layered social structures, some of which constitute permanent features of entire historical epochs⁵⁶:

Social systems exhibit structural integrity and mutability in response to environmental factors that establish fundamental and persistent patterns, such as institutions of property and exchange in markets...On the other hand, less ingrained, transitory, and more peripheral factors are more easily modified or discarded. Thus, rearrangements in the structural characteristics will tend to be path-dependent

(Butos and Thomas J. McQuade 2015⁵⁷. See also Rizzello 2004)

The most important of these structures, from our analytical viewpoint, are the modes of production (see below, Chapter 3). Different modes of production have existed and often co-existed over history (and pre-historical times too), taking root in various socioeconomic formations. Capitalism and socialism are the two key modes of production of our epoch. Capitalism dominates in the most advanced countries of the world – in some of them manifesting itself virtually in its pure form – and in the majority of the periphery, where it intermingles with the remainders of pre-capitalist modes of production.

Nowadays, capitalist relations of production and exchange, and therefore capitalist relations of class power, are both dominant and hegemonic worldwide. However, their dominance is neither completely unchallenged nor historically or ecologically necessary for an endless period of time. Moreover, it is crucial to distinguish the long-lasting market-based foundations of the contemporary international system of trade and financial relations from capitalism as such. Markets are not an exclusive feature of capitalism.

The long-lasting market-based foundations of the contemporary international system of trade and financial relations do not preclude per se to explore non-capitalist development paths. From a theoretical viewpoint, progress towards socialism is conceptually possible in a context where market interactions and the law of value substantially maintain their role and validity, even if they progressively lose the quasi-dictatorial hegemony they enjoy at the present day. Historically, many developed and developing countries have experienced various types of local, relatively circumscribed, radical, and moderate non-capitalist and socialist-oriented development trajectories. Several large-scale revolutions have taken place in some areas of the periphery and semi-periphery, since the first decades of the past century. In some of these areas, socialist-oriented socioeconomic formations have been established.

Some of them eventually collapsed due to endogenous and exogenous factors, while others have proved resilient (at least so far), and new ones have emerged.

Unless humankind urgently overcomes the prevailingly capitalist path of pillaging the planet's limited resources, the *anthropocene* period may be the end of humanity and many other species. The end of our civilization is inevitable without a major shift in emphasis from selfishness towards cooperation, from individual short-term hedonism towards collective long-term rational governance of social life, and from decentralized market regulation of economic interactions life towards centralized planning. These changes, in our view, should constitute pillars of a progressive transition towards a fairer and sustainable form of dealing with the contradictions between classes and between humankind and the rest of the planet – consistent with the basic tenets of socialism.⁵⁸

So far, however, they are little more than desiderata, cursorily reflected more verbally than substantially in the documents of major international institutions, and only realized in practice to a very limited and inadequate extent at the national level in a few areas of the world. Embryonic – or, at best, relatively underdeveloped – forms of socialism coexist with capitalism and pre-capitalist modes of production in some developing countries, in the framework of national socialist-oriented development strategies. It can be cautiously and provisionally (due to the little time they have been in existence so far) posited that in at least some of these countries socialist socioeconomic formations are coming into existence, and that their present state of development will be regarded one day with hindsight as representing in fact a primitive stage of socialism. One necessary but not sufficient condition for this future evolution to take place is humankind's capability, at the global level, to rein in the severe impact of market-based, prevailing capitalist relations of production and exchange on the Earth's fragile ecosystem.

Notes

1 *"It once happened," Menenius Agrippa said,*

"that all the other members of a man mutinied against the stomach, which they accused as the only idle, uncontributing part the whole body, while the rest were put to hardships and the expense of much labour to supply and minister to its appetites. The stomach, however, merely ridiculed the silliness of the members, who appeared not to be aware that the stomach certainly does receive the general nourishment, but only to return it again, and redistribute it amongst the rest. Such is the case," he said, "ye citizens, between you and the senate. The counsels and plans that are there duly digested, convey and secure to all of you your proper benefit and support"

(Plutarco 2019. See also Livy 1905)

2 These major cultural changes did not happen overnight. For instance, in post-WWII Italy, as late as the early post-WWII period, Pope Pius XII did not hesitate to recur to a medieval weapon of political struggle, and formally excommunicated communists in 1949 (see Pius XII 1949). The role of religion as a bulwark of social conservatism has by no means disappeared in the XXlth century, even

- in modern advanced and emerging Western countries – especially so in Northern and Southern America. This is not to deny the role of progressive and even revolutionary Christian thinkers, movements and institutions, from the Middle Ages to the present time.
- 3 This argument is sometimes declined in a slightly different fashion, consistently with the foundations of nationalist chauvinism, as a claim that socialism is maybe not fully contrary to human nature, but surely to that of one or another superior nation. “*Socialism is fundamentally un-American.*” (Tom Cole, Oklahoma Senator April 30, 2019, in Cole 2019).
 - 4 Of course, this is not the end of the story. The task of showing that socialism is also practically feasible, sustainable, and advisable is left to progressive social scientists, on one hand, and to the lessons stemming from the concrete experiments and experiences in attempting to establish and develop socialist socioeconomic systems in the real-world.
 - 5 See, for instance, Ghitis (2019); Nilsen (2019); Weedon and Handley (2019).
 - 6 See Cercle d’Etudes Charles de Gaulle (2019).
 - 7 According to Hermann 2014, culture is to be seen broadly and holistically as the set of all “*the systems of knowledge, values, beliefs, rituals and code of conducts typical of a given context*” (Hermann 2012, p. 5, Note 2). Of course, holistic is not a synonymous with homogenous and harmonious: cultures and societies are ridden with conflicts, crises, and contradictions.
 - 8 “*(Market and other) transactions assume complex meanings which reach out all dimensions of economic, social and psychological life*” (Hermann 2012, p. 9). Therefore, as far as it is practically feasible, an integrated and multi-disciplinary approach to social sciences constitutes the best option.
 - 9 “*Industrial mutation – if I may use the biological term – that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism*” (Schumpeter 1947, p. 83, quoted in Dosi and Virgillito 2017, p. 2).
 - 10 For billions of years, this trajectory has been essentially exogenous – even taking into account that the causal relation between the external environment and living beings is not exclusively one-directional. Nowadays, this is no longer the case. The global impact of humankind has been negligible during most of its existence, during pre-historic and early historical epochs, but has eventually become very significant. This latest period when human presence and activities has been causing an exponential and cumulative set of environment changes on our planet, of a magnitude comparable to those that marked the passage from one to another geological eras in the past, is often referred to as the Anthropocene:

Recent global environmental changes suggest that Earth may have entered a new human-dominated geological epoch, the Anthropocene. ...The evidence suggests that of the various proposed dates two do appear to conform to the criteria to mark the beginning of the Anthropocene: 1610 and 1964. The formal establishment of an Anthropocene Epoch would mark a fundamental change in the relationship between humans and the Earth system.

(Lewis and Maslin 2015, p. 171)

- 11 Creationists are not extinct yet.
- 12 This advanced forms of cooperation has been dubbed *eusociality* (see Batra 1966).
- 13 According to Kasper et al. (2017), the three key cognitive skills necessary for cooperation are event memory, synchrony with others, responsiveness to others.
- 14 See also Novak and Coakley (2013).
- 15 Dawkins (1976) famously proposed the term the “*selfish gene*”, a sort of transposition of *Homo economicus* in biology. His view, while valuable as a critique of any theological, teleological or “*intelligent design*” -inspired interpretation of

- natural history, has been proven to be a partial and reductionist one, given the importance of cooperation in the overall dynamic trajectory of evolution.
- 16 Novak warns humankind that only “*Those civilizations that have solved the problem of cooperating will persist in the cosmos.*” (p. 284). The others will not. Consistently, he aptly quotes a famous sentence by Bertrand Russell: “*The only thing that will redeem mankind is co-operation*” (Russell 1954).
 - 17 See Mehta (2006); Meyer (2016)
 - 18 See also Simon (1979).
 - 19 Hayek dismissed the very idea of socialism as unfeasible and intrinsically adversarial to rational economic reasoning: “*If socialists understood economics they wouldn’t be socialists.*” (Hayek 2019). Anticipating the infamous September 2019 resolution of the European Parliament (see EU 2019), he also likened socialism to fascism and Nazism (see Hayek 1944, 1988).
 - 20 See also Kahneman (2002), Levitt and List (2008), Meyer (2015)
 - 21 We borrow the term *quasi-economic* from Grayot (2017). In the present context, it refers to decisions that do not only affect economic objects as commonly conceived (i.e., sums of money, hours of labor), but other objects that directly affect people’s well-being (i.e., jail terms, as in the original version of the prisoner’s dilemma). Both economic and quasi-economic decisions depend on the subjective *value* attached to these objects (Van Bavel et al. 2018). The internal dialectic of each individual’s subjective values contributes to shaping people’s consumption, investment, and other decisions, that collectively have an impact on the economy as a whole. Of course, this concept of value is totally different from that of production prices-related exchange value that governs the laws of movement of modern monetary economies (see below, Chapter 4). In a way, psychic value as an internal, endogenous and *free* principle of organization of the individual self is actually specular to exchange value, a product of social relations that acts as a *law*, i.e. an exogenous constraint to individuals’ freedom.
 - 22 Many other games have been developed over time by researchers. Among them, one is particularly amusing, as it plastically shows how people’s choices and behaviors are strongly context-specific and shaped by inner perception of what the proper thing to do is in different social situations. It can be presented to players either as the “*Wall Street game*” or, alternatively, as the “*community game*”. The rules are the same in both cases, yet in the latter people tend to behave in much more cooperative way (see Liberman, Samuels and Ross 2004).
 - 23 Differently from the UG, the Receiver cannot even retaliate. If the offer is zero, the Dictator keeps all the money.
 - 24 Multiple repetitions of the game in different contexts have shown that, statistically, even Dictators tend to offer almost 30% of the endowment to their powerless counterparts (Van Bavel et al. 2018).
 - 25 This matter-of-fact observation should not be misinterpreted as implying a naïve idealistic or moralistic vision of *human nature*. From a social and dynamic perspective, there is a clear linkage between such apparently nihilistic punitive behaviors and cooperation. Amongst both human and non-human societies, punishing and eliminating free-riders is a necessary condition for cooperation to prevail, thereby enhancing group-based evolutionary fitness.
 - 26 If not, they would probably have opted for business school rather than social sciences.
 - 27 The *hardness* of each discipline is not independent on the nature and complexity of the phenomena it studies and to the degree of separateness between the objects and the observers. Some phenomena (such as the movement of stars), due to the relatively small array of variables that influence them and to their (also relative, Galileo docet) remoteness from scientists’ subjective interests, are more amenable to precise mathematical modeling than other ones, such as the evolution of

human societies. Also in the realm of social sciences, however, it is possible and necessary to maintain as much as possible a materialistic and objective scientific approach.

- 28 We use the term *idealistic* to refer to an approach that metaphysically states that the essence of social phenomena ultimately lies in arbitrarily constructed mental structures (such as the *homo economicus* mindset) that are apodictically posited to govern the behavior of reciprocally indistinguishable *representative agents*. This idealistic approach is juxtaposed to the materialistic and empirically- based one typical of modern science.
- 29 *Homeostasis* is a mostly unconscious process involving mechanisms to whether a biological system is departing from its proper route and to drive it back towards equilibrium if needed. “*Homeostasis involves detectors that monitor when a system departs from a “set-point,” and mechanisms that restore equilibrium when such departures are detected. Some—indeed most—of these mechanisms do not involve deliberate action*”. (Camerer Loewenstein and Prelec 2005, p. 27).
- 30 See Lerner and Keltner (2001).
- 31 “*Motivated cognition*” is basically tantamount to wishful thinking. Along with short-termism, it contributes to major economic phenomena such as high rates of new business failure, irrational hubris in financial markets, under-saving, and low rates of investment in education.
- 32 Camerer, Loewenstein and Prelec anticipate that, in the long run, the abandonment of currently mainstream economic theory will become a scientific necessity, and key concepts such as preferences, constrained optimization and (market or game-theoretic) equilibrium will be regarded as obsolete. New, radically different models based on verified neuroscientific evidence will be applied to predicting behavioral responses to constraints, prices, and other variables and to inform economic policy making.
- 33 As mentioned above in note 24, Chapter 1, the term *economics* has become progressively identified with neoclassical economics. For this reason, progressive economists tend to shun it, preferring to it the neutral wording *economic science* or the classical term *political economy*.
- 34 “Self-interested rationality is the fundamental paradigm of economic theory: driven solely by self-interest, individuals interact to benefit each other. Since this idea was initially introduced by Adam Smith over two centuries ago, economic theory has thrived on this simple but powerful paradigm. Considerable effort and ingenuity has been devoted to expanding and building on this basic principle of economic thought.” Katz and Rosenberg (2005), quoted in Becchetti 2011.
- 35 Filkowsky, Cochran and Haas observe that altruism is present in many animal species, including monkeys and dolphins. In humans, it emerges at an early age and tends not only to benefit others but also have significant positive effects on the physical and psychological well-being of the person performing the behavior. Warneken and Tomasello show that children’s altruistic behaviors observed in children is instrumental to foster future altruistic behaviors throughout development and into adulthood. University of Zurich (2019) presents the results of neuroimaging experiments carried out on the right Temporal Parietal Junction (rTPJ) – an area of the brain that plays a crucial role in social decision-making processes – showing that humans are in fact altruistic-to a point: people have a moral preference for supporting good causes and not wanting to support harmful or bad causes. However, depending on the strength of the monetary incentive, people will at one point switch to selfish behavior.” When the authors reduced the excitability of the rTPJ using electromagnetic stimulation, the participants’ moral behavior remained more stable.
- 36 The term *Homo Economicus* has been in use since the late XIXth century (see Persky 1995).

- 37 Meyer (retaking a line of reasoning initially made famous by Weber) also stresses the importance of cultural differences, that contribute to rendering the homo economicus stereotype more implausible in some societies (often, non-Western ones) than in other ones:

It is a well known fact that the Homo economicus concept is a very theoretical one in its nature and imperfect at the same time. This idea is abstract... It turns out it is also relative and it should not be applicable without reflection in theories in the whole world. The factor of cultural differences makes the difference among others. Individuals behave rationally within one culture but it is not so obvious if we take decision-making process in various cultures into consideration. This is why the Homo economicus paradigm is not universal. As has been shown, it can be discussed from the point of view of differences in values. (p. 441).

- 38 Of course, if Fleming's radical critique is correct, the ubiquitous "representative agents" that populate many modern neoclassical models can no longer logically and scientifically survive the death of their father.
- 39 On Fleming (2017) see also Thompson (2017).
- 40 A new line of research is growing, that tries to go beyond the critique of Homo economicus and to provide a modern and holistic theory of individual economic decision-making taking fully into account the results of behavioral economy and neuroeconomics:

...evidence should lead us to reject the standard paradigm in favour of a broader one which accounts for other regarding preference patterns (which may be specified as conditional or unconditional altruism, inequity aversion, reciprocity, etc.). Since such departures allow them to achieve superior personal and social outcomes in well known social dilemmas which are typical of economic life (trust games, prisoners' dilemmas and public good games), we should wonder whether the purely self regarding rationality is not an inferior form of rationality with respect to a socially richer team working attitude and whether people in real life are not more capable than theoreticians of grasping such superior rationality...this new paradigm (is) consistent with the evidence provided in this paper must take into account that the majority of individuals have in some way the wellbeing of others in their utility functions (inequity aversion, altruism pure or strategic, kindness or reciprocity) or, put on negative terms, do not have only self regarding arguments on their utility function.

(Becchetti 2011, p. 18. See also Becchetti and Cermelli 2018)

- 41 Several other economists that can be identified as behavioralist (George Akerlof, Robert Fogel, Daniel Kahneman, Elinor Ostrom) have obtained the Nobel prize before (see Shiller 2000, 2008, 2019; Akerlof and Shiller 2009).
- 42 As observed above in note 24, many contemporary economists and economic journalists have a propensity for removing the history of economic science before the marginalist (counter) revolution. Thus, they tend to use the term "classical" when referring to neoclassical economic theory.
- 43 See, among others, Thaler (1993, 1994, 2005).
- 44 See Dennett (1991).
- 45 We are aware that common sense and intuition are often heuristically effective, yet they sometimes conflict with the demonstrable (if hard to grasp) findings of science. An obvious example is relativity theory.
- 46 *The most prominent dual process models of cooperation have argued that pro-social decisions stem primarily from intuition ...For instance, the Social Heuristics Hypothesis ... makes three core assumptions: (1) rational self-interested agents should never cooperate in anonymous one-shot games, (2) cooperation stems from error-prone intuitions whereas self-interest*

stems from more corrective deliberation, and (3) experimentally boosting reliance on intuition (vs. deliberation) should only result in increased or static cooperation.(Bavel et al. 2018, p. 5)

- 47 Various versions of this extremely efficacious quip have been attributed to many eminent personalities, among them Churchill, Clemenceau, and Guizot (see Carruthers 2005).
- 48 In fact, the evolutionary fitness of saints in a world of wolves would not be a very encouraging one.
- 49 The value-based mental structure is pre-existing with respect to the moment when the decisional process takes place, but is not fully innate, as it is shaped by the individual’s previous experiences. The term moral is to be understood in a nuanced sense, as referring to a relatively stable mental ex ante condition leading to an internal (and largely unconscious) hierarchy of values, that predisposes her/him to a more or less prosocial or selfish decisional process, leading to various possible ex post outcomes.
- 50 See Gramsci (2003, 2007).
- 51 Among the major seminal contributions of the evolutionary school see Winter (1964, 1971, 1987, 2017); Freeman (1974); Pasinetti (1981); Nelson and Winter (1982).
- 52 With the caveat that actually functioning capitalism also requires a great deal of cooperation as well.
- 53 Two clarifications on our usage of the term cooperation are warranted.

First, it has to be taken into account that cooperation can be interpreted in two different, albeit mutually interrelated ways. One of them is ethically- or religion-based altruistic cooperation as a cultural construction. The other is cooperation as an objectively-existing functional, evolution-driven force that operates spontaneously in nature. In this chapter, we primarily refer to the latter denotation. As such, cooperation cannot but condition and affect nature-bound human societies as well, and indirectly shape their cultural and ethical evolution. Therefore, cooperation as a principle of nature tends to be embodied to an uneven extent in different societies’ values, institutions, and relations of production and exchange, and has a crucial impact on their historical trajectories and ultimate sustainability.

Second, there are analogies between the principle of cooperation and that of *trust*. The latter, seen as a form of social capital, has already received a lot of attention and acceptance on the part of mainstream economic thought. Clearly, cooperation requires some kind of trust, and trust can be regarded also as a form of cooperation. However, cooperation is a more holistic concept than trust, and has a much wider scope.

(see Macy and Sato 2002; Cook et al. 2005)

- 54 Such a dichotomist juxtaposition is proposed here as a metaphor, in order to make the kernel of our argument easily understood in broad terms. The fact that any sustainable socioeconomic system in the real world must necessarily embody elements of both competition and cooperation is in our view a no-brainer – especially so after the bitter lessons stemming from the demise of the USSR model of socialism. In each socioeconomic formation, the real difference between capitalism and socialism is rooted in the prevalence, or the hegemony, of one principle or the other, in the holistic perspective of a very long-term development trajectory.
- 55 See Bogliacino and Codagnone (2017)
- 56 According to Butos and McQuade this modern evolutionary perspective was to some extent anticipated by Hayek in his 1952 innovative cognitive psychology book in the early 1950s (see Hayek 1952).

- 57 Capitalism, on its part, has already proven itself to be a workable mode of production capable of rapidly enhance productive forces in the past. Yet, its ever-expanding and resource-devouring character makes it not sustainable and not compatible with Earth's finiteness. Socialism, conversely, has not had a chance to prove this ability at planetary scale so far. Moreover, localized attempts at socialist economic development have not proven themselves so far to be superior to capitalism in the ecologic domain. It is thus likely that, beyond the mid-term, either a more advanced form of socialism will become the dominant mode of production worldwide, or a *Bladerunner*-like scenario will prevail. Actually, unless we find a path beyond the capitalist mode of production, the anthropocene may be the end of humanity and many other species.

3 Modes of production and socioeconomic formations

Summary

3.1. The centrality of the Mode of Production category. – 3.2. The evolution of Marx’s conception of the mode of production. – 3.3. Modes of production as abstract systems. – 3.4. Absolute and relative dominance/prevalence of one or more MPs. – 3.5. Socioeconomic formation as concrete, historically existing objects. – 3.6. Towards a categorization of socioeconomic formations

3.1 The centrality of the mode of production category

Classical economists and Marx developed various interpretations of the forces shaping the formation of production prices, and of crucial concepts and issues such as productive and unproductive labor, the rate of profit, and the dynamics of capital accumulation. All their theories, however, shared a common kernel, that is still pivotal in grasping the basic features of the contemporary globalizing economy. More specifically, Marx’s sporadic observations on how to deal with inter-sectoral and personal distribution under socialism are very helpful to realize the constraints faced by present-day socialist planners. However, a proper understanding of the renovation perspectives, the sustainability, and the very possibility of the existence of socialism in the XXIst century requires a new and partly modified utilization of some of Marx’s fundamental categories. We begin our argument by discussing briefly those of *Mode of Production* (MP), *Social and Economic Formation* (SEF), and *Law of Value* (LV).¹

In fact, these categories (as well as, contrary to what might be expected given their apparently less theoretical and more down-to-earth nature, those of socialism and communism²) are well known, yet not always fully understood. They are actually complex and sophisticated, and even harder to master and even to identify because they can legitimately and meaningfully be interpreted in different ways and at different levels of theoretical abstraction and depth:

...each one of these terms, as a signifier, refers to a very complex and holistic signified, encompassing a number of epistemic dimensions,

such as the economic, the social, the anthropological, the historical and the philosophical one. Another reason, of course, is that (as it is the case for most of his revolutionary theoretical contributions) Marx formulated the above-mentioned concepts in the course of a lifelong, evolutionary, and unfinished research endeavor.... As a result, their meaning can at times be interpreted as context-specific in the overall economy of Marx's scientific contribution. As a matter of fact, Marx himself was quite aware of the ultimately pioneering and embryonic degree of theoretical development of many of his ideas... In any case, it is an urgent theoretical necessity to reinterpret and re-elaborate these concepts in order to make them more suitable to the understanding of the 21st century world, which is of course quite different from the one where Marx and Engels lived....

(Gabriele and Schettino 2012, pp. 20–2)

The Marxian concept of mode of production (MP) refers to the specific form of interaction between productive forces and social relations of production which characterize and shape the material base and reproduction of human civilizations over very long periods of time³: “*A mode of production is an articulated combination of relations and forces of production structured by the dominance of the relations of production*” (Hindless and Hirst 1975, p. 9). Therefore, MP is the most crucial category of historical materialism: “*Marx's dictum: 'The relations of production of every society form a whole' is the methodological point of departure and the key to the historical understanding of social relations*” (Lukács 1919, quoted in Resnick and Wolff 2006, p.36).

3.2 The evolution of Marx's conception of mode of production

While always maintaining a high degree of consistency, Marx focuses to varying degrees on one or another of the multiple features and dimensions of the concept of MP. In *The German Ideology* (1845) Marx refers to the MP as an ontological category predicated on the material conditions of reproduction of human existence, yet also encompassing the totality of human lives:

This mode of production must not be considered simply as being the production of the physical existence of the individuals. Rather it is a definite form of activity of these individuals, a definite form of expressing their life, a definite mode of life on their part. ... The nature of individuals thus depends on the material conditions determining their production.

(Marx 1845)

In the Manifesto (1848), Marx and Engels also employ repeatedly the term MP. The most famous example is the passage on the revolutionary worldwide role of the bourgeoisie, which

compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilization into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image

(Marx and Engels 1848, Part I: Feuerbach. Opposition of the Materialist and Idealist Outlook, Idealism and Materialism)

Of course, the category of MP plays a key role in the preparatory work that eventually led to the elaboration of Capital – the *Contribution to the Critique of Political Economy* – as well as in *Grundrisse* and in Capital itself. In *Grundrisse* Marx further develops this category, in order to establish it firmly in historical and empirical analysis (see Kelch 2007). To this purpose, he devotes a chapter specifically to the “forms which precede capitalist production,” i.e. to the pre-capitalist MPs. Marx observes that the latter share with capitalism their systemic nature⁴ (see Marx 1973, p. 471), but there is a major

difference between the capitalist mode of production and all earlier ones... There appears here the universalizing tendency of capital, which distinguishes it from all previous stages of production... it strives towards the universal development of the forces of production, and thus becomes the presupposition of a new mode of production.... This tendency – which capital possesses, but which at the same time, since capital is a limited form of production, contradicts it and hence drives it towards dissolution – distinguishes capital from all earlier modes of production, and at the same time contains this element, that capital is posited as a mere point of transition.⁵

(Marx 1973, p.540)

In *A Contribution to the Critique of Political Economy* (1859), Marx again focuses on the complex dialectical relationship between material reality and human consciousness in the framework of the MP:

The totality of... relations of production constitutes the economic structure of society, the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness. The mode of production of material life conditions the general process of social, political and intellectual life. It is not the consciousness of men that determines their existence, but their social existence that determines their consciousness. At a certain stage of development, the

material productive forces of society come into conflict with the existing relations of production or ... with the property relations within the framework of which they have operated hitherto. The changes in the economic foundation lead sooner or later to the transformation of the whole immense superstructure.

(Marx 1859, Preface)

With respect to this famous passage of Marx, it is worth clarifying here what he (and Engels) meant for social relations of production (*Produktionsverhältnisse*), and what we refer to in the remainder of the book with the very similar term *Social Relations of Production and Exchange* (SRPEs). For Marx and Engels social relations of production were the totality of social relationships that people must necessarily enter into in order to ensure their subsistence and reproduction in each historically given society.

Relations of production are not, as the English phrase suggests, simply the social relationships formed in the actual process of production. Rather, they are the de facto power relationships that both underlie and are the result of the division of the fruits of a society's total labor. Household head versus dependents, chief versus subjects, master versus slaves, feudal lord versus peasants, and capitalist versus workers – relations of production are basic asymmetries of power grounded in the organization of material life. In capitalism, relations of production rest upon actual control over productive forces in the process of production, but in other modes of production, as anthropologists and historians eventually showed, this is not necessarily the case.

(Donham 2015, p. 714)

This Marxian concept was and still is a key one for analyzing all human societies. Yet, as Donham rightly observed, it has been unduly tainted with an aura of *vulgar materialism*. For this reason, we prefer in this book to utilize the slightly augmented term *social relations of production and exchange* (SPREs), to emphasize that we fully acknowledge – along with that of production – the relevance of what Marx considered as the *sphere of circulation* of capital, and that in practice largely corresponds to the domain of markets (or, in some cases, to that of those institutions that are meant to replace markets).

Marx refers to the MP – sometimes termed in a slightly different way, such as the *social form of the production* or *process of production* – in many passages of his major work, focusing mostly but not exclusively on the economic dimension of the concept.⁶ He sees the MP as the lifeblood of the very process of societal self-reproduction:

Whatever the social form of the production process, it has to be continuous; it must periodically repeat the same phases. A society can no more cease to produce than it can cease to consume. When viewed,

therefore, as a connected whole, and in the constant flux of its incessant renewal, every social process of production is at the same time a process of reproduction.

(Karl Marx 2004, *Capital*, Volume 1, p. 711)

Each MP produces not only things but also the social figures that characterize it:

The capitalist process of production, therefore, seen as a total connected process, i.e. a process of reproduction, produces not only commodities, not only surplus-value, but it also produces and reproduces the capital-relation itself; on the one hand the capitalist, on the other the wage-labourer. (p. 724)

Different exploitative MPs apply direct or indirect forms of coercion to induce the workers to perform their duties:

That process, however, takes good care to prevent the workers, those instruments of production who are possessed of consciousness, from running away, by constantly removing their product from one pole to the other, to the opposite pole of capital...The Roman slave was held by chains; the wage-labourer is bound to his owner by invisible threads. (p. 719).

Under the capitalist MP, the legal and ideological setting allows surplus appropriation to take place as a normal act of exchange:

As long as the laws of exchange are observed in every single act of exchange – taken in isolation – the mode of appropriation can be completely revolutionised without in any way affecting the property rights which correspond to commodity production...This result becomes inevitable from the moment there is a free sale, by the worker himself, of labour-power as a commodity. But it is also only from then onwards that commodity production is generalised and becomes the typical form of production; it is only from then onwards that every product is produced for sale from the outset and all wealth produced goes through the sphere of circulation. Only where wage-labour is its basis does commodity production impose itself upon society as a whole; but it is also true that only there does it unfold all its hidden potentialities...To the extent that commodity production, in accordance with its own immanent laws, undergoes a further development into capitalist production, the property laws of commodity production must undergo a dialectical inversion so that they become laws of capitalist appropriation.

(pp. 733–734)

The term MP is used in *Capital* in many other passages, in relation to a number of other key Marxian concepts, such as commodity, accumulation,

private and public property, the division of labour in manufacturing production, and the production of surplus-value.⁷

3.3 Modes of production as abstract systems

We observed in the preceding chapter that the category of MP that we inherited from the Marxian intellectual tradition is a very rich and complex one, that can legitimately be interpreted and utilized in various connotations in different contexts and for different analytical purposes. Taking into account that the term MP can assume a rather ample range of meanings, we deem it important to clarify as much as possible the specific acception that we attach to it in this book.

Here, we apply the category of MP at a very high level of abstraction, as a *system*, where the latter is understood as a set of internally consistent rules and laws of self-preservation and movement. This interpretation is compatible with the basic tenets of the *system theory* (see Parsons 1951; Simon 1952; Zadeh 1962; von Bertalanffy 1968a, b; Rapaport 1986), and follows in the steps of McQuarie and Amburgey (1978), who argue that

...Marx can indeed be read as an early system theorist. Major elements of his theoretical work can be read as fruitful anticipations of the modern systems approach. To name just a few we can list: (1) Marx's conceptualization of the mode of production as a theoretical system composed of interdependent elements. (p. 3)

There is, however, a major difference between the usage of the term system proposed here and the one that mostly prevails in the system theory approach. In the latter, systems are very complex, yet materially existing, and time and space-bounded structures are the object of the real world. Parson, for instance, "*identified in any concrete social system these four universal functional aspects (adaptation, goal-attainment, integration, pattern maintenance) which often constitute autonomous subsystems of the respective system.*" Stichweh 2011, p. 3. In our approach, Parsons' systems are very similar to what we refer to as socioeconomic formations. Conversely, we identify MPs theoretically as pure, abstract structures characterized by a certain degree of internal logical consistency⁸ and by specific laws of movement, which inform to a larger or lesser extent the concrete formation and evolution of historically existing socioeconomic formations.

As such, our MP is semantically and conceptually germane to astronomic, biological, ecological, or linguistic systems. The analogy with the latter is particularly useful. Linguistic systems are immaterial underlying frameworks that structure and organize the multiple, ever-evolving, and mutually interacting languages that arise, develop, and eventually decline in different loci in space and time. In a parallel fashion, MPs can also be seen as immaterial underlying frameworks that structure and organize SRPEs in different SEFs that arise, develop, and can eventually decline in different epochs and in different parts of the world. The dominance/prevalence of a specific MP, or

the specific interactions of two or more MPs, determine the specific, unique dynamic configuration of SRPEs that characterize the humans' conditions of material⁹ reproduction and development.

The relation between an MP's universal, structural, and permanent features, on one hand, and its particularistic, historically and geographically specific manifestations, on the other hand, is far from being simple. Any attempt to properly analyze and evaluate such a relation requires a difficult balancing and fine-tuning exercise. Thus, we propose a partly novel interpretation of the concept of MP, that emphasizes the dialectic and hierarchical interaction of relations of production and exchange typical of different MPs along uneven dimensions of socioeconomic reality. Our interpretation is not *per se* contradictory with the original formulation of the MP category and does not require a drastic departure from its basic tenets. However, it is conceived as a tool apt to interpret the contemporary world (which contains, among many other things, a series of objects that did not exist in the XIXth century, among them nuclear bombs, smartphones, and socialist-oriented socioeconomic formations), and does not pretend to constitute the ultimate *true interpretation* of what Marx really meant.

The term MP, like many of Marx's categories, can be understood in partly different ways according to the level of abstraction and generality of the discourse in which it is employed. Among them, the most important and well-known one is very broad and embodies the principle of universality. The whole edifice of Marx's thought revolves around this key holistic and ontological category, to which he refers in most of his works, focusing to varying degrees on one or another of its multiple features and dimensions. This universal denotation of the term MP identifies the set of articulated, (relatively) sustainable, and mutually consistent SRPEs obtained in a given part of the world, during a certain period of time.

3.4 Absolute and relative dominance/prevalence of one or more MPs

The primacy of a certain MP in a specific historical context can be absolute, or relative. In some socioeconomic formations the supremacy of a single MP and the pervasiveness of its characteristic SRPEs manifests itself overwhelmingly and ubiquitously. The concrete structure and functioning of these socioeconomic formations match the abstract features of the corresponding MP to a quasi-total extent, to the point of being ontologically indistinguishable. They leave no or negligible room for other SRPEs to flourish (or even survive), and inform the totality of associated life, both in the realms of the material structure and in that of the cultural superstructure. Recurring again to Plato's famous argument,¹⁰ they can be metaphorically regarded as embodying as much hoarseness as a thoroughbred. A very straightforward case in point is the present-day US, a SEF where the absolute supremacy of capitalism in every sphere of human existence is self-evident and almost completely unchallenged.

In other socioeconomic formations, two or more MPs co-exist in a fluid combination that blends elements of rivalry and of symbiosis. Examples are numerous throughout history and geography, among them European nations' uneven transitioning from feudalism to capitalism, Southern US slave-capitalist plantation economy, the numerous regions in Africa and other parts of the global South where subsistence agriculture is still a key element in ensuring the livelihood of a large part of the population, and XXIst century China and Vietnam.

In fact, since the Neolithic, different MPs have coexisted most of the time in most parts of the world. Both at the local and the global level, relative stability predominates in some periods, while other historical phases pivot on the transition from one MP to another one. As a general rule, in each specific historical and geographical context, one MP was dominant, while the others were not. However, there have also been long transitional epochs where the dialectic interaction between different MPs was so complex and intricate to make it very difficult, if not impossible, to gauge which of them was the dominant one, or was on the way to become dominant in the future. This difficulty is surely true for contemporary observers (especially so, taking into account that the concept of MP is a relatively recent one¹¹), but also applies, in a different form, to present-day economic historians and other scholars trying to apply the lessons of the past to the interpretation of modern societies.

In some cases, the broad trajectory of history can be clearly identified in tendential and qualitative terms,— although it is not made evident by the sheer quantitative measurement of economic and social data — but even this was not the case in all epochs, regions, and continents.¹² Neither could it be taken for granted that the succession of different dominant MPs over time inevitably represents progress, even if only in terms of productivity, as there is no in-built teleology in human history. For instance, Marx correctly predicted that capitalism was on its way to dominate the whole planet, although during his lifetime the livelihood of most of the world population was predicated on pre-capitalist MPs, and even in the UK the number of proletarians engaged as wage workers in rural or urban capitalist enterprises was still a minority.¹³ However, to gauge whether or not the elements of financial capitalism present in Europe since many centuries before the Industrial Revolution can be seen as full-fledged harbingers of the new MP that was to come, or as interesting but secondary preconditions that could have co-existed indefinitely as secondary aspects of a society dominated by pre-capitalist relations of production and exchange, would constitute a much more complex question.¹⁴

However, in many other cases, one MP's primacy is a relative one, as it co-exists with other MPs. Under this occurrence, the very concept of primacy becomes to some extent a relative one and can be disentangled into more than one dimension. The most important ones are those of *dominance* and *prevalence*.

In a specific historically determined context — that can be local, national, or global¹⁵ — the dominance of a given MP manifests itself in a hierarchical, vertical fashion, pivoting on those SRPEs that steer and control the

mechanisms of reproduction of the population's livelihood, and (in the case of some MPs) the process of accumulation and development of productive forces. Dominant SRPEs holistically constitute by themselves impersonal societal forces, but – during the vast majority of historical epochs – they also imply the subordination of some actors to other ones, according to patterns of class-based exploitation.¹⁶ This set of social relations constitutes the *dominant MP*.

As dominance is per se hierarchical and unfolds itself through hierarchical procedures, the dominant status does not require necessarily as a condition that the majority of the population is directly engaged in production and exchange activities that are typical of a given set of SRPEs. We refer to the set of SRPEs that directly support the livelihood of the majority of the population as the *prevalent MP*.

In many historical occurrences, the (locally¹⁷) prevalent MP and the (locally) dominant MP are different from each other. The most evident example is that of the early stages of capitalist development: even abstracting from the role of transnational forms of hierarchical domination created by colonialism and imperialism, capitalism became dominant at a relatively early stage in most now-developed countries at the national level long time before the full unfolding of the process of proletarianization. During these stages of capitalist development, most of the population was still engaged in pre-capitalist forms of production and exchange.¹⁸ In fact, this is still the case in many areas of the South, especially so in Africa.

Another example is provided by the SRPEs characteristic of most rural areas in China (where the majority of the total population lived until recently), Vietnam, and Laos (two less developed countries where most people still live in the countryside). The State owns most of the land, and peasant households are assigned use rights by local governments according to non-market regulations and dispose of the output, earmarking it to self-consumption or selling it in the market.¹⁹ Thus, the bulk of the rural workforce is engaged in modern forms of agricultural simple commodity production.²⁰ However, this peculiar MP prevailing in the countryside is inserted in the national context of unevenly developed market-socialist socioeconomic formations. The SRPEs typical of rural simple commodity production are hierarchically subordinated²¹ to socialism, the MP that (in its primitive form) is dominant at the national level.²²

3.5 Socioeconomic formation as concrete, historically existing objects

In a famous passage of *A Contribution to the Critique of Political Economy* Marx identified capitalism as the last stage of human pre-history:

In broad outlines we can designate the Asiatic, the ancient, the feudal, and the modern bourgeois modes of production as so many progressive epochs in the economic formation of society. The bourgeois relations of production are the last antagonistic form of the social process of

production — antagonistic not in the sense of individual antagonism, but of one arising from the social conditions of life of the individuals; at the same time the productive forces developing in the womb of bourgeois society create the material conditions for the solution of that antagonism. This social formation²³ constitutes, therefore, the closing chapter of the prehistoric stage of human society.

(Preface to Marx 1859)

In this passage, the concepts of MP and SEF are virtually indistinguishable. Yet, subsequent interpretative approaches – while maintaining the close relationship between the social and the economic spheres, that possibly constitute the most fundamental legacy of Marx – tended to differentiate the two concepts, consistently with the respective different meanings of the terms “social” and “production” respectively. Lenin, in particular, utilized the concept of SEF to emphasize the crucial role of the analysis of the specific social and economic conditions of each country in a determined period of history, as the cognitive basis of both scientific understanding and revolutionary activities (see Lenin 1894, Part 1.) This approach stressed objectivity, very long duration, quasi-universality, and exogeneity with respect to the subjective wills and activities of individual human beings as crucial characteristics typical of the MP, as well as a prevalence of the economic dimension on all the others. Conversely, the SEF is seen as a holistic yet more particularistic object where the social and cultural dimensions played a relatively more relevant role, inside limited political, geographic, and historical boundaries. Some SEFs can be fully dominated by a single MP, while other ones are characterized by combinations of different MPs that can vary from one to the other. In most SEFs, one specific MP can usually be identified as locally dominant. Other SEFs are in a process of transition from one locally dominant MP to another.

Social and economic relations in the realm of each SEF are strongly constrained by the laws of the MPs that structure it. In SEFs where only one MP is overwhelmingly dominant and prevalent, while other MPs are fully or virtually non-existent, economic and societal laws of motion are by all practical means those of that MP. As mentioned above, the most obvious example of this kind of quasi-unimodal²⁴ SEF is constituted by the present-day US. In those SEFs where the coexistence of two or more MPs is systemically significant, a hierarchically ordered dialectic dynamic emerges between the laws of motion of each MP. This was the case, for instance, in Russia during the first decades of the XXth century, both before and after the Revolution, as Lenin aptly remarked. Moreover, the functioning of all different MPs in all SEFs is in turn conditioned, at a higher hierarchical level, by the constraints deriving from the existence in each epoch of a globally dominant MP, or at most of two rival MPs struggling for domination.

Yet, individuals and groups maintain a certain degree of freedom as they strive to understand and modify such relations. Eventually, organized

individuals can succeed in achieving a systemic change (by revolutionary or reformist means), subverting the very social and economic structure of a SEF to the point of steering it towards a process of transition from one MP to another. Such a major feat can only be accomplished in a given SEF if the necessary objective (related to the degree of development of its domestic and external SPREs) and subjective conditions are met.²⁵

Revolutionary leaders such as Lenin and Mao implicitly or explicitly referred to the category of social formation in their effort to understand concretely the social and economic reality of their own countries in the specific historical period when they launched the Russian and Chinese revolutionary processes. Among major modern Marxist scholars, Althusser provided the most valuable suggestion to develop the concept of social formation:

In his philosophical under-labouring, Althusser seeks to ... (develop) Marxist epistemology and the fundamental axioms for the study of social formations.... (References to this concept) can also be found in Lenin's analysis of the revolutionary situation in Russia in 1917 or Mao's distinction between the primary and the secondary aspects of contradiction.
(O'Ruairc 2008)

In *Reading Capital*, Althusser and Balibar refer to the SEF as a “*totality of instances articulated on the basis of a determinate mode of production*” (Althusser and Balibar 1979, p. 207. See also Maulidiansyah 2008), and propose a “*theory of historical time*” that allows “*to establish the possibility of a history of the different levels considered in their ‘relative’ autonomy*” (Althusser and Balibar 1979, p. 104),²⁶ focusing on “*the form of historical existence peculiar to a social formation arising from a determinate mode of production*” (Althusser and Balibar 1979, p.104). Following a similar approach, Lorimer (1999) argues that:

The social formation is... an integrated social system... the totality of relations of production in a social formation based on a distinct mode of production is almost never homogeneous - there exists alongside the dominant property form... other relations of production.
(Lorimer 1999:109–111)

In sum, while in Marx it plays a comparatively little role and is barely distinguishable from the far more crucial role of MP, the term SEF can be re-interpreted along the lines proposed by Althusser and other XXth century Marxists in a more restrictive sense. Consistently with the approach outlined above in the preceding sections, we regard each SEF as an internally consistent²⁷ sub-set largely but not fully contained and constrained by a larger social and economic sets prevailing worldwide, i.e. the globally dominant MP.²⁸ The former matches closely the essence of the concept of MP in his original Marxian sense. It is prevalently shaped by the strongest and most advanced countries and groups of countries, and by the hegemonic interests of

their ruling classes/ social groups. The latter is an all-encompassing category belonging to the very long period (à la Braudel), that is dominated by the principle of necessity.

Conversely,

the existence and evolution of socioeconomic formations, over long but relatively shorter periods of time, and within the boundaries imposed by the structural characteristics of the slow-changing MP, is strongly affected by changes in the superstructure, and in the consciousness and organization of social classes. Therefore, it is at least partly characterized by the principle of freedom.

(GS 2012, p. 23)²⁹

In the remainder of this book, we will refer to the term SEF as the specific complex of SRPEs obtained in a certain country or group of countries during a long period of time. These SRPEs, during the same period, can be quite different from those existing in other countries. On a global scale, the dominant SRPEs are decisively (but not exclusively) influenced by those of the strongest and most advanced countries and groups of countries, and by the interests of their ruling classes or social groups.³⁰

3.6 Towards a categorization of socioeconomic formations

According to our definition of SEF, we put forward a general methodological suggestion. If (according to debatable and falsifiable value judgments carried out by informed observers) a specific national socioeconomic system is regarded as being structurally endowed with the property of adequate stability, it can be argued that it constitutes a SEF. Moreover, again according to the above-mentioned value judgement based on an epistemological criterion, SEFs can be classified as belonging to various typologies, classes, groups, or families. Such an exercise can adopt alternatively or complementarily different taxonomic approaches. With respect to the positioning of a given SEF in a stylized capitalist-socialist continuum space, in particular, in order to disentangle the crucial features of different types of non-capitalist systems, it is in our view meaningful and useful to apply qualified concepts such as socialist-oriented and market-socialist (see above, Box 1.1).

The first attempt at socialist construction took place in the Euro-Asian territories formerly ruled by the Russian Empire. The latter was a major yet second-tier, backward, and poorly industrialized world power, where industrial workers were relatively few and most of its population was constituted by farmers only partially linked to capitalist relations of production and exchange. After WWII communist parties came to power in other countries and set up other more or less centralized planned socialist economies. Most of them, along with the USSR, also established an alternative international

trade system. The USSR and most European socialists initially achieved high rates of economic growth, but their development trajectory eventually fizzled out. Due to internal contradictions, technological isolation, and unrelenting external pressure, the USSR and its allies did break the exclusive domain of capitalist powers on the world economy, but never managed to fully overcome its internal contradictions and eventually collapsed.³¹ A unique combination of historical factors led China first to become also a centrally planned socialist SEF (in 1949) and then (in the late 1970s) to launch the first successful *socialist-oriented market economy*³² experiment worldwide.³³ Market-oriented reforms implied steps backwards with respect to the very socialist nature of China's socioeconomic system, but led to an extraordinary development of productive forces and turned the People's Republic of China (PRC) into a new type of SEF. In Part II of this book, we devote ample space to analyzing some key features of China's reform experience, trying to show that China's socioeconomic system is in fact a new and relatively consistent and sustainable (albeit continuously evolving) model. That's why the PRC can be identified as a new type of SEF.

This system presents a series of unique structural features that make it superior with respect to (presently existing) standard capitalist (nation-state) systems in the domain of developing domestic productive forces (as reflected in stellar gross domestic product (GDP) growth and very fast technical progress), articulating itself to the global trade and financial networks. It is also probably superior from an evolutionary and sustainability viewpoint.

China's experience is not perfect and is to an important extent inextricably linked to a set of unique national factors.³⁴ It cannot and should not be blindly copycatted elsewhere. Yet, it is not a historical accident. It represents, in a way, a historical necessity. This experience embodies some key "*lessons*" that are universal and unavoidable. These lessons impose a partial rethinking, upgrading, and updating of the very concept and essence of socialism.³⁵ If properly understood, they indicate the way forward for any other attempt to advance towards socialism anywhere in the world. They also set the boundaries of what is feasible and auspicious and what is not in any of such endeavors in our era, for a period of time that can be tentatively estimated anywhere from long to very long.

In the conclusions, we try to identify and explain these "*lessons*."

Notes

1 See Marx (1845, 1857–61, 1859, 1867, 1875, 1894).

2 See Box 6.1.

3 However, different MPs normally prevail in the same epoch, in different parts of the world. Moreover, various MPs also often co-exist and reciprocally interact inside the same social formation (SF) for long periods of time. Even establishing which MP is in fact dominant, hegemonic or prevailing in a specific SF during a given historical period can be no easy task.

4 See also Hindless and Hirst (1975).

- 5 On the concept of transition in Marx and its possible modern interpretation see below, Sub-section 8.2.
- 6 According to Legros et al. (1979), Marx uses the term MP *to* designate alternatively to the economic base of the economic structure and ... the societal whole, composed by the economic structure and the superstructures...the terms society and social formation are used by Marx either for a theoretical concept equivalent to mode of production in the wider sense...or to refer to concrete geo-political entities such as Russia, France and England at given periods in their history....
(Legros et al. 1979, p. 243)
- 7 See Marx (1867) (I, I, 4; VIII. XXXII.3; I.IV.XIV.31 IV.XIV.36; Vol. III, Part VII, 31) and Marx (1894) (Part VII, 31).
- 8 Positing such an internal logic consistency is a necessary condition to identify modes of production as meaningful theoretical structures useful to interpret the real world. By no means it implies that either capitalism or socialism (like any other mode of production) are exempt from major contradictions.
- 9 We use the term *material* because MPs are structures that belong conceptually to the socioeconomic sphere. Of course, the evolution of peoples' material conditions of subsistence dialectically interact with their cultural evolution in a complex, reciprocal, two-way fashion.
- 10 See above Introduction, Section 1.2.
- 11 The very idea of social change and evolution was (and still is) alien to many cultures, that tend to see societies as natural and immutable objects.
- 12 It has also to be taken into account that the transition from one MP to another one does not necessarily represent a progress, even if only in terms of productivity. There is no in-built teleology in human history.
- 13 See Marx (1881).
- 14 Embryonic forms of financial capitalism also existed in the Roman Empire. Eventually, they decayed during the early Middle Ages, without bringing to life any major productivity-enhancing systemic change. It is conceivable that, if some ancillary favorable conditions had not been present, late Medieval and modern forms of financial capitalism before the Industrial Revolution could have faced the same fate, without generating by themselves an evolution towards modern industrial capitalism. See Arrighi (1994, 2007).
- 15 So, for instance, by around 1850 capitalism was the dominant MP in the UK, and to various extents in other Western countries, but probably not in Russia. Globally, by mid-XIXth century capitalism was arguably already the dominant MP worldwide, although it was far from *prevalent* in most countries.
- 16 There are two major exceptions. One is constituted by the ancient hunting and gathering form of livelihood that prevailed before the agricultural revolution, and still subsists in some isolated parts of the world. The other is represented, at least in theory, by socialism in its pure form – and, a fortiori, by communism. As attempts to build socialist societies have been around only for a very short time, whether or not socialism will prove itself in the long run to be a workable alternative to capitalism in practice, while maintaining its basic adherence to both its positive and normative foundation, is still an issue that has not been settled by historical experience.
- 17 The term *local* can in principle refer to anything from a region to a country to a continent, according to the level of generalization and abstraction of the analysts' discourse. In a local, less-than-planetary dimension, it is in principle possible that one MP is prevalent, and another one is dominant. In the meantime, a third MP might be dominant worldwide.
- 18 According to the requirement of any specific analysis, the adjective dominant can be intended globally or as *locally dominant*, referring to a specific region of

the world (see below, Ch.4). So, for instance, by around 1850 capitalism was the dominant MP in the UK, and to various extents in other Western countries, but probably not in Russia. Globally, by mid-XIXth century capitalism was arguably already the dominant MP worldwide, although it was far from *prevalent* in most countries, including the UK itself.

- 19 In China, this set of agricultural SRPEs has been introduced since the late 1970s, and the core principle around which it is organized is that of the household responsibility system (HRS) (see below, Chapter 11).
- 20 Friedrich Engels introduced the term *simple commodity production* (*einfache Warenproduktion*), to refer to productive activities carried out under market conditions characterized by the “simple exchange” of commodities, where independent producers trade their own products.
- 21 Such hierarchical subordination does not per se imply that urbanites are exploiting peasants.
- 22 We are aware that (contrary to the above-mentioned case of the US)– this crucial point, far from being self-evident, is quite controversial. In our view, the national dominance of socialism as an MP in China, Vietnam and Laos is to be understood in a broad strategic dimension (see below, Chapters 14, 17). It is far from unchallenged and firmly settled, and many observers would disagree with our viewpoint, arguing that in fact capitalism is dominant, rather than socialism. However, even if this were the case, our argument on the possibility of non-coincidence between the dominant and the prevailing MPs would not be weakened.
- 23 The terms social formation and socio-economic formation have been utilized as virtual synonymous in the Marxian theoretical tradition. We prefer the term socio-economic formation, rather than social form, to stress the close interaction between the social and the economic dimension central to Marx’s thought (see Lorimer 1999).
- 24 Even in the US there are some SOEs and cooperatives
- 25 According to positive, normative and historical criteria such systemic changes can be regarded as progressive or regressive by different observers in different epochs.
- 26 In this context the authors maintain that due to its structural properties, history allows uneven developments in different domains of different countries during the same period.
- 27 If it lacks a certain degree of internal consistency, the MP dominating locally in a country during a given period would lack the property of relative stability and sustainability that is one of the necessary conditions to identify such a country as a SEF.
- 28 In turn, we will argue that both locally and globally dominant MPs are constrained by a higher level of systemic laws of movements (see below, Section 5).
- 29 Marx’s concept of freedom is complex, and cannot be thoroughly analyzed here. Essentially, however, for Marx freedom (in the realm of production) is freedom from material necessity:

The realm of freedom actually begins only where labour which is determined by necessity... ceases... Freedom in this field can only consist in socialized man, the associated producers, rationally regulating their interchange with Nature, bringing it under their common control, instead of being ruled by it as the blind forces of Nature...the true realm of freedom, however...can only blossom forth only with this realm of necessity as its basis. The shortening of the working day is its basic prerequisite.

(Marx 1894, ch 48)

It is important to note that, for Marx, true freedom could only stem from the conscious acknowledgment of necessity and the need to emancipate humanity

progressively from it through collective political and social action. In our view, different SEFs are historically possible, with some being more advanced than others, also in this respect

- 30 Socialist-oriented SEFs are not dominated by an exploitative ruling class, but they do not fully embody pure socialist principles either. Hence, they are hegemonized by some social groups, and in particular – in the case of those that are presently existing – by a specific dominant social organization (the Party). All of them, moreover, include in their social fabric a non-hegemonic capitalist class. The latter is relatively stronger in PRC and Vietnam, but is also present (and thriving) in Cuba. Socialist-oriented SEFs might (or not) evolve in the future towards more advanced forms of market socialism where the presence and role of capitalists is minimized.
- 31 After the Second International disaster on the eve of WWI, social democratic forces managed to advance significantly towards approaching the normative goals of socialism in some parts of the world – especially so in Sweden and other Northern European countries. From a systemic viewpoint, however, the social democratic model proved insufficiently resilient and relatively unstable, and took a severe beating after the last global capitalist crisis. Most social democratic parties in the world are now a spent, quasi-neoliberal force. They also retreated in their Scandinavian stronghold – which, nevertheless, remains objectively the most socially advanced region of the world and, interestingly, one of the few of the North where a mixed economy version of capitalism appears to maintain a certain degree of dynamism. The social democratic model embodies some universal lessons, especially in the area of regulating via progressive taxation the relationship between productive and non-productive sectors, strengthening and expanding the latter and enhancing social services provision on a nonmarket basis without jeopardizing the financial viability and growth of the former.
- 32 We propose this term because China’s economy is undoubtedly a heavily planned, yet market-based one led by a powerful and internally consistent organization that has consistently stated and re-affirmed its willingness to steer the country towards socialism over almost one century of existence, before and after seizing power in 1949. The term market socialism might imply on our part an implicit recognition that China’s present-day socioeconomic system is in fact a form of socialism indeed, albeit imperfect. Conservatively, we (as well as, in most cases, CPC leaders themselves) prefer to neither uphold nor deny such an engaging claim. To some extent, China’s present-day socioeconomic system could also be objectively characterized, as State capitalism – a form of state capitalism that might be evolving or might eventually evolve towards “true” market socialism, involve towards standard capitalism, or maintain its key structural features for a very long time. However, the (often underestimated) sheer weight of direct and indirect public ownership of the means of production and, more broadly, the depth and extension of state control on the commanding heights of the economy do not allow to see State capitalism as *the* dominant feature of China’s present-day socioeconomic system. These complex issues will be further discussed in the remainder of the book.
- 33 Vietnam which adopted a very similar model (see below, Part III).
- 34 In this sense, the otherwise fuzzy and to some extent self-serving official term “*socialism with Chinese characteristics*” is correct, although it is largely a truism.
- 35 Socialism, in particular, cannot probably be salvaged and is no longer sustainable or amenable to develop in its traditional Soviet-style or social democratic modalities.

4 Labor and value

Summary

4.1. Productive and non-productive labor. – 4.2. Concrete and abstract labor. – 4.3. Production prices. – 4.4. Labor power and the law of value. – 4.5. The *transformation problem* and the *surplus approach* consensus

4.1 Productive and non-productive labor

This chapter:

- i summarily discusses two key, time-honored concepts belonging to the Classical and Marxian tradition;
- ii tries to take stock of the basic results of the centuries-long debates that have unfolded around them;
- iii proposes a purpose-specific interpretation of the results of these debates that is instrumental for the remainder of the argument developed in this book.

As a general premise, we subscribe to a long-held basic statement: *all economic value in human societies is ultimately generated by labor*.¹ In our view, this statement is intuitively, heuristically, and philosophically self-evident, i.e. it is as an axiom. However, this does not imply per se that under each specific MP, or combination of MPs historically prevailing in a given SEF, the laws of motion typical of that specific system are necessarily such that global societal value is mirrored in relative prices that exactly reflect for each commodity the same quantity of labor expended in its own specific production process.² Thus, as such, the axiom is of little use to determine the internal logic and reproductive and movement laws of real-world socioeconomic systems (see Screpanti 2019).

Due to their complexity and their crucial role in defining our analytical approach, we deem it worth specifying in some detail the specific acception in which the terms *labor* and *value* are to be understood in the framework of this book.

Let's start with the term *labor*. We utilize it in a very broad and comprehensive sense. It does not refer exclusively to the vast majority of ordinary workers,

and it does not assume that each worker's productivity exactly corresponds to the number of hours he/she spends toiling, his/her subjective effort, and the human capital he/she is endowed with. Social labor includes the activities of other actors, such as entrepreneurs and managers,³ the contribution of whom to exchange value creation under capitalism might in fact be decisive at the level of each individual enterprise, and absolutely non-proportional to the number of working hours of each of them. This, of course, does not mean these actors are endowed with some kind of supernatural quality. Rather, they occupy a certain pivotal power position in the intrinsically uneven and hierarchical capitalist system, that endows them with a special role in shaping the short- and medium-term outcome of the turbulent and conflictive process of real competition (see below, Chapter 5) – much as generals do in war.⁴ Chief Executive Officers (CEOs) are in fact a tiny, yet unique intermediate sub-class that substantially belongs to the bourgeoisie. To determine which share of their salaries, bonuses, and perks stems from their *true* contribution to the firm's production and profitability, and which should rather be regarded as a portion of the surplus produced by other workers, is not an easy task, and cannot be analytically accomplished without recurring to subjective value judgments.

All forms of labor, in principle, imply human effort and are therefore worth the same respect and consideration from an ethical viewpoint.⁵ Yet, in any modern socioeconomic system revolving around surplus production and accumulation, a key functional distinction holds between *productive* and *non-productive* labor. Here, we employ the term *productive labor* to refer to labor expended in surplus-generating activities.⁶ All other labor is non-productive.

The distinction between productive and non-productive activities plays an important role in the work of Marx, like in that of other classical economists (see Marx 1863, 1861–64; Gough 1972; Brooks 2005). In the history of economic thought, the distinction between productive and non-productive sectors has been uneven and often heuristic, with some activities seen as productive by one author and non-productive by another one. In general, activities contributing directly to capitalist economic growth were regarded as productive, while other ones were not, thereby implying in general terms that a minimization of the necessary outlays for non-productive activities would foster growth.

However, disentangling precisely which activities are and which are not is a task that entails some complexities. One of them consists in how to consider various kinds of work that do not directly pertain to the sphere of production. Writing in the XIXth century, Marx argued that only activities directly aimed at material production were really productive, while other capitalistically indispensable ones – such as transport, administration, or selling – were not, as they rather pertained to the domain of circulation. However, especially so in the contemporary world, labor productivity tends to increase faster in material production activities than in services, due to the nature of technological progress, and modern capitalism is shifting its axis more and more towards tertiarization and hyper-financialization. Therefore,

strict adherence to Marx's criterion would lead contemporary observers to conclude that the majority of private-sector workers in the US and in the other most advanced Western countries are in fact engaged in non-productive activities – i.e., they do not produce any surplus value. This perspective, in our view, would not be a realistic one. Thus, in the remainder of this book, we do not follow Marx on this point, and we regard as productive all the activities – be them of agricultural, industrial or services nature, material or non-material, and belonging to the spheres of production *sensu stricto* or of circulation/distribution – that produce surplus value. Thus, under capitalism, all labor employed in fully capitalistic, surplus-generating activities, is productive labor.

This criterion is clear in the case of most commercial services (for instance, tourism or retail trade), where the creation of exchange value is linked to an activity that rather straightforwardly also generates use-value, or enters as an input in a production process that eventually does so (as in the case of a private trucker who transports primary commodities on behalf of a manufacturer). The picture is murkier in the case of other services, such as large-scale private finance. This sector does not generate directly use-value. More importantly, under capitalism, it is very difficult to distinguish which part of the gross domestic product (GDP) formally produced by large-scale private finance is in fact necessarily contributing as an input to other productive production processes, and which part is in fact a transfer, a sort of positional rent extracted from other surplus-producing sectors. However, we tend to regard the bulk of the private financial sector under capitalism as essentially non-productive under capitalism.

However, some non-productive activities (such as the maintenance of public order and security and the defense of national borders) are obviously necessary to ensure the feasibility and sustainability of capitalist production itself. Over time, modern capitalist countries have also developed a public or semi-public welfare system, where part of the social surplus is earmarked to directly provide basic services (and, more rarely, commodities) on a fully or partly nonmarket basis.

4.2 Concrete and abstract labor

Let us consider a model of *pure capitalism*, i.e. one where the capitalist MP realizes itself to an absolutely dominant and prevalent extent. The term *pure capitalism* refers to an abstract socioeconomic system where all market-oriented, surplus-generating⁷ activities are carried out by private capitalists. There is no simple commodity production and there are no profit-oriented State-owned enterprises (SOEs). In this context, a minimalistic State can be assumed to run a few basic activities (such as defense, administration, security) on a non-market basis.

Under *pure capitalism*, all (economically relevant) labor is productive. It is directly employed in capitalistic activities aimed at producing commodities⁸ that are sold in the market generating a monetary profit, i.e. a certain

magnitude of newly-produced exchange value exceeding the corresponding wage fund. Conversely, non-productive activities, i.e. activities that are not planned, organized, and run by capitalists,⁹ are not economically relevant. Such non-productive, non-economically relevant activities can be assumed to generate directly use value (in areas such as housekeeping, child care, and the like), but their scope lies outside that of economic analysis. As such, the time and effort devoted to them cannot even be regarded as labor proper.

With few exceptions, all the centuries-long theoretical debate on labor and value under capitalism since the Classics to the present has been based (explicitly or implicitly) on a pure capitalism model and has focused almost exclusively on the quintessentially capitalistic part of the economy. All the discussion in the rest of this chapter refers to theories and concepts that have been elaborated by many scholars referring to various pure capitalism models.

On a different analytical level, the Marxian intellectual tradition has traditionally distinguished between *concrete* and *abstract* labor. The latter is instrumental and potentially useful (provided it is properly understood), yet it has to be regarded as a theoretical abstraction—consistently, even semantically, with the very meaning of the term abstract. Yet, paradoxically, it has been interpreted at times by Marx himself in an unduly objectivist sense. As such, abstract labor has been rightly criticized as quasi-metaphysical, as it appears to posit the existence of a sort of non-observable substance, a *fluid* that would flow from the very essence of individual workers and would ipso facto be *embodied* in the commodities they produce.

This point has been clearly exposed by Screpanti (2019, forthcoming):

Abstract labor is a logical category defined via an intellectual process of abstraction from the characteristics of concrete labor. On the other hand, Marx also sees it as a real thing and often treats it as a natural force that creates value. This is a sort of metaphysics of value creation, expressed with a metaphor taken from the labor process: an “expenditure of human brains, nerves, muscles” – just the things from which abstraction has to be performed. A series of inconsistencies ensues that impair the labor theory of value. Besides the vices of essentialism and naturalism, the thorniest problem is caused by the fact that labor values are variables of a purely technological nature, as they only depend on the technical coefficients of production. (p.10)

4.3 Production prices

Value, consistently with the classical approach, is to be understood as *exchange value* expressed in *production prices*, i.e. those prices (depurated from the impact of contingent demand or supply shocks via a theoretical abstraction and/or through a real-world time-consuming process of convergence¹⁰) stemming from the social relations of production under *normal* capitalist conditions.

However, beyond capitalism itself, the category of value was seen by Marx as belonging to any system where commodities are produced to be exchanged:

Value is defined at the highest level of generality – that is to say, by referring it to simple commodity production, a “mode of production in which the product takes the form of a commodity, or is produced directly for exchange.” This is supposed to be “the most general and most embryonic form of bourgeois production” (93). In reality, as highlighted by Lippi (1979), Marx postulates a hypothetical system of “production in general” – a production process “common to all social conditions, that is, without historical character” (Marx 1986a, 245–6)... Such a notion of “production in general” occurs in various works, especially the *Grundrisse* and *A Contribution to the Critique of Political Economy*.

(Screpanti 2019, p. 17)

Screpanti and other scholars appear to criticize explicitly or implicitly this position of Marx, as they are chiefly interested in demonstrating the validity of the concept of (modern) exploitation. They (rightly) argue that the latter cannot be properly discussed and analyzed in an abstract domain where the specific social conditions of capitalism are not made explicit (see Screpanti 2011, 2019; Yoshihara 2017).

For the sake of our argument, however, Marx’s working assumption of *production in general*, applying to all commodity-producing realities, is very valid and useful. In fact, our main goal is to explore how the main laws of motion production in general apply not to capitalism, but to another social system (*socialism*), which we try to analyze at two different levels:

- i as a *pure MP*, with its own abstractly identified internal consistency laws;
- ii as a set of imperfect and partial historical manifestations in *simple* or *complex* SEFs that have surged in the XXth and early XXIst centuries.

In particular, we are interested in exploring whether and how the LV unfolds itself in socialism, and in the differences (if any) between how this process manifests itself under capitalism and under socialism.

4.4 Labor power and law of value

Under capitalism, uneven social relations induce some individuals (workers) to accept a contract where they sell to other individuals (capitalists) part of their time, during which they accept to follow the latter’s instructions and orders in performing various duties needed for producing commodities. In Marxian terms, workers sell their labor power (see below), at the price (wage) set by the market. This contractual relation was termed formal subsumption of labor by Marx. Workers act under the control of capitalists, not under their free will, and the duties they perform are very mundane and concrete (even

in the case of intellectual tasks). This passage from potency (the power over the workers bestowed on the capitalist by the employment contract) to act heralds the translation of formal subsumption into a real subsumption of labor (see Marx 1994).

In absence of better information on the specifics of each production process, the time period devoted to work can be measured simply as any other period of time, in units such as hours and days. There is nothing mystic about it.

The generation of surplus and its capture on the part of capitalists as profit is not per se synonymous with exploitation. Thus, stating that all economic value is ultimately generated by labor does not imply to formally prove the existence of exploitation, and even less does it allow for its exact quantification. Exploitation is not a micro- or macro-economic magnitude, it is a social relationship. As such, it must be regarded essentially as i) a sociological category, and b) one that intrinsically entails ethical value judgment considerations. The reality of exploitation can only be posited as a result of the severely asymmetric power relations between capitalists and workers.

In a classical systemic framework that considers capitalism a historically determined MP, commodity prices and the wage and profit rates¹¹ cannot stem from a haphazard process. They must result from a law of motion¹² – the *law of value* – that determines the formation of (exchange) value while ensuring the basic consistency and sustainability¹³ of each MP. However, there are no a priori reasons to believe that the concrete unfolding of the formation of prices under different MPs must necessarily require a straightforward correspondence between the quantities of direct and indirect labor employed in the production process, on one hand, and the monetary magnitudes of the main macroeconomic aggregates, on the other hand.

Under different MPs, the LV could in principle be relatively simple or more complex. What is key is that it must be consistent with the core essence of each MP. The essence of capitalism consists, by definition, in the (turbulent)¹⁴ competition of capitals. Thus, the LV under capitalism must first and foremost ensure a minimum degree of consistency and manageability to the competitive coexistence of different capitals and to their self-valorization drive.

The classical economists knew very well this fundamental characteristic of capitalism, and therefore they strove to elaborate their respective *versions* of the LV to analyze scientifically the objective process of formation of (production) prices. In fact, all these versions were labor-based, and the similarities among them far outweighed their differences (especially when seen with the benefit of hindsight).¹⁵

The classical approach to the LV pivoted on assuming a sort of *principle of conservation of value* (see Duménil and Lévy 2000) throughout the production process, by means of which a clear numerical correspondence could be established among quantities of labor, incomes, and the production prices of commodities. However, the classical economists did not affirm exogenously and axiomatically a sort of ontological principle of perpetual conservation of

the essence of labor through the overall process of production and exchange. They took the *principle of conservation of value* as a working assumption that was expected to allow to explore the concrete process of formation of production prices, and that had to be verified in this endeavor. In doing so, they tried to analyze a political economy in a fully scientific framework.

In our view, the main element differentiating Marx's view of the overall functioning of capitalism from those of Smith and Ricardo was his insistence on the specific role of labor power as a unique commodity, distinct from labor as such (the physical act of working). This insight allowed a major advancement in the scientific understanding of the working of capitalism, that maintains its validity to our days.¹⁶

According to Marx, surplus generation is made possible by the fact that the wage rate is lower than the productivity of labor,¹⁷ thanks to the special property of a unique commodity, labor power. Marx's view is expressed with particular clarity in two passages of the I Volume of Capital:

The capitalist buys labour-power in order to use it; and labour-power in use is labour itself. The purchaser of labour-power consumes it by setting the seller of it to work. By working, the latter becomes actually, what before he only was potentially, labour-power in action, a labourer. In order that his labour may re-appear in a commodity¹⁸, he must, before all things, expend it on something useful, on something capable of satisfying a want of some sort. Hence, what the capitalist sets the labourer to produce, is a particular use-value, a specified article.

(Marx 1867, Vol 1, Part III, Section 1)

Labor power and labor are two different things, with two different values:

...the past labour that is embodied in the labour-power, and the living labour that it can call into action; the daily cost of maintaining it, and its daily expenditure in work, are two totally different things. The former determines the exchange-value of the labour-power, the latter is its use-value. The fact that half a day's labour is necessary to keep the labourer alive during 24 hours, does not in any way prevent him from working a whole day. Therefore, the value of labour-power, and the value which that labour-power creates in the labour-process, are two entirely different magnitudes; and this difference of the two values was what the capitalist had in view, when he was purchasing the labour-power. The useful qualities that labour-power possesses, and by virtue of which it makes yarn or boots, were to him nothing more than a *condicio sine qua non*; for in order to create value, labour must be expended in a useful manner. What really influenced him was the specific use-value which this commodity possesses of being a source not only of value, but of more value than it has itself.

(Marx 1867, Vol 1, Part III, Section 2)

If the distinction between labor and labor power is accepted, the principle of conservation of value no longer applies. Value is generated in the process of production, where workers apply their effort utilizing machines and inputs in an overall context dominated by capital, according to rules that must be consistent with the intrinsic logic of capital itself. Therefore, these rules must be compatible with a tendentially uniform rate of profit, which in turn must be validated by the structure of production prices. There is not a fixed binding relationship between the wage (i.e. the market value of labor) and the value of the commodities produced by each worker – provided, of course, the latter is higher than the former and the surplus rate is positive.¹⁹

We realize that this interpretation of the role of the conceptual distinction between labor and labor power is to some extent divergent from that of Marx himself. Yet, we see it as compatible with the basic foundations of his thought and with the (relative) consensus achieved by the proponents of *modern classical theory*.

4.5 The transformation problem and the surplus approach *consensus*

Other aspects of Marx's theoretical system are more controversial.²⁰ Even before his death, many critics pointed out that a straightforward interpretation of the assumption of a formal correspondence between values (measured in terms of quantities of embodied labor) and the structure of prices²¹ — throughout the production process — led to formal logical contradictions. A long and often obscure debate on the so-called *transformation problem*²² ensued, the intensity of which peaked in the 1960s and 1970s. As usual in the domain of economic science, the debate never led to clear-cut conclusions shared by all participants.

Taking stock of the apparent outcome (so far) of this intellectual dispute, it is commonsensical to realize that this is not the place to embark on an nth attempt to propose still another, more ingenious mathematical solution.²³ We just put forward a few brief considerations on what we regard as the core elements of the outcome of this long and complex journey, and only with respect to those issues that are most relevant from our vantage point (i.e., those that affect the operability of the LV under socialism).²⁴

In our view, the transformation problem debate basically showed that Marx's theory of value was not exempt from logic aporias, but could be improved and developed in what came to be known as the "*surplus approach*", (and, later, the *modern classical theory*), which is both internally consistent and realistically suitable to interpret the basic features of contemporary economies (see Böhm-Bawerk 1949; Bortkiewicz 1949; Hilferding 1949; Sraffa 1951, 1960; Garegnani 1984, 1998; Brooks 2002; Mandel 2004; Cesaratto 2012; Pala 2015; Screpanti 2015).²⁵

As Mariolis and Tsoulfidis clearly explain in a recent contribution,

The major problem that the classical theory of value and distribution was confronted with was the relation between the creation of surplus and the functioning of the system of commodity prices... when we investigate the quantification of surplus, we realize that we do not have to do with a homogeneous quantity but rather with a vector of heterogeneous commodities from which we cannot refer to its specific form ...the old classical economists...could not arrive at a full solution because many of the necessary mathematical preliminaries had not yet been discovered.

(Mariolis and Tsoulfidis 2016 pp. 1–2)

This impasse paved the way for the neoclassical (counter) revolution, and the task of rescuing the classical approach was left to the modern classical theory, pioneered by Sraffa and other heterodox economists, among which Garegnani was prominent. As the latter pointed out, Sraffa (besides effectively criticizing the marginal theory²⁶) re-discovered the classical approach and solved some crucial analytical difficulties that had escaped Ricardo and Marx (see Garegnani 1998). Mariolis and Tsoulfidis identify four key propositions that characterize the modern classical theory:

- i* given the wage rate, relative commodity prices and the profit rate are reciprocally interdependent. Thus, “*the distribution of surplus must be determined through the same mechanism and at the same time as the prices of commodities*” (Sraffa 1960, p. 6, quoted in Mariolis and Tsoulfidis and 2016, p.7);
- ii* for a given set of techniques, “*changes in income distribution activate price feed-back effects*” that modify inter-sectoral relative capital intensities, implying “*complex inter-industry linkage. The direction of the resulting changes in relative prices cannot be known a priori*”;
- iii* therefore, “*the capital intensity of the production techniques need not increase (decrease) as the profit (the wage) rate rises*” (Mariolis and Tsoulfidis 2016, p. 7).
- iv* This eventuality fully undermines the entire neoclassical edifice, as it is predicated on the assumption that the quantity of capital is given ex ante and independent from income distribution, with the latter seen as the product of the interaction of the well-behaved functions of demand and supply of capital and labor shaped by the *scarcity* of each *production factor*.²⁷

We substantially agree with the synthetic conclusion of Mariolis and Tsoulfidis on the *construens* and *destruens* elements of the logical formal core of the modern classical theory. From a more holistic political economy viewpoint, they uphold the kernel of the Marxian view of capitalism, as a monetary and market-based system rooted in the fundamental and stark division of society into two main classes. One, the bourgeoisie, owns capital and appropriates

the surplus that is generated in the production process. The other does not, and reproduces itself selling its labor force to the capitalist class.

Notes

1

Every child knows that any nation that stopped working, not for a year, but let us say, just for a few weeks, would perish... the things we need have to be produced in certain quantities and then distributed according to the requirements of society. This constitutes the economic laws of all societies, including capitalism...and every child knows, too, that the amounts of products corresponding to the differing amounts of needs, demand differing and quantitatively determined amounts of society's aggregate labor

Marx 1868, pp. 68–69)

- 2 This point applies to the internal logic of both pure MPs (as theoretical abstractions) and historically existing SEFs.
- 3 Absentee *pure* capitalists and rentiers, as far as they do not perform any kind of work, do not contribute at all to value creation – contrary to any preposterous and apologetic theory attributing value-creating power to *thrift* per se (see below note 88). The social and individual act of saving is a necessary condition for both simple and enlarged reproduction under both capitalism and socialism, but it cannot be equated with production. The issue of whether or not, and to which extent, it can be socially advisable to allow for the existence of non-labor incomes in some economic areas, represents a totally different question. It should be answered according to a pragmatic evaluation of (among other things) non-labor incomes' impact on GDP growth, employment, and the distribution of income, wealth and power among various social groups.
- 4 In a long and very long period perspective, à la Braudel, neither CEOs nor generals matter much for the determination of the trajectory of socioeconomic history.
- 5 Here, we implicitly refer to labor employed in capitalistically productive activities. By definition, labor employed in non-productive activities does not generate (directly) any surplus, although it can indirectly contribute to the maintenance of necessary conditions (i.e., security, upgrading of workers' skills) for capitalist production. Moreover, of course, non-productive labor directly generates use value.
- 6 Productive activities are those generating a measurable monetary surplus that is realized explicitly or implicitly (i.e. is effectively obtained through the sale of the commodity, or could potentially be obtained if the owner opts for abstaining from the act of selling) on domestic or international markets.
- 7 In a pure capitalism model all economic activities are market-oriented *and* surplus-generating.
- 8 The term commodity is to be understood as including both material goods and services, as far as they are sold in the market.
- 9 In modern real-world capitalist countries most non-productive activities are public services (such as health, education, and the like) run – directly or indirectly – by the State. An ancillary yet progressively increasing role is played by charities, NGOs, and (non-profit oriented) cooperatives.
- 10 Taking into account Sraffa's contribution, production prices can be seen theoretically as those stemming from the resolution of a system of simultaneous equations, jointly defining a *photograph* of the capitalist system in a given moment of time (and thus elegantly bypassing the necessity of assuming constant returns to scale). As such, they can be interpreted formally as intrinsic logical constraints

necessary for the working of the system, rather than real empirically observable economic objects. This view has been put forward, among others, by Roncaglia, who has maintained this position consistently since the 1970s. In a recent article, he refers to it as: “my interpretation of Sraffa’s system as a ‘photograph’ (for a full exposition of which see Roncaglia, 1978 or 2009) (Roncaglia 2017, p. 5). This interpretation diverges from that of Garegnani, who saw prices of production as more concrete ‘long period positions’, which implies interpreting prices of production as centers of gravitation (Roncaglia 2017, p. 5), over which the system does in fact tend to converge over time. According to Roncaglia, Garegnani’s interpretation is actually *alternative* to his own one, and he probably has a point as far as what is at stake is specifically the interpretation of the Sraffian legacy. With respect to their validity to understand the real world, we are rather inclined to see merit in both views and we do not regard them as mutually incompatible, as they pertain to different analytical levels.

- 11 For the sake of simplicity, we ignore the role of rents, implicitly including them among profits.
- 12 In an article aptly titled *Are there laws of motion of capitalism?* Boyer (2011) stresses the conflict of paradigms between a market economy approach and a capitalism approach, arguing that the latter must necessarily be predicated upon positing the existence of *laws of motion*. In his opinion,

A review of the multiplicity of meanings and conceptualizations of ‘economic laws’ suggests first that the existence of general quantitative regularities, which economists are fond of, is quite unlikely. Yet, it is possible to identify explicit partial and temporary regularities that are indexed upon a given institutional configuration of capitalism.

(Boyer 2011, Abstract)

We agree, and for this reason we propose (in the limited focus of this book) a *weak* interpretation of the LV (see below, section 5.5.).

- 13 Basic consistency and sustainability is a necessary condition for the existence of any MP. This is not tantamount to imply that its own laws of motion are perfect, natural and eternal, and preserve it completely from the risk of crises.
- 14 See below, Section 6.
- 15 A point of divergence was constituted by the concepts of *commanded* and *embodied* labor. In this respect, without further elaborating the argument, we just mention that, in our view, Smith’s commanded labor might present the advantage of being intrinsically more forward-looking and more consistent with the core nature of capitalism. Under capitalism, in fact, what is crucial is the immediate power that money confers to some privileged individuals to buy all commodities, including the labor power that represents the very life of other people expressed in hours and days and months, and the suffering of past generations of exploited human beings is easily forgotten. Of course, this course of reasoning is not a formally analytical one, and it has to be taken with a pinch of salt. A very interesting contemporary attempt at recovering and enhancing the concept of commanded labor in a rigorous formal modelling framework is Screpanti 2015a.
- 16 According to some interpretations, Sraffa’s simultaneous solution to the problem of determination of production prices makes redundant and meaningless the very distinction between labor and labor power (see Hanhel 2018) We strongly disagree, as we believe that the distinction correctly identifies a core feature of capitalism as a MP based on the conflictive existence of two very different classes, that remains valid independently from the specific solution of the transformation problem. Specifically, the so-called *fundamental Sraffian theorem* – *if and only if workers are denied all of the goods they produce will the profit rate be positive* – does not require per se a labor theory of value, nor that capitalists see labor power as

different from other commodities (see Hanhel 2018). However, far from conveying the extraordinary power attributed to it by some scholars, this “theorem” is essentially a truism. As such, it is fully compatible with the axiom we introduced at the beginning of this section: *all economic value in human societies is ultimately generated by labor*.

At the core of different interpretations lies epistemic and philosophical divergences, which cannot be fully solved at the level of economic analysis (see Cohen 2017). However, this issue is not central to our main argument and will not be pursued further in the remainder of this book.

- 17 Capitalists buy labor power at a market-determined wage level corresponding to a subsistence basket of basic commodities. Then, they are in a position to induce workers to work much longer than the time that would have been necessary to produce a value equal to that of the subsistence basket.
- 18 Our emphasis.
- 19 The term value *conservation principle* has been utilized also by Duménil and Lévy (2000). They state that:

Beginning with the early formalizations of the “transformation problem,” there has been at least a broad agreement on what was precisely described as Marx’s “mistake” in *Capital*. Inputs and outputs should be evaluated consistently in the equations accounting for the determination of prices of production. Concerning the determination of values, it was implicit that the value of inputs must be estimated on the basis of their present conditions of production, independently of the amount of labor actually required for their production in the past (p. 120).

So far we agree, but we disagree with what follows. Duménil and Lévy argue that, contrary at least in part to the critique put forward among others by Freeman and Carchedi (1996):

What is transferred to the outputs of the period is the present value of inputs... the alleged “contradictions” in Marx’s analysis disappear. Consequently, what we will call “the value conservation principle” restores in a straightforward manner Marx’s demonstration, allowing in particular for the satisfaction of the famous two equalities on aggregates: the value of gross output is equal to its price, and total surplus-value is equal to total profit (p. 120).

Freeman too – while defending his Temporal Single-System interpretation (TSSI) against Duménil and Lévy’s critique and what he calls the *simultaneist-Marxist* (SM) interpretation – maintains the centrality of the conservation principle, as it is self-evident that value added in production is always exactly equal to the labour time worked” (see Freeman 2004).

We differ, at least in part, from the approach of these distinguished Marxian scholars. The statement *Value added in production is always exactly equal to the labour time worked* is one more truism. Our discrepancy is rooted in a hermeneutic divergence, related to the interpretation of the distinction between labor and labor power. In our view, both equalities on aggregates do not require any labor theory of value to be valid, and are compatible with an agnostic and weak interpretation of the LV as the one we propose below. As explained in the text, we maintain that the above-mentioned axiom *all economic value in human societies is ultimately generated by labor* is true, and that along with the distinction between labor and labor power it is sufficient to uphold a non-fetishist (and therefore labor-based) interpretation of the LV. The unfolding of the LV through the reproduction and evolution of the structure of production

prices can be grasped in a relatively straightforward and parsimonious way via the simultaneous equations approach, without recurring to the principle of conservation of value. As capitalism is a dynamic, ever-changing and turbulent MP, however, we think that social scientists should not remain unduly fixated on formal models axed on the uniformity of the rate of profit across industries.

- 20 It is well-known that Marx himself realized that the degree of completion of his system was not fully satisfactory, and for this reason, during his life, he did not publish the material contained in what have been subsequently become the II and III volumes of *The Capital*. This task was carried out later on by Engels, after many years of painstakingly perusing Marx's handwritten notes.
- 21 The structure of prices includes commodity prices (expressed in production prices), the wage rate, and the profit rate.
- 22 The transformation problem is not simply about how to get to prices of production from labor values. It is also and more fundamentally about how the rate of profit is determined in a competitive capitalist economy. Recent developments in formalizing this approach tend to confirm Sraffa's fundamental insight: prices of production and the rate of profit are determined simultaneously. Marx's famous formula for the definition and calculation of the average rate of profits, therefore, is not generally valid. There are some special cases for which Marx's formulation is still correct, and Marx's work can be interpreted as... "*the starting point of an iteration, which, provided that it is completed, comes close to the current theory of production prices.*" (Abraham-Frois and Berrebi 1997:148).
- 23 Even if we considered ourselves intellectually equipped for such a difficult task, we think that at this stage all logically reasonable analytical paths have already been explored by some of the best minds among progressive social scientists (and many orthodox ones as well). Therefore, it is likely that further heroic attempts in this direction would inevitably face rapidly diminishing returns.
- 24 Among many other issues, our argument is not directly related to various important implications of the interpretation of the LV under capitalism, among them the above-mentioned attempts to formally demonstrate the existence of exploitation and to quantify its intensity, or the tendency of the rate of profit to fall.
- 25 Interestingly, the surplus approach is also routinely, albeit implicitly utilized by top level social scientists who are unfamiliar with the subtleties of the Marxian theoretical tradition (see, for instance, Piketty 2014, 2020; Diamond 2020). The modern and fashionable term "*global value chain,*" which identifies a key feature of the dominant modality of production at the time of globalization, indirectly corresponds to the same concept (see Starosta 2010; Gabriele 2011).
- 26 Recent research efforts carried out on Sraffa's unpublished notes has shown that his rejection of the marginalist approach, far from being rooted in an aprioristic methodological position (as argued by Sen 2003), is in fact "*grounded in his views on the appropriate method to deal with actual economic phenomena.*" (Rosselli and Trabucchi 2019). Sraffa realized that "*marginal magnitudes are not directly observable*" (ibid, p.35), and that the marginalist approach inevitably implies an incorrect mixing up of static (i.e. the description and interpretation of the state of the economy in a given moment in time) and dynamic analysis (the study of the evolution of the economy over time). This awareness led him already in 1929 to state *bluntly*

Demand and supply curves, marginal productivities...do not exist at any one moment, nor during any period of the recurrent steady process of production and consumption. They are alternatives, only one of which can exist in any one position of equilibrium, all the others being thereby excluded... Therefore they cannot be found by merely observing the process or state of things,

and measuring the quantities seen. They can only be found by means of experiments (D3/12/13:3)

(quoted in Rosselli and Trabucchi 2019, p. 335. The archive classification is that of the Sraffa Papers at the Wren Library, Trinity College, Cambridge)

Consistently, Sraffa discarded the marginalist approach and reverted to the classical one, as he makes clear in the preface to *Production of Commodities by Means of Commodities*, where he stresses that in his work “*no changes in output and...no changes in the proportions in which different means of production are used by an industry are considered,*” as his “*standpoint...is that of the old classical economists from Adam Smith to Ricardo*” (Sraffa 1960, pp. v–vi).

- 27 As the scarcity of capital at least partly depends on capitalists’ thriftiness, the neoclassical theory also provides a convenient moral justification for the private appropriation of surplus.

5 Real competition, pending issues, and the core propositions of the surplus approach

Summary

5.1. Real competition and turbulent equilibria. – 5.2. The law of value after perfect competition. – 5.3. Pending issues. – 5.4. Core propositions of the surplus approach. – 5.5. A *weak* definition of the law of value

5.1 Real competition and turbulent equilibria

In the last section of the previous chapter, we argued that the simultaneous equation solution approach formally overcomes the transformation problem conundrum. Along with other analytical advances of the modern surplus approach school, it allows for a vindication of the core tenets of the classical theory under the traditional strong and abstract assumption of perfect competition.¹ In fact, traditionally, both classical and neoclassical theories of value have included at their core this heroic assumption, that is (usually) formally necessary to derive mathematical solutions and is supposed to abstractly represent a key foundational feature of capitalism.

However, it is well known that the reality of contemporary capitalism is light years away from the abstraction of perfect competition. Therefore, in order to meaningfully grasp a number of its crucial features, it is worth going beyond traditional modelling exercises based on the assumption of perfect competition, to shed light on a highly complex, adaptive, and fast-moving global system where financial capital (i.e., that fraction of capital that is not already embodied in machines and other means of production) incessantly chases risky ventures promising high-profit rates, in a global framework characterized by uncertainty, rapid technical change, perpetual industrial restructuring and relocation, and an ever-accelerating trend towards capital centralization and oligopolistic competition.

The most important recent contribution to this effort is Anwar Shaikh's *Capitalism: Competition, Conflict, Crisis* (2016). This *magnum opus* constitutes a convenient and useful actualization of the classical approach and aptly introduces a partly new critical interpretation of the concepts of competition and equilibrium, that are central to both the classical and the neoclassical views of capitalism.

In the first part of his book, Shaikh upholds the classical notion of equilibrium as a gravitational process. In Chapter 6, he delivers an analytical definition of capital and discusses the determination of aggregate profit, and the related measurement issues. With this analytical apparatus at hand, Shaikh moves in the second part to identify “*real competition*” as the prime driver of capitalist accumulation. In Chapter 7, he states that:

Capital is a particular social form of wealth driven by the profit motive. With this incentive comes a corresponding drive for expansion, for the conversion of capital into more capital, of profit into more profit. Each individual capital operates under this imperative, colliding with others trying to do the same, sometimes succeeding, sometimes just surviving, and sometimes failing altogether. This is real competition, antagonistic by nature and turbulent in operation. It is as different from so-called perfect competition as war is from ballet...Real competition is the central regulating mechanism of capitalism. Competition ...can take place through wage reduction, increases in the length or intensity of the working day, and through technical change. The latter becomes the central means over the long run.

(Shaikh 2016, p. 260)

Shaikh further draws out the implications of real competition, the most important of these formally being the idea of *turbulent equilibration*:

Real competition generates its own characteristic patterns. Prices set by different sellers are roughly equalized as each tries to gain an advantage over the other. Profit rates on new investments are also roughly equalized over somewhat longer periods. Both of these processes result in perpetual fluctuations around various moving centers of gravity. This is the classical notion of turbulent equilibration, very different from the conventional notion of equilibrium as a state-of- rest... Supply and demand are part of the story, but their roles are not decisive since both can change in response to profit opportunities ...

Tactics, strategy, and resulting prospects for growth are central concerns of the competitive firm. ... the relevant profit must be that which is defensible in the medium term, which is quite different from the notion of short-term maximum profit emphasized in neoclassical theory ... Prices tend to equalize because buyers gravitate toward the lowest price, which forces other sellers to adjust their own prices. Similarly, profit rates tend to equalize because investors flock to higher rates of return.... (the mobility of capital) close the gaps that initially motivated the agents while opening up new gaps which feed new arbitrage movements. The turbulent equalizations of prices and profit rates are quintessential emergent properties.

(Shaikh 2016, p. 260)

5.2 The law of value after perfect competition

The very conflictive nature of competition and the turbulent equilibria it generates are consistent with other typical features of capitalism, such as class-based, highly uneven income, and wealth distribution, and (as a long-term tendency) ever-increasing inequality (see Piketty 2014, 2018, 2020). Moreover, capitalism's dynamic trajectory is characterized by long development waves and recurrent crises, that lead to brief or long periods of depression and stagnation plagued by high unemployment and falling living standards.

In the real world, perfect competition and static equilibria do not occur, and real competition and moveable turbulent equilibrium are the norms. Simulation exercises based on mathematical models and empirical investigations have consistently shown that the theoretically crucial transformation problem is of scarce quantitative relevance, as direct prices (those that can be calculated as proportional to labor time), production prices, and market prices are very close to each other, with deviations proportional to inter-industry capital intensity differentials. These studies also found that prices of production tend to behave as monotonic functions of the profit rate, and the wage-profit curves are nearly linear. Under real competition, inter-industry profit equalization is only a tendency (that can be contradicted in practice for long periods of time), and labor-based values continuously transform themselves into production and, eventually, market prices, in a perpetual and never-ending process of adjustment and iterations (see Basu 2015; Mariolis and Tsoulfidis 2016; Torres González 2016).

Superseding the rigid assumption of perfect competition in favor of a more realistic vision of real-world capitalism does not, of course, imply that the Law of Value (LV) is any less important and valid. Shaikh subscribes to an interpretation similar to that of Garegnani, arguing that –while societal surplus labor remains the only source of profit – the *turbulent* tendency towards the equalization of rates of profit across sectors with different ratios of capital intensity is affected by changes in relative prices due to technical change and other factors, with production prices really acting as the central points around which market prices gravitate. Shaikh interpreters the LV in a very concrete fashion. He sees the difference between the *direct prices* (those that would correspond to the labor time necessary to produce each commodity) and real-world monetary prices that tendentially equalize the rate of profit across the economy as the result of a transfer of value. The transfer takes place between the “*circuit of capital*,” which includes profits, and the “*circuit of revenue*,” which includes the payment of wages and the purchase of wage goods. Moreover,

He also provides empirical evidence that, as suggested by Ricardo, the quantitative departure of prices of production from direct prices is limited, so that taking the transformation into account does not add much explanatory power to the simple labour theory of value.

(Grahl 2017)

5.3 Pending issues

The logic and empirical foundations of the surplus approach of the modern classical theory are solid and well-established. Yet, a number of important theoretical issues have not been definitively settled. Among the most relevant ones, the following can be mentioned:

- i Can Marx's labor theory of value (with its clear distinction between labor and labor-power as two different things, with only the latter being commoditized² and the former being the essence of value, in its present and past embodied forms) be maintained in its entirety, as a way to correctly interpret and predict the way production prices are formed under capitalism?³
- ii In order to achieve this crucial theoretical goal, should the labor theory of value be reformulated, pursuing alternative avenues including – among many others – the recovery of the Smithian notion of commanded labor,⁴ or relaxing the strict adherence to the key assumption of static equalization of profit rates (which is of course not corresponding to the observation of empiric stylized facts), in favor of more complex, probabilistic or dynamic inter-temporal approaches?⁵
- iii Is it meaningful, and worthy, to keep engaging in major research programs aimed at testing the approximate empirical validity of the theory by means of rigorous modern quantitative algorithms based on input-output, national accounts, or other available databases?⁶
- iv Or, more radically, should the labor theory of value be re-interpreted as valid only in a more limited and non-operational interpretative context, as a humanistic and anti-fetishist ethic and philosophical stance maintaining that only labor can ultimately be the source of any real value for human society – while accepting as a scientific fact that (as profit-maximizing capitalists⁷ are not interested in moral philosophy) any commodity that enters the process of formation of the price of wage-goods plays a substantially similar role?⁸
- v If we accept such a strong interpretation of Sraffa's critique, should we abandon the traditional, direct, and quasi-mechanical identification of exploitation with a theft of surplus labor? If this were the case, the private capture of socially-produced surplus might be re-interpreted as a holistic social phenomenon stemming from the extremely uneven relationship that individuals belonging to different social classes experience vis a vis the reproduction of their livelihoods. This uneven relationship, in turn, is generated by a set of social relations of production and exchange (SRPE) axed on the private property on the means of production on the part of a small rich minority.

We don't enter deeply the frail of these complex and interesting controversies. We limit ourselves to state that – within the boundaries of our limited

knowledge – we take stock of the main results of this more than one century-old debate, and we utilize only what could be seen as a “*minimum common denominator*” the basic kernel of the modern surplus approach that is agreed upon by virtually all its proposers.

In sum, we maintain that the LV and, more generally, the surplus approach are strong and robust analytical tools that have been fully legitimated by the results of XXth and early XXIst century theoretical economic science. They are essential to the understanding of the basic principles governing real-life contemporary economies. However, in the remainder of this work, the LV is not to be identified in a strict and formal fashion with the concept put forward by Marx in his pioneering XIXth century contribution. Neither should it be regarded as a formal algorithm aimed at calculating an exact correspondence between quantities of labor and (production) prices.⁹ Rather, the term LV should be interpreted in a broad and heuristic sense.

5.4 Core propositions of the surplus approach

From the vantage point of the central argument developed in this book, we put forward seven key propositions consistent with the consensus view that has crystallized around the surplus approach:

- i Capitalism is a class-based system, axed on the juxtaposition of a very small proprietary class (the bourgeoisie) on one hand, and of a non-proprietary class (traditionally referred to as the proletariat, or the working class) constituting the vast majority of the population.
- ii The rich, as a class, have ample room to sustain their livelihood, also if they do not work. The non-rich have no alternative to survive but to sell their labor power on the labor market to obtain a wage, that is usually sufficient to maintain their livelihood at a historically given subsistence level.
- iii Consistently with the institutional setting revolving around the private property of most means of production, as well as the uneven access to the advantages provided inter alia by education, systemic know-how, and access to financial markets, the bourgeoisie effectively dominates ongoing market-based SRPEs. Therefore, it establishes an unequal relation with the working class. The bourgeois class is collectively entitled to capture (in form of profits or rents) a share of the socially-generated product far larger than what might otherwise be justified by the simple contribution provided by their members in the form of specialized labor. This share constitutes the surplus.
- iv As a tautology, the generation of the surplus is not compatible with a zero rate of profit. Therefore, the net product cannot be fully captured by wages, and a nonzero part of workers’ labor time must be devoted to the production of additional commodities, the exchange value of which will form the surplus.

- v The immanent laws of motion of the capitalist Mode of Production (MP) are such that market prices – expressing the exchange value of capitalistically-produced goods and services – tend towards converging around production prices.¹⁰ The latter are formed according to a mechanism, or law, that is not yet fully and thoroughly understood, and cannot be reduced purely to a static algebraic exercise of simultaneous equations resolution, due to the dynamic and ever-changing nature of capitalism itself. However, under normal conditions and a given technological setting, it allows for the ex-post¹¹ consistency of production prices with the prevailing wage rate and a broadly convergent range of profit rates. This mechanism is *the LV*.
- vi The term LV stems from its nature and function of constituting an endogenous price-based mechanism to govern the formation of each commodity's exchange value. It is not by itself related to a strict interpretation of value as consisting, or corresponding, to a given quantity of embodied or commanded labor – although it can also possibly be interpreted at a deeper level in a way that is not inconsistent with a labor theory of value.
- vii Being market-based and consubstantial with the market itself, the LV attributes the exchange value of each commodity to each labor and non-labor input necessary for its production, according to their respective prices. Among them, the wage is the market price of the labor power, that is subsumed in the context of capitalist production to the command of capitalists, striving to extract from it the maximum possible productivity. The prices of other inputs, which are also commodities, enter the formation of the production price according to their own prices. As these inputs have also been originally produced with labor, it is in principle possible to calculate the quantity of labor that they “*embody*.” However, the intrinsic dynamic of markets does not appear to incorporate significantly this conceptual passage in its unfolding.

5.5 A *weak* definition of the law of value

To conclude this brief discussion on an extremely deep and controversial issue, we propose a *weak* definition of the LV, that we apply throughout the remainder of this book.

In this respect, a few caveats are worth:

- i Our definition is consistent with what we regard as the core of the surplus approach and does not attempt to be a new theory of value as it unfolds under capitalism. It is a conceptually minimalist and ecumenical definition that is essentially operational in nature, and it is meant to apply principally to study the properties of socialism, which constitutes the central focus of this book.
- ii The adjective *weak* has only a vague similarity to the way it is employed by the weak thought school.¹² Rather, it emphasizes our attempt to claim

the minimum and least controversial content that is operationally possible to substantiate the rest of our research, a sort of lowest common denominator. Our goal is to search for a workable and synthetic formulation that can be accepted by all social scientists that support the surplus approach constituting the core of the modern classical theory.

- iii The term LV refers to the basic law of motion that ensures and constraints, both logically and practically, the formation of prices, wages, and profit rates and the generation of surplus, as well as a workable degree of systemic stability and the viability of both simple and enlarged reproduction. The LV characterizes any form of modern commodity production revolving around monetary relations of production and exchange – i.e., essentially, both capitalism and socialism.
- iv Prices are to be understood as production prices, according to the classical tradition.
- v Value means exchange value. In principle, and sometimes in practice, exchange value has nothing to do with use-value, let alone utility.
- vi The surplus is a residual quantity of value (expressed in prices) that is claimed by the actor who hires the labor power. According to the nature of the actor and to locally-specific laws and cultural constructs, the former can enjoy a higher or lower degree of freedom in disposing of the surplus.
- vii By itself, the existence of surplus does not prove the existence, or non-existence, of class exploitation, and does not allow to precisely determine the degree of justice and fairness in a given society.

Taking into account these caveats, our weak interpretation of the classical law of value is as follows. The LV is a systemic law of motion and a basic internal consistency condition implying that the (production) prices of goods and services for the purpose of selling them in the market shall:

- i be *compatible* with the level of the real wage and the rate of profit;
- ii be broadly *correspondent* to the amount of labor and (*possibly*), other commodities needed to produce them, taking into account the prevailing technology.

We intentionally employ the unspecific term correspondent and we also attach an unspecified and differently interpretable meaning to the term commodity, to maintain our concept of LV at the highest possible level of generalization.

The adjective correspondent is meant to signify that the maintenance of a minimum necessary degree of workability and sustainability of the system requires as a necessary condition that a certain quantitative relation must be maintained between the quantities of labor and capital entering the production process, on one hand, and the prices of the outputs, the real wage, and the average profit rate, on the other hand. The term correspondent can, but must not necessarily be interpreted as “equal to” or “embodying,” according to the most commonly accepted interpretation of Marx’s thought.

The adverb possibly means that we do not take a position on a very complex and vexed issue, i.e. whether or not under capitalism the value of each commodity is attributable to clearly identifiable quantities of (direct) labor, as maintained by Smith, Ricardo, and Marx. We try in this way to make our definition compatible both with the XIX century classical theories of labor-value, on one hand, and with some modern interpretations of the Sraffa model, on the other hand. The latter, in fact, tend to deny the unique role of labor with respect to other commodities in the process of the formation of production prices. In fact, some post-Sraffians (see Tonveronachi and Roncaglia 2014) propend for a sort of literal understanding of capitalism as a system axed on the production of commodities by means of commodities, and thus dismiss the validity and usefulness of any form of labor theory of value.

Notes

- 1 However, the formally unchallengeable simultaneous equations solution in Sraffa (1960) only requires a tendency towards the convergence of profit rates in all industries, not perfect competition.
- 2 According to Marx, labor power and the products of labor are commoditized. Labor as such is not.
- 3 In this respect, it is worth referring to a parallel theoretical approach, namely the qualitative theory of value, which draws largely from the early works of Marx, as well as from Aristotelean eudaemonism (see Rubin 1972). It is more ethical and philosophical than economic in nature, and it stresses the foundational function of the category of abstract labor and the key role of alienation as a foundational principle of capitalism. The qualitative theory of value was proposed in the 1920s by I.I. Rubin (1928) and has recently been emphasized by theorists such as Lebowitz (1992), Mohun (1994), Fleetwood (2001), and Arthur (2000).
- 4 See Screpanti (2015a,b).
- 5 See Farjoun and Machover (1983, 1985); Freeman and Carchedi (1996); Kliman and McGlone (1999); Mongiovi (2002); Kliman (2007).
- 6 In the real capitalist world, of course, perfect competition and static equilibrium do not occur, and real competition and moveable turbulent equilibrium are the norm. Simulation exercises based on mathematical models and empirical investigations have consistently shown that the theoretically crucial transformation problem is of scarce quantitative relevance, as direct prices (those that can be calculated as proportional to labor time), production prices and market prices are very close to each other, with deviations proportional to inter-industry capital intensity differentials. They also found that prices of production tend to behave as monotonic functions of the profit rate, and the wage-profit curves are nearly linear. Under real competition, inter-industry profit equalization is only a tendency (that can be contradicted in practice for long periods of time), and labor-based values continuously transform themselves into production and, eventually, market prices, in a perpetual and never-ending process of adjustment and iterations. See Basu (2015); Mariolis and Tsoulfidis (2016); Shaikh (2016); Torres González (2016).
- 7 In our view, whatever the interpretation of this issue, the LV in its weak sense applies both to capitalism and socialism under the constraints imposed by the meta-mode of production (see below, Chapter 7). Thus, if this latter interpretation were accepted, socialist planners would have no alternative but imitating capitalists in this specific domain.

8 According to Cesaratto,

Sraffa was very keen that in capitalistic production, labour is on an equal footing with packhorses (with subsistence wages assimilated to hay). Therefore, there is nothing special that labour transmits to the value of commodities ... After all, this is faithful to Marx's idea that in capitalism labour is a commodity, produced, operated, maintained, scrapped and reproduced as any other input. ... Sraffa autonomously completed a solution to which Marx was very close.

(Cesaratto 2016, p. 7. See also Garegnani 1984; Petri 2015; Anderaos de Araujo 2015)

- 9 We do not criticize such a formal stretch of analysis per se. We just claim that its nature and its level of theoretical and epistemological depth are different from the scope of our research.
- 10 As mentioned above in Section 5.3, this tendency may be interpreted as a real force that lead market prices to *gravitate* towards production prices over time, or/ and as an abstract, logical constraint that assures the consistency of the system (see Roncaglia 2017).
- 11 Of course, the whole process would not have been initiated without capitalists' informed expectations on the future structure of market prices, which in turn depends systemically from and closely follows in practice that of production prices.
- 12 See Borradori (1988); Vattimo and Zabala (2011); Vattimo (2012). Broadly speaking, we regard this school of thought as unduly castrating and defeatist. Yet, we appreciate the call for humility coming from many scientists and philosophers that rightly warn against the intellectual hubris consisting in overestimating the human ability of understanding complex phenomena and pretend to cage them in the straightjacket of oversimplified models, especially so in the realm of social sciences:

If the social sciences and humanities want to continue to describe their activities as the ongoing "theorization" of human affairs, we can call them "weak theories," in the technical sense meaning "ideas discussed in the social sciences," reserving the notion of "strong theories," beyond the purview of the social sciences, for the technical sense of "rigorous descriptive and predictive models discussed in the hard sciences.

(Politicalcrumbs 2013. See also Keil 2011)

6 Real socialism and the law of value

Summary

6.1. Real socialism. – *Box 6.1. Socialism, communism, and transition.* – 6.2. Marx's insights on socialism in *The Critique of the Gotha Program.* – 6.3. The law of value and socialism in the XXIst century. – 6.4. Four propositions on capitalism and socialism.

6.1 Real socialism

As discussed above in Chapter 3, by the time of the publication of *Das Kapital*, capitalism was already the dominant Mode of Production (MP) at the global level. Yet, in most countries, capitalist social relations of production and exchanges (SRPEs) were not prevalent, although they indirectly exerted a high and increasing degree of hegemony over pre-capitalist MPs via colonial, trade, and financial power relations. In the specific case of Russia, capitalism was dominant, but, in a certain way, only marginally. The vast majority of Russians were embedded in pre-capitalist SRPEs, and the traditional symbiosis of peasant and feudal MPs was prevalent in most of the country, even if it was subsumed to the national and international network of capitalist trade and financial relations.

The capitalist MP is still dominant worldwide. At least until very recently, before the inception of the secular stagnation era, it has exhibited during most of its history a remarkable ability to develop productive forces. However, consistently with its very nature, which has been manifesting itself for many centuries already, it keeps exhibiting periods of growth and stability as well as other periods of stagnation or even negative growth and instability in output, employment, price levels, and other key economic variables. Moreover, it is increasingly prone to lead to other negative outcomes, such as extreme social inequalities, center-periphery contradictions, and ecological unsustainability.

The critique of capitalism has led since the XIXth century to many theoretical and practical attempts to design and implement an alternative system – socialism – that should be characterized by rational long-term planning, non-antagonistic and fair social relations, and by a harmonious relationship with the natural environment.

Of course, the apparent desirability of such an ideal characterization of socialism – dialectically constructed on the basis of the negation of the worst aspects of capitalism – does not per se demonstrate that socialism can work in practice. Without underestimating the legitimacy and possibly (albeit to a modest and declining extent) also the usefulness of elaborating and proposing new and innovative theoretical models of socialism, the proof of the pudding is in the eating. The sustainability and effectiveness of socialism as an MP alternative to capitalism can only ultimately be gauged analyzing the experiments carried out so far to build up socialist societies in the real world. However, to understand correctly the results of these studies it is also important to interpret the results in a proper historically based theoretical framework.

In this respect, consistently with the MP-based theoretical approach, we have to adopt a Braudelien *longue durée* approach, and realize that the history of socialism is still in its infancy. However, even after more than one century since 1917, it is still to a large extent true that most efforts aimed at identifying the main features of socialism have been implicitly predicated on a relatively abstract dialectical negation of capitalism, while the analysis of *real socialism*¹ experiences – with all their errors and (at times) horrors – have often been too brashly dismissed as fatal and treacherous deviations from what should have been the true path.²

In our view (which is of course the product of the benefit of hindsight, of the analysis of over a century of historical experience) this was a mistake, possibly related to Marx's formation as a young Hegelian idealist and by the tension between Marx the social scientist and Marx the political militant.

Communism is to be regarded as a meaningful and desirable utopian State, which real-world societies can approximate along a very long (actually, in our view, endless) process, thanks to technical progress on one hand, and the progressive shift of resources towards the non-productive sector, on the other hand. The latter process allows channeling these resources towards the non-commoditized, non-market provision of goods and services based on the principles of universality, quasi-egalitarianism, and need. In a

BOX 6.1 Socialism, communism, and transition

- 1 Marx (not without ambiguities) appeared to believe that communism was a real-world goal to be pursued in historical time through political and institution-building action after a socialist transitional period. Such a state of affairs/MP, where commodity production and exchange are superseded,³ would be characterized by the disappearance of scarcity. Individual needs and contributions to society would be regulated by the principle “*to each according to his ability, to each according to his needs*” (Marx 1875).

parallel fashion, the labor time that is socially necessary for the production of historically-based necessities declines during the process, and so does the very *raison d'être* of labor itself.

The advent of full-fledged communism would represent for mankind a totalizing ontological passage *from the kingdom of necessity to the kingdom of freedom* (Engels 1878). In this respect, ironically, it would be very similar to a perfect liberal society. Like other utopian States where one or various forms of goodness (such as, beyond freedom, sanctity, absence of pain, love, eternal life) would be perfect and universally attainable, it should not be seen by materialists and social scientists as a social State that can be achieved in its totality, but as an ideal one that can inform political, economic and social action in order to improve people's well being.

Such a task is surely feasible and worth pursuing. Actually, many presently-existing societies, even some capitalist ones, are much closer in practical terms to the ideal of communism than what many revolutionaries could have dreamed possible at the time of Lenin. Think for instance at the quasi-disappearance of hunger and illiteracy in many parts of the world, and to the virtual doubling of life expectancy with relatively little correlation to social class in most of the West, but also in much poorer countries such as Cuba and Costa Rica.

Yet, given its ontological nature, communism should not be regarded as something as concrete and real as an MP that can be implemented in historical time. Conversely, socialism – a state of affairs where the principle *to each according to his work* prevails and capitalist market anarchy is replaced by conscious market-compatible planning (see below, Chapter 7) – is a category that has proven itself to be intrinsically endowed with the properties of a logically, scientifically and historically feasible MP in the proper sense (even though, so far, its concrete realization experiences have been partial, embryonic and primitive).

However, Marx himself – and, even more so, most of his followers – did not think in these terms. He saw socialism as a transitional phase leading to communism, a full-fledged MP the concrete realization of which should have dedicated all their forces and their efforts. In many ways, Marx and his followers did not even see socialism as an MP in its own nature, but only as a transitional hybrid of little value by itself. They also thought that the overcoming of capitalist exploitation, along with emulation and education, could rapidly engineer a major anthropological change, turning humans into fully cooperative and selfless beings.

We think that, in this respect, experience has shown us that they were wrong. Socialism is a scientifically reasonable objective to be pursued in historical time, and the implementation of a substantially socialist MP in more and more countries is a valid political, economic, and social goal to be pursued – and in some respects a necessity of our time. Communism, conversely, should be put in its proper utopian (in a virtuous sense) perspective, as it cannot constitute an MP *per se*, but only a principle apt to reorganize and

restructure the distributional sphere as far as the development of productive forces and the superseding of the class contradictions typical of pre-socialist MPs make this task practically, materially and culturally⁴ feasible.

- 2 Socialists and communists⁵ – without losing a proper international perspective – should engage in the task of fostering structural changes in their respective nation-States aimed at two parallel and mutually consistent, yet conceptually different goals:
 - i Introducing, expanding and generalizing SRPEs typical of the socialist MP, with a view to minimize (and, eventually, largely supersede) the prevalence of capitalist ones.⁶ In this domain, in turn, the enhancement of the principle of market-compatible planning vis a vis that of *laissez faire* and that of minimizing the relevance of non-labor incomes stemming from surplus value capture is paramount. Socialism is to be seen as a set of principles aimed at reorganizing the socioeconomic fabric in the very long run – as the long duration is an intrinsic and fundamental property of any MP. However, a major difference separates socialism from all the MPs that historically predated its appearance. The latter stemmed from the autonomous unfolding of the evolution of productive forces and the of pre-existing SRPEs, accelerated in some key historical circumstances by the political and military action of a self-interested dominant class. Conversely, socialism is the first MP to emerge as the conscious product of collective intellectual acting on behalf of the majority of the population.
 - ii Shifting progressively more and more resources towards the non-productive sector, while reducing the socially necessary labor time, in order to increase the share of the economy that works according to the communist principle. This second goal, however, can be pursued only within the budget constraint limits imposed by the development of productive forces, which is reflected in the growth of the productive sector.

As a corollary of this strategic perspective, the deterministic expectation of a relatively brief transitional phase is to be superseded, both with respect to socialism and to communism. So far, the most important radically socialist-oriented experiences have stemmed from violent revolutions.⁷ This does not necessarily have to be the case in the future, taking also into account the changing global correlation of forces under the MMP and the relatively stable presence of China, etc. However, since the time of Lenin, it has become clear that even after a revolution a swift and sustainable transition towards socialism is not easy to accomplish. The eventual deep and never-ending reform of Soviet-style socialism in most countries where it was not overthrown by capitalism appears to show that socialist-oriented socioeconomic development is a rather long process, not a simple and rapid transition.⁸

A fortiori, we cannot expect a historically bounded transition from (always imperfect) socialism to full-fledged communism, for the reasons sketched above.

Finally, of course, no necessary backward transition from socialism to capitalism is to be deterministically expected, contrary to the vulgate of the WB-IMF-OECD “*transition economy*” trope.

6.2 Marx’s insights on socialism in *The Critique of the Gotha Program*

In our view, however, any discourse on core features of real socialism cannot but be rooted in a key theoretical issue, that directly stems from the analysis of capitalism discussed above. Therefore, it has to start from the categories of value and surplus, and in particular from the vexed issue of the permanent validity of the Law of Value (LV).

Although – as he did with respect to many other intricate questions, on which his pioneering intuition could not possibly endow him with perfectly clear eyesight – he was not always clear on this issue, Marx substantially realized that the LV cannot be superseded under socialism – at least, in its early stage. As a matter of fact, socialism itself was conceived by Marx as an early intermediate, transition phase on the path to communism.

Under socialism, where production is socialized, capitalist exploitation is eliminated, and the socialist distribution principle “*to each one according to her/his work*” prevails,⁹ and the surplus is no longer privately captured. However, far from disappearing, it is collectivized and allocated to various forms of investment and social consumption. In fact, in the Critique of the Gotha Program, Marx envisaged that the early socialist society would need to divide the total social product into an (individual) consumption fund (distributed according to labor) and a surplus. The surplus shall be used to finance various “funds” needed for economic and social reproduction and accumulation:

the co-operative proceeds of labor are the total social product. From this must now be deducted: First, cover for replacement of the means of production used up. Second, additional portion for expansion of production. Third, reserve or insurance funds to provide against accidents... These deductions from the “undiminished” proceeds of labor are an economic necessity... There remains the other part of the total product, intended to serve as means of consumption. Before this is divided among the individuals, there has to be deducted again, from it: First, the general costs of administration not belonging to production. Second, that which is intended for the common satisfaction of needs, such as schools, health services, etc.¹⁰ From the outset, this part grows considerably in comparison with present-day society, and it grows in proportion as the new society develops¹¹...11. Third, funds for those unable to work, etc. Only now do we come to the “distribution” ... namely, to that part

of the means of consumption which is divided among the individual producers...Here, obviously, the same principle prevails as that which regulates the exchange of commodities, as far as this is exchange of equal values. Content and form are changed, because under the altered circumstances no one can give anything except his labor, and because, on the other hand, nothing can pass to the ownership of individuals, except individual means of consumption. But as far as the distribution of the latter among the individual producers is concerned, the same principle prevails as in the exchange of commodity equivalents: a given amount of labor in one form is exchanged for an equal amount of labor in another form.¹²

(Marx 1875)

In *The State and the Revolution*, Lenin referred approvingly to the Critique of the Gotha program, and fully shared its argument and conclusions:

What we have to deal with here is a communist society, not as it has developed on its own foundations, but, on the contrary, just as it emerges from capitalist society; which is thus in every respect, economically, morally, and intellectually, still stamped with the birthmarks of the old society from whose womb it emerges. Accordingly, the individual producer receives back from society — after the deductions have been made — exactly what he gives to it...The same amount of labor which he has given to society in one form, he receives back in another¹³...Here, obviously, the same principle prevails as that which regulates the exchange of commodities, as far as this is exchange of equal values. Content and form are changed, because under the altered circumstances no one can give anything except his labor, and because, on the other hand, nothing can pass to the ownership of individuals, except individual means of consumption. But as far as the distribution of the latter among the individual producers is concerned, the same principle prevails as in the exchange of commodity equivalents: a given amount of labor in one form is exchanged for an equal amount of labor in another form.

(Lenin 1917a)

6.3 The law of value and socialism in the XXist century

As discussed above in Chapter 6, the debate on the surplus approach has been so far focusing almost exclusively on capitalism. However, as we are mainly interested in socialist-oriented development, we try to go beyond the presently-existing consensus.

The LV operates in a fundamentally similar way both in capitalist countries and in socialist-oriented market-based SEFs. The main difference is that in the latter the influence of planning on market outcomes is quantitatively and qualitatively superior with respect to the state of affairs prevailing in

freewheeling capitalist countries. In our view, the LV is to be understood in broad and heuristic terms as an immanent principle that governs value creation and exchange in all capitalist and socialist modern economic systems that are underpinned by commodity production and markets. As an understatement, we can safely maintain that, as the LV is “*not fully superseded*” under socialism, this relationship between productive and non-productive sectors applies as well to socialist economies. Subsequent experience up early XXI century shows that the resilience of the LV has been severely underestimated, even by Stalin.¹⁴ In fact, even in contemporary PRC, far from being “*fully superseded*”, the LV is still the prevalent organizing principle of production price formation in productive sectors.

Conversely, while planning does play a key macroeconomic and strategic role, especially in the governance of the investment rate and of effective demand, it should not be overambitious when acting in open defiance of the LV. For instance, in Cuba, where nominal price distortions produced by misguided and overextended planning attempts are the norm, the LV is no less operational than in China and Vietnam – actually, it is even more binding, taking into account the small size of the economy and its low degree of self-sufficiency. The tension between planned prices and the LV generates wrong incentives and widespread inefficiency.¹⁵

In this respect, it is useful to revert to the distinction between productive and non-productive labor (and, consequently, between productive and non-productive sectors) introduced above in Ch. 1.

Non-productive labor is employed in public and private (legal and illegal) activities. Public activities include all public services, among them socially valuable and essential ones such as health and education. These services crucially contribute to human development both directly and indirectly (via their impact on human capital formation) and – in most countries – are public, and thus do not sell the bulk of their output at market prices. Whether or not and to which extent other public and public-funded activities are socially valuable is more debatable, but this is intrinsically a matter of State policy. Some NGOs and other privately-funded non-profit organizations can also be regarded as providers of socially valuable non-productive services. Conversely, legal and illegal private non-productive activities such as the bulk of private financial services, corruption, and drug trafficking, are socially harmful forms of redistribution of the surplus towards non-productive actors. Both capitalist and socialist economies can be regarded as being composed by two macro-sectors, the productive and the non-productive one. The distinction between productive and non-productive labor, and therefore between the productive and the non-productive macro-sectors, applies under socialism as well. A normatively correct socialist-oriented strategy, like any other socially and humanly progressive one, should also strive to progressively increase the relative size of the non-productive sector. However, a proper balance must be maintained between the two macro-sectors, in order to avoid disrupting the smooth functioning of the LV. The size of the surplus acts as a constraint

to the growth of the non-productive macro-sector, under capitalism as well as under socialism.

Under both capitalism and socialism, the only way to allow the functioning of the non-productive activities is to earmark towards them (directly or indirectly) part of the surplus generated by the productive ones. Therefore, the viability of the non-productive macro-sector is dependent on the transfer of funds from the productive one, and thus constrained from the latter's surplus-generating capability. The government must engineer a net transfer from one macro-sector to the other via direct and indirect taxation. The proper handling of this inter-macro-sectoral relationship is a key strategic and policy issue. The non-productive macro-sector, differently from the productive one, should as much as possible be managed and regulated directly by the State via non-market policy tools.¹⁶ Financial services, in particular – due to their central role in determining investment, employment, and growth – should as far as possible be run as a public service as well.

Inter-sectoral and intra-sectoral proportions between labor and non-labor inputs stemming from the LV, which are naturally generated by market forces and manifest themselves through the structure of relative prices, cannot in general be arbitrarily modified without causing severe disruption in the working of the entire system.

The distinction between productive and non-productive labor, like that between the productive and the non-productive sector, applies to both capitalist and socialist (or socialist-oriented) systems, as they pursue different development paths but share some basic constraints imposed by the ubiquitousness of the LV. As such, the distinction is independent not only from the technical nature of the labor involved (be it finalized to the production of material goods or services), but also from the structure of property rights. The only discriminative criterion is whether or not a commodity or a service is produced by an enterprise to be sold at market prices, generating a surplus that is captured by the owner of the firm. Only in the former case the activity (and the labor engaged in it) can be seen as productive. Therefore, the criterion applies both where the surplus is captured by private agents, under the form of profits or rents, and where it is captured by public agents. The distinction is also independent of the material (goods) or immaterial (commercial services) physical nature of the commodity (or service) that is produced. The main goal of productive sector enterprises is the generation of ever-increasing value for the owner of the capital employed in the production process (the residual claimant). If the owner is a public agent, value-generation is to be conceived in a long term perspective, and under a properly designed and implanted planning scenario it is meant to be consistent with the maximization of national economic development.

Conversely, non-productive sector activities (mainly composed nowadays by non-commercial public services,¹⁷ such as public health, education, etc.) are not required to generate any surplus. Consistently, non-productive sector organizations shall mainly be guided by the principle of cost-effectiveness in

providing the direct satisfaction of (basic and, where feasible and advisable,¹⁸ non-basic) human needs. However, when allocating an appropriate share of a country's GDP to non-productive activities, planners shall also take into account their indirect impact on present and future labor productivity and the technical progress in the surplus-producing area of the economy.

As a result of factors such as ever-mounting material productivity¹⁹ in value-creating sectors, the tendency towards a rising degree of socialization of all economic and non-economic activities in modern societies, and the increasing centrality of environmental sustainability, the GDP share devoted to non-productive activities is naturally bound to increase in well-governed countries – especially so, of course, in those that are socialist or socialist-oriented.

6.4 Four propositions on capitalism and socialism

On the basis of the considerations exposed above, we propose four further propositions, that will crucially inform our argument in the remainder of the book:

- i Controversies on whether or not the LV would remain operational under socialism have been unfolding since the XIXth century. We can regard this issue with the benefit of a century-old historical experience stemming from many experiments in many European, Asian and Latin American countries that started their socialist path at different levels of development. We unambiguously realize that the operability of the LV²⁰ is, by and large, independent from the structure of ownership rights, and constitutes therefore a common trait of both capitalism and socialism.
- ii The systemic distinction between the productive and the non-productive macro-sectors – and with it the necessity to generate sufficient surplus in the former to finance, *inter alia*, the functioning of the latter – is also a common feature of socialism and capitalism.
- iii Even if capitalism is fully superseded in a socialist direction, and therefore the surplus is no longer privately captured, the systemic inter-sectoral and intra-sectoral proportions and the structure of relative prices that allow them to be respected must be maintained also under socialism. This constraint applies to any kind of socialism, be it centrally-planned or market-oriented. However, in the case of the latter, it is also evident that the maintenance of inter-sectoral and intra-sectoral proportions in the productive macro-sector must be essentially guaranteed by default by the structure of relative prices. Administrative and other forms of heavy State interventions in the economy running against the signals stemming from the structure of relative prices should not be the norm and should not be resorted to routinely in an ad hoc fashion, especially so at

the meso- and micro-economic level. They should be sparingly utilized in case of necessity²¹ and to carry out industrial and other policies aimed at achieving in the long run outcomes superior to those that would result from following exclusively market signals, in an inter-temporal optimization framework relying on the State's superior informational, computing and planning capabilities.²² Only once socialism has already reached a quite advanced degree of maturity its center of gravity can move more and more decisively (if always progressively) towards according an increasing priority to planning vis a vis the market – provided the former remains ultimately ex-post market-compatible.

- iv Conversely, of course, there is a major difference between capitalism and socialism with respect to the command on and the destination of the surplus. In principle, under socialism the share of surplus²³ that is functionally channeled to luxury consumption is eliminated.²⁴ The correspondent share of the surplus can be earmarked to additional social and/or development-oriented investments.

Notes

- 1 We purposefully (if ironically) recur to the term real socialism, as we regard it as useful and direct expression that can be fruitfully juxtaposed to any theoretical speculation. Rescuing real socialism from its unfortunate Brezhnevian heritage is a long overdue task that has been insufficiently pursued so far by social scientists. As we clarify in many passages of this book, however, far from attaching to it any triumphalistic or sycophantic flavor, we employ the term real socialism simply as a shorthand to refer to “*really existing socialist-oriented*” systems/countries/ SEFs. In doing so, we do not imply any Manichean pronouncement on whether or not these societies and their economy are in fact socialist or not.
- 2 It is not surprising, in particular, that many older and recent contributions that analyze capitalism critically do not offer guidelines for construction of post-capitalist societies. In that sense, the best critical analyses serve to advance *pars destruens* arguments. They do not appear to offer much in terms of a *pars construens*. We begin, therefore at the limits of these types of analyses which are useful in varying degrees in their own terms; but they do not ask the questions that we ask in this book. At the same time, the advanced analyses of capitalism as a complex adaptive system with turbulent adjustments and instabilities leading to recurrent crisis tendencies indeed can open the way for us to analyze socialism as well as a complex adaptive system with its own nonlinear dynamics.
- 3 Arguably, a corollary of these major changes would also be constituted the disappearance of money itself.
- 4 A substantially socialist society can reasonably work without implying a major anthropological change in humankind. The opposite would be true of a society that closely approximates the communist ideals.
- 5 We refer to communists as radical socialists who maintain as a fundamental principle the aspiration for the construction of a society that approximates as much as possible the communist model – much as bona fide liberals aspire at a society where freedom is maximized.

There are no communist societies in the world today, but an array of socialist societies that include capitalist elements maintained in an uneasy relation with more progressive economic trends such as public ownership of some means of production. There is no “socialist mode of production”, and so what are we to do with these socialist societies? ... we need to distinguish whether the capitalist elements or the communist elements are the main force for development.
(Brown 2006)

- 7 As we make it clear all along this book, this matter-of-fact observation does not imply to despise the great achievements of Social Democracy during its now-gone golden era, nor to deny the possibility of a peaceful evolution towards socialism in the future.
- 8 Of course, this principle does not apply to the sphere of politics. There, power correlation can change abruptly overnight.
- 9 Of course, this is not tantamount to say that each worker personally obtains the full product of his work.
- 10 Workers in these sectors (which are necessarily public under socialism) are non-productive in Marxian terms (see below, Ch. 1). We agree with Marx on this point.
- 11 Historical experience confirmed this prediction. Socialist-oriented and, more generally, progressive governments have always attached a high degree of priority to social spending.
- 12 Marx recognized that early post-capitalist societies, due to their very under-development, could not go beyond this socialist distribution principle. Yet, he stigmatized its ethical and humanistic limitations, due to the fact that individuals' working capabilities and needs are uneven. Actually, the former and the latter tend to be negatively correlated.
- 13 Lenin appears to envisage a socialist society where money and the exchange of commodities have been replaced by labor certificates that entitle workers to directly draw consumption goods and services from a centralized consumption fund. Yet, he notices that distribution of means of consumption among individuals “the same principle prevails as in the exchange of commodity equivalents”. In practice, no real-world post-revolutionary society has ever fully superseded money, commodities and commodity-monetary relations.
- 14 It is well-known that Stalin maintained that, by and large, the LV still operated under socialism. However, he believed that, in the USSR of the early 1950s, socialism was already strong enough as allowing the LV to play a relatively secondary role (see Stalin 1951).
- 15 Here, we anticipate this matter-of-fact observation on Cuba's economy for the sake of our theoretical argument on the permanence of the LV under socialism. We do not ignore that, to a large extent, Cuba's inability so far to overcome the traditional distortions of over-centralized planning is due to the extreme pressure caused by the embargo, along with a myriad of other hostile measures enacted by the US. These measures have constrained the degrees of freedom of Cuban policy makers to an extraordinary extent, making their task much harder than that of their Chinese or Vietnamese counterparts.
- 16 Due to its intrinsic characteristics and to the irrelevance (or harmfulness) of competition, the advantages of decentralization in the non-productive sector are less relevant than in the productive sector, while its costs are higher. Therefore, as a general rule, the non-productive sector should be run by the State in relatively more centralized fashion.
- 17 Non-productive activities also comprise the nonmarket provision of material goods (such as public housing) on the part of the State or of nonprofit

- organizations. In a complementary fashion, relatively weak states might opt for a suboptimal compromise, allowing private for-profit actors to act as providers in a framework of regulated subsidization.
- 18 As a general rule, any activity is not productive or non-productive by itself. It becomes productive if left to the market. So, for instance, a private health clinic is a productive enterprise. It would remain productive even if, under a bizarre but theoretically conceivable scenario that often has materialized itself in the real world, it were taken over by a public organization, but kept working in a fully market-oriented fashion with the main purpose of maximizing its profit. A gray area can also arise if, maintaining for the sake of the argument the same working assumption, the State provided subsidies while imposing on the clinic a set of regulations that induced its managers to pursue and balance both profit-oriented and public welfare goals. Such a policy choice would obviously be sub-optimal, but justifiable under some real-world circumstances and constraints. Whether a specific non-basic activity should be carried out as a productive or a non-productive one is largely a matter of pragmatic policy choice, taking into account factors such as the overall degree of socioeconomic development of the country, the availability of multiple technical alternatives, the State's ability to capture an adequate level of fiscal resources, distributional and environmental considerations, and the like.
 - 19 The term "*material productivity*" is to be understood as the capability to create use value by means of a given amount of labor, in any goods- or services-producing sector. It is therefore different from the concept of productivity in the sense of producing surplus value.
 - 20 In a world constrained by the meta-mode of production (see below, Section 8)
 - 21 Such as the need to rein in market-made dangers such as major market failures (such as financial and real estate bubbles) or to respond promptly to unexpected falls in domestic or foreign effective demand.
 - 22 These interventions should not challenge the LV to an unsustainable degree, and avoid the temptation to succumb to planning hubris.
 - 23 Other subsets must be earmarked maintenance, investment, the financing of the non-productive sector, and the like. See above, Section 7.3.
 - 24 By definition, in this abstract and stylized analytical framework, only capitalists have access to luxury consumption. This remark is independent of the obvious fact that economic growth under favorable distributional assumptions leads to an increase in real wages, thus allowing workers (or, at least, some of them) access to goods that were formerly regarded as luxuries.

7 The meta-mode of production

Summary

7.1. The Meta-Mode of Production as a meta-structure. – 7.2. Four key features of the Meta-Mode of Production. – 7.3. Diversity of development models under the Meta-Mode of Production. – 7.4. Market compatibility and value-based planning

7.1 The meta-mode of production as a meta-structure

In the preceding sections, we discussed the concept of MP and proposed two different specifications, identifying at each level of aggregation (local, national, or global) respectively a *dominant* and a *prevalent* MPs. Under different circumstances, the *dominant* and the *prevalent MP* can or not coincide. Both dominance and prevalence are secondary attributes, and as such they do not imply any weakening or modification of the latter as a primary conceptual category.

An additional, complementary, and debatable connotation can also be attached to the term MP, at a very high level of abstraction and generalization. The dominant MP worldwide is still the capitalist one – according to the Marxian traditional meaning attached to the term MP. Yet, we can partially re-interpret the MP concept and argue that another MP-like social structure exists at a level of generality abstraction and historical longevity higher than capitalism itself. A long-term historical state of things can occur where:

- i One MP is dominant at the global level;
- ii Two or more MPs coexist in some countries. They are unevenly developed and more or less stable and evolutionarily fit, and which of them will eventually prevail in the competition nationally (and, possibly, in a longer-term perspective, globally) is far from being a settled question;

The degrees of freedom enjoyed by each Mode of Production (MP) (including the dominant one) are finite. Not only are they limited by the global prevalence of the dominant MP, but also by universal, immanent structural constraints that apply to all the sustainable MPs that can emerge and

consolidate themselves during a whole epoch, the duration of which cannot be predetermined. As such, this set of constraints would apply to all national attempts to pursue a development strategy consistent with the basic principles of any specific MP, even if the latter were to become progressively hegemonic at the global scale (thereby signaling a slow transition from one to a new internationally dominant MP).

Under these circumstances, the above-mentioned set of constraints acts as a sort of *meta-structure*, that bounds and limits the degrees of freedom of each sustainable MP to differentiate itself internally from the other ones. This structure is a feature of the real world and exerts a strong influence on the choices of policy makers and on their outcomes. Thus, we refer to it as the *Meta-Mode of Production* (MMP). The MMP is not in itself an MP.¹ However, it is a structure that, in our view, is in fact a key feature of the real world. It operates at a level of generality and abstraction higher than that of MPs, along the dimensions of space (the whole planet) and time (in a very long-term perspective), and acts as a constraint over the evolution of every historically existent MP. Therefore, it is superposed on both capitalism or socialism.

7.2 Four key features of the meta-mode of production

The MMP is characterized by the prevalence of:

- a Commodity production and monetary relations of production and exchange;
- b The operationality of the Law of Value (LV), and, by virtually all practical means, the existence of markets²;
- c surplus extraction, accumulation, and investment;
- d the mutually compatible and complementary existence of two macro-sectors: the *productive macro-sector* and the *non-productive macro-sector*.

The MMP is predominantly predicated on market-based social relations of production and exchanges (SRPEs). The set of constraints constituting the MMP will be operational for a very long time, as far as commodity production will persist.³ Therefore, also the production and circulation of exchange values, the existence of a surplus and of a productive sector, and the budget constraint it imposes on the development of the non-productive sector are not going to wither away any time soon.

Any sustainable socioeconomic system under this meta-structure must ensure that surplus is extracted in the productive macro-sector,⁴ according to the LV and earmarked smoothly and according to adequate proportions towards:

- i new investment in the same (productive) macro-sector;
- ii the reproduction of the non-productive macro-sector.⁵

At the global level, the state of this fundamental relationship evolves along the dimension of history's *longue durée*. Its market-based foundations are bound to prevail globally for an indefinitely long period, thereby justifying the strong and holistic term MMP. The MMP is the only regulatory meta-structure that can logically and practically be conceivable and workable at the global level. Therefore, any attempt to overhaul it through quixotic, subjective political action would be futile and counterproductive. It cannot be overthrown or superseded radically in a progressive fashion in a relatively short historical time period.⁶ Yet, it is not immobile, as it is perpetually evolving – not always in a smooth fashion. In its context, different socioeconomic formations (SEFs) arise, develop, achieve a certain degree of global dominance/hegemony, and may decay and become extinct. The US, in the first half of the XIXth century, was for half a century one of the loci of the world⁷ where capitalist SRPEs were most advanced, yet in half of the country capitalism was underpinned by a modern version of the slave mode of production. It is now the most powerful SEF on earth and the closest to the capitalist pure model. Other more and less advanced essentially capitalist SEFs also exist: however, their structural features depart from the capitalist pure model to varying extents, according to various dimensions, and leading to relatively more progressive or regressive outcomes. I.e. Canada, Japan, the UK, Italy, and many other Organization for Economic Co-operation and Development (OECD) countries still have relatively strong and effective universal public national health systems. Saudi Arabia and other oil exporters are rentier SEFs, that survive thanks to geopolitical factors, maintain feudal internal sociopolitical structures, and rely mostly on a foreign workforce, which is kept in a semi-apartheid status in their hyper-segmented domestic labor markets. In most of Africa and large parts of Asia and Latin America, a large part of the population engages fully or partially in pre-capitalist networks of relations of production and exchange – the quasi-totality of which, nevertheless, imply the existence of markets.⁸

As it has always been the case in the history of capitalism, these networks articulate themselves with domestic and global capitalist relations of production and exchange in a subordinate, yet relatively smooth way. Substantially, little is new about the latest wave of globalization. In this scenario, however, a significant novelty has been emerging since the early XXth century: the surge of socialist-oriented SEFs in parts of the periphery.

7.3 Diversity of development models under the meta-mode of production

The fundamentally market- and value-based nature of the MMP cannot, and will not be undermined in the foreseeable future, as it intrinsically corresponds to the historical degree and form of development of SRPEs at the global level, and the relationship of our species with nature. Yet, the market-based foundations of the MMP are not synonymous with capitalism

(and much less with its neo-liberal variant). As a matter of fact, in the context of the basic global compatibilities determined by the MMP, several alternative forms of socioeconomic systems can develop in different points of space and time, as a result of various factors, including scientific analysis and conscious collective action.

Historical experience is consistent with this theoretical framework. Nowadays, capitalist relations of production and exchange – (leading to forms of (mostly oligopolistic⁹) competition –, and therefore of class power, are both dominant and hegemonic worldwide. However, their dominance is neither complete, unchallenged, or inevitable for an endless period of time. However, embryonic non-capitalist SRPEs and of class power have been emerging, following an uneven pattern, in some areas of the South, since the first decades of the XXth century. In some of these areas, socialist-oriented (or socialist, albeit still scarcely developed SEFs)¹⁰ have been established. Some of them eventually collapsed due to endogenous and exogenous factors, while others have proved resilient (at least so far), and new ones have emerged. In many other countries in the periphery non-socialist forms of mixed economies prevail, and in some of them, the political power is held by progressive parties pursuing novel human development-centered national development strategies.

7.4 Market compatibility and value-based planning

Modern economies are characterized by an ever-increasing degree of complexity, as their functioning is based on the continuous and stratified knowledge accumulation on the part of numerous and diverse agents (including governments and other organizations and institutions), and on their reciprocal interactions. Such a degree of complexity and the related dispersion of relevant information can partly be counteracted, but not fully overruled by the increasing sophistication of information and computing technologies. Therefore, simplistic, over-centralized solutions to the core problem of economic governance and planning are neither efficient nor ultimately sustainable.¹¹

Therefore, advancing towards socialism under the insurmountable constraints imposed by the modern MP implies the adoption of an adequate planning approach, solidly founded on a vast array of information and forecasts, and which must necessarily be ultimately *market-compatible*.

A “*market-compatible*” economic activity is one that, even if it is not necessarily directly geared towards selling in presently existing markets, is however oriented towards the creation of future market competitiveness in advanced sectors, usually via a more roundabout and long innovation and production process (see Gabriele 2010, 2020). Market-compatibility is a necessary condition for any kind of planning to be ultimately sustainable. Consistently, a market-compatible policy intervention is one that, while possibly inefficient according to the presently existing structure of relative prices, aims at achieving superior socio-economic outcomes in the longer term. Planners can carry

out market-compatible interventions that alter the present distribution of resources, according to an optimization exercise that takes into account the future structure of prices. In doing so, planners utilize superior forecasting information not available to individual actors. Alternatively, or in a parallel fashion, they can internalize (to some extent) the very process of price formation in the optimization exercise, guiding it towards outcomes that are more consistent with ultimate socioeconomic and environmental objectives than those that would be produced by the spontaneous working of market forces.¹² Market-compatible planning is not unique to socialism, but is particularly crucial in a socialist or socialist-oriented context.

The concept of market compatibility leads to that of *value-based planning* (VbP), a form of planning that applies chiefly to the productive macro-sector. As opposed to Soviet-style planning it prevalently employs market-compatible, value¹³ and price-based policy tools to steer the development of productive sectors. VbP embodies in its design the market compatibility constraint and aims at achieving development outcomes that are in fact market-compatible. Yet, it does not totally relinquish physical planning interventions where required or preferable (i.e., in the area of large infrastructural projects).

VbP is also fully compatible with the adoption of mainly or fully non-market and non-price-based mechanisms axed on centralized physical planning, and with the free or quasi-free universal needs-based provision of services¹⁴ (such as health and education) in the domain of the non-productive sector.¹⁵ In this respect, it is important to clarify that the adoption of VbP as the central pillar of policy-making in the productive sector does not per se imply any growth-obsessive bias, that might imply to unduly allocate to the non-productive sector a relatively low share of gross domestic product (GDP).

With respect to private agents, planners can leverage the State's potentially superior (albeit not infinite) information-gathering, processing, and forecasting capabilities. This knowledge-based advantage can provide the foundations for a conscious, forward-looking effort to shepherd the endogenous trends emerging from the market, utilizing an array of diverse policy tools aimed at optimally shaping the trajectories of investment, innovation, and relative prices. The market compatibility condition, however, imposes a significant prudential limitation on the degrees of freedom of policy makers. In particular, the domestic prices structure should not be allowed to diverge unduly from the global structure of relative prices.

Finally, it is worth mentioning that the MMP itself is also ultimately a product of human historical evolution. Thus, as opposed to the laws of physics, it is neither immutable nor eternal. It can be conceived that, if a global catastrophe putting an end to human civilization is avoided, there will be in the future a continuous increase in labor productivity (made possible by technical innovation), and more and more countries will adopt advanced socialist-oriented MPs, shifting progressively the axis of human activities towards the non-productive sector. If this were the case, the global MMP itself would change profoundly, opening a scenario where the principle of freedom

increasingly prevails on that of necessity and the very ideal of communism appears no longer as utopian, but as the normal,¹⁶ civilized way to self-organize the *post-pre-historical*¹⁷ society.¹⁸ However, in our view, such a scenario perspective might unfold itself only in a very long-term perspective, and any assumption or presumption on its nature cannot but be highly speculative.¹⁹

Notes

- 1 The Greek prefix *meta* can have similar but not identical meanings such as *after*, *beside*, *with*, *about*, *beyond*. When applied to a noun, it generates a new object that can or cannot share the nature of the original one. Applying it to the noun MP, we use *meta* in its denotation meaning *beyond*, *about* with a connotation similar to words such as *meta-physics*, *meta-economics*, *meta-language*, and, a fortiori, *meta-level*. All these terms refer to objects that are *beyond*, *about* other objects belonging to lower level of abstraction and generalization, and as such are not specification of these objects, but different in nature. I.e. meta-physics, as opposed to nuclear physics, is not a specific form of physics. Thus, the MMP is not a MP, and positing its existence does not require a revision or critique of the meaning and definition of MP discussed above in Chapter 3. Conversely, when we say that the MMP is a *meta-structure*, we use *meta* in its different meaning of *after*, *beside*, implying that – like the MP – it is in fact also a structure, of a higher level of abstraction. We choose the term *meta-structure* also to avoid the word *super-structure*, as the latter has an important and quite different meaning in the Marxian tradition.
- 2 The law of value is a primary intrinsic regulatory force that overrides the institution of market. It necessarily applies universally (albeit with uneven strength) both under capitalism and under any presently conceivable form of socialism. Historically, the law of value also applied in the former USSR, in pre-reform PRC, and in all formerly centrally-planned socialist countries, and keeps doing so also in countries such as Cuba and North Korea where the prevalence of markets is particularly limited. Under a theoretically imaginable new and efficient form of futuristic, AI-propelled fully centrally planned socialism, the law of value would apply as well, in spite of the non-existence of markets. However, the lessons of history forces us to regard such a scenario as purely academic, and to recognize that markets are there to stay with us for the foreseeable future.
- 3

By stating that the analysis of the laws of motion governing the capitalist mode of production necessarily includes at least some essential elements of an analysis of economic phenomena valid for the whole historical epoch encompassing economic organizations in which commodity production exists, one extends the validity of parts of Marx's *Capital* not only into the past but also into the future.

(Mandel 1976)

- 4 Of course, this statement is to be interpreted as implicitly embodying the assumption of absence of permanent and sizeable inflows of net subsidy transfers from abroad.
- 5 Some outlays in the non-productive macro-sector can also be regarded as investments, although (as opposed to those in the productive macro-sector) they are not directly productive. For instance, the popular expression *investment in education* rightly conveys the idea that education contributes to foster human capital accumulation.

- 6 Yet, it can be brought to ruin by wars, ecological disruption etc., leading to a Blade-Runner-like scenario. Such an occurrence is likely and probably inevitable if the underlying world economic system will keep being informed mainly by the capitalist drive.
- 7 It is generally recognized that the US economy surpassed that of the UK in absolute terms shortly after the end of the Civil War. In per capita terms, the US overtook the UK around 1890 (see Oxbridgenotes 2020).
- 8 The most relevant exception is constituted by few small surviving hunters and gatherers tribes in the Amazons, Papua New-Guinea and Sub-Saharan Africa.
- 9 This argument might appear redundant, as oligopolistic competition is usually (albeit often sometimes implicitly) regarded as just but one form of really-existing – as opposed to textbook-like capitalism. In fact, it is not. It is true that, originally, the terms oligopoly and oligopolistic competition were only meant to describe some features of a subset of markets functioning in the wider context of capitalist relations of production and exchange. However, it is theoretically possible to postulate the existence of forms of oligopolistic competition in markets dominated by SOEs or State-controlled enterprises – as it is in fact the case in practice in present-day China and Vietnam. Thus, the term oligopolistic competition does not have to be necessarily and inevitably linked with capitalism, as it can obtain in a market-socialist context.
- 10 The term *socialist-oriented SEF* refers broadly to a country run in a rather stable context by a political force (or coalition) declaring officially to be engaged in steering a process aimed at establishing, strengthening, or improving and further developing a socialist socioeconomic system. As it is based on easily verifiable official declarations and programs, this term is essentially a neutral one. On the contrary, any attempt to gauge whether a real-world socioeconomic system is truly socialist or not is a very tricky exercise that (no matter the observer's intellectual honesty) inevitably requires a combination of – tentatively – objective scientific analysis and of value-judgments, and thus carries with it a significant degree of subjectivity. For this reason, in the remainder of this paper we will preferably use the expression *socialist-oriented SEF*, rather than *socialist SEF*. In this respect, it is interesting to consider the official position manifested consistently (since the turn of century, or before) by China, Vietnam, and Cuba. The first two tend to prefer the term *socialist-oriented*, or equivalent ones, to define the nature of their own socioeconomic systems. As both China and Vietnam have adopted a market socialist model, Vietnam more specifically regards officially its economy as a socialist-oriented market economy, while China's government (somewhat more optimistically) routinely refers to its economy as a form of *market socialism* (even if still going through its primary stage of development). These differences between the official expressions adopted by China and Vietnam respectively are essentially semantic. Cuba, conversely, considers its economy a *socialist* one, even when acknowledging that is presently not working in a satisfactory fashion and is thus undergoing a process of *updating* and *perfecting* – shunning the word *reform*. (see Gabriele 2020, Annex A)
- 11 Soviet-style command economies were very rigid, and therefore weak in the key area of absorbing, generating and spread innovations. This structural shortcoming was aggravated by the empirical and conceptual contradictions stemming from the very attempt to build one socialist country as an island in the midst of a capitalistic world (see Gabriele and Schettino 2012).
- 12 In virtue of such interventions, the future structure of prices is no longer exogenously-determined in full by market forces. For example, planners might subsidize investment in research and production facilities in the area of renewable energy, promoting activities that would not be carried out by private

- investors under the present structure of relative prices. If successful, such a policy will eventually lead to a relative price of renewable energy lower than the one that would have obtained in a laissez faire scenario, thereby making the environment-friendly technique fully competitive.
- 13 Planners, besides taking into account present and market-signaled future prices, might use their unique informational and IT capabilities to estimate, forecast and nudge the mechanisms governing the unfolding of the LV. That's why we prefer the more comprehensive term value-based planning to that of price-based planning.
 - 14 The same token applies to the satisfaction of other needs that require large material investments (such as housing, that is predicated on construction). In some cases, goods (such as foods or anti-conceptive devices) might be distributed on a non-market basis as well.
 - 15 Non-market provision of service (and goods) should be financed chiefly via general progressive taxation.
 - 16 The abolition of slavery would have appeared no less utopian to any observer living in Classical times. Yet, it is now an almost universal and undisputed fait accompli, after little more than 2000 years.
 - 17 In a famous passage of the *Contribution to the Critique of Political Economy* Marx argues that bourgeois society represents the last stage of human pre-history, and that mankind will in fact supersede it once the conditions will be ripe: "*the productive forces developing in the womb of bourgeois society create the material conditions for the solution of that antagonism. This social formation constitutes, therefore, the closing chapter of the prehistoric stage of human society*" (Preface to *A Contribution to the Critique of Political Economy* (1859).) Here – as in most of his work – Marx hints to a post-bourgeois, non-antagonistic society, but (as suggested by his quasi-eschatological prophecy on the final advent of human true history) he does not clearly distinguish between a socialist and a communist one. In fact, he appears to see the former mostly as a not-too-interesting provisional and transitional stage leading to communism. Conversely, in this book we focus on socialism, which we consider to be still in its infancy but we regard in principle as a full-fledged MP that might progressively unfold in the future over a very long period of time.
 - 18 Our view is therefore diametrically opposed to the neoclassical abstraction positing a natural, eternal and unique set of endogenous rules that govern any human society populated by a myriad of homo economicus-styled and identic representative agents, that would automatically maximize private and public utility if only they were not plagued by the irrational or malicious imposition of inefficient regulatory burdens on the part of the Leviathan.
 - 19 For the time being, progressive analytic and policy-making efforts shall focus on the relatively humble but far from easy task of establishing and developing nation-State-based socialist-oriented MPs, while supporting international initiatives aimed at preventing a global descent into environmental meltdown or nuclear Armageddon.

8 Socialism under the meta mode of production

Summary

8.1. The shift of economic rationality from the individual to the society and the key role of planning. – 8.2. Two sobering lessons. – 8.3. After the fall of the USSR, we are not at square one. – 8.4. “Laws of motion” of socialist-oriented economic development? – Box 8.1. American Imperialism – Box 8.2. Definitions and interpretations

8.1 The shift of economic rationality from the individual to the society and the key role of planning

In Chapter 2 we presented a survey of some key scientific findings that emerged since the last couple of decades of the XXth century in the domains of biology, evolutionary science, and neurosciences, and briefly recounted how some of them were instrumental in the rise of a new interdisciplinary field, neuroeconomics. We showed that, from the vantage point of social sciences, the two central results stemming from this major scientific revolution are:

- a the central importance of the principle of cooperation, and
- b the ubiquitousness and centrality of unconscious and non-rational mechanisms and procedures in the functioning of the human mind, and of its ways to tackle value-based and economically relevant decisions.

In turn, these discoveries lead to debunking two twin myths of what has often been apodictically dubbed human nature, namely:

- a the exclusiveness of the principle of competition as the only driving and regulatory force to organize human societies in any place and in any time, and
- b the bogus homo economicus fetish as a valid representation of individual economical reasoning.

As an obvious *pars destruens*, these scientific developments hopelessly falsify the naturalistic, anthropological, and philosophical foundations of

neoclassical economics. However, they also pave the way for *pars construens*, revolving around the reconsideration of the role of rationality in human societies. Simply speaking, modern science does not allow to posit individual rationality and the principle of competition as a credible basis to automatically achieve through markets a Panglossian societal equilibrium, characterized by optimum economic and social outcomes. A Copernican revolution is therefore necessary, which takes away the role of the ultimate driver of social rationality from the individual – who has been proven incapable to achieve such a feat – and bestows it on society itself. The only locus where human beings can strive to rationally maximize societal welfare is that of planning, i.e. a focused and science-based activity carried out by highly trained specialized professionals in the framework of dedicated institutions, leveraging all the relevant collective knowledge, available data, and computing power.¹

The shifting of the guiding rational driver of economic activity from atomized utility-maximizing individuals to the State-based organized institutions of modern society allows – in principle – to achieve far superior socioeconomic outcomes, and is consistent with one of the basic intuitions of the founders of the international socialist movement. Planning, is by itself, a core foundational tenet of socialism.

However, this argument must not be carried too far. Planning must not be unduly worshipped as being tantamount to socialism, according to some sort of scientist or technocratic superstition. *Per se*, as a general rule, planning is obviously preferable to market anarchy. Yet, wrong and un-scientific planning can lead to bad, negative or even catastrophic outcomes, even more so than the spontaneous interplay of market forces. Unfortunately, there is no dearth of historical examples to prove this point. Moreover, even technically impeccable planning can be captured by a privileged minority as a means to enhance its power and further exploit the rest of the society.²

Therefore, the remainder of this chapter (and of most of this book) is mainly devoted to explore some of the key characteristics that planning must embody to be conducive to effective and sustainable socialist development.

8.2 Two sobering lessons

In the previous chapters, we have exposed selectively the basic tenets of Marxian thought on some crucial categories (such as Mode of Production (MP), Social and Economic Formation (SEF), Law of Value (LV), productive and nonproductive labor, the persistence of commodity-based exchange and distribution principles under socialism), which we consider still very relevant for the understanding of the globalizing world economy in the XXIst century.

Conversely, we maintain that a number of historical lessons from the XXth and the early XXIst century require a novel and partly modified view of the nature of these categories and of their dynamic interactions in the

contemporary era – thereby departing from orthodox Marxist tradition while maintaining a methodological fidelity to its inspiration and legacy.

The century elapsed since the Russian Revolution teaches to present-day progressives two basic lessons:

- i Attempts to bring about a socialist-oriented global political revolution, that might have brought to power almost contemporarily socialist forces in all (or many) advanced capitalist countries, did not succeed. A full-fledged overhauling of the global dominant MP over a historically very short period (i.e., one or two generations) looks impossible nowadays, contrarily to the belief of many Marxists and other revolutionaries of the XIX and early XXth century.
- ii A corollary of i) is that the very conception of the nature and feasibility of socialism (which was previously strongly imbued with a holistic and, in some cases, millenarian and eschatological aura) must be interpreted in a more limited and less ambitious fashion, acknowledging the inevitability of the long-term persistence of multiple contradictions in the context of any socialist-oriented historical process. It is therefore preferable to avoid discussing socialism/non-socialism in the framework of an essentialist, dichotomist, black and white approach, realizing that in many cases the evaluation of concrete socioeconomic realities is to a large extent a matter of degree and of value judgement, and that a large gap often separates reality from intentions (both subjectively and objectively). In this context, heuristic, approximate, and ad hoc analytical tools can be of practical use to grasp the basic elements of otherwise excessively complex and contradictory objects of study. For this reason, we utilize in some parts of this book terms such as *positive and normative criteria*, *socialist-oriented*, and even “*socialistic*”. As a matter of fact, in our view, excessively simplified statements such as this or “*country a (or b, or c) is socialist*” or “*is not socialist*” are off the mark. Conversely, prudent statements such as

country a is more “socialistic” than country b from the vantage point of modernizing its governance of the economy in order to suit the objective degree of advancement of its own relations of production and exchange, thereby effectively combating poverty. Yet, country a is less socialistic than country b with respect to the degree of equality

are more likely to be meaningful and scientifically defensible.

8.3 After the fall of the USSR, we are not at square one

Since the Russian Revolution, there have been many instances where socialist forces have gained power in relatively backward peripheral countries, characterized by embryonic, immature, dependent and/or colonial forms of capitalist development. Subsequent attempts to build socialist economies

in these countries have struggled with extraordinary hurdles, stemming to a large extent from the very underdevelopment of productive forces. Moreover, they were under conditions of isolation and of very harsh hostility on the part of the advanced capitalist powers.³ However, at least in some cases, these national experiments have exhibited a rather high degree of depth, radicality, consistency, and resilience. Hence, in our view, they constitute (or constituted) examples of socialist-oriented SEFs.

Most of these pioneering attempts eventually collapsed under the combined pressure of external aggressiveness and internal contradictions. Without underestimating the weight of the former, or the important achievements of the USSR and other European socialist countries in areas such as the universal provision of housing, food and basic services, “*Soviet-style command economies proved to be too rigid to be able to absorb from outside, internally generate and diffuse innovations in a satisfactory manner*” (Gabriele and Schettino 2012, p. 28).

Conversely, communist parties formerly supported by the USSR maintained power in China and in a few other developing countries. In other developing countries, socialist forces climbed to the government via the ballot box and embarked on broadly socialist-oriented development strategies with different degrees of success and sustainability. Without underestimating the persistent reality and aggressiveness of imperialism (see Box 9.1), socialist-oriented development strategies are now being implemented under conditions very different from those of the past. Externally, even after the launching of the trade, tech, and human rights war against China, these countries are now far less isolated from the capitalist world than it was the case for the USSR and Mao’s China, and actively strive to integrate their national economies with global trade, financial and technological flows. Domestically, they re-introduced (or maintained) a number of market-based regulation mechanisms, and also – to different extents – private property rights on some means of production.

Results in terms of development of the productive forces and poverty reduction have been spectacular in the case of China, very favorable in that of Vietnam, and mixed in other cases.

It is also fair to acknowledge, however, that market-oriented reforms have contributed to rising social inequality, and that the fabric of China’s and Vietnam’s economies is so complex that their very socialist nature is far from clear-cut. In fact, no one – included their own governments – claims that they constitute full-fledged examples of socialism.

Many observers would acknowledge that in both countries there are elements of socialism (such as the large weight of the State in the economy, and the very relevant role of SOEs, State-Controlled Mixed Enterprises and other non-private firms), as well as elements of capitalism and even of pre-capitalist MPs (in the most backward rural areas). Therefore, they see China and Vietnam as mixed economies with both socialist and capitalist features. Many other analysts are inclined to believe that they have now become fully capitalist in all but name – or that they have anyway embarked on a path that

cannot but lead to such an outcome (see, among others, Gallagher 2015; Ker-swell and Lin 2017; Milanovic 2019; Nogueira and Hao Qi 2019).

A quarter of a century after the end of the Cold War the relation of forces in the world economy has not fallen back to its pre-1917 situations. Colonialism in its traditional form is dead. Global trade and financial relations among countries at different levels of economic and technological development are prevalently governed by rule-based market relations rather than sheer imperialist spoliation. Due to the emergence of China, India, and other developing countries, the distribution of economic and financial power in the world is now multi-polar to a large extent.

Thus, the profound changes that occurred worldwide since the time of Marx suggest that contemporary international relations of production and exchange are prevalently market-based, yet no longer resemble those typical of the XIXth century or the first half of the XXth century. On one hand, it is no longer thinkable to expect these relations to change radically in a relatively short period of time, being substituted by a full-fledged socialist MP on a global scale. On the other hand, many elements of the traditional global capitalist order have been modified by history, and the viability of national, at least partly non-capitalistic development paths has now increased in many areas of the world.

These considerations suggest – as a provisional working assumption – that capitalism is still both the dominant and the prevalent MP worldwide, but its degree of dominance is not absolute, and much weaker than it was in the past.⁴ The globalization process offers also to socialist-oriented countries opportunities for international economic integration – while diminishing, with respect to the past, the degrees of freedom of which planners may dispose of in trying to pursue non-capitalist development paths in an autarkic fashion.

The major (and in many cases, contradictory) changes that occurred in the world's global economic fabric since the Russian revolution have eroded the formerly absolute supremacy of capitalism, but have not substantially withered the validity and the binding nature of the Meta Mode of Production (MMP). This feature of humankind's socioeconomic development is predicated on market-based social relations of production and exchange. As the state of such relations at the global level can evolve only along the dimension of history's *longue durée*, their market-based foundations are bound to prevail globally for an indefinitely long period, thereby justifying the strong and holistic term MMP. If this sweeping assumption is true, it implies as a corollary that any attempt to overhaul it through quixotic, subjective political action would be futile and counterproductive.

The fundamentally market- and value-based nature of the MMP cannot, and will not be undermined in the foreseeable future, as it intrinsically corresponds to the historical degree and form of development of humankind's evolution of social relations and to its relationship with nature. Yet, at a theoretical level, it is crucial to reiterate that MMP's foundations are not

synonymous with capitalism (and much less with its neo-liberal variant). As a matter of fact, in the context of the basic global compatibilities determined by the MMP, several diverse forms of socioeconomic systems can develop in different points of space and time as a result of various factors, including scientific analysis and conscious collective action.

Historical experience is consistent with this theoretical framework. Nowadays, capitalist relations of production and exchange (leading to forms of – mostly oligopolistic– competition), and therefore of class power, are both dominant and prevalent, and the bourgeois weltanschauung is largely hegemonic worldwide. However, the ascendancy of capitalism is neither complete, unchallenged, or inevitable for an endless period of time. Embryonic non-capitalist relations of production and exchange and of class power have been emerging, following an uneven pattern, in some areas of the periphery, since the first decades of the past century. In some of these areas, socialist-oriented SEFs have been established. Some of them eventually collapsed due to endogenous and exogenous factors, while others have proved resilient (at least so far), and new ones have emerged. In many other countries in the periphery non-socialist forms of mixed economies prevail, some of them are led by progressive political forces pursuing novel human development-centered national development strategies. The advanced, traditionally dominant core capitalist countries produce a constantly shrinking share. Moreover, they are mired in the longest and deepest crisis of their history, and are sliding back into pre-Keynesian, regressive modalities of reproduction of capitalist relations of production and exchange.

Historical experience has shown that modern economies are characterized by a high and ever-increasing degree of complexity. This complexity is linked to the continuous and stratified knowledge accumulation on the part of numerous and diverse agents and does not allow for simplistic or over-centralized solutions to the core problem of governance. Such a degree of complexity and the related dispersion of relevant information can partly be counteracted, but not fully overruled by the increasing sophistication of information and computing technologies. Material balances-based centralized administrative planning (while useful to a limited extent, to perform basic tasks under given circumstances) is inadequate as a sole device to deal with such complexities. Therefore, simplistic, over-centralized solutions to the core problem of economic governance and planning are neither efficient nor ultimately sustainable.

The socialization of the principal means of production and the control on the part of the state of the commanding heights of the economy do not bring about a complete social homogenization. Therefore, economic governance and planning cannot constitute an over-centralized, autistic exercise, but should take fully into account the constraints posed by objectively existing social relations of production and exchange, individuals' incentives and aspirations, and the culture and degree of consciousness of different population groups. The complexity of economic governance and strategic development

planning must be dealt with to a large extent via price- and market-based regulation mechanisms.

Advancing towards socialism under the constraints imposed by the MMP implies the adoption of an adequate planning approach, solidly founded on a vast array of information and forecasts, and which must necessarily be ultimately market-compatible. With respect to private agents, planners can leverage the State's potentially superior (albeit not infinite) information-gathering, processing, and forecasting capabilities to provide the foundations for a conscious, forward-looking effort to shepherd the endogenous trends emerging from the market. In this endeavour, they can try to utilize an array of diverse policy tools aimed at optimally shaping the trajectories of investment, innovation, and relative prices. The condition of ultimate market compatibility of this kind of planning, however, imposes a significant prudential limitation on its degrees of freedom, as the outcome in the medium- and long-term (especially in terms of domestic prices structure) should not be allowed to diverge unduly from the global structure of relative prices.

8.4 “Laws of motion” of socialist-oriented economic development?

Hinting at the existence of “*laws of motion*” of socialist-oriented socioeconomic development which are of general applicability can be considered so far as little more than an informed working assumption. Even if these “laws” did in fact exist, it would be foolish on the part of any analyst to pretend to have fully discovered and properly understood all of them.

Moreover, the economy of this book does not allow for an in-depth analysis of the extremely complex and contradictory reforms implemented or attempted in all presently-existing socialist-oriented developing countries and of their outcomes in terms of economic, social, and human development. A thorough, yet inevitably partial analysis of the key foundational elements of XXIst century market socialism is carried out only for the most advanced of all socialist-oriented SEFs, which is that of the People's Republic of China (PRC) (see below, Part II).

Within the boundaries imposed by such self-evident methodological disclaimers, we tentatively argue that after almost one century of attempts to establish and develop socialist-oriented economic systems in various parts of the world, a few propositions of general and universal applicability can be synthesized.

Any country's economy is constituted by two macro-sectors: the productive macro-sector and the non-productive macro-sector. Accordingly, the productive macro-sector generates a surplus. The non-productive sector (which includes all public services, among them essential ones such as health and education) does not. Therefore, the only way to maintain a sustainable socioeconomic equilibrium is to earmark towards the non-productive macro-sector part of the surplus generated by the productive macro-sector.

Within the boundaries imposed by this accounting constraint (which formally corresponds to an identity similar to those of standard national accounts), the essence of planning consists in an array of consistent state-orchestrated interventions aimed at changing what, in absence of such policy actions, would be the “*spontaneous*” outcome of the interplay of domestic and foreign market forces. The purpose of such a proactive attitude on the part of the State is to induce policy-led resource transfers that benefit sectors, sub-sectors, or population groups at the expense of others. In turn, these transfers are aimed at achieving distributive, social, and environmental goals (such as lessening inequalities, fostering public services, or protecting nature), or at accelerating economic development.

The latter set of interventions are commonly referred to as industrial policies, and can include a number of actions aimed at earmarking resources (via administrative or price-related tools) towards strategic sectors, such as infrastructure, capital goods, high-tech industries, R&D, and S&T activities. If properly formulated and implemented, industrial policies can indeed be quite effective. For this to be the case, however, industrial policies require two necessary conditions to be satisfied, as planners must:

- i base their actions on a set of information that goes far beyond market signals (without, of course, ignoring the need to properly analyze and interpret market signals as well);
- ii be endowed with an adequate and effective set of administrative and non-administrative, direct and indirect policy tools.

Policy makers should always realize a simple, commonsensical fact of life: national States’ planning capabilities are limited – especially so in developing countries. The domestic structure of relative prices (including the real wage) and the real exchange rate must be broadly consistent with the structure of international prices. As the State cannot control and manage all the economy in a direct fashion, it must concentrate its limited planning resources on what is really strategically crucial. Among other things, this implies that monetary-commercial relations must be allowed to prevail in non-strategic sectors.

The considerations put forward in the preceding section apply, by and large, to any economy, and thus also to socialist-oriented ones. Therefore, they can be regarded as basic principles constraining the policy space of socialist-oriented planners in a binding fashion. However, in our view, the theoretical and empirical arguments discussed in the other sections of this chapter allow to identify other economic “laws” that apply specifically to the subset of developing countries constituted by socialist-oriented SEF. The main ones are as follows:

- i The LV cannot be thoroughly superseded under socialism. Policy makers operating in a socialist-oriented context must acknowledge that attempting to plan against the constraints implied by the LV inevitably generates

strains and tensions that can be satisfactorily governed only up to a point. From a practical vantage point of policy making, socialist planners can go a long way if they stick to the following prudential rules:

- a respect the socialist principle of distribution (i.e. try to favor the emergence of a structure of wages that is approximately consistent with individuals' labor productivity);
 - b do not push State-mandated inter-sectoral transfers too far, and thus do not allow the domestic structure of relative prices to depart excessively from that of international prices.
- ii The allocation of labor, capital, and other resources in the productive sectors should not be a blind mechanical byproduct of the LV. However, planners should avoid unduly challenging the law beyond a reasonable point. Well-meant attempts to excessively penalize the productive macro-sector in order to fund public services risk to cause a progressive de-capitalization of the former, weakening the surplus-generating capability of the whole country, and leading to economic decay.
 - iii As far as they are financially sustainable, traditional State-mandated, centralized transfers from the productive to the non-productive macro-sector should be maintained and possibly strengthened, while the former is being reformed. These transfers are indispensable to ensure the public, free or quasi-free provision of basic services such as health and education, according to the principle of non-market-based universal access. As a general rule, efforts should not be spared to avoid any form of privatization and the establishment of heavy user fees. In this respect, the negative experiences of China and Vietnam in the 1980s and 1990s should not be forgotten.
 - iv Resist any suggestion to privatize and wantonly liberalize financial services. A very strong and centralized control on the strategic core of the domestic financial system – overwhelmingly constituted by public banks and other non-private financial institutions – must be enforced.
 - v Market-oriented reforms should focus essentially on the productive macro-sector. Socialist-oriented countries where glaring allocative distortions have not been adequately tackled so far should urgently re-establish (both formally and in practice) the basic tenets of the LV. Relative prices must be rationalized and indispensable key markets must be re-constituted (including wholesale and inputs markets and markets for at least some capital goods). Little can be accomplished in terms of substantial systemic improvement until this necessary condition is satisfied.
 - vi State-owned enterprises (SOEs), with few exceptions, are not a form of enterprise conducive to the development of agriculture (or, at least, of most agricultural subsectors, first of all, the food-producing ones) in backward countries where a large share of the population still lives in rural areas. Attempts to enact a mandatory transformation of rural

- SOEs into formally, yet not really autonomous cooperatives are bound to fail, especially if they take place in absence of at least partly functioning markets.
- vii Without ignoring the profound differences between the agrarian structure of each socialist-oriented developing country, the diverging experiences of China and Vietnam, on the one hand, and of Cuba, on the other hand, appear to show a clear lesson. During the initial stage of the reforms, the most feasible and promising path to increase agricultural productivity and enhance food self-sufficiency has been that of endowing farmers with ample yet less-than-full individual ownership rights, promoting rural household farms as the basic production units in the countryside without relinquishing the regulatory and planning advantages stemming from the maintenance of the State as the ultimate proprietor of the land. In a parallel fashion, the formation of (mainly credit-, trade-, and other service-oriented) authentic, bottom-up cooperatives and other forms of associations should be promoted. In this respect, it is important to realize fully that no cooperative can properly function in any sector in absence of autonomy and markets. Subsequently, once nationwide food security has been secured, productive forces have advanced enough, and rural-urban migration has substantially reduced the weight of the rural population, a transition towards a more advanced set of rural social relations of production and exchanges (SRPEs) is to be fostered, centered on the consolidation of productive units and the establishment of modern agricultural enterprises articulated around a mix of State-owned, cooperative and private property modalities.
 - viii Industrial and infrastructural SOEs must be profoundly restructured. In this context, the general and universal validity of the motto “*grasping the large and letting the small go*” must be fully assumed by policy makers. The number of SOEs shall be drastically curtailed, and the remaining ones (mainly⁵ concentrated in strategic sectors⁶) should be strengthened, capitalized, and thoroughly reformed, establishing an adequate incentive structure for managers and workers alike and enhancing enterprise autonomy.
 - ix In strategic sectors that are not intrinsically monopolistic, the role of market mechanisms should be increased, with the goal of establishing forms of managed and regulated oligopolistic competition among a few reformed SOEs in the domestic market. Strong national SOEs can also successfully compete with foreign transnational corporations (TNCs) in increasingly concentrated international markets. Domestic and foreign private firms might as well be allowed to compete with SOEs in some of these markets, under firmly regulated conditions.
 - x The structure of SOEs’ property rights in non-monopolistic markets should undergo a gradual transformation. Traditional, centralized, and administrative hands-on forms of State control should be superseded, as well as most forms of physical planning, and value-based planning should

become the norm. Taking into account the progressive re-establishment of the LV, State control of SOEs should undergo a progressive transition towards modern, flexible, indirect, finance-based mechanisms, with a view at establishing various tiers of State-controlled corporations as the core structure of the public industry.

- xi Most industrial and services small and medium-sized enterprises (SMEs) cannot be successfully managed as SOEs. Therefore, small and medium-sized SOEs should be transformed into other types of collective, cooperative, or private firms. In the worst scenario – if they are hopelessly loss-making and no better solution is available – they should simply be closed down. In some cases, privatization can be in practice the best solution. The transformation of some formerly State-owned SMEs into authentic cooperatives might be actively promoted but always taking into account the big caveat mentioned in para (vi). Mandatory attempts to (formally or informally) force SME workers to take over their – often ailing – enterprises as collective owners would inevitably fail, thereby jeopardizing also the perspectives for a future recovery of the cooperative movement.
- xii The reform strategy outlined above inevitably implies by itself a significant deterioration in the distribution of primary incomes, with a marked increase in inequality. Such deterioration is due only in part to the application of the socialist principle “*to each one according to her work*” and to the superseding of excessive egalitarianism. In practice, the re-appearance of non-labor forms of income in those areas of the economy where capitalist relations of production and exchange are allowed to be re-established can be controlled, but not totally avoided.
- xiii However, it is also well-known that the degree of de facto inequality in a poorly functioning socialist-oriented economy can actually be quite high as well, due among other things to the proliferation of illegal and informal rent-seeking behaviors of individual economic agents (see Romanò 2012). If properly managed, the transition towards a new socialist-oriented economic model can succeed in substantially diminishing the diffusion of these negative phenomena, thereby reining in the increase in overall income and social inequality.
- xiv Governments in socialist-oriented countries dispose in principle of relatively ample policy space, and of several potentially well-targeted and fine-tuned policy tools. They can use them to control, stop and eventually invert the trend towards increasing inequality, once the transition towards a new type of socialist economic model is basically accomplished. The main instruments available to reforming socialist-oriented countries to rein in increasing inequality trends are two. Neither of them is new, yet their potential is often underestimated. One is the consolidation and (once the economic recovery of productive sectors makes sufficient resources available) the strengthening and expansion of public services provided on a non-market basis, according to principles such as need and/or

universal access. The other is the establishment of a modern and effective system of progressive taxation (an area where even China is so far very underdeveloped).

- xv The contradiction between value- and market-based production and environment conservation is the paramount one of our epoch. Actually, if this contradiction is not be properly dealt with, our epoch will in fact be the last of our civilization. Only socialism can offer the hope to rein it in in order to ensure the survival of our species in a framework of sustainable development. To this purpose, it will become more and more urgent over time to upgrade presently existing market-socialist models towards more advanced forms of planning, that will rely relatively less on the LV. Such a transition cannot be engineered overnight due to the severe constraints imposed by the MMP and by the persistent need to compete with capitalist powers, as we stated forcefully above throughout the recommendations put forward in points i) to xv). However, it cannot be unduly procrastinated either, taking into account the seriousness of the planet's environmental crisis. This task is the most difficult and crucial one to be tackled not only by present and future socialist planners, but also by humankind as a whole.

BOX 8.1 American imperialism

In this work the term imperialism refers specifically and matter-of-factly to contemporary US imperialism, with a connotation that is basically the same as that meaning adopted traditionally by progressive national liberation movements in Asia, Africa and Latin America.

According to this connotation imperialism is:

- i a substantially (geo)political/military concept, unfolding according to a law of movement where economic coercion is mostly an ancillary tool (although of course its motivations cannot be seen as unrelated to the socioeconomic systemic nature of capitalism in general);
- ii directly and specifically referring to the US, which often utilizes other capitalist countries as auxiliaries, of the like of sepoys and ascari. This is not to deny that some 2nd-tier capitalist countries – especially former colonialist powers do enjoy nonzero degrees of freedom to engage in relatively autonomous acts of imperialist aggression.

Conversely, this connotation of imperialism is not in its essence a theoretical tool elaborated to interpret some key features of worldwide capitalism in a specific historical period, as Lenin used the term in 1917 (see Lenin 2016).

BOX 8.2 Definitions and interpretations

In this book, we claim that China, Vietnam, and Laos constitute a *new class of SEFs*. In this respect we consider it legitimate and justified to put forward four propositions, which are not mutually incompatible or contradictory:

- i Each member of this class is a socialist-oriented market economy where various MPs coexist;
- ii Each of these SEFs is predominantly socialist and not predominantly capitalist (or State-capitalist), for the reasons we put forward in various parts of this work (quantitative and qualitative preeminence of State ownership; public finance; plans and projects; power of the Party);
- iii However, the new SEFs are socialist in a (mostly) weak⁷ sense,⁸ still transitioning through a relatively primitive stage of development;
- iv The socioeconomic model shared by the new SEFs is market socialism.⁹

Notes

- 1 Some critics of economic planning might object that it is intrinsically anti-democratic and dictatorial. In our view, this argument is a very weak one. Some form of economic planning and regulation exists and has always existed in every capitalist, pre-capitalist and post-capitalist State, be it more or less democratic. What we are talking about here is per se just a new, enhanced and more effective form of planning, not a nightmarish takeover of total power on the part of a Frankenstein-like sect of technocrats. Like other key societal functions, economic planning must be executed by specialized institutions staffed by highly trained cadres – a fortiori, taking into account its knowledge-intensive nature. The same token applies, for instance, to other key societal functions such as R&D, public health, and national defense. In principle, a strong and advanced planning institution can act under the guidance and command of any kind of government, be it democratic or not.
- 2 There can be no socialism without planning, but there can be planning without socialism.
- 3 This handicap, by and large, still applies today to most presently-existing socialist-oriented countries. The few partial exceptions are constituted by socialist-oriented countries that, due to peculiar, idiosyncratic historical circumstances and to the extraordinary diplomatic ability of their leaders, are able to take advantage from capitalist powers' attempts to play them as pawns against other socialist-oriented countries. Examples are Yugoslavia until the demise of the USSR (after which the West quickly and decisively contributed to destroy it, recurring to economic destabilization, covert subversion, human rights advocating NGOs, and bombing campaigns), China (from the early 1970s to the late 1980s), and present-day Vietnam.
- 4 Conversely, capitalism is now more prevalent worldwide than before the fall of the USSR.

- 5 Under favorable circumstances, some SOEs can also prosper in non-strategic and at least partially competitive sectors (especially if the latter are oligopolistic).
- 6 Strategic sectors are to be understood in a broad sense, as including those that are key to sustain and enhance technical progress, international competitiveness and the balance of payments, and to diminish dependency on foreign technology providers.
- 7 In Part 1 we define MPs as pure abstract archetypes. Thus, no real economy can be fully and exclusively socialist or capitalist. I.e. even in US there are some coops, some SOEs, there is some planning etc. Even in formerly and presently existing countries following the Soviet-style socialist model there has always been some formal or de facto forms of non-labor incomes. The fact that China and Vietnam are mixed economies is not per se an element of weakness. We claim (conservatively and prudently) that they are socialist in a weak sense because the presence of socialism as an MP and the holistically socialist character of their economies is still less than what would be auspicious (they could be more *socialistic*). Yet, even if they were more advanced, less primitive and more socialistic, these SEFs would still be mixed. In other words, they could be more socialistic but not completely and exclusively socialistic. In our epoch, under the MMP, not only is it impossible for a society to be communist (even if it can have a significant part of the economy run under the communist principle, in the non-productive sector), but also to be purely and fully socialist.
- 8 Socialism as a MP is dominant and (probably, although not necessarily) prevalent, but it is not the only MP existing in the new SEF. Actually, it would be legitimate to say that a SEF is *socialist in a weak sense* also if socialism is dominant but not prevalent (i.e. as far as the commanding heights are in the hands of the State, even if the majority of workers are engaged in capitalist SRPEs (i.e. work in POEs). By the same token, few people would argue that India is not capitalist, even if probably over 50% of its workforce is operating mainly in the framework of pre-capitalist SRPEs. The dominance criterion is definitionally and epistemically superior with respect to the prevalence criterion.
- 9 The new SEFs can be regarded as (weakly) socialist according to the present state of things, and they are socialist-oriented because they are dynamically and teleologically directed towards full socialism as a legitimate aspiration. The first sentence relates to a real, actual state of the world, the second to an ongoing process. That is, this car is in Rome, going to Milan. The first part is very strong, irrefutable and can be demonstrated matter-of-factly by means of a simple direct observation. The second is meaningful yet relatively weaker – it could happen that for subjective or objective, endogenous or exogenous reasons the car has an accident in Florence and never gets to Milan, or that the driver changes her mind and goes to Venice.



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9 Introduction to Part II

Summary

9.1. Socialism and developmentalism. – 9.2. Non-capitalist market-oriented enterprises and large State-owned business conglomerates

9.1 Socialism and developmentalism

Part I of this book can be regarded as an extensive theoretical preamble, where a new interpretation of some basic Classic and Marxian concepts is presented as a necessary conceptual background underpinning the emergence of a new class of socioeconomic formations (SEFs). In part II we focus more deeply on the most advanced representative of this new class – the PRC – to analyze the recent evolution of its productive macro-sector.

The core of the productive macro-sector has been evolving over time since the massive industrialization drive carried out in the early years of the People's Republic of China (PRC). It is presently formed by a vast array of non-capitalist industrial enterprises supported by the public banking system, with the 97 large State-owned industrial conglomerates and the public financial system as its kernel.¹

The centrality of the large publicly-controlled industrial sector, which generates major spillover effects throughout the national economy as a whole, is the key distinctive feature of China's development model. To demonstrate our point, we present an analytical approach revolving around the institutional evolution underpinning China's extraordinarily rapid process of structural change, shaping the foundational elements of contemporary market socialism.

Our argument views the early stages² of socialism construction as a developmental project. As such, as it has been the case in some capitalist countries in the past, it is a process that involves the ability to break the vicious circle implied by *the law of comparative advantage* through the expansionary fiscal, exchange, and monetary policies supported by industrial policies and national projects, with the strategic objective of catching up with the central capitalist countries. This line of reasoning is consistent with the basic tenets of the *New Developmentalist* synthesis pioneered by Luiz Carlos Bresser-Pereira and other

leading Brazilian economists (Bresser-Pereira and Gala 2012; Bresser-Pereira 2009, 2011, 2015; Paula 2015; Bresser-Pereira, Marconi e Oreiro 2016).

In our view, the post-1978 Chinese development strategy has indeed been consistent with the basic tenets of the new developmentalist school – albeit *with socialist characteristics*.³ As a matter of fact, China's development trajectory was from the start and throughout the whole journey essentially socialistic in nature, and it was thus ontologically contrasting with those of both advanced and developing capitalist countries. However, its macroeconomic dynamics and its institutional evolution were not formally and functionally too dissimilar from those that underpinned the *catching-up* process in other East Asian countries, especially Japan and South Korea.

In this respect, it is worth mentioning that the *New Developmentalist* approach assumes the validity of the chronic tendency towards terms of trade deterioration in peripheral countries (Prebisch 1949), but it departs from the old *dependencia* school and converges with the strategic approach adopted by Asian Newly Industrialized Countries (NICs) with respect to one key issue: a permanently overvalued exchange rate is not conducive to a high rate of investment in relatively advanced sectors, as it makes it overly expensive for national enterprises to accede the world's best available technologies to produce tradable manufactures. In fact, evidence has been mounting that a robust long-term relationship holds between competitive exchange rates and economic growth (Gala 2007; Rodrik 2008; Guzman et al. 2018).

However, the maintenance of a competitive exchange rate is not a purely ethical matter, as it cannot be achieved simply as a product matter of virtuous fiscal and monetary moderation. Especially in a large country, it also requires a high degree of monetary and financial sovereignty, which is not a negligible feat, especially so⁴ in the Global South.⁵ This issue is part of a more general challenge, that of developing an institutional structure consistent with the existence of a mixed structure of property rights where socialized ownership is hegemonic, and where the public national financial system plays essentially the role of a facilitating services sector (see below, Ch 13). In this respect, we fully agree with Naughton, who advocates in favor of extending and modernizing the very definition of what constitutes the essence of a socialist economic system well beyond the State ownership of the main means of production, to include a much wider range of domains that can be jointly termed "*State capabilities*."

A traditional definition of socialism includes "public ownership of the means of production," but "capacity" is here broadened to also include the ability to control assets and income streams, through taxation and regulatory authority

(Naughton 2017, pp. 3–4)

Therefore, Part II mainly focuses on the analysis of the key institutions that were built over the past 40 years and that shape the new SEF that has been emerging in China.

9.2 Non-capitalist market-oriented enterprises and large State-owned business conglomerates

New non-capitalist forms of ownership have emerged since the beginning of the economic reforms with the institutionalization of the household responsibility system, where contracts between the State and the farmer household stipulated a contract authorizing the market sale of agricultural surpluses. These small-scale, household-based agricultural production units, as well as the Township and Village Enterprises (TVEs), can be regarded as novel types of “*non-capitalist market-oriented enterprises* (NCMOEs).”⁶

Subsequently, the formation of *large State-owned business conglomerates* (LSOBCs) required the establishment of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC)⁷, which can be regarded as the central *manager* of the *socialist market economy*.

The analysis of the development of the different forms of ownership is crucial to identify the operating logic of this new socioeconomic formation and what makes it different from other ones, both capitalist and socialist. The outstanding nature of China’s development performance suggests that a new *social technology* is emerging in the world, which has led a still relatively poor country towards the world technological frontier and allows it to play a paramount role in the global economic arena.⁸ This is not meant to imply that *Socialism with Chinese characteristics* can already be considered a finished project. On the contrary, this experience is still in its childhood.

Notes

- 1 As is well known, many private enterprises (some of which are large or very large) thrive in China as well. Yet, in our view, they are not part of the core of the country’s productive macro-sector.
- 2 As the CCP rightly acknowledges, China’s socialism is presently still in its *primary stage*:

China is at the primary stage of socialism, and will remain so for a long time to come. The primary stage means a stage of underdevelopment, which manifests itself, first and foremost, in the low level of the productive forces. Therefore, we must unswervingly take economic development as the central task and go all out to boost the productive forces.

(Wen Jiabao 2007)

This official position has remained unvaried under Xi’s leadership. However, it is reasonable to expect that over time, once the most elementary developmental challenges are met, economic development itself will progressively lose its absolute centrality, and, other goals – mainly of social and environmental nature – will be accorded a higher degree of priority. As a matter of fact, this gradual priority shift has already begun to take place, especially since the 2010s.

- 3 Chinese economic reforms brought about a fertile synthesis between the Revolutionary State founded in 1949 and the Developmental State. According to Castells (2001, p. 317):

China’s economic development and technological modernization, within the framework of the new global economy, were (are) pursued by the Chinese communist leadership both as an indispensable tool for national power, and as

a new main legitimacy of the Communist Party. In this sense, Chinese communism in the early twenty-first century represents the historical merger of the developmental state and the revolutionary state.

- 4 Even many developed capitalist countries enjoy only limited monetary sovereignty, due to the worldwide predominance of the dollar. Many European countries, moreover, have been tricked into abandoning fully their national monetary sovereignty when they adopted the German-dominated euro (see below, Ch 13).
- 5 Throughout this book we use the terms Global South and periphery (as well as Southern countries and peripheral countries) to refer to those countries that do not belong to the most advanced world capitalist core.
- 6

The term NCMOE(s) is to be interpreted in a rather extensive fashion, according to two basic criteria. First, the word market-oriented is meant to refer to all those enterprises that sell their products (or services) in one or several markets, including those firms that pursue goals that are complementary to or totally different from profit maximization, some of which operate in markets that are monopolies or quasi-monopolies. Second, NCMOEs comprise all those market-oriented firms that differ from the model of the classic private enterprise – a profit-maximizing productive unit that hires non-family labor and is endowed with ample property rights.

As such, the NCMOE category naturally includes commercial State-Owned Enterprises (SOEs), Cooperatives (or Coops), and Collectives. However, it also includes a number of hybrid firms, such as Township and Village Enterprises (TVEs) and the modern state-controlled mixed industrial enterprises. The latter, along with SOEs, form the group of State-Owned and State-Held Enterprises (SOSHEs). The Household-based Farm (HF), which still constitutes the dominant form of agricultural productive unit, can also be considered a NCMOE, as it lacks several of the key property rights that characterize fully private firms and does not hire non-family labor power on a regular basis. Household farms and TVEs are two forms of NCMOEs that are virtually unique to China, and played a pivotal role in the transitional stage from the traditional Soviet-type centrally planned socialist model to the presently existing socialist-oriented mixed market economy.

Although their case is more debatable, rural and urban Cooperative Shareholding Enterprises (CSHEs) can also be seen as NCMOEs. However, it has to be taken into account that some of them are cooperatives in name, but in practice they resemble more POEs (Private Owned Enterprises). Finally, there are also cases where the opposite token applies: some formally private firms (some of them very large and advanced, such as Huawei) are characterized by an internal property structure that closely resembles that of CSHEs.

(Gabriele 2020 pp. 38–40)

- 7 It is important to note that, in the same year of formation of SASAC (2003), another major institutional landmark was the creation of the National Development and Reform Commission (NDRC). The NDRC is a macroeconomic management agency under the State Council, which has broad administrative and planning control.
- 8 As such, China is a unique kind of animal. It is still, without doubt, one of the few really existing developing countries, and part of the Global south. Yet, it can no longer be regarded as a peripheral country.

10 Macroeconomic dynamics

Summary

10.1. The crucial role of the real exchange rate. – 10.2. Proactive exchange rate policies. – 10.3. Trade

10.1 The crucial role of the real exchange rate

Current account deficits often end up financing consumption rather than investment. However, economic policy makers generally reject real depreciation-inducing policies and indulge in “*exchange rate populism*,” in the belief that an appreciated exchange rate favours the re-election of incumbent governments because the purchasing power of both workers’ wages and non-labor incomes (interest, dividends and rents) increase “*artificially*.”

If the exchange rate tends to remain chronically appreciated, only being devaluated in times of crises, national firms cannot accede to international markets and thus lack demand for their products, and are therefore induced to undercut employment and investment and jeopardize economic development. An exclusively consumption-driven economy is not sustainable, as:

consumption can generate economic growth only temporarily, when it is politically and economically possible to induce income redistribution in favor of the working class. The existence of defined limits to the increase of wages’ share in national income makes the expansion of exports, in the long run, the agent of economic growth.

(Bresser-Pereira et al. 2015, p. 29)

According to New Developmentalism, there is no conflict between an export-led growth strategy and the development of the domestic market, because rising exports contribute to foster employment, increase wages, and sustain domestic consumption and investment.

10.2 Proactive exchange rate policies

The success of developmentalist strategies requires policy makers to proactively intervene to rein in the tendency towards the overvaluation of the

exchange rate, stemming from two main structural causes: the “Dutch disease” and foreign capital inflows attracted by the very initial success of growth-enhancing policies.

To deal with this challenge, New Developmentalism advocates a policy approach based on:

- a the enactment of capital controls;
- b the implementation of measures aimed at neutralizing the Dutch disease;
- c the rejection of two all-too-common practices that often end up causing an increase in interest rates and unwanted capital inflows: unsustainable external indebtedness and the utilization of the exchange rate as a nominal anchor to control inflation.

The main target is to achieve an “*industrial equilibrium exchange rate*” – i.e. a rate that allows industrial companies to access the most advanced technology available while remaining internationally competitive (Bresser-Pereira 2011).

Bresser-Pereira (2009) points out that some middle-income countries successfully kept advancing on the development path in spite of the “Dutch Disease” problem, as they managed to neutralize this competitive disadvantage. Several countries that consistently pursued rapid industrialization achieved this feat intuitively, applying multiple exchange rates, import tariffs and export subsidies that involved a disguised tax on commodities. In this respect, it is worth noting that, according to the new developmentalist strategy, industrial policy alone cannot compensate for the lack of international competitiveness stemming from an appreciated exchange rate.



Figure 10.1 Real GDP growth per year (China, 1960–2017).

Source: World Bank.

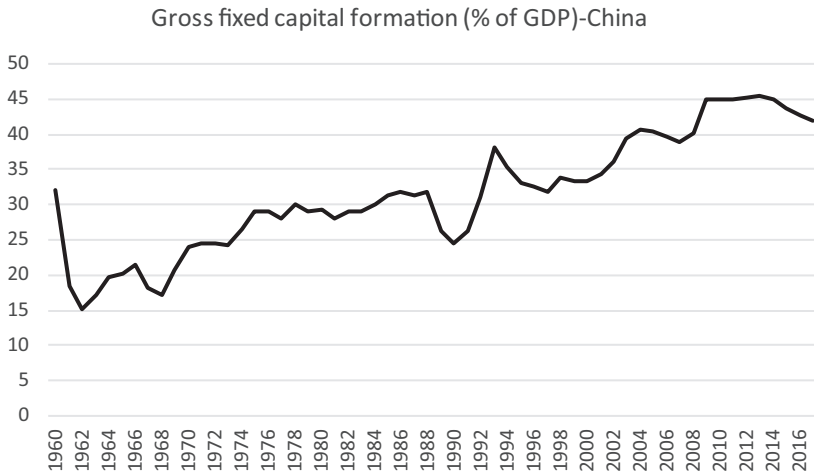


Figure 10.2 Gross fixed capital formation/GDP(China, 1960–2017).
Source: World Bank.

Finally, New Developmentalism rejects external financing, which is only beneficial in particular situations when growth gets into a “*miracle*” rhythm, the expected profit rate increases and so does the marginal propensity to invest, and the substitution rate of domestic savings for foreign savings falls (Bresser Pereira and Gala 2012).¹ Except in this special condition, external indebtedness, even through direct investments, leads to a consumption increase by workers, capitalists, and rentiers, but also to a long-run exchange rate appreciation (as the current account deficit requires an additional capital influx).

As external financing is rejected, the role of domestic financing becomes of course paramount. In all *catching-up* countries, there was some form of State intervention to promote investment financing, either directly through public banks or indirectly with subsidized credit lines operated by private banks. There is no reason to suppose that financing and, above all, funding mechanisms arise spontaneously by the simple operation of the market (Paula 2013) (Figures 10.1 and 10.2).

10.3 Trade

Since 2013, China has accounted for the largest volume of foreign trade in the world, exerting a strong impact on practically all other national economies. It has also become a major capital exporter via direct investments abroad (from US \$ 0.8 billion in 1990 to \$ 101.9 billion in 2017). As a major destination of foreign capital, foreign direct investment (FDI) went from US \$ 1.4 billion in 1984 to US \$ 168.2 billion in 2017. Until 1991 direct



Figure 10.3 Exports/GDP ratio – % (China, 1960–2017).

Source: World Bank.

investments in China were exclusively aimed at exporting sectors, with a high concentration in Guangdong. Afterwards, however, an increasing share of FDI has been directed towards the construction and expansion of productive capacity aimed at the domestic market.

Yet, such sustained FDI inflows did not imply that China's growth was based on the risky foundation of external indebtedness. Between 1980 and 2018, China posted a current account deficit only thrice. Thus, it prevented its exchange rate from appreciating and its companies from losing competitiveness.

China's *export-led cum developmentalist* approach is reflected by its trade dynamics. Exports rose from less than 10 US\$ billion in 1978 to US \$ 2.42 trillion in 2017. The exports/GDP ratio also climbed, peaking at over 35% in 2006 and declining moderately afterwards (see Figure 10.3).

Such a remarkable commercial performance, along with FDI inflows, led China's foreign exchange to skyrocket, rising from US \$ 1.6 billion in 1978 to US \$ 3.22 trillion in March 2019 becoming by far the largest in the world.

China's international competitiveness has been also supported by the maintenance of moderate and declining –albeit positive – real interest rates and low inflation. The latter's average fell from 7.2% in 1997/1999 to 2.1% in 2000/2018. The CPI peaked at 1993/1995 with an average of almost 19% per year in 1993–1995 but has remained at very low (below 2%) levels since the end of the 1990s,² thanks to the downward pressure on prices exerted by a stable exchange rate, gradual trade liberalization, and very rapid gains in terms of productive capacity and labor productivity.

Notes

- 1 A caveat is warranted in this respect. FDI's role for China's development was important, especially in the 1990s and 2000s, but not absolutely central. It was crucial with respect to the key goal of accessing modern technologies, but less so for the sake of fostering capital accumulation. In this aspect China has not fully followed the New Developmentalism approach.
- 2 Source: World Bank

11 Rural reforms and the rise of non-capitalist market-oriented enterprises

Summary

11.1. Liberalization without privatization in agriculture. – 11.2. Simple *commodity production*. – 11.3. Modernization, capitalization, and technification in agriculture. – 11.4. The continuing economic and social importance of agriculture in China. – 11. 5. Industrialization, land conversion, and migration. – 11.6. Institutional changes. – 11.7. The revamping of the cooperative movement. – 11.8. Another type of NC-MOE: the rise and destiny of the Township and Village Enterprises (TVEs). – 11.9. The complex nature of TVEs' ownership structure. – 11.10. The end of the TVEs era

11.1 Liberalization without privatization in agriculture

In the pre-reform years, New China maintained a strong commitment to egalitarianism (at least, at the local level),¹ to the point of undermining to some extent the very socialist principle of distribution according to work.

The practical realization of egalitarianism was made possible by China's traditional form of *central planning*, based on a network of large public and collective enterprises spreading over almost the entire economy, and by a structure of prices and wages that paid little attention to the law of value. Since the inception of the reforms, and even more markedly since the turn of the century, this configuration structure gave way to another one marked by the coexistence of different forms of public and private ownership. However, the former retained a hegemonic/dominant status, and even private enterprises never fully severed multiple formal and informal dependence linkages with respect to both large SOEs and key State institutions, notably the public banking and financial system.

This form of socialism allowed China to feed its vast population (under normal circumstances),² accomplish basic industrialization, and advance noticeably in the domain of social and human development. Yet, until the late 1970s, the People's Republic of China (PRC) had not been able to engineer a significant catching-up process with respect to the advanced capitalist countries. Eventually, the increasing realization of China's dramatic backwardness

not only vis a vis the West and Japan but also the Asian Newly Industrialized Countries (NICs) led the Chinese Communist Party (CCP) leadership to launch a major market-oriented transformation, which began in the agricultural sector.³

In terms of domestic political economy, the reforms amounted to a re-composition of the workers-peasants alliance that constituted the foundational basis of the PRC, which had been severely undermined by the frenzied primitive socialist accumulation drive and the anti-mercantile radicalism attached to campaigns such as The Great Leap Forward (1956–1961) and the Cultural Revolution (1966–1976).⁴ Deng Xiaoping realized that the peasantry – the same overwhelming majority social group that acted as the most powerful force allowing the CCP to seize power in 1949⁵ – could become the starting engine of the new development strategy. Initial reforms focused on the revitalization of the basic mechanisms underpinning food supply restoration, in order to overcome extreme scarcity and to enable the emergence of a large domestic market for manufactured consumer goods. This major strategic option, based on a form of *liberalization without privatization* allowed to establish a more effective pattern of the social division of labor, implied a reversal of the traditional anti-rural bias that had characterized the Soviet model since the end of the New Economic Policy (NEP).⁶

11.2 Simple commodity production

The *liberalization without privatization* drive had its roots in local experiments started in the 1970s in the Anhui province (where the local government had allowed peasants to *spontaneously establish* an agricultural surplus market, thereby fostering a significant productivity increase), and led to a shift away from the rural commune to the household as the basic agricultural production unit.⁷

At its core, it amounted to reconstituting the basic tenets of traditional simple commodity production, a pre-capitalist and relatively natural (albeit market-based) mode of production that had existed in rural areas since time immemorial – with the very important caveat that such a reconstitution was taking place in a context where socialist ownership rights still prevailed, albeit in a different form, and only some private property rights were restored to a limited extent (see above, Chapter 3).

Anhui's pioneering experiment spread rapidly across the whole country with the implementation of liability contracts between peasant households and the State. The contracts established production quotas to be delivered to the State, allowing farmers to sell the surplus on local markets. By 1984 this major policy change led cereal production to reach a record of 407.3 million tons by 1984, an increase of 33.6% compared to the 1978 harvest (Rong et al. 1992, p. 375). Graph 7 gives us a broader view of Chinese agricultural productivity increase.

Subsequently (thanks also to the implementation of various additional support policies, such as an increase of procurement prices and major public investments aimed at enhancing agricultural productivity) grain production in particular kept climbing a sustained, if uneven, trend (see Figure 11.1). The average agricultural GDP growth per year in 1978–2018 was 4.5%, more than doubling its 2% pace in 1952–1978 (Huang and Rozelle 2010, p. 487), constituting a major manifestation of the phenomenon identified by Barry Naughton as “*growth outside the plan*” (Naughton 1996):

In the past four decades, agricultural output value in real terms has grown at an average rate of 5.4 per cent annually, while annual growth of grain production was 2.1 per cent. China’s cropping economy has steadily changed from a priority on grain to the production of higher-value cash crops and horticultural goods. The average annual growth rate for cotton reached 3.8 per cent, 5.3 per cent for sugarcane, 6.4 per cent for edible oils and 11.5 per cent for fruit over the 40 years. Livestock and aquaculture products have been growing even faster. Annual meat production rose by an average of 5.9 per cent and fish by 7.3 per cent per annum. Dairy increased most rapidly, at 9 per cent annually.⁸

Huang and Rozelle (2018, p. 489)

Such a major acceleration in agricultural growth was propitiated not only by the superseding of the inefficient and rustic forms of planning characteristic of the commune-based agroindustrial complex established under Mao’s leadership, but also because of the pulling effect exerted by expanding market demand.

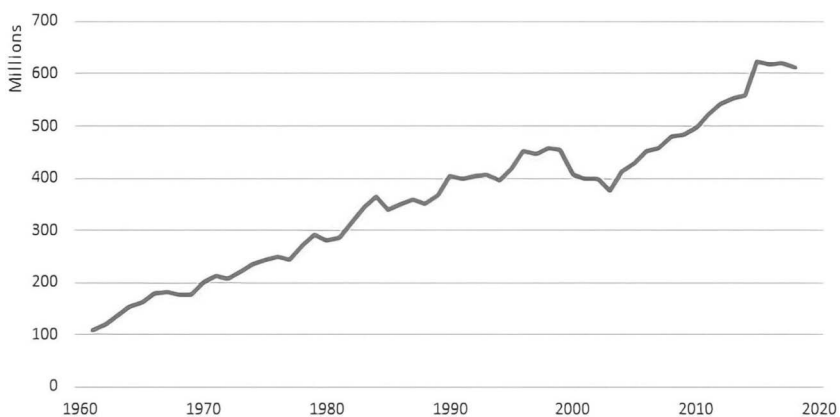


Figure 11.1 Cereal production (China, 1961–2017- in millions of tons).

The agrarian reforms also prevented the occurrence in China of a severe problem very common in other areas of the periphery, and especially in Latin America, i.e. social polarization stemming from unbalanced industrialization process accompanied by the disruption of previously-existing mechanisms of reproduction of rural livelihoods:

The basic success of China's development path compared to India's or Latin America's in terms of the agrarian question has been avoiding a mass of landless or miserable rural population in the countryside. Instead, Chinese farming was distinctly established with small-scale market and family-based features that contributed to sustaining the fast economic growth and to achieving self-sufficiency in rice, wheat and corn (...).

(Nogueira et al. 2019, p. 461)

The post-1978 China's development path has also been seen as a variant of the *American Way*,⁹ i.e. an industrialization process supported by a broad-based centripetal market expansion running from the countryside towards the cities, where small and medium-sized producers turned into potential industrialists. A new social division of labor was emerging, centered around relatively autonomous regional schemes of market-based interactions, which were nevertheless not severed from broader national and international exchange networks.

11.3 Modernization, capitalization, and technification in agriculture

The return into existence of rural markets for goods and some services and simple commodity production did not mean that China's countryside had reverted to capitalism, as the reforms did not thoroughly re-create two fundamental markets: the land market and the labor market. Land ownership, in particular, was still bestowed upon their State.¹⁰

Contrary to what could have been foreseen according to a simplistic market fundamentalist *weltanschauung*, such a partial restoration of market regulation mechanisms, far from stifling agricultural development, unleashed a major and long-lasting production and productivity boom. Production of grains (an item of self-evident strategic importance) kept on a sustained rising trend, reaching 618 million tons by 2017 (see Figure 11.2). In the United States, Brazil and India, in the same year, production was 440.1, 117.1, and 313.6 million tons respectively. These numbers are all the more striking taking into account that in 2013, 86% of Chinese farmers had no more than 1.6 acres of land at their disposal, against 441 acres in the United States. Arable land in China constituted only 12.6% of the total in 2016, while in the United States, Brazil and India it corresponded respectively to 16.6%, 9.7%, and 52.6% (see Graph 8 and World Bank 2018). Figure 11.2 illustrates the arable land evolution in China.

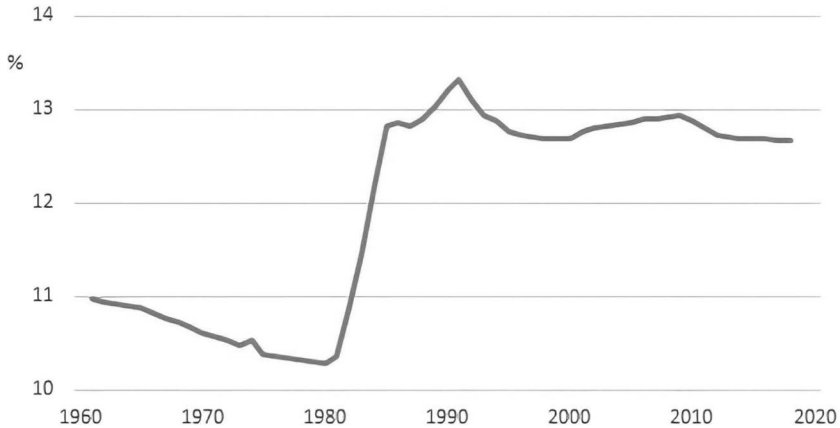


Figure 11.2 Arable land (China, 1961–2016 – in % of territory).

Even as simple commodity production is still prevalent in China's agriculture, this fact by no means has prevented the sector from undergoing a thorough process of capitalization, technification, and modernization, especially since the turn of the century. Total electricity consumption in rural areas (in 100 million kwh) went from 2421.3 in 2000 to 9524.4 in 2017. Chemical fertilizers use (in 10,000 tons.) was 4146.6 in 2000, reaching 5859.4 in 2017 (CSY 2018). The irrigated agricultural area rose from 45 million hectares in 1978 to 67 million hectares in 2016 (CSY 2017). Currently, more than half of the arable land in China is irrigated, far above the international average.

Even more importantly, the role and relative importance of R&D investment has been high and fast-increasing, generating a rapid pace of technical progress in the agricultural sector.

Especially since the late 1990s, China has prioritized the enhancement of its national agricultural innovation system, which is now the largest in the world (Babu et al. 2015) and is particularly advanced in the area of biotechnology.¹¹ Agricultural R&D investment has climbed steadily, reaching US \$ 6 billion in 2015, involving an increasing number of enterprises (Hu and Huang 2011; Babu et al. 2015).

11.4 The continuing economic and social importance of agriculture in China

The data and observations presented in the preceding sections allow us to put forward a few brief considerations:

- 1 The agricultural sector is still very important in China, not only economically but also socially. Despite the drop in the share of agriculture

in GDP, the number of employed people in this sector is still very high compared to other countries of similar size;¹²

- 2 The hukou residence status system, which classifies each Chinese citizen as either an agricultural (rural) hukou holder or a non-agricultural (urban) hukou holder, is being gradually superseded,¹³ but still constitutes a key planning tool to govern the country's urbanization process. The acquisition of urban hukou allows migrants to improve their status and to accede to many basic public services but also implies forsaking the partial land ownership rights bestowed on rural residents, which also works as a risk-mitigating device during the transitional phase of the migration process. Therefore, the hukou system induces individuals to engage in a sort of implicit risk-weighted benefit maximization game, and from the vantage point of the State is an effective, albeit rustic instrument to rein in a gigantic process involving hundreds of millions of people, many of which still live with incomes barely above the absolute poverty line.¹⁴ Eventually, it will become a thing of the past, but it has to be acknowledged that it has constituted for many decades a key planning tool to govern the country's urbanization process, and still does play an important role at present. As such, the hukou system is to be recognized as an important distinctive feature of the new type of SEF that has been emerging in China since the late 1970s, and one that marks both a significant element of historical continuity with the previous Mao-led model and a relevant difference with respect to the *freewheeling* capitalist mould that dominates most of the global South, where many of the rural poor have been turned into a disenfranchised urban subclass, the modern slum-dwelling lumpenproletariat.¹⁵
- 3 Many rural Chinese are still engaged in agricultural activities. Most of them belong to households participating in institutional arrangements substantially similar to the contract responsibility system introduced in the early reform years. This shows that simple commodity production is far from the marginal mode of production that coexists with other ones in the context of China's new SEF, although the transition towards more advanced social relations of production and exchanges (SRPEs) is already on its way also in the agricultural sector. The resilience of simple commodity production has not impeded a major labor productivity increase, despite the drop in the percentage share of arable land over total land between 1991 (13.3%) and 2014 (11, 2%).¹⁶
- 4 China needs a modern large-scale, technologically advanced agricultural subsector in order to become a global agro-industrial player and to achieve a certain amount of control over global "agri-food" value chains. A necessary condition to fulfill this goal is to promote a gradual consolidation of agricultural production units, via changes in their ownership structure and in the overall institutional and regulatory setting governing agricultural production and trade. A significant step in this direction was taken by the acquisition of Syngenta – a company part of

a large international oligopoly in the field of agricultural inputs - by the Chinese State-owned company ChemChina for US \$ 43 billion (Nogueira, Guimarães and Braga 2019, p. 465).¹⁷

11.5 Industrialization, land conversion, and migration

Major and complex changes in the internal dialectics among different modes of production are going on in China's agricultural sector. The urbanization process has helped to narrow the income gap between the countryside and the cities, but there is still a large rural population.¹⁸ Investments in science and technology applied to agriculture have allowed recent productivity leaps, but the road traveled has not been exempt of contradictions. These contradictions have manifested themselves mainly in three areas:

- 1 the dismantling of rural communes and the social services apparatus they used to run;
- 2 the urbanization process and the advancement of infrastructure projects in the countryside;
- 3 the relationship between different modes of production.

The first two points end up expressing the essence of the current Chinese "agrarian issue": The traumatic transition from an agriculture that lived in a dual price system to a market-mediated one.

The dismantling of rural communes led to the hasty demise of the basic social services safety net they provided, without the parallel establishment of more modern and advanced, yet still socialized, non-market-based mechanisms to universally satisfy basic needs and minimize and socialize individual risks, including that of catastrophic health expenditure leading to an apparently paradoxical situation where a social crisis emerged in the countryside in the midst of a major (albeit uneven) surge in both agricultural and industrial production and rural incomes, and a marked reduction in the urban/rural income gap (see Gabriele and Schettino 2012).

Since the mid-1980s, urban growth accelerated again, leading local governments to engage in a frenzied and often inordinate scramble to get hold of formerly agricultural land to convert it into industrial areas, and the declining trend in the urban/rural income gap inverted itself, initiating a rising path that would peak in the late 2000s, when rural per capita income fell at only about 30% of its urban counterpart (see Table 11.1).¹⁹

The resulting massive migration flow towards the cities of mostly rural hukou holders was not a smooth process:

The demographic change provoked by poor conditions in rural areas²⁰ and rewarding urban wage employment in cities was accompanied by what the literature calls as "the peasant burden": massive land expropriations coupled with excessive and arbitrary taxes imposed by local governments

Table 11.1 Rural households' per capita income as a % of urban households' per capita income

1978	39%
1980	40%
1985	54%
1990	45%
1992	39%
1995	37%
2000	36%
2005	31%
2007	30%
2008	30%
2009	30%
2010	31%
2015	37%
2019	38%

Source: NBS.

into agriculture and rural households as sources of fiscal revenue. China went through what Riskin (2008) called an “epidemic” of expropriation, fueled by both the expansion of the housing market (inflated by urbanization and speculation) and the fiscal needs of local governments. It is estimated that a total of 70 million farmers have lost their land by 2006 and have received “grossly inadequate” compensation...

(Nogueira et al. 2019, p. 464)

Eventually, the GOC realized that these social tensions had to be dealt with, and began implementing a series of initiatives. In 2004 all taxes on peasant production were abolished, in a clear political sign of a major priorities change. The trend towards the implementation of cooperative public services spread from the countryside to the city. In 2008, 9,506 cooperative medicine centers were implemented across the country, a number that reached 38,010 in 2013 (Lai et al. 2018, p. 21).

Other new institutions and policy tools are currently under development, such as the rural social pension system and minimum wage policies (Zhang, Oya, and Ye 2015). In terms of the agrarian issue itself, challenges have been faced with relative success since 2004. Even more importantly, China also launched a multi-dimensional set of targeted interventions aimed at completely eliminating extreme poverty all over the country by the second decade of the century. This major historical goal was actually achieved by November 2020.

The transcendence of the signals sent to the world by eradicating extreme poverty in a country with such a large rural population and systematically upgrading and universalizing a welfare State with Chinese characteristics

cannot be overstated, and represents a blunt counterpoint to the incessant erosion of social and labor rights in the capitalist world.

11.6 Institutional changes in rural areas

To fully reap the long-term benefits of a sustained investment effort in rural infrastructure, roads, and railways, China also had to engineer major institutional changes, in order to foster a transition towards a new stage of development axed on a harmonic and superior correspondence between the material productive forces and the overall structure of SRPEs in the countryside. In other words, the challenge was that of planning and implementing a gradual shift towards a novel combination of modes of production in the agricultural sector.

The main tenets of the institutional reforms in rural areas carried out since the late 1970s have been as follows:

- 1 to maintain the ultimately State-owned status of land ownership while providing farmers with partial property rights;
- 2 to develop and flexibilize the terms of a new alliance between the State and the peasantry, upgrading over time farmers' degrees of freedom in the context of the household responsibility system—allowing among other things the transfer of partial property rights to third parties and their utilization as a guarantee for obtaining bank loans—and fostering the revitalization of the cooperative movement with a view to setting up a new type of NCMOEs: large-scale, fully commercially-oriented production cooperatives;
- 3 to facilitate the emergence of “*dragon head*” agribusiness enterprises, that can be organized according to various ownership structures, in order to “consolidate a robust domestic agribusiness sector, as both an arena for national-level rural and economic development, and a new frontier for access to resources and markets abroad” (Schneider 2017, p. 1). Dragon head enterprises are usually owned by urban capitalists and enter into a contractual supply arrangement with individual farmers or and cooperatives. In some cases, farmers rent their land and participate in the profits. By 2013, there were 120,000 dragon head enterprises in China, to which up to 40% of farmer households operating under responsibility contracts were participating (Nogueira et al. 2019, p. 465). In 2013 there were 120,000 companies of this type in China;
- 4 to strongly support agricultural production financing, using various top-down and grassroots institutions, such as the Agricultural Bank of China and rural credit cooperatives, providing multiple subsidization schemes. In 2016, financial support in the form of grants amounted to over US \$ 216 billion (Washington Post 03/03/2019). In fact, China has become one of the countries in the world that most subsidizes agriculture.

In sum, the new agricultural model that is replacing simple commodity production is a mixed one where the non-capitalist elements (stemming both by State intervention and cooperative organization) are dominant with respect to capitalist ones.

11.7 The revamping of the cooperative movement

The *Law of Specialized Collective Farms*, enacted in 2007, was a very important step to support the transition towards a new agricultural model, facilitating the procedures regulating commercial transactions (Song et al. 2014). Since then, other initiatives have been carried out to enhance the institutional setting governing the operations of agricultural cooperatives, the most important being the Law on Farmer's Specialized Cooperatives, adopted in 2007 and revised in 2017 (see Bernardi and Miani 2014; Song et al. 2014). This law was enacted to strengthen the institutional setting of an already-existing process of revitalization of the rural cooperative movement.

By the end of the first decade of the current century, there were already about 25,000 agricultural cooperatives in China, employing more than 21 million households that were associated members of market-oriented agricultural cooperatives (Council of State 2015). In early 2010, the giant Chinese Federation of Supply and Marketing Cooperatives represented some 22,000 primary supply cooperatives, claiming more than 160 million member. A vast network of rural credit unions serves over 200 million households. There are also handicraft and micro-industrial cooperatives, led by the Chinese Federation of Handicrafts and Industrial Cooperatives (CHINA 2015).

These cooperatives also contribute to smooth the transfer of land use rights, fostering a process of agricultural production, consolidation, and specialization, using several legal tools, among them, leasing, subcontracting, and shareholding. One of these procedures is illustrated by Huang et al. (2016):

“The first is to transfer the farmland of an entire village. This is applied in economically developed areas where the village head has a strong persuasive skill. For instance, 118 villages accounted for more than 80% of the farmland transfer rate in Shaoxing City, Zhejiang Province; 28 of these transferred all (100%) of the village's land in 2014. In the context of the relatively rapid development of local industry, and increased rural labor transfer, Yaobang Village, in Xindai Town, Pinghu City, Zhejiang Province formulated a document entitled ‘Implementing rules for land transfer in the whole Yaobang village’. After this was approved based on a vote by the Village Member Representative Congress, household contracts for farmland management rights transfer were signed by 488 rural households – that is, every household in the village. Thus, 100% of the village's farmland, with a total area of 172 hectares, was transferred to scale farming entities; this allowed the objective of implementing scale farming operations to be achieved” (Huang et al. 2016, p. 196).

11.8 Another type of NCMOE: the rise and destiny of the township and village enterprises

TVEs were born as a new institutional form bestowed on already-existing “Commune and Brigade Enterprises”, that had been set up during the previous, ill-fated attempt at rural industrialization in the late 1950s, which in 1978 employed 28.265 million workers. This number tripled in the first ten years of economic reforms to 93.667 million (1988) and reached 138.661 million employees by 2004 (CSY 2005). This labor transfer had a direct impact on the composition of rural incomes: in 1978 non-agricultural activities accounted for just 7.92% of the total, but grew to 30.61% by 1996.²¹

The social division of labor reorganization and the direction of the Chinese national market unification had an essential element in TVE's. However, its radius of action followed the State strategy itself, becoming the bridge for the country's international insertion.

TVEs proved themselves to be competitive not only in the domestic market but also in the international one. By 1997, TVE's were responsible for 40% of China's total industrial production (Masiero 2006, p. 432) and about 40% of the country's exports (Kang 2006, p. 137). Some TVEs grew up to the point of becoming major international.

Nowadays, examples of the global expansion of TVE's are numerous, among which we can mention Haier holding 50% of the US small refrigerators market; Galanz owning 33% of the world microwave market; Legend holding 20% of the world market for computer boards and China International Marine Containers which holds more than 40% of the international refrigerated container market (see Masiero 2006).

11.9 The complex nature of TVEs' ownership structure

The surge of TVEs cannot be attributed exclusively to market liberalization. It also included a political dimension, taking into account the decisive role played by township and village leaders in replacing the political space once under the control of the commune's administrators.

The communes had their roots in the rural collective structures that arose prior to the Japanese occupation in the 1930s, the majority of which were aimed at the production of textiles. They had a great decline during the Japanese occupation, reappearing during the Cultural Revolution (1966–1976) when the ideology of “self-sufficiency” was carried to the last consequences, expressed in the regional division of the country into communes and in production brigades within the communes. Hence the territorial dispersion of Chinese industrial complexes in the pre-reforms period, when the countryside benefited from political/military choices since industrial units were implanted far from the coast and traditional urban centers.

Each commune had to implement everything possible in terms of its self-sufficiency in a state of war, this included the diffusion of small-sized production units at the commune and brigade level throughout the whole country. The TVE's and their development proved that the communes were dissolved, but the production units inside it did not. Contrasting those who do not perceive a line of historical continuity between 1949 and 1978, Fairbank and Goldman (2006, p. 366) argue that:

China's rural industrialization started with the Song dynasty, or even earlier when village families used women and children labor force to increase farm income (...). At the time of factories and industries, small-sized rural industries (...) were a cornerstone in Mao's development strategy. In 1979, about eight hundred thousand industries and almost ninety thousand small hydroelectric stations employed 24 million workers and were responsible for 15% of China's industrial production. This included all agricultural tools and most small and medium-sized machinery, half of chemical fertilizer, two-thirds of cement and 45% of coal.

(Fairbank and Goldman 2006, p. 366)

TVEs initially occupied a previously virtually non-existing area not covered by SOEs. Notwithstanding their relatively small dimension²² and dearth of advanced capital and skills (which, however, allowed them to avoid some diseconomies of scale and scope typical of traditional SOEs), they enjoyed several comparative advantages such as flexibility, autonomy, and proximity to local markets. They boomed in the 1980s and early 1990s, fostered mainly by the endogenous boost coming from increased labor productivity in agriculture, which simultaneously created a huge *reserve army* of potentially available surplus labor power and enhanced rural households' effective demand for nonagricultural products and services.

Since 1978, along with the beginning of the family responsibility system, households and township industries were allowed to sell "out of plan" production to local markets at market clearing prices, experimenting new institutional and organizational arrangements, that ... took quite different forms (Gabriele 2020, p. 31)²³.

Actually, several models of TVEs emerged throughout their development:

(...) The course of TVE development did not follow a one-size-fits-all blueprint. Instead, various models of the TVE emerged and evolved in adaptation to local comparative advantage and constraints. Well-known models include the southern Jiangsu (Sunan) model, the Wenzhou model in Zhejiang province, and the Guangdong model. Despite differences in details, TVEs share the following key characteristics: all were led by entrepreneurs; all had vaguely defined ownership at the incipient stage, reflecting certain institutional constraints...; and all had an intimate relationship with local governments.

(Xu and Zhang 2009, p. 2)

However, (at least, in their early development period, after which various more markedly differentiated typologies tended to emerge) all TVEs' ownership structures shared some core common elements, which clearly made them a paradigmatic example of NCMOE of a new type, uniquely suitable to the fledging market-socialist landscape that was emerging in China's countryside:

Ownership is at the community level. There are no individual share owners and shares cannot be bought or sold. Households that migrated to work in the urban sector and failed to fulfill their "family responsibility" would lose any rights of township membership. This constrained rural to urban mobility. Profits remained in the community to be (1) reinvested in the TVE and 2) allocated to community social welfare (schools, housing, parks, and income support for the disadvantaged...).

(Hallagan 2015, 1d)

TVEs were born as local enterprises, often involving members of virtually all village or township households as workers or shareholders and targeting primarily the local market. Yet, thanks largely to their enhanced autonomy and, even more so, to their clear, objective, and aggressive market orientation, many of them soon ventured beyond local boundaries and even developed a vibrant willingness and capability to penetrate potentially lucrative niches in foreign markets, thereby in turn reinforcing a virtuous path towards productive specialization and technical progress²⁴:

The TVE's attribute, taking advantage of the reform process started in 1978, has been a predictable pattern of development since. From small and labor-intensive local companies, they expanded their activities to manufactured products with higher added value, capitalized on and worked little by little throughout the national market, some of which, as Kelon, the largest producer of refrigerators from China holding 20% of this market, in addition to exporting to several Asian countries also has R&D laboratories in Japan.

(Masiero 2006, p. 432)

11.10 The end of the TVEs era

The TVEs' boom eventually came to an end, due to various factors that undermined their productivity with respect to newly-emerging privately owned enterprises (POEs) – and, to a lesser extent, with respect to SOEs as well –, the most important being:

- a. Increased competition for inputs;
 - i) Access to the state run financial markets (e.g. Agricultural Bank of China) was tightened. Allocation of loans was more closely aligned to the ability to repay ...

ii) Barriers to mobility decreased allowing skilled workers and managers access to higher paying employment in the urban sector. This increased costs for TVEs and made more resources available for the private sector.

b. Property rights of “restructured” (more privatized) firms became more secure. Existing TVE ownership shifted to more closely resemble private enterprise facing even harder budget constraints and not burdened by employment and social welfare obligations to the township.

(Hallagan 2015)

Notes

- 1 There were major spatial inequalities, the most glaring being that between urban and rural areas.
- 2 The disruption caused by the Great leap forward contributed to a severe famine.
- 3 This bold strategic choice is to be seen in a global context marked by epochal events that paved the way to the emergence of a new international division of labor. The US, after having suffered major losses in terms of economic and political power (epitomized by the economic rise of Germany and Japan, military defeat in Vietnam and declining influence in many areas of the Third World), had started a counteroffensive on an international scale.
- 4 The power pact that brought the CCP to power in 1949 had the peasants, the vast majority of the population, as the main support base.
- 5 Still by 1978 about 80% of the Chinese population lived in rural areas. Subsequently, the previously-slow urbanization process accelerated. Yet, by 2017, urban population in China was still a relatively modest 59% of the total, against 82%, 87%, and 34% respectively in the US, Brazil and India (World Bank 2017).
- 6 There are important similarities between the contract responsibility system introduced in China since 1978 and some key features of the NEP, launched by Lenin in 1921 (see: Lenin 1921,1964). According to Losurdo (2004, p. 57) China’s rural reforms can be regarded as a “*big NEP*”. Backward agrarian societies are characterized by the existence of huge idle resources in the countryside, and tapping them is a key prerequisite for kick-starting the accumulation process and thereby foster the overall economic development process.
- 7 Pre-reform communes were rather large, collective quasi-autarkic, non-market oriented administrative bodies that ran virtually every production activities and even many forms of and most consumption activities units, embodying elements typical both of organizations and institutions. Rural communes were not bereft of benefits (for instance, barring nationwide catastrophes such as those prevailing in the late 1950s and early 1980s, even in very poor communes individual peasants were sheltered by the extreme risk of starving, contrary to their counterparts in most peripheral capitalist countries), but were plagued by various, mutually reinforcing forms of inefficiency, among which an inadequate incentive structure and a lack of productive specialization.
- 8 On the “American way of development” see: Lenin (1915[1964]) and Moore Jr (1966).
- 9 After a number of years, under very different and far more favorable macroeconomic and food security conditions, some institutional constraints were progressively relaxed, and land and agricultural labor markets were partly restored.
- 10 “Bit cotton” is an example of one of the most successful applications of genetic modification technology in the world (Huang and Rozelle 2018, p. 489).
- 11 There are still about 300 million people in China the livelihood of which depends on agriculture. By 2020, about ¼ of China’s total employment was still in this sector (see: Trading Economics 2021).

- 12 The planned phasing out of the hukou system is calibrated to promote a smooth unfolding of rural-urban migration.
- 13 Premier Li Kechiang's matter-of-fact remark that China still has 600 million people (more than 40% of the Chinese population) with a monthly income of about 1,000 RMB or less attracted a lot of media attention (see Yang Danxu 2020). Yet, it was perfectly consistent with well-known official statistics on China's GDP per capita and income distribution.

14

The urbanization rate - which, as seen, was of 54.8% in 2014 - increases (with the expectation of reaching 60% in 2020), but it is still far below those observed in the USA (82%), Germany (75%), France (80%), South Korea (82%) and Japan (93%), (...). A low unemployment rate (4.04%) is an expression of both conjunctural (...) and structural factors, directly related to family land ownership and the possibility opened for migrant workers to establish their businesses in the villages as an alternative to urban unemployment. In China, the industrial reserve army of labour is not concentrated on large cities' outskirts, but mainly in the villages. The hukou system of internal migration, despite a continuous loosening process, has not yet been completely extinguished.

(Paula and Jabbour 2016, p. 53)

- 15 "From 2003 to 2015, 11.6 million hectares of agricultural land were converted to nonagricultural rural and urban construction land." (Liu 2018, p. 429). However, since the mid-2010s the relative share of arable land appears to have increased to some extent.
- 16 The fact that a State-owned Chinese firm has become the owner of a large chunk of the international agricultural input oligopoly is remarkable fact in view of the indirect control (via price setting) that this oligopoly has over food production in entire countries, including Brazil.
- 17 Arthur Lewis's (1954) classic thesis on growth with unlimited supplies of labor is often applied mechanically to the analysis of China's experience. Actually, given China's unique structural features, more caution is warranted:

When it comes to China, the application of the Lewis model faces some additional difficulties arising from several of her specific institutional features, such as the (i) legacy of central planning, (ii) restrictions on rural-urban migration, (iii) frequent changes in the administrative jurisdiction of urban and rural counties, and (iv) establishment of modern industrial enterprises in rural areas in the form of Township and Village Enterprises (TVEs).

(Islam and Yokota 2008, p. 2)

- 18 Since 2010, the urban/rural income gap reverted itself again, with rural incomes increasing faster than urban ones. By 2019, the gap was back at a level very close to that of 1978.
- 19 This observation is to be taken with a pinch of salt. Notwithstanding the decay of social services caused by the collapse of the communes (which was not going to be vigorously tackled by revamped public spending policies until the turn of the century) overall material conditions in the countryside in the 1980s and 1990s were marked better than before the inception of the reforms.
- 20 Ministry of Agriculture: *Agriculture Development in China, 1995-1996*.
- 21 Most TVEs were SMEs, but some of them were actually large (although not very large, with up to 10,000 workers).
- 22 TVEs' formal property structure varied, including enterprises owned by township and village governments, private stock companies formed by peasants, and

other forms of individual, private and collective enterprises. All of them, however, belonged to the local community, which was the depository of their ultimate property rights, while their operations were run by managers. The peculiar nature of TVEs' property rights led some observers to see them as "fuzzy" or "ambiguous", and their organizational and ownership arrangements were very flexible. According to Weitzman and Chenggang Xu (1994), TVEs are to be seen as "vaguely defined cooperatives" - meaning an essentially communal organization extremely far removed from having a well defined ownership structure. (Gabriele 2020, p. 33).

23 In fact, TVEs had several competitive advantages with respect to traditional SOEs:

As they were under the direct jurisdiction of local governments, the government-enterprise relationship was simpler and more direct than that of SOEs. Villagers' sense of common ownership and control could be instrumental in facilitating competitiveness-enhancing but superficially unpopular choices on the part of local governments and managers, such as setting lower wages and increase sales and finance investment. Community members as owners had incentives to monitor TVEs' performance as well. Being entitled to both short-term and long-term residual benefits (such as jobs, security, pension funds, housing, healthcare and welfare programs, etc.), they were also incentivized to diversify business risk, setting up various TVEs operating in multiple sectors, and to prevent opportunist, short-termist and asset-stripping behavior on the part of TVE managers. As the community's residual control rights were held by local governments, the community itself "became a de facto corporation or "mini-conglomerate", facing a hard budget constraint...

(Gabriele 2020, p. 33)

12 The large State-owned business conglomerates

The anatomy of man is a key to the anatomy of the ape. (...) Bourgeois economy thus provides a key to the economy of antiquity, etc. But it is quite impossible (to gain this insight) in the manner of those economists who obliterate all historical differences and who see in all social phenomena only bourgeois phenomena.

(Marx 1858, pp. 28–29)

For William Easterly, exWorld Bank economist and currently professor of economics at New York University, “[t]he track record of dictators picking winners is very poor, so why are we so sure that this factor contributed to the success of the Gang of Four [East Asian tigers]?” (Easterly 2009: 129). An interviewer pressed him on how he reconciled his faith in free markets with evidence that the typical developing country had better economic performance in the 1960s and 1970s, when governments intervened more, compared to later, when governments intervened less: “It is a bit of a mystery why they did well... the growth had a lot of mystery for me... It is mysterious to those who advocate hands-off markets.

(Wade 2015, p. 67)

Summary

12.1. The neoliberal counterrevolution. – 12.2. Socialization of investment. – 12.3. From the initial State-owned enterprise (SOE) reforms to modern market-compatible planning. – 12.4. The international scenario. – 12.5. The existential challenge of SOE reform. – 12.6. “*Grasping the large*”: the LSOBCs’ formation process. – 12.7. New rural NCMOE and reforming SOEs: similarities and differences. – 12.8. The strategic role of the productive macro-sector. – 12.9. The Party commands the market. – 12.10. The entrepreneurial State. – Box 12.1. *Socialism with Chinese characteristics*

12.1 The neoliberal counterrevolution

The Mexican debt crisis (1982), the economic results of the Japanese *Endaka* (1985), and the fall of the Soviet Union contributed to a strong revival of the

orthodox economic literature in the 1990s. The “*end of history*” presented by Francis Fukuyama would soon become popular, along with a myriad of works enshrining the “*free market*” and the “*minimal state*” as the *deus ex machina* of economic science.

Professor Douglas North, founder of the so-called “*New Institutional Economics*”, interpreted economic development as the outcome of institutional evolution, which increases the efficiency of markets and reduces transaction costs (Medeiros 2001, p. 53). The best path towards such an institutional evolution, not surprisingly, was the Western one:

The institutional structure most favorable to approximating such conditions is a modern democratic society with universal suffrage. Vote trading, log rolling, and the incentive of an incumbent’s opponents to bring his or her deficiencies before constituents and hence reduce agency problems all contribute to better outcomes.

(North 1990, p. 109)

Daron Acemoglu’s extensive research agenda follows a very similar line of thought. He is the author of the best seller “*Why Nations Fail: The Origins of Power, Prosperity, and Poverty*” (2012) that has become a must-read in political science and economics departments around the world. Deductionism and “*institutional reductionism*” were commonplace of this period, when unfettered US-sponsored “*globalization*” appeared as an inexorable force of nature, because (as Margaret Thatcher famously put it) “*There is no alternative*” to neoliberal policies.

The opposite, of course, is true.¹ The market itself, far from being an independently existing, quasi-metaphysical and eternal entity separated from the domain of history and politics, is inextricably intertwined with the State. Actually, the rise of modern monetary economics converts the State and the market into a single entity. In a modern capitalist economy where the State has a monopoly on the issuing and pricing of currency, the State itself is the market.

In this respect, a warning is warranted on the risks implied by materialist reductionism. Political action, and ultimately the historical trajectories of socioeconomic systems, are not directly and mechanistically determined by their material structure, but by the reading that is made of it by human beings, and by their dialectical interaction with the underlying laws of motion that characterize each of these systems. As Medeiros (2001) aptly points out:

The “reading” of capitalist interests by English and French mercantilists guided a much more favorable state action to the development of industrial capitalism in these countries and, simultaneously, to affirm the power of national states. The “historical synthesis” between the state power interests and those of capitalism triumphed throughout the era of English hegemony as a very sophisticated intellectual construction – as evident in Quesnay, Petty, Steuart, Colbert- and it did not spring directly and spontaneously from the structure of private interests. The glory of

England in 18th and 19th centuries cannot be unlinked from the immense economic and social transformations brought about by the 17th century Revolution and from the English State rare capacity to promote the expansion of its power over other nations coupled with the industrial and cultural interests of its capitalism.

(Medeiros 2001, pp. 59–60)

By the same token, China's reemergence as a world economic power can be seen to a large extent as an outcome of the Chinese Communist Party (CCP)'s reading of the objective reality in which it has been operating, and by its capacity to translate such a reading into effective State action, in a continuous strive to aiming to elevate its own capabilities to foster the country's long-term development.

12.2 Socialization of investment

To contextualize the current stage of the development of LSOBCs, it is useful to refer to Keynes' advocacy for a *comprehensive socialization of investment*:

[the] State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly, perhaps, in other ways. (...) I conceive, therefore, that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices by which public authority will cooperate with private initiative.

(Keynes, p. 378)²

In the "General Theory", Keynes identified investment fluctuations as the "*causa causans*" of unemployment and macroeconomic instability. In order to overcome this problem, he argued that the State had to intervene robustly and reliably, as

...a long-term programme of a stable character should be capable of reducing the potential range of fluctuations to much narrower limits than formerly, when a smaller volume of investment was under public control...

(Keynes 1964, p. 352)

Hendersen, writing a few years after, followed in Keynes' footsteps

what I really suggest is that the state should assume the role of Entrepreneur-in-Chief, directing the flow of productive resources to the employments in which can best serve human needs

(Hendersen 1951, p. 234)

The Chinese State has fully understood and internalized this crucial Keynesian lesson, acting both as “*last resort creditor and first instance investor*” (Burlamaqui 2015, p. 47) – thereby crowding in private investment as well (Paula and Jabbour 2018, p. 6) – and playing the role of *Entrepreneur-in-Chief* to an extent unknown of in the rest of the world, as no large capitalist country:

- 1 is endowed with such a large and powerful group of SOEs located in the national productive core;
- 2 has a comparable capability to command public firms in order to enact a thorough economy-wide coordination of their investment decisions, consistently with a global scale long-term development strategy that involves outlays investments in the order of trillions of dollars, of which the gigantic Belt and Road Initiative (BRI) is only the most glaring example.

12.3 From the initial SOE reforms to modern market-compatible planning

The fundamental justification for planning is the belief that it is indeed feasible and auspicious on the part of the State to formulate and implement holistically a complex set of mutually interrelated State-led interventions aimed at consciously and rationally steer a country’s development on a faster and qualitatively superior path than that which would have been produced by the unfettered interplay of market forces, thereby achieving more favorable outcomes in terms of collective welfare and human development.

As argued above in Chapter 8, taking into account the constraints imposed by the MMP, the most fundamental feature of modern socialist planning is that it must ultimately be market-compatible. However, the market itself is dynamically shaped to a large extent by the actions of the State, generating a dialectical process of reciprocal interactions that, over time, can continuously shift an increasing amount of control towards the latter, thereby boosting the human collective ability to strategically steer the economy towards a rational development path and progressively emancipating it from the tyranny of the law of value.³ We call such a superior planning capability “*market-planning*”.

China has indeed upgraded and expanded very much its information gathering, processing, and forecasting abilities, and thus has advanced more than any other country towards the strengthening and enhancement of its holistic economy-wide planning and governance capabilities (as shown, for instance, by the case of the Baoshan Steel Company).⁴ Therefore, China can engage with a reasonable degree of confidence in long-term “*market-planning*.”

Such a remarkable advancement in China’s overall ability to plan has not been achieved overnight: it is the result of a complex and (especially in its early stages) painstaking and at times contradictory, the quasi-Darwinian process of institutional evolution that began over 40 years ago. In the late 1970s, China’s industrial sector was completely SOE-dominated and,

notwithstanding its rapid quantitative growth, had been experiencing relatively little qualitative changes since the early years after the foundation of the People's Republic of China (PRC):

On the eve of economic transition, in 1978, China's industry was made up of thousands of similar, publicly owned organizations. The traditional SOE—the “work unit” integrated into the government bureaucracy—dominated the scene, as it had since the 1950s. SOEs produced 77% of industrial output. “Collective enterprises” were factories that (like the agricultural collectives) were nominally owned by the workers in the enterprise but were actually controlled by local governments or other state bodies. Urban collectives produced 14% of output, and rural TVEs produced the remaining 9%. Most industry was urban and middle-sized. Very small firms were practically nonexistent (less than 5% of output), and multiplant corporations did not exist. The dominant SOEs carried several burdens. As the prototypical urban work unit (*danwei*), SOEs were responsible for the welfare, health, and political indoctrination of their workers. Managers had little flexibility and low rewards, and they were required to fulfill plan targets and carry out numerous other commands given by various parts of the bureaucracy. There was little accountability or risk.

(Naughton's 2007, p. 299)

The SOE reform process unfolded rather slowly in the initial phase, as it was bound by several political, economic, social, and ideological constraints, and only began to really gain strength since the mid-1990s. Innovative market-oriented experiments were launched in 1978 at six factories in Sichuan, where the rural contract *responsibility system* system was extended to the industrial sector, allowing enterprises to retain part of their profits for reinvestments. In 1983 this measure was extended to the entire industrial sector.

These prudent, incremental reforms were carried out in the context of a rapidly evolving industrial landscape. Between 1978 and 1994, the number of production units grew to more than 10 million. However, the number of SOEs increased little (from 83,700 to 102,200), while TVEs and family business units mushroomed, reaching 1.86 million units and 8 million units respectively.

Analyzing the environment in which the first attempts of reform took place demands to point out that between 1978 and 1994 the Chinese industrial sector grew exponentially reaching more than 10 million units. The number of State-owned companies grew very little from 83,700 to 102,200, while TVE's reached 1.86 million units and family business units went through a boom reaching 8 million units (see Gabriele 2020).

Such a tumultuous industrial growth process was not as smooth as that that took place in agriculture, where one dominant enterprise form (the commune) was substituted almost overnight by another one (the tenant farmer

household), seamlessly engineering with remarkably effectiveness a rapid transition to a new, more productive and stable set of social relations of production and exchanges (SRPEs). Starting from a solid socialist foundation built up since 1949, the CCP unleashed a powerful but always controlled, regulated, and limited privatization-free storm of market forces in the secondary sector.

In spite of many differences, the early reform drives in the primary and secondary sectors shared a common, crucial bottom line. Both were at the core bold but far from wild processes of “*liberalization without privatization*”⁵. Change in industry, however, was slower and less smooth than that in agriculture, and in retrospective can be seen as a dialectical process where the introduction of a generated new robust dose of market forces in a previously fully socialist sector gave rise to new forms of enterprises and a new and rapidly evolving set of SRPEs. In turn, these developments exerted an increasing competitive pressure on traditional SOEs and – after a stumbling debut – eventually led to subsequent waves of ultimately successful structural reforms of publicly-controlled industrial enterprises.

SOE reform gradualism was also required to avoid excessive negative social repercussions, even if this meant to force them to sustain higher overall operational costs and a lower degree of market-oriented flexibility and autonomy vis a vis their privately-owned counterparts.⁶

The action of the State focused on fostering market reform, with SOEs being designated to take up the burden of the adjustment cost associated with the reform. SOEs together with state banks were responsible for sustaining the existing pattern of egalitarian income distribution. They provided job security and social services for virtually the entire urban population, thus fostering the “consumption revolution”, which was essential for the industrialization drive of that period.

(Lo and Wu 2014, p. 314)

12.4 The international scenario

Early industrial reforms took place in an international scenario characterized by growing global productive and financial integration, and contributed to creating more favorable material and institutional conditions that would prove decisive to smooth China’s long-term strategy aimed at achieving an increasing degree of integration with international markets and eventually to turn it into the *world factory*.

In the early 1980s, interest rates reached unprecedented levels in the USA (Galbraith 1987, p. 247). US government and banks adopted an increasingly aggressive stance, maximizing the *exorbitant privilege* stemming from their dominion on the international reserve currency and pushing an agenda of wanton global financial liberalization, that was adopted also in many non-convertible currency countries (Belluzzo 1997, p. 130). FDI flows

followed suit, seeking more favorable reproduction conditions beyond the US borders, were profitability was compressed by monetarist policies impacting the currency cost and the appreciation of the exchange rate.

The historical defeat inflicted on Japan with the 1985 Plaza Accord accelerated the reconfiguration process of the international division of labor and led to major geopolitical rearrangements that eventually proved ultimately beneficial for China, among others in the areas of acquiring and progressively mastering advanced Western technologies and methods of production management.

Market-oriented reforms reactivated the once-dormant relations with the Chinese diaspora, boosting FDI from Kong-Kong, Macao and Taiwan. Between 1990 and 2008, 45% of China's FDI inflows carried out in China were executed by Hong Kong- and Macao-based investors. US and Taiwan investors were distant seconds (with a 9% share each), followed by Singaporean (6%), German and French investors (2% and 1%, respectively) (Jabbour 2012, p. 238). Summing up the shares of Hong Kong, Macao, and Taiwan foreign-funded enterprises (FFE) - following the NBS' customary data aggregation methodology as applied its flagship CSY publication - it is apparent that over half of China's total 1990-2008 FDI inflows were carried out by ethnic Chinese operators.

12.5 The existential challenge of SOE reform

Over a relatively short period of time China's industrial sector, once the quasi-exclusive preserve of SOEs, become populated by millions of animals belonging to three previously non-existing new species: TVEs, POEs (mostly SMEs), and FFEs (mostly medium-sized and large) operating in joint ventures with Chinese public entities. This novel environment led to very strong market competition, seriously undermining the status of public industrial enterprises. In order to avoid the fate of dinosaurs, SOEs had to undergo a major evolutionary mutation.

The first major industrial reform was enacted in 1984, with the launching of the mixed Dual-Track system, which granted greater autonomy to firm managers and allowed them to sell over-quota products at prices up to 20% higher than those fixated by the plan. With the benefit of hindsight, the Dual Track system can be seen as a rustic, and even primitive one. Yet, it had the merit of making a first step in the direction of searching for a more advanced and effective articulation of plan and market forces, and to elicit a higher degree of entrepreneurial and managerial responsibility among SOE leaders.

These initial reforms allowed China's public industry to walk the first steps towards transitioning from the traditional *Soft Budget Constraint*-based business model system (see Kornai 1979) to another one where the most binding constraints - in a Keynesian-type market economy - are not based on the supply side, but on the demand. In this respect, it was indeed becoming more similar to the capitalist countries. However, there was a decisive difference:

the unabated presence of a strong socialist State allowed the PRC to rein in the crucial Keynesian contradiction, which is ultimately caused by stark class differentiation and free-market worshipping.⁷

The implementation of responsibility contracts and the competitive pressure stemming from POEs, FFEs and TVE's led to a greater diversification among State-owned enterprises (SOEs) performances, with some doing clearly better than other ones. Some improvements were made possible by the fact that enterprise profits became more dependent on the relationship between the company manager and his immediate boss (Naughton 2007, p. 312). However, on balance, these changes did not allow China to advance very much in the quest for solving the fundamental governance and behavioral problems affecting the public industry. In fact, the initial slowness of the reform process was to a large extent due to the persisting Chinese Communist Party (CCP)'s internal struggle on the country's overall general development strategy. Political uncertainty between 1988 and 1992 reflected the delicate historical moments after the Tiananmen incident and the fall of the USSR. By all practical means, China formally returned to operate as a command economy in 1989, and this process was reversed only in 1992 when the reformists – led by Deng Xiaoping – won the battle over the 14th Communist Party of China (CPC) National Congress.⁸

12.6 “Grasping the large”: the LSOBCs’ formation process

SOE reforms gained momentum with a new cycle of institutional innovations enacted since 1994 under the guidance of the then Prime Minister of the country, Zhu Rongju. The environment characterized by the *Soft Budget Constraint* was coming to an end. The GOC doubled down on its support for urbanization, launched major infrastructure projects connecting the whole country, and implemented bold industrial policies aimed at approaching the world technology frontier. It also further hardened SOEs’ budget constraint by means of several policy tools, such as:

- 1 enacting a harsh fiscal reform that reversed the previous trend of decentralization, narrowing provinces’ autonomous policy space.⁹
- 2 downgrading SOEs’ subsidy system;
- 3 curtailing enterprises’ access to credit, granting more autonomy to commercial and development banks, and modifying their operational practices in order to induce them to operate more professionally,
- 4 instructing SOEs to focus on their core business activities, freeing them from the responsibility to maintain the traditional *danwei* social security network.¹⁰

However, the scope went beyond the practical measures outlined above. It also signaled that the Party had reached some fundamental decisions after a debate that had been going on for a while in political and intellectual circles both in China and abroad. Pronouncements by top leaders such as Wu

Banggou and President Jiang Zemin himself – in the throes of the elaboration of the 9th Five-Year Plan (1996–2000) – suggested that a new system of hierarchical relations was taking place inside the public industry, where the State would focus directly only on the management and administration of the largest and most strategic SOEs.¹¹

The newly emerging policy stance was welcomed by most western observers and by IFI. A 1996 A World Bank report recommended that China's central government should keep direct control over only 1,000 top SOEs, maintaining looser forms of control over another 14,000. All the remaining 96,000 SOEs should have been merged, privatized, or even bankrupted (see World Bank 1996).

The “grasping the large and letting the small go” strategy was confirmed in 1996 in the Outline of the 9th Five-Year economic and social Development Plan:

Institutional reform must be coupled with optimization of investment structure in order to selectively support those who are competitive and strong and allow the fittest to survive and prosper. The weak should be eliminated by merger, acquisition and bankruptcy to improve efficiency and reduce headcount... A number of key industries and business groups must be properly managed in order to use their capitals to trigger the reform and growth of other enterprises to pump up the entire economy.
(NPC 1996)

The “*grasping the large and letting the small go*” strategy also hinged on a major institutional innovation that was kickstarted with a package of measures launched in 1994: a progressive *corporatization* process that would eventually profoundly transform SOEs' ownership setting, turning them into LSOBCs (Clarke 2003, cited by Naughton 2007, p. 314), many of which would eventually evolve into listed *joint-stock corporations*.

A key tool to foster this process was the approval of the *Company Law* in 1994.¹² The main goal of the law was to clearly separate institutionally the government proper from ordinary management activities, that were to be carried out by highly trained professional administrators endowed with a high degree of autonomy. However, such a major institutional overhauling – aimed at transforming an ownership regime that was born and developed over decades in the context of a non-market oriented economy, where workers had lifetime job security and operated under a strict, vertical top-down planning mechanism run by a tangle of bureaucratic institutions – could hardly be expected to happen overnight. Writing in 2007, Naughton criticized the practical application of the *Company Law* after over ten years of existence:

Despite the fundamental importance of corporatization, actual implementation of the *Company Law* has been slow. Traditional SOEs are still

far from extinct. Indeed, at the end of 2003 there were still 23,000 traditional industrial SOEs, producing one-third of state-sector output, while there were 11,000 state-controlled corporations (not TSOEs) producing two thirds of state-sector output. Corporatized firms were four times the size of TSOEs, on average (SYC 2004, 513). Even those firms formally reorganized under the Company Law have not necessarily implemented the provisions effectively. The boards of directors have the central position in the legal structure outlined in the Company Law, but the majority of firms reorganized under the Company Law do not actually have functioning boards of directors.

(Naughton 2007, p. 316)

Another milestone initiative was the creation of SASAC in 2003, which contributed to streamlining and expediting the process of SOE corporatization while also reinforcing in a modernized and more effective way the State's ability to steer the core components of public industry towards the achievement of long-term national development objectives according to a centralized planning strategy. As one of us observed a few years after its establishment:

State-owned and state-holding enterprises are now less numerous, but much larger, more capital- and knowledge-intensive, more productive and more profitable than in the late 1990s. Contrary to popular belief, especially since the mid-2000s, their performance in terms of efficiency and profitability compares favorably with that of private enterprises. The state-controlled sub-sector constituted by state-holding enterprises, in particular, with at its core the 149 large conglomerates managed by SASAC, is clearly the most advanced component of China's industry and the one where the bulk of in-house R&D activities take place.

(Gabriele 2010 p. 345)

The scope and relevance of the Company Law and of the creation of SASAC cannot be overstated. These major institutional innovations should not be regarded simply as efficiency-enhancing technocratic fixes to previously intractable deficiencies inherent to the traditional management practices of socialist industry. Actually, they also embody a powerful political and cultural dimension, as harbingers of a new stage of development in the brief history of market socialist SEFs.

12.7 New rural NCMOEs and reforming SOEs: similarities and differences

As recalled above in Chapter 9, rural communes were replaced by two novel NCMOEs (tenant household-based small-scale farming production units and TVEs). The new typologies of rural enterprises seamlessly adapted themselves to the objective and subjective, material and cultural

reality of China's countryside, and immediately proved themselves to be successful, especially so in terms of efficiency and productivity¹³, becoming a dynamo for the emerging socialist market economy

Eventually, the TVEs boom subsided, and their evolutionary niche was mostly captured by POEs and FFEs, as well as by newly-competitive, reformed SOEs. In agriculture proper, a new transition is on the way, with a new protagonism of coops and the appearance of new consortia to which both rural and urban private and collective actors participate in various forms. However, the agricultural transition is much slower than that going on in the industrial sector, due to various factors among which its relatively low average technical base and its role as national social stabilizer through the second-best regulatory impact exerted by the Hukou system on the secular migration and urbanization process. Simple commodity production in agriculture still has a role to play, a swift passage to advanced and fully socialized SRPEs is not feasible, and therefore the sector is likely to be still characterized by a variegated constellation of enterprise forms for a long time.

The SOE reform process proceeded at a slower and more contradictory path than it was the case for rural productive activities. In the 1980s and 1990s, TVEs and national and foreign private enterprises exerted major pressure on State-owned industry. A real clash between different modes of production within the same economic and social formation occurred, putting in doubt the very viability of socialism in the country. If the State sector had befallen to a *mort subite*, capitalist restoration would probably have followed suit.

Gradually, a new State sector was emerging, largely but judiciously market-oriented and unburdened by the social obligations attached to the *danwei* system. The new cycle of institutional innovations was initiated in 1993–94 and reached a more thorough stage of elaboration with the 9th Five-Year Plan (1996–2000). The transformation of most of the State-owned enterprises into LSOBC was a major strategic move that shaped a new socialist mode of production, axed on strategic and high-tech sectors.

12.8 The strategic role of the productive macro-sector

Consistently with the theoretical framework exposed in Part 1, a key necessary condition for a smooth development of market socialism is the building up of a firmly State-led and powerful productive macro-sector. In turn, especially so after a certain degree of overall economic development has been achieved, to build up the productive macro-sector it is imperative to set up and strengthen the LSOBC's, that constitute its core component.¹⁴

According to market socialism's intrinsic laws of motion, and a fortiori taking into account that its development unfolds in a predominantly capitalist world, the productive macro-sector must ultimately be capable to dominate the domestic market and successfully compete in foreign markets as well.

Historical experience shows that the inability to develop a strong and competitive productive macro-sector has severely crippled most nonmarket socialist experiences, even if they were rather successful (in some cases, exceptionally successful) in the task of establishing and enhancing a relatively advanced non-productive macro-sector that allowed them to meet the most basic needs of the population.

In our view, among still-existing nonmarket socialist SEFs, the case of Cuba proves our point egregiously. As is well known, in spite of the suffocating US embargo, Cuba has been able to survive, to achieve a high level of human development, and even to develop several variants of Covid vaccines¹⁵. Cuba's State-owned and collective agricultural, industrial and commercial services sectors have always been dysfunctional, and its degree of food self-sufficiency is dismal.¹⁶ This paradoxical contradiction eventually led the Cuban leadership first to liberalize many commercial services activities and, eventually, to begin implementing what looks like a still embryonic yet promising comprehensive reform program¹⁷ pointing towards the establishment of a form of market socialism *with Cuban characteristics*.^{18,19}

In sum, the very existence of the MMP limits policy makers' degrees of freedom in all countries, and thus inevitably constrain any socialist-oriented development strategy as well. Under these objective circumstances, that are not going to disappear for the foreseeable future, market socialism constitutes the most advanced, but also the only ultimately rational and practicable viable path to approximate the humanistic and ethical goals that have been pursued since the XIXth century by the worldwide, and even - in a very long historical perspective - to asymptotically approximate the communist ideal.

12.9 The Party commands the market

The market is a very good servant, but a very bad master²⁰

State leadership in the productive macro-sector is not synonymous with monopoly. Many conventional tools that are not exclusive of socialist-oriented planning (among which regulations, fiscal and industrial policies, and indeed anti-monopoly laws) can contribute effectively to its realization. However (after some wavering in the 1990s and early 2000s, especially during Jiang Zemin's tenure),²¹ the CCP has been quite firm in upholding two twin principles. One, which has been reaffirmed many times in several official documents and enshrined in the Constitution,²² is the centrality and preeminence of State ownership. The other principle, which has not been expressed so explicitly but is no less important in informing the Party's practical action, is based on a rejection of the metaphysical worshipping of market typical of bourgeois ideology and (paraphrasing Mao) might be formulated as: "*The Party commands the market, and the market must never be allowed to command the Party.*"²³

According to Holtz (2018):

State-ownership in the PRC in the final instance is the expression of the Party's control over the economy. In such an environment, strong regulatory capacity with a strong private sector cannot co-exist. The Party makes and adjusts the law. I.e., the Party cannot be subjected to an independent regulatory framework and formal institutions that operate independently of the Party, and cannot submit to market outcomes created by private actors if these outcomes run counter to the Party's prerogatives. From the absolute authority of the Party follows the reliance on the cadre management system that dominates SOE management and also reaches into private enterprises.

Holtz (2018, p. 41)

Such an ironfisted political control may look an aberrance when compared to prevailing Western corporate standards, but the bottom line is that LSOBCs are clearly mandated to be instrumental for the achievements of China's domestic development goals, as well as supportive of its international strategy - to a much larger extent than it is the case for SOEs in capitalist countries.

Industrial SOEs have gone through a profound strategic relocation of this sector over the past four decades, triggered by fiscal packages and industrial policies designed to make the State the major financial holder, thereby enabling it to foster the country's march towards the technology frontier (a goal that has become by far the number one strategic priority) both directly, thanks to its command over the core component of productive capital, and indirectly, through its usually collaborative relationship with the private sector.²⁴

12.10 The entrepreneurial State

Burlamaqui (2015) has vividly described China's State strategic reorientation from a heterodox, eclectic theoretical vantage point:

China's development path has them all. (...), they point towards a two folded conclusion: First, it suggests that the concept of Entrepreneurial State should synthesize three core elements: a) a "Hilferding-Schumpeter's" type of banking system; b) an extension, to the State, of Schumpeter's entrepreneurial function; and c) the presence of a robust degree of socialization of investment as stated by Keynes in the *General Theory* (1936, ch.24), by Schumpeter in his characterization of "socialism" (1942, part 3), and in Minsky's "Big-Government plus Big-Bank policy prescriptions" (1986, part 5). The second conclusion is that the Chinese State encapsulates all these three dimensions and therefore should be taken as the prototype of a developed Entrepreneurial State. These are admittedly bold propositions, which should invite further debate and discussion.

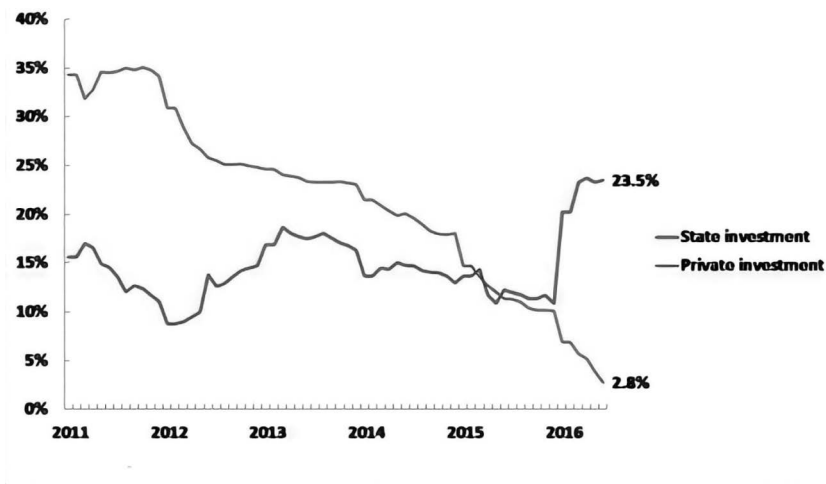
(Burlamaqui 2015, pp. 730–73)

We, as Marxists, agree with Burlamaqui’s insightful analysis, but try to venture a bit further. In our view, the kernel of China’s structural reform journey is as follows: having fully internalized the predominance of the Meta Mode of Production, the socialist project reinvented itself as a new type of Entrepreneurial State.

The State-controlled socialist sector overcame an extreme difficult situation in the 1980s and 1990s through the *unit of contraries* that marked its relationship with TVEs and foreign and national private entrepreneurs, to reinstate itself as the widely dominant player in China’s present-day economy, made stronger by an exceptionally high degree of monetary and financial sovereignty. As a matter of fact, it has become commonplace to regard the current dynamics of intra-sector relations in the Chinese economy as a state of things where “*the State advances, the private sector retreats*” (see Figure 12.1).

Some authors erroneously and a-historically apply to China the slippery category of *State capitalism*, or – even more laughably – invent new and imaginary ones, such as that of “*political capitalism*” (see Milanovic 2019).

Even among them, however, some are more intellectually honest than others and acknowledge that the Chinese are building something different from what the still dominant vulgate would like it to be. Moreover, a growing minority is converging versus a fledging alternative consensus view, based on the core tenet that public ownership-based and other forms of control on the main means of production and the development of State capacities to manage



Source: Ross (2018)

Figure 12.1 China: State and private investment (annual growth, 2001–2017).
Source: NBS

BOX 12.1 Socialism with Chinese characteristics

Most Western social scientists, including many who wrongly think of themselves as Marxists, stubbornly repeat that present-day China is just one more variant of capitalism. Of course, this is *inter alia* a convenient trick to follow in the ontological steps of Saint Anselm,²⁵ parroting the aprioristic argument stating that, contrary to *laissez faire* capitalism, socialism cannot be good for economic growth – and if by a lucky chance it appears to be, well...it can't be socialism!

and govern the national economy according to a rationally planned long-term development strategy are fundamental discriminants for distinguishing between different socioeconomic systems. One example of this burgeoning stream of research is Fan et al. (2011), where the authors argue that:

Despite a vast accumulation of private capital, China is not embracing capitalism. Deceptively familiar capitalist features disguise the profoundly unfamiliar foundations of “market socialism with Chinese characteristics.” The Communist Party of China (CPC), by controlling the career advancement of all senior personnel in all regulatory agencies, all state-owned enterprises (SOEs), and virtually all major financial institutions state-owned enterprises (SOEs), and senior Party positions in all but the smallest non-SOE enterprises, retains sole possession of Lenin’s Commanding Heights... The studies in this volume reveal that China is not copying free market institutions, but trying something substantially different: Market Socialism with Chinese Characteristics is a genuinely unique system. A host of its formal reforms emulate the institutional forms of a market economy, often in painstaking detail. But its heart remains resolutely socialist: strategically placed SOEs, SOE-controlled pyramidal business groups, and ubiquitous Party cells, Party Secretaries, and Party Committees leave Lenin’s “commanding heights” firmly and exclusively under the control of the Communist Party of China (CPC), and consign much of the rest to provincial and local Party cadres.

(Fan et al. 2011, pp. 1–2)

Another analyst who does not buy into the cheap notion that China is capitalist is Roberts, who clearly states (2017):

I think the majority of Marxist political economists agree with mainstream economics in assuming or accepting that China is capitalist. However, I am not one of them. China is not capitalist. Commodity production for profit, based on spontaneous market relations, governs capitalism. The rate of profit determines its investment cycles and

generates periodic economic crises. This does not apply in China. In China, public ownership of the means of production and state planning remain dominant and the Communist Party's power base is rooted in public ownership.

(Roberts 2017)

As we argued above in Chapter 9, China is the most advanced of a new class of market-socialist SEFs. For more than four decades, its specific version of market-socialism (officially labeled “*Socialism with Chinese characteristics*”²⁶) has gone through an accelerated development process marked by successive rounds of institutional and ownership reforms, that have variously fostered, regulated, and accompanied²⁷ the evolution of the overall configuration of different modes of production which jointly make up the country's socio-economic system.

Notes

- 1 Real-world capitalists never believed truly in the “*Minimum State*” mantra that well-paid bourgeois intellectuals were feeding the masses, as is shown for instance by Reagan's pharaonic “*Star Wars*” program.
- 2 Keynes was broadly favorable to a strong degree of government intervention in the National investment process, preferring a mixed model with a combination of different forms of property structure (see Kregel 1985).
- 3 Due to the impossibility of fully overcoming the constraints stemming from the MMP, such an emancipation process can never be complete, but always retains a partial and relative scope.

4

One can also point to the experience of specific state owned companies. Consider, for example, the experience of the Baoshan Steel Company. Baoshan, a large steel manufacturer in Shanghai, became a publicly traded company in 2000. The controlling share (75 percent) was held by a holding company (the BaoSteel Group) wholly owned by the Chinese central government. Baoshan has done very well since the late 1990s. Total sales increased from USD 2.8 billion in 1998 to USD 17 billion by 2007. Profits increased by even more, from USD 122 million in 1998 to USD 2.5 billion by 2007. Baoshan is currently the largest steel producer in China and the second-largest steel producer in the world.

(Hsieh and Song 2015, p. 2)

- 5 Many of the smallest and weakest industrial SOEs were eventually privatized, but the public sector never relinquished its ownership rights on the bulk of the country's industrial capital.
- 6 TVEs were more agile and formally independent than SOEs, but as they were as well ultimately public-controlled they could not wantonly pursue profit maximization while totally ignoring local governments' concerns about employment and social stability, as they would have done if they were POEs.
- 7 Under normal conditions, the outcome is a structurally suboptimal level of effective demand stemming from the private sector, while the public sector is too weak to counter this tendency by means of vigorous public expenditure and other expansionary policies.

- 8 On this process of internal struggle, see Marti (2004)
- 9 On the 1994 tax reform, see Ki and Yuk-Shing (1994)
- 10 The discontinuation of danwei implied very large social costs.
- 11 There was indeed a privatization process in the 1990s and 2000s, but it followed an idiosyncratic pattern different from those that occurred in former USSR and Central and Eastern European countries. According to Naughton:

Privatization, especially insider privatization and managerial buyouts (MBOs), became a widespread phenomenon in China as the smaller firms were “let go.” In addition, in many cases government retained some kind of minority stake in the firm, either directly or through subsidiary companies. Blended firms, especially in the technology industry, became common. In these cases the state’s minority interest is typically passive, since the managerial group will have control of the firm through its combined management and equity positions. This newly emerging sector of Chinese industry—medium-size, predominantly private, but with hybrid ownership patterns—has emerged as a highly dynamic and rapidly growing sector. Without doubt, many of these firms are now run along purely commercial lines and have a strong focus on profitability. Much of the future of China’s industry lies in the growth of this sector.

Naughton (2007, p. 324)

- 12 The Company Law was subsequently amended several times. The most recent modification was enacted in 2018
- 13 As mentioned above the collapse of the commune implied severe social costs, due in part to an ill-placed sort of free-marketeering cavalier attitude on the part of both cadres and peasants. To a large extent, however, these costs can be regarded as a necessary evil that was worth paying after all, taking into account that the GOC’s capability to holistically plan and smoothly steer such a major and fast process of change in the countryside was limited. Yet, if such organizational and institutional constraints had been binding, it can be argued that it would have been possible to reap all or most of the productive benefits of the reforms while swiftly setting up a basic safety net of new type to replace the old commune-based one. Unfortunately, ideological, cultural and organizational constraints are as real as material ones.
- 14 There is an intuitive analogy between the development of LSOBCs under market socialism and that of heavy industry under the traditional Soviet-type non-market socialist system. However, they are actually two very different processes. The most crucial difference, of course, is that the development of LSOBCs as the core component of the productive macro-sector under market socialism is a planned yet value-based process taking place in the framework of a market economy, while the development of heavy industry under the Soviet-type system was not .
- 15 Cuba’s unflinching determination to prioritize its public health system and its biotechnology industry even serendipitously created a niche of true international competitiveness, that significantly helped the country’s survival struggle, allowing it to earn some badly needed foreign exchange. The Covid vaccine story might well turn out as one more episode of this amazing saga. In our view, however, this extraordinary example is to be seen as an exception that confirms the rule. Broadly speaking , any country that attempts to defy brazenly the law of value does so at its peril.
- 16 In our view, these considerations basically hold even taking into account the above-mentioned reality of the embargo.
- 17 See DW (2021); Grant (2021).

- 18 The case of the *People's Republic of Korea (PRK)* - another small socialist-oriented country that has always survived in the midst of an extremely hostile external environment – is also interesting. PRK's productive macro-sector is very weak by international standards, but relatively strong in relation to the country's military and political needs.
- 19 Cuba is presently the only socialist-oriented SEF with a population that is very differentiated from a genetical viewpoint. "If it succeeds in its transition to modern market socialism, the cultural and ideological implications of such a feat will be paramount.
- 20 Chakravarty (1993, quoted in Shafaeddin 2004, p. 1)

21

...with the turnover in leadership to Hu Jintao in 2003, Beijing became less willing to close poor performers and relied on the newly created State-Owned Assets Supervision and Administration Commission (SASAC) to instill a stronger commercial orientation among those not let go.

Huang (2014)

- 22 "Article 6. *The foundation of the socialist economic system of the People's Republic of China is socialist public ownership of the means of production, that is, ownership by the whole people and collective ownership by the working people*".(National People's Congress (NPC 2019).
- 23 See Mao Zedong (1966).
- 24 Of course, such a collaborative relation is by no means one taking place between equals. The State is always in charge. Exceptionally, some flamboyant capitalist succumbs to entrepreneurial hubris and ends up defying the State's authority – to its peril. The latest and most resounding case has been that of Jack Ma (see Lingling Wei 2021).
- 25 Actually, these analysts go even further in their folly, as they profoundly disrespect Saint Anselm himself. The Aosta-born XI century mystic ingeniously wrote in the *Proslogium*

[Even a] fool, when he hears of ... a being than which nothing greater can be conceived ... understands what he hears, and what he understands is in his understanding.... And assuredly that, than which nothing greater can be conceived, cannot exist in the understanding alone. For suppose it exists in the understanding alone: then it can be conceived to exist in reality; which is greater.... Therefore, if that, than which nothing greater can be conceived, exists in the understanding alone, the very being, than which nothing greater can be conceived, is one, than which a greater can be conceived. But obviously this is impossible. Hence, there is no doubt that there exists a being, than which nothing greater can be conceived, and it exists both in the understanding and in reality.

(quoted in Himma 2021)

Contemporary pundits who dismiss China as capitalist think of themselves as being modern (or even post-modern), but they are essentially trapped in the same kind of metaphysical reasoning that was fashionable in the Early Middle Ages. Yet, they put poor Saint Anselm's argument upside down, ontologically negating the possibility of existence of an object where Anselm strenuously affirmed its existence. In another sense, however, it must be conceded that they are indeed faithful to the lesson of the Saint. As they (consciously or unconsciously) worship capitalism, they ontologically posit that capitalism must exist and rule forever all over the universe, just as Anselm did referring (more decently) to God.

- 26 In this respect, it's worth mentioning a big caveat, even if we regard it as self-evident: any evaluation on this complex and debatable matter cannot but be very tentative and provisional at this stage, and it will be possible to confirm or falsify it more and more firmly only progressively, with the passing of time. This said, , in our view - as we argue in several parts of this book - China's presently-existing socioeconomic system is indeed a form of socialism, albeit still quite imperfect and far from being fully developed. The term *Socialism with Chinese characteristics* may appear tautologic, and at a superficial level this perception is correct (it would be odd to claim that China's socialism has Italian or Brazilian characteristics). Yet, at a slightly deeper level, it makes a lot of sense, as it portrays a key message of modesty, realism and respect to the rest of the world: China is doing its best to advance on the socialist path in its own way, but does not claim that its model is *the* only one which is universally good for humankind as a whole. In a way, we independent analysts can, and should, venture a bit further than the CCP in this tricky domain, trying to identify the universal and general lessons (if any) that can be learnt from China's socialist-oriented development experience, as we do for those of other presently - or formerly existing one that have unfolded in many parts of the world since 1917.
- 27 The transitions from one configuration to another have been the product of a dialectical interaction of both top-down and bottom-up driving factors.

13 The national financial system and the strengthening of China's monetary sovereignty

Summary

13.1. Financial globalization and its discontents. – 13.2. Finance as a public service. – 13.3. China's autonomy from global hyper-financialization and the contradictions of the shareholding State. – 13.4. Monetary sovereignty. – 13.5. Investments and savings. – 13.6. Financial risks. – 13.7. Concluding remarks

13.1 Financial globalization and its discontents

Financial globalization and its consequences on the stability of the international economy impose political, economic, and theoretical challenges that are not trivial for the perspectives of socialism in the XXIst century. In this chapter, we briefly outline its impact on the relation of forces between the center and the periphery and on the crucial importance of enhancing monetary sovereignty, both to avoid succumbing haplessly to recurring financial maelstroms and to maintain an adequate degree of policy space in order to effectively pursue developmentalist strategies.

The neoliberal vulgate based on outdated, pre-Keynesian fallacies such as *Say's law*¹ and the belief that *ex ante* savings causally determine investment have prevailed until recently,² leading to rich-friendly policy prescriptions such as easing financial repression, raising the interest rate, and capital account liberalization. As a result, the international financial system has become more and more unstable and unpredictable, further jeopardizing the fragility of most peripheral countries and their dependency on major capitalist powers and the international financial institutions they dominate.

There are, however, some exceptions. The most relevant is constituted by China and other market-socialist SEFs,³ that have been able to increasingly integrate themselves in global trade and financial networks, but successfully resisted external and internal pressure to passively submit to neoliberal financial globalization in the name of market fundamentalism. Albeit with less consistency and determination a few East Asian and other peripheral countries have maintained a similar heterodox approach, reaping more favorable results than the rest of the South.

13.2 Finance as a public service

As we argue above in Ch 5, private financing does not directly generate either use or exchange value. However, under capitalism, it is instrumental for the functioning of the productive macro-sector and captures a (sizeable) share of the surplus. Taking into account its systemic enabling role, the major economies of scale involved in its functioning, the natural propensity of financial markets to generate monopoly rents, and other idiosyncratic features of this sector, large-scale financing should be regarded as a *potentially public* non-productive sector: like education and health, it provides an essential public service, financial intermediation.⁴

Like infrastructural services, financial services allow the real economy to function, producing exchange value and a surplus that in part will be directed again towards the non-productive sector. Therefore, under a relatively progressive version of capitalism similar to the one that prevailed in much of the West during the Golden Age, the State tends to play a large, if not exclusive role in the domain of large-scale finance.

These considerations on finance are of a general nature, but they apply with more cogency to peripheral SEFs, whether capitalist or socialist. Among the latter, a fortiori, it is self-evident that the State's absolute control on finance is a no-brainer. A strong public financial system is key for overcoming *Keynesian uncertainty* (the structural and disorderly tendency – typical of capitalism – to generate a level of effective demand that is too low to achieve full employment⁵), but also to smooth, enhance, and sharpen a virtuous monetary circuit earmarking the surplus towards the most strategic investment projects. The creation of large State development banks, in particular, is a decisive institutional step to kick-start the *catching-up* process.⁶

13.3 China's autonomy from global hyper-financialization and the contradictions of the shareholding State

China's State has been constantly upgrading and modernizing its national financial system, without relinquishing its firm role of control and command. China's path has been very divergent from that of many African and Latin American countries. According to Nogueira, Guimarães e Braga (2019):

A major characteristic that distinguishes Chinese regime of accumulation from other central or peripheral economies is its relative autonomy in relation to the financialization process under dollar's hegemony. The finance-led regime of accumulation which has defined capitalist reproduction from the United States to Europe, encompassing also Latin America and Africa since the neoliberal age started in the 1980s, does not penetrate the Chinese economy with the same intensity. (...). Besides commercial banks, the long-term financing needs are also met by three

development banks obviously under the State Council (China Development Bank, Exim Bank of China and Agricultural Development Bank of China) and the newly launched international development banks under Chinese tutorage (such as the Asian Infrastructure and Development Bank and the New Development Bank for the BRICS).

(Nogueira, Guimarães e Braga 2019, p. 455)

A pivotal pillar of China's financial system is an effective (albeit not perfect) set of capital control regulations, that proved themselves to be one of the most powerful weapons to avoid falling victim to the 1997 Asian crisis and of the 2007–2008 global financial crisis.⁷ Capital controls can shelter from several evils stemming from the dominance of financial capital, among them what some authors call “*financial expropriation*” (with banks venturing into financing social services such as health and education, such as in the US and in some European peripheral countries), and monetarist interest rate policy and annual inflation targeting mostly benefiting rentiers, as is customary in Brazil (see Lapavitsas 2009; Bruno et al. 2011).

China's financing system has also gone through a complex process described by Wang (2015) as the emergence of a “*shareholding State*”, that was made possible by the re-establishment of domestic stock markets in the early 1990s. The real estate market has also gone from nonexistent in the early 1990s to a size comparable to that of the stock market in 2007. Both are characterized by high volatility and short-term speculative behavior by several investors, which partly results from still inadequate institutional and regulatory development.

Currently, around 3,000 companies operate on the Shanghai and Shenzhen stock markets, mostly LSOBCs. This modality forces LSOBCs to deal with new private players, and therefore to adopt an increasingly market-oriented behavior (see Wang 2015; Nogueira, Guimarães e Braga 2019) (Figure 13.1).

These financial developments are an important component of China's overall modernization drive. However, the increasing role of capitalists in the financing of LSOBCs embodies non-trivial contradictions and risks stemming from the empowering of the national capitalist class. Among other drawbacks, this implies growing social and economic inequality, the mounting of domestic pressure in favor of capital account liberalization, and an increasing scope for corruption. China already had a taste for these problems in 2016, when – after the implementation of financial liberalization measures, some of which it is now fair to regard unwise and ill-fated – a surge a surge in capital flight caused a reserves loss of US \$ 443 billion.

These contradictions are to a large extent inescapable, but unless they are not firmly and sternly tackled they might open the risk of the emergence of a nightmarish scenario all too familiar to many peripheral countries, which have been robbed of national wealth and sovereignty by the collusion of local bourgeoisie and politicians with the forces of global financialization.

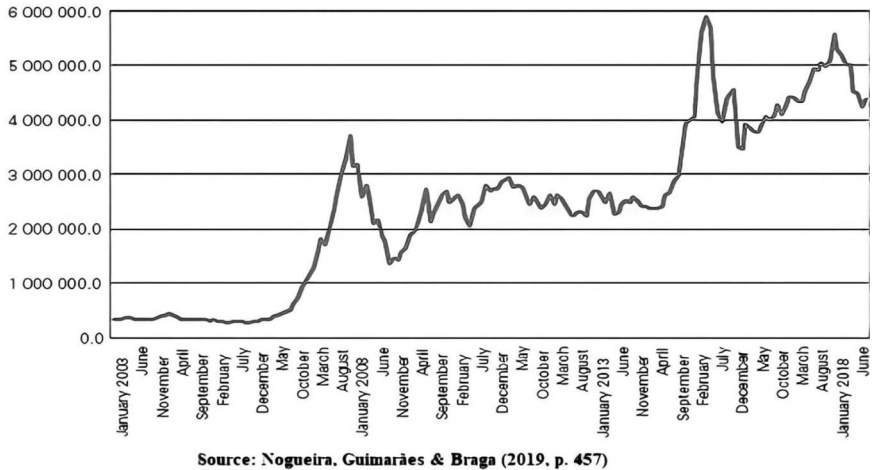


Figure 13.1 Shanghai's stock market capitalization (Jan, 2013–Jun, 2018), in millions of US \$).

Source: Nogueira, Guimarães e Braga 2019.

It is not an overstatement to state the search for a proper balance in the process of financial modernization is one of the most delicate and crucial issues for the very future of socialism in China.

13.4 Monetary sovereignty

In order to be able to achieve key mutually interrelated macroeconomic targets such as an adequate level of aggregate demand, an optimal investment rate, and full employment, China needs a high degree of independent control and command on its own monetary system, i.e. of *monetary sovereignty* (MS):

According to Tymoigne (2020):

Monetary sovereignty means at its core that the government has control over the official monetary system of the country... the government can always finance its activities while keeping the interest rates on the public debt under control and maintaining the stability of the payment system. Monetary sovereignty provides financial flexibility in government finances, influences the dynamics of interest rates and exchange rates, and changes the priorities in the setting up of government policies. The risk of involuntary insolvency is no longer present and so should not play a role in shaping policy decisions. Instead, full employment, price stability, and financial stability should take center stage in designing government policies, and the government should deal with the critical issues of the time in accordance with the will of the population.

(Tymoigne 2020), pp. 1–2)

The concept of MS is not new, but it has been recently emphasized by the *Modern Monetary Theory* (MMT) school. Contrarily to some harsh critiques (see, among others, Coats 2019; King 2020), the MMT is not a sort of XXIst century voodoo economics preaching wanton fiscal irresponsibility.⁸ In the view of its very proponents – which we tend to share with a grain of salt – at the core, it is little more than an authentic and (both intellectually and politically) courageous interpretation of the kernel of Keynes' paramount contribution to the understanding of the functioning of modern monetary economies:

MMT makes a clear difference between financial and resource/real constraints because both can have an impact on the ability of the government to intervene meaningfully in the management of the domestic economy. Monetary sovereign governments that have underemployed resources face no real or financial constraints. Constraint in terms of domestic resources is potentially possible but it is not the norm. The only binding constraint on government is usually political. Thus, at its core, monetary sovereignty implies that the national government has the ability to use its policy levers to fulfill objectives that are at least consistent with the available domestic resources. What is productively possible is always financially possible for a monetarily sovereign government. As Keynes put it: "A government which has control over the banking and currency system can always find the cash to pay for its purchases of home-produced goods" (Keynes 1940 [1972], 416). Such a government cannot run out of money, but it can run out of things to buy. As such, fiscal policy should be judged by its ability to solve the socioeconomic issues of the times rather than by the risk of financial insolvency.... Monetary sovereignty relates to the structure and mechanisms of government finances. Under such a framework, a government faces no financial constraint; it cannot involuntarily run out of money... As such, the implication of monetary sovereignty is not that the government can carelessly spend, but rather that the design, implementation, and evaluation of policies ought to be done without fear of insolvency but with an understanding of inflationary and political constraints.

(Tymoigne 2020, pp. 19–20)

MS is not a black and white concept. It is a matter of degree. One of the main problems of MS is that the government's deficit position must be balanced by a surplus position of domestic and foreign actors wishing to hold financial actives. If a country's national currency is strong, foreign actors in particular are likely to have a high propensity to hold actives denominated in that currency, and it is easy for the State to finance even large deficits.⁹ Moreover, especially if the role of foreign actors is minor, the government enjoys a lot of leeway if it wishes to increase its debtor position. Even if private savers would not be initially willing to accommodate it, the expansionary impact of lifting the public sector's deficit will push up aggregate demand via the multiplier effect, and so incomes and savings will increase, generating a virtuous automatic

stabilizer mechanism. If, conversely, the country is heavily dependent on foreign actors, and its currency has little appeal for international investors and even for its own national bourgeoisie, it is hard to achieve a satisfactory degree of MS. The maximum stationary-state fiscal deficit in such a country, therefore, cannot be very high (see Wray 2007; Tcherneva 2016; Romanchuk 2017; Tankus 2018; Bonizzi et al. 2019).

As no country can totally decouple from the rest of the world and inflationary, political, and other domestic constraints can never be fully overcome, no country can achieve total and unchallenged MS. However, it is plain that the US in particular, thanks to a large extent to the *exorbitant privilege* of issuing a national currency that is still by far the world's dominant one, is naturally in a position to enjoy a very high degree of MS. It is not by chance that the MMT is particularly popular in the US, taking into account that its policy prescriptions could be applied more forcefully and safely there than in any other capitalist country.

Inevitably, the struggle to achieve even a minimum of MS is much harder for peripheral countries, especially if they are small and very dependent. Only a few of them can succeed, even in part. The most relevant example, of course, is that of China. Thanks to its sheer size and to its almost total decoupling from the rest of the world economy, the PRC enjoyed a higher degree of MS than most other peripheral countries also before the inception of the reforms. However, once it began integrating itself with global trade and financial networks, the risks implied by dependency on international finance naturally became much bigger, and China had to devise a multi-pronged strategy to maximize its degree of MS.

The first prerequisite, without which no attempt to strengthen its MS would have had any chance of success, was to maintain an ironclad command on its national banking and financial system, while gradually modernizing it to enhance its effectiveness in fulfilling its *public service* enabling role to foster the development of the real economy. Such a policy stance was also necessary to overcome the Keynesian uncertainty and ensure full employment and the maximum possible rate of utilization of the country's resources for the sake of development acceleration.

Once this existential condition was fulfilled, as the yuan was far from being a dominant international currency, it was imperative to spur the accumulation of foreign exchange reserves, and thus to run for a long time a very large BoP surplus.¹⁰ In turn, to achieve such a goal in a developmentalist and not a recessionary context, China needed to prompt a very sustained dynamic of investment and accumulation.

In this respect, it has to be taken into account that there is a two-way causal linkage between investment and MS. On the one hand, a high degree of MS endows a country with ample policy space to pursue expansionary policies – something a country plagued by low or non-existent MS could not do, as it would soon run counter un-surmountable problems of currency debasement, runaway inflation, capital flight, reserves depletion, and the like (see above...). On the other hand, a high investment rate is conducive to

production increases and productivity gains, that reverberate in higher international competitiveness and rising exports, leading to a sustained pattern of foreign exchange reserves accumulation and ultimately to strengthen the market-socialist orientation of China's development strategy.

13.5 Investments and savings

China has been uniquely successful in spurring its accumulation process. Its investment ratio (gross capital formation/GDP) in 1978 was 37.6%, already very high by international standards. It fell in the early 1980s, mainly due to the fact that peasants were able to capture an increasing share of booming agricultural production income and were very poor, but began rising since the mid-1980s and kept oscillating around very high average levels, peaking in 1993 at 43.3% and again at 46.7% in 2011.¹¹ China's saving ratio (gross domestic savings/GDP) fluctuated at levels very close to those of investment ratio in the 1980s, and surpassed it afterwards.¹² The difference between the two peaked in 2007, at over 8%, but declined afterwards as the Chinese population increased its propensity to consume, a natural trend accommodated by the GOC as it was de-emphasizing GDP growth per se and according a higher priority to other goals such as sustainability, technical progress, environment protection, and the improvement in the standard of living.

In this respect, it can be observed that many observers still now are trapped in a caricaturesque and *orientalistic* view, attributing China's phenomenal growth performance to its people's ontologic and essentialistic willingness not only to work very hard for a very low wage, but also to save a very high share of their meager income, thereby barely surviving at a miserable level of consumption.

Of course, to say that this narrative is a gross misrepresentation is actually an understatement. It is true that China's propensity to save is very high, albeit declining. This is due in part to some idiosyncratic cultural factors and to the still insufficient degree of development of safety nets and public services. However, the main factor spurring past increases in the propensity to save has been the very sustained increase in the personal income of all population deciles. Personal income growth has been ultimately the product of the GOC's rational and far-reaching accumulation- and growth-maximizing policies, in the framework of its long-term developmentalist strategy. Therefore, consistently with a Keynesian/Modern Monetary Theory (MMT) approach, the dominant causal relationship runs in the investment-saving direction, rather than the opposite way around.¹³

13.6 Financial risks

As we mentioned before the huge US \$ 586 billion fiscal package was launched in 2008 to counter the impact of the international financial crisis. Despite the subsequent effort to pull the brakes to rebalance the economy, credit expansion continued thanks to the emergence of the *shadow banking*

system". The latter is constituted mainly by off-balance sheet (OBS) instruments and activities issued by traditional banks, besides credit instruments created by non-bank financial institutions, such as investment funds, brokers, securities, and asset management firms.

The reach of the *shadow banking system* increased substantially, with its share of total credit tripling between 2006 and 2016 – from 11% to 33% (Liang 2017, p. 372). Shadow lending operations apply much higher interest rates than those of public banks, and loan mostly to private SMEs and are intrinsically financially fragile. Therefore, in the late 2010s, the State has ramped up its regulatory and vigilance interventions on this opaque financial jungle.

However, it is also important to highlight the credit system role undertaken by small financial institutions. According to Liang (2017, p. 374):

... smaller banks, such as rural and city commercial banks are particularly vulnerable. Smaller banks have grown rapidly in recent years. Total assets at smaller banks increased from 100% of GDP to 185%; however, these smaller banks rely heavily on wholesale funding. As of the first half of 2016, wholesale funding accounted for 31% and 23% for medium-sized and small banks, respectively; compared to only 13% for the “Big Four” banks (...). Take the example of Bank of Jinzhou, a city commercial bank in Liaoning province. Customer deposits account for only 51% of its total liabilities, compared to 80% at Industrial and Commercial Bank (ICBC). On the asset side, debt securities under the name of “receivables” take up 51%, and this is the category often used for exotic shadow credit assets such as “trust beneficiary rights” and “directional asset management plans”; whereas, at ICBC, comparable assets account for only 20% of the total assets.

Despite the apparent evidence of worrisome elements of risk in its composite network of financial institutions, China has been able so far to keep launching vast fiscal stimulus packages when policy makers deemed it necessary. For example, in July 2019, China enacted a US\$ 163.8 billion to finance new infrastructural projects, as a response to the US government’s commercial and technological war. The “risks” associated with China include the high level of provincial debt, which in 2016 reached 25% of its GDP (Liang 2017, p. 378). This debt is the result of an unbalanced federative regime: the provinces retain only 50% of what they collect, despite being responsible for about 80% of the national tax collection. The securitization market has grown in China (South China Morning Post -03/26/2019), as the country became Asia’s largest debt securitization market and the second largest in the world, although still far behind the US.

Since the global financial crisis in 2008, the macro leverage ratios (debt/GDP) of all sectors in China have been increasing rapidly. Data from different sources place private debt from 156% of GDP in 2016 (Trading Economics) to over 180% in 2020 (Morgan Stanley).

The situation is better, but not fully without problems, in the public sector. The debt/GDP ratio of the central government is only 55.6%, far less than in Japan (237.7%), the US (107.6%), and France (99.3%) (IMF 2019). The fact that Chinese domestic indebtedness, including that related to the provinces, is almost completely based on national currency greatly reduces the risks of a “Minsky moment”¹⁴ and a possible financial crisis having China as the epicenter (see Girón 2018; Wray 2018). However, a potentially surmountable risk-augmenting factor is constituted by the excessive and poorly analyzed and regulated debt of local governments, which has been acknowledged as a *grey rhino*¹⁵ (see Chen 2017; People’s Bank of China 2018). According to official estimates, the macro leverage ratio of the general government in 2017 was only 37%, but it could in fact be over 90% when including local governments’ implicit debt (see Zhang 2018).

The root of the problem lies in the fact that local governments carry out a large share of the country’s fiscal expenditure, spurred by the strong growth-friendly incentives affecting the behavior of cadres (see Zhou 2017). In doing so, local governments issue a high amount of debt. Of course, this debt is yuan-denominated, but as local governments – contrary to the central government – do not control the issuing of the national currency they lack the advantages provided by MS, and therefore their debt is theoretically¹⁶ as risky as that of private agents.

Therefore, an institutional change is warranted, with the central government playing “a more dominant role in fiscal policy in order to solve the local government debt problem. While the central government is strengthening its regulation of local government debt, it should also bear more of the fiscal burden ...(because) the fiscal activities of the central government and those of local governments are essentially different. According to Modern Money Theory (MMT), a central government with currency sovereignty can always afford any spending denominated in its own currency, but local governments cannot and therefore face the possibility of bankruptcy. The importance of MMT is that it provides a new theoretical framework for rethinking central-local fiscal relationships and solving the local government debt problem in China” (Zengping He and Genliang Jia *Renmin* 2019, pp. 3–4).

13.7 Concluding remarks

China has gone a long way in the process of establishing, diversifying, and modernizing its national financial system, striving to transform it in order to be both increasing market-oriented and more suitable as a key tool of its development strategy. In doing so, it has substantially maintained the core principle of undisputed State command, pivoting on the absolute prominence of public banks and on a vast array of regulatory and precautionary legal and policy instruments.

The adoption of stock exchange markets and other nonbanking financial institutions previously seen as the exclusive domain of capitalism, and the

opening up of limited, yet non-negligible space for the activities of domestic and foreign private actors has enhanced the holistic efficiency and effectiveness of China's financial system. Yet, it has also inevitably created economic, social, and ultimately political contradictions, which have been dealt with so far by policy makers in a broadly satisfactory way, even taking into account that on some occasions (such as the recent Ant IPO saga) draconian ad hoc administrative action has been required.

Overall systemic risks in China's financial and monetary system appear to be manageable. Yet, the private sector's natural tendency towards an ever-increasingly degree of leverage and the specific and still not fully understood and researched problems posed by the debt of local government constitute serious, if not insurmountable governance challenges that must be urgently and decisively met.

Since the mid-1990s, in addition to the traditional four large State-owned banks, China has established several development banks. These institutions not only contribute directly to the development of the national economy but also support the country's international projection, playing a central role in the financing of the vast *Belt and Road Initiative*.

The complex process of growth, transformation, and modernization undergone by China's financial system has built since its inception on two solid foundations: the unquestioned command of the State over the financial sphere and an adequate, degree of monetary sovereignty.¹⁷ As the latter is structurally linked to aggregate investment by a mutual reciprocally reinforcing causal linkage, China has been able in the four decades of its market socialist trajectory to sustain an extremely high rate of accumulation, while managing to increase substantially its degree of monetary sovereignty.

These results have been made possible in the past by a wise and pragmatic balance between a high propensity and willingness to innovate and modernize and the maintenance of a risk-minimizing prudential attitude on the part of policy makers, who never committed the capital sin of relinquishing or unduly weakening the core levers of command and control. The same equilibrated policy stance will be required to tackle the upcoming challenges during the present decade.

Notes

- 1 See Shoul (1957); Keynes (1936).
- 2 All major capitalist countries became quasi-Keynesian when hit by the Financial Crisis of 2007–2008 Great Recession and, more recently, by the Covid-induced 2020 crisis. Yet, there has been no serious questioning of the neoliberal mantra among mainstream social scientists so far.
- 3 Socioeconomic formations
- 4 However, as mentioned above, finance does not directly provide use value, differently from other non-productive sectors.
- 5 Under normal circumstances, this tendency is purposefully fostered by bourgeois governments under the cover of orthodox austerity prescriptions, in order to weaken workers' bargaining power and lower wages.

6 The very existence of State-controlled development banks, and their effectiveness in enhancing economic growth and national economies' resilience in the face of international financial instability, is a disturbing punch in the eye for the reactionary axiom positing an ontological separation between the market and the State, the first being the locus of *virtue* and the second one of *sin*. It is no coincidence that all over the Global South development banks are favored target of defamation and discredit attempts.

7 According to Nogueira, Guimarães e Braga (2019):

Current restrictions exist mainly for cross-border portfolio investment, debt financing and outward direct investment. For instance, domestic non-financial enterprises are strictly prohibited from extending any external loans. In the securities markets, foreign investors are not allowed to buy renminbi-denominated A shares, bonds or other market instruments, unless they have Qualified Foreign Institutional Investor (QFII) quota. There are also heavy controls on certain phases of foreign exchange transactions, such as restrictions on cross-border fund remittance and repatriation and RMB/foreign currency exchange related to capital account transactions.

(Nogueira, Guimarães e Braga 2019, p. 455)

8 "MMT is agnostic about the fiscal position per se as long as monetary sovereignty prevails; instead, MMT proponents focuses on the implications of the fiscal position for the economy". Tymoigne (2020), P. 11. In this respect, it worth mentioning that MMT correctly dismisses as ridiculous the typical conservative and moralistic fear-mongering argument according to which future generations will eventually be forced to pay for the profligacy of their fathers. The national debt, quite simply, is never going to be paid, and rightly so.

9 The likeliness of default for a monetarily strong country is virtually zero (see Zivney and Marcus 1989; Serrano Summa and Garrido Moreira 2019)

10 This long-term strategy inevitably implied to keep the standard of living of the population relatively low with respect to average productivity. As the latter was rising very rapidly, however, this constraint proved compatible with a continuous and fast (albeit uneven) increase in the incomes and consumptions of even the poorest population groups (see Schettino, Gabriele, and Khan 2021).

11 Source: WB WDI The investment ratio declined somewhat in the 2020s, but was still at 43.3% in 2019.

12 A national saving ratio higher than the investment ratio is consistent with BoP surpluses and the accumulation of foreign exchange reserves.

13 Contrary to Say's law, ex ante savings do not automatically create investment. It is true that in national accounts savings and investments are ex post equal by definition, but if private sector's willingness to save is not matched by a correspondent willingness to invest on the part of private or public agents the equilibrium is reached at a level correspondent to a national income lower than that which would have prevailed with more investment. This is the kernel of the fundamental Keynesian lesson. On the contrary, it is by and large true that investment automatically creates savings, through mechanisms such as the automatic stabilizers and the psychological mechanisms shaping individuals' propensity to save. This observation applies to any modern monetary economy, but is particularly true in a country like China, where in spite of the existence of non-negligible income inequalities there is not a numerically tiny yet dominant bourgeois class able to keep the bulk of the population hostage of its subjective saving and investment decisions.

14 See, Wray (2018) and Girón (2018).

15 A *grey rhino* is a threat that is clearly visible yet does not attract sufficient attention.

- 16 Of course, in practice, this is not fully the case, as local governments are ultimately controlled and supervised by the central government in a more firm and direct way than it is the case for the private sector.
- 17 It is fair to acknowledge that (even taking into account the structural weaknesses and risks implied by the very private nature of much of the US financial system) China's degree of MS is lower than that of the US, who enjoy the exorbitant privilege of being the masters of the currency that still dominates global trade and financial networks. Even in this domain, however, the relation of forces is slowly moving in China's favor, as the dollar's dominance is becoming less absolute than it used to be, while the international role of the RMB (China's currency) is very minor but gradually rising. To some extent this is a natural byproduct of the major transformations that have been occurring in the structure of the global real economy. However, China's policy makers are also prudently enacting some policy initiatives to foster and smooth this trend, pivoting *inter alia* on the synergies that can be generated by the long-term development of the BRI (see Thill 2020).

14 The dynamics of the new economic and social formation

Summary

14.1. Introduction.– 14.2. The political economy of market socialism.

14.1 Introduction

The analysis of what we call the “*hard core*” of the new economic and social formation is justified as we assume that the designations “socialist” or “capitalist” depends on the command on the strategic factors of production. In a modern economy dominated by monopolies and oligopolies, where a deep, vast and diversified financial system has already been established, the fundamental issue is to find out who controls large-scale banks and other financial institutions and industrial firms. The socialist kernel of the Chinese economic system, therefore, is to be found in developmental dynamics led by LSOBCs and mediated by large State-owned banks.

However, the internal dialectical logic of China’s socioeconomic system goes beyond its large State-owned sector. Nowadays, we can confidently state that the rejuvenation of socialism as an entity poised to overcome capitalism requires a profound reframing signification of itself and its way of operating. Gone are the days when an all-encompassing plan could pretend to organize the entire economy in a fully market-less fashion, including all microeconomic details. Yet, of course, a comprehensive planning horizon is still needed and it is contemporaneously relevant in terms of the productive forces’ development perceived in socialist economic and social formations, including – evidently – China. However, new theoretical issues come to the fore once we postulate that the very evolution of socialism from its very primitive Soviet-style mould towards the more realistic “*market planning*” approach has allowed the emergence of new combinations between different modes of production. Following Engels, we now need a new Political Economy for this new class of economic and social formation.

We showed above in Chapter 11 that both capitalist and non-capitalist new typologies of firms have emerged in China since 1978, with NCMOEs at the core, but including also small-scale trade and handicraft activities and small, medium and large-sized capitalist enterprises. As a result, the laws of motion

of contemporary socialist-oriented economies must compatibilize to some extent the intrinsic logics of different modes of production. In the new SEFs market mechanisms are not only allowed to work, but are deeply functional to the economic organism as a whole. The market itself is utilized, shaped and re-created to serve the ultimate goal of socialist construction and the attainment of the ethic and human development objectives it embodies.

14.2 The political economy of market socialism

The conditions under which men produce and exchange vary from country to country, and within each country again from generation to generation. Political economy, therefore, cannot be the same for all countries and for all historical epochs.

(Engels, F. [1878] 1990, p. 192)

The above citation is a good starting point for a crucial question that we are going to explore from now on: what is the fundamental operating logic of the Chinese economy and society? Which are the general features to be observed? The relationship between what is universal in a certain discipline (the core principles that define and structure that branch of knowledge), on the one hand, and its particular manifestations and adaptation that are required to optimally analyze one specific object, on the other hand, is a complex one. Moreover, even if in any science there are valid and established fundamentals, it is not possible to fully comprehend and analyze a new¹ object exclusively with the theoretical and interpretative tools that have been elaborated in the past to study those that were already in existence by that time. The creation of new tools at times eventually leads to a critique of the very fundamentals of the discipline, and thus to an overall progress of knowledge through a sort of Schumpeterian creative destruction process.

In our view, in the case of Political Economy, the new SEFs are sufficiently similar among them and distinct from other SEFs to justify a new investigative and theoretical effort to search for a set of principles that are *domain-specific*, optimally suitable to understand the own laws of motion of these new objects. Consistently with Engels' view, these principles are bound to be different from those that are specific to other kinds of SEFs, although they are not at odds with the universal tenets of Political Economy.² Their discovery would represent an ad-hoc adaptation and evolution of this social science, that might thereby acquire enhanced legitimacy. We hope to participate in the efforts being carried out by a still very reduced number of researchers in order to lay the basis for this urgent intellectual task.

Each historical epoch is distinguished by the mode of production that is dominant during most of its duration.³ However, in many cases explanatory theories have been emerging as one dominant mode of production was being replaced by another. This has been the case, for instance, since the Physiocrats' theories were adequate to a historical moment where the land was

understood as the main factor of production. The behavior of capitalism was the object of investigation that inaugurated Political Economy as a science by Adam Smith's genius. Its evolution opened the way to the theories of David Ricardo. Neoclassical *economics* was born as a reaction against Ricardo and his labor theory of value, reflecting a way of thinking typical of the old landed rentiers, and is still alive today as a reactionary intellectual perspective linked to the interests of financial capital.

There is *historicity* attached to each mode of production and its related theories, and the human capacity to plan is a fundamental achievement, as we pointed out in the first part of this book. Market socialism comprises different modes of production – like all other SEFs. However, their hierarchy and interrelations is a far more complex and deep issue in the case of market socialism than in those of other SEFs where the dominance of one MP over the others is self-evident to the point of being a no-brainer. The key interpretative and analytical challenge in understanding the essence of market socialism is how to properly visualize the relationship among its various MPs (each of which obeys its own specific basic principles and ways of functioning) and the resulting higher-level laws of motion operating in the dimension of systemic consistency and sustainability.⁴ The holistic outcome is the relatively harmonic – albeit still contradictory – *unity of opposites* that allows the new SEF to achieve an adequate degree of stability and to generate a powerful dynamic impetus.

Especially in the case of China, the most advanced among the new SEFs, it is important to acknowledge that market-oriented reforms were carried out in a context where strong consolidated economic and social planning institutions were already in place. These institutions allowed the People's Republic of China (PRC) to achieve basic industrialization, to set up a vast if rustic infrastructural network all over the national territory, to virtually eliminate illiteracy and to provide a minimum of food security to all the population. It is thus advisable to qualify Naughton's famous interpretative approach (see Naughton 1996). It is true that the remarkable growth acceleration in the early reform period was pulled mostly by the new agricultural and industrial activities carried out by simple commodity producers and SMEs "*out of the plan*". However, these novel actors were not operating in a vacuum. Notwithstanding the social disruption caused by the hasty demise of the communes, the fundamental institutional structures of the socialist State were still there, and after an initial period of hesitancy regrouped to strategically re-incorporate and harmonize the new producers in the wider framework of the national economic strategy.

Notes

- 1 The term new can refer to an object that either is in fact new (say, a new SEF, or a new technology) or was actually already existing, but was previously unknown to observers (i.e. a new species of fish, or a new subatomic particle). By the same

token, the wording *those that were already in existence by that time* is to be understood as meaning *those that were already in existence by that time, according to the observer's knowledge*.

- 2 We hope to make a modest contribution on a relatively specific subject. We are not foolishly pretending to be re-founding political economy as a whole.
- 3 In all historical periods since the Neolithic more than one mode of production has been in existence.
- 4 The need for intellectual caution in this endeavor cannot be overstated, because even the most advanced and well-thought analytical approach may be unable to capture some key causal linkages and systemic interrelations.

15 NDRC and SASAC

A quantum leap in China's planning and governance capabilities

Summary

15.1. From planless central plannings to a market socialism with many plans. – 15.2. The National Development and Reform Commission (NDRC). – 15.3. SASAC as a developmentalist tool. – 15.4. SASAC's protagonist role in industrial reforms. – 15.5. Walking on two legs: SOE strengthening and competition in the Xi era. – 15.6. The resilience of SOEs and their key role to counter the 2020 Covid-induced shock

15.1 From planless central plannings to a market socialism with many plans

We argued above (see Chapter 9) that the task of achieving a real and advanced *planning capability* constitutes a formidable challenge for any socialist-oriented State, that can only be progressively accomplished through a long and complex process of *institutional evolution*.

China has been no exception. During its first four decades of existence, when the People's Republic of China (PRC) was officially following the central planning model, it did manage to abolish private ownership, seize control of the means of production, and promote rapid (albeit uneven) economic growth. Yet, in spite of the establishment of the Soviet-styled *State Planning Commission* (SPC) as early as in 1952, it is a historical fact – albeit an often overlooked one – that in practice “*Four out of the five Five-Year Plans during Mao's reign were never released and the only one—the first one—was released three years after its implementation. Frequent changes to plans rendered planning superfluous.*” (Gore 2012, p. 7).¹ Actually, far from being useless, the SPC was busy and broadly successful in running

the economy (the industrial sector in particular) with or without a plan due to the absence of the market to allocate resources. It for example had to allocate investment capital, ensure the supply of inputs to a factory and the procurement and allocation of its products; it also had to manage the transportation of goods and supplies, set their prices and ration them to the consumers and producers....

(*ibid.*, p. 7)

Yet, the SPC was unable to plan in the proper sense of the word.

A modest step forward towards a less centralized and more functional articulation of the governance of the State-run economy was walked in 1956, when the *State Economic Commission* (SEC) was created, with the task of taking over the most mundane tasks related to day-to-day management, thereby partly relieving the SPC of its previously totalizing duties and allowing it to focus more on plan-like activities such as setting macro-targets and prices and allocating key capital and other resources.

However, any progress in this domain was wiped out by the Cultural Revolution, which led to the paralysis of the SPC. In the early reform period, the State strived to re-build key economic bureaucracies, but with little success.² In 1988 the SEC was reabsorbed into the SPC, but – according to the progressive acceptance of market socialist principles, that implied a withdrawal of the State from most day-to-day industrial management tasks – the new reformed planning commission was made much leaner and was relieved of many of its former tasks.

This reform was consistent with the basic tenets of China's new market socialist development path but was only partly successful. Among other things, it soon became apparent that the principle “*the state regulating the market and the market guiding the enterprises*” (see Jeffries 1993) was easier said than done: as the bulk of the industrial sector was constituted by traditional SOEs and the development of markets was still relatively embryonic the State could not do without administrative microinterventions in the management of single enterprises.

However, according to the only apparent paradox of history³:

...development planning has become much more comprehensive, sophisticated, and systematic after China embraced market economy. All the five-year plans after Mao have been duly announced, as have the annual plans. Since the 9th Five-Year Plan a system of regular progress reviews has also been established. Local and sectoral plans have proliferated and local development planning has also become the focal point in the rivalry and competition among local governments.....for the 10th Five-Year Plan (2000–5) period, central bureaucracies came up with 156 sectoral plans (transportation, energy, information industry, education, public health, housing etc.) and there were more than 7,300 plans drawn by local governments and their departments at the county, municipality, and provincial levels. NDRC faces with the daunting task of balancing and integrating all these plans.⁴

(Gore 2012, pp. 10–11. See also Li Shantong, Hou Yongzhi and Feng Jie 2021)

15.2 The national development and reform commission

This decades-long process of upgrading planning institutions was not smooth and linear. It went through periods of acceleration and deceleration, and more than once it became apparent ex post that reformers had been marching

on a wrong path and the driving direction had to be corrected. In this back and forth journey, March 2003 represents a watershed moment, as in that month the two most important new and successful planning institutions – the NDRC and the SASAC – were set up. Here we briefly illustrate the nature and functions of the former, while a more thorough analysis of SASAC is presented in the remainder of this chapter.

The National Development and Reform Commission was established in March 2003, replacing the SPC. Its is

responsible for formulating and implementing strategies for national economic and social development and coordinating major economic operations. The NDRC submits a plan for national economic and social development to the National People's Congress each year on behalf of the State Council. It also oversees the National Energy Administration and State Grain and Reserves Administration.

(USCBC 2018)

NDRC's main functions are

To formulate and implement strategies of national economic and social development, annual plans, medium and long-term development plans; to coordinate economic and social development; to carry out research and analysis on domestic and international economic situation; to put forward targets and policies concerning the development of the national economy, the regulation of the overall price level and the optimization of major economic structures, and to make recommendations on the employment of various economic instruments and policies; to submit the plan for national economic and social development to the National People's Congress on behalf of the State Council....

To monitor macroeconomic and social development trend and provide forecast, warning and information guidance; To direct, promote and coordinate the restructuring of the economic system; to study major issues concerning the restructuring of economic systems and opening up to the outside world; to formulate plans for the comprehensive restructuring of economic systems...

To plan the layout of key construction projects and productivity; to formulate regulatory targets, policies and measures concerning the total size and structure of fixed asset investment in the whole society; to arrange and coordinate dedicated plans that involve central government investment and key construction projects in accordance with balanced needs; to arrange fiscal expenditure for economic construction; to approve, authorize, and review key construction projects, "foreign-funded" key projects, key investment projects for overseas resources development, and investment projects utilizing large amount of foreign exchange as mandated by the State Council...to guide private investment....

(NRDC 2017)

The core of NRDC power resides in

the allocation of various government funds... investment capital and projects, the coordination of major local investment projects, the determination on technologies and technological standards, the coordination and the adjustment of the operation of the national economy ...NDRC plays an indispensable role as gate keeper of the economic activities of the SOEs and local governments because market forces often cannot regulate them effectively... NDRC is now doing what SPC did for decades: screening investment projects on criteria of existing capacity, technological standards, environmental impact, capital requirement, macroeconomic situation, and the strategic importance of the industry....

As the main body for the governance of the national economy, NDRC is endowed with extensive research capabilities...

NDRC is a unique product of China's political economy and is deeply rooted in a past tradition grown out of the planned economy era and an economic reality in which state-ownership of land, resources, and capital assets is still extensive and state agencies, local governments, as well as state-owned enterprises continue to play a dominant role. Both its macro-regulatory and micro-management roles bear the birthmark of the legacy of a command economy that continues to shape the way it operates. The packaging of the macro-and micro-roles in one super-agency tends to lead to the habit of conducting macro-regulatory policies through micro-management of economic issues, which in turn leads to pervasive state intervention in the marketplace and rapid expansion of NDRC's power, especially during economic uncertainties.

(Gore 2012, pp. 11–13)

In a nutshell, the NRDC inherited most of the functions of the SPC and the SET. The key difference with respect to the past is that now, thanks to the major quantitative and qualitative institutional progress achieved over time, and to the existence of an enabling context brought about by the consolidation of the socialist market economy, the NRDC is now in a position to really and effectively (albeit not perfectly) carry out such a mammoth task.

15.3 SASAC as a developmentalist tool

Between 1997 and 2000, a major merger and bankruptcy plan was launched, and between 1998 and 2000 the “*iron rice bowl*” principle – which guaranteed, for example, lifelong jobs – was abandoned (Holz 2018, p. 16). Subsequently, the focus of policy makers shifted towards SOE corporatization, which required the creation of a new specialized *principal* to replace the vast tangle of old planning institutions that used to run public industry since the Soviet-style model epoch.

SASAC was established in 2003 as a holding body directly dependent on the State Council, substituting nine ministries that previously mediated the

relationship between the central government and SOEs.⁵ Initially, SASAC was bestowed 196 of the country's largest enterprises, which were envisaged to be reduced to 80–100 by 2010. SASAC is the LSOBCs' main investor and regulator, and plays a key role in the long-term strategy to enhance China's productive macro-sector.

Chen (2017) stresses the centrality of SASAC⁶:

The establishment of the SASAC constituted a most important change in the dynamics of state and market interaction⁷. Some claim that the SASAC is a puppet institution that does not wield real power and that the central SOEs, maintain autonomy in decision making and profit distribution, and are free to make managerial decisions whenever needed. Some believe that the SOEs are more likely to take political orders as their priority, rather than promoting their economic interests. Others believe that the enterprises are rational players that will act to maximize their interests. How does the principal-agent set up and use regulations and procedures to help others to share their goals with him? "Through the design of careful selection procedures, principals may succeed in hiring agents who share and so naturally pursue their interests."

(Chen 2017, p. 144)

On the other hand, Naughton (2006, p. 2) is more skeptical on the benefits accruing to the country as a whole from the role of SASAC as an articulator of the public ownership's centrality over the Chinese economic organism:

In the past few years, amidst a strong recovery in profitability at state firms, government ownership in the economy has stabilized. A tier of large, centrally government-controlled firms has been demarcated and a rationale for continued public ownership articulated. (...) Attention has shifted to governance of state-owned firms. A powerful new body, the State Asset Supervision and Administration Commission (SASAC) has gained control of the state enterprise reform agenda. SASAC's vision contains much that is attractive, and that would improve governance, transparency, and ultimately performance of publicly-owned firms. However, SASAC also sees its mission as maintaining and increasing the value of public assets. Moreover, as the government agency charged with exercising the authority of ownership, but without a privatization mandate, SASAC understandably interprets "reform" in a way that is consistent with its own bureaucratic interests, which include maintaining a large state sector.

(Naughton 2006, p. 2)

Naughton's warning has its merits. It would be naïve to claim that SASAC has found the magic wand to perfectly align each functionary's incentives with the maximization of national welfare. Yet, we do believe that the establishment

of SASAC has indeed constituted the single most important institutional innovation in the whole process of industrial reforms. According to Holtz:

By the end of 2003, SASAC was in charge of 196 (non-financial) conglomerates, i.e., large holding companies that themselves owned multiple subsidiaries. Industrial conglomerates dominate the list of SASAC's SOEs—with 34,280 state-owned and state-controlled industrial enterprises alone (Industry Statistical Yearbook 2003, p. 54)—but the list also includes the three major airlines and the three telecommunications firms. In 2005, SASAC organized 21 sectoral restructuring programs as well as a “final” round of policy-related bankruptcies of large enterprises. By late 2018, the number of SASAC conglomerates had shrunk to 97, mostly through mergers (with 124,966 individual enterprises in 2015).

(Holtz 2018, p. 16)

15.4 SASAC's protagonist role in industrial reforms

Once in existence, SASAC played an important role in all the major reforms subsequently enacted by the GOC in the framework of the process of radical restructuring of China's public industry (Holtz 2019), which led to the formation of the LSOBCs. The first reform was aimed to regulate the divestment of small and medium-sized SOEs, many of which were initially carried out via management buyouts during the process of restructuring and privatization, to avoid or minimize phenomena such as asset stripping, corruption, and the emergence of a new class of millionaire mafia-like oligarchs.

Another important policy initiative was the transformation of non-tradable State-owned assets listed in the stock markets into tradable shares, albeit maintaining a high degree of control on the firms:

In 2001, the China Securities Regulatory Commission (CSRC) implemented a sell-off of state shares that triggered a massive market decline and was subsequently stopped. In 2005, SASAC supported a second attempt by the CSRC to transform non-tradable state shares into tradable shares. This second round was conducted on a company-by-company basis (requiring approval by a two-thirds majority of public shareholders) and typically involved giving private shareholders 3 bonus shares for every 10 tradable shares they held, while government holders of non-tradable shares had to agree to sell no more than a small proportion of their shares during a 3-year lockup period. SASAC's role in the transformation was that of the owner of SOEs, pursuing the smallest possible dilution of the value of state holdings.

(Holtz 2019, p. 17)

In 2006, China's industry was clearly classified into three large categories, according to a functional criterion based on their respective strategic nature:

i) *Key industries*: defense, electricity, oil and gas, transport, aviation and railways.

ii) *Pillar industries*: Automobiles, chemistry, steel, construction, electronics, machinery, non-ferrous metals, geotechnical prospection and technology.

iii) *Normal industries*: Agriculture, pharmaceuticals, tourism, investments, professional services, trade and manufacturing.⁸

SASAC Chairman Li Rongrong stated on December 11, 2006 that:

State capital must play a leading role in (key industries), which are the vital arteries of the national economy and essential to national security. In these sectors, State-owned assets should expand in volume and optimize in structure, and some key enterprises should grow into leading world businesses.

(Zhao Huanxin 2006)

The State would also maintain '*relatively strong control*' (SASAC 2006) on pillar industries, while minimizing its intervention in normal industries.

15.5 Walking on two legs: SOE strengthening and competition in the Xi era

Since Xi Jinping took over, it became clear that he was going to be a more forceful, ambitious, and transformational leader than his predecessors, and that the Chinese Communist Party (CPC) was becoming bolder and more forceful in resetting the basic functions of market and government. In this respect, however, it is interesting to note that while in the early Xi's era the pendulum appeared to swing towards the market, eventually the policy moved back towards doubling down on the key role of SOEs, prioritizing their strengthening and the firm command to be exerted on them by the State and also, directly, by the party itself.

The "*Decision on Several Major Questions About Deepening Reform*" and the *Communiqué* issued by the Third Plenum of the 18th CPC Central Committee formally upgraded the role of the market forces in allocating national from *basic* to *decisive*, instructing the State to focus on five (yet paramount) tasks: macroeconomic management, market regulation, public service delivery, supervision of society and environmental protection. Yet, while it mandated several measures to promote competition and appeared to stifle SOEs' empire-building and monopolistic temptations (such as raising their dividend

payout ratio from 10–15% to 30%, and encouraging private participation in SOEs' investment projects), it confirmed

a commitment to a very large SOE role in economic development. The Communiqué and the Decision both make clear that state ownership must still play a “leading role” in the economy while privatization is off the table. Subjecting SOEs to much more intense competition and tighter regulation appears to be a big part of Xi's agenda.

(Kroeber 2013)

Another very important 2013 policy document showed that the government clearly realized that the industrial planning had to become value-based⁹ and that SASAC would be playing a key role in this transformation:

the mandate of the State-owned Assets Supervision and Administration Commission (Sasac), which oversees the 100 or so big centrally-controlled SOE groups, will shift from managing state assets to managing state capital. Forcing SOEs to pay attention to their capital rather than their assets implies a much stronger emphasis on efficiency.

(Kroeber 2013, See also Jacobb 2013)

In September 2015

the State Council published a new set of “guiding principles” for SOE reform. The document was more conservative than expected. Rather than allowing the market to decide the future of SOEs, the State Council proposed utilizing market mechanisms to make SOEs bigger, stronger, and more efficient, while maintaining control by the government. The 2015 guiding principles reiterated a 2013 Third Plenum goal to transform the government's role in managing SOEs from “managing assets” to “managing capital.” The plan was to allocate state capital toward strategic industries and reduce direct intervention within SOEs' day-to-day operations, thereby improving efficiency. The government also stated that it would strengthen SOE corporate governance but made clear that it viewed Communist Party supervision as critically important.

(Asia Society Policy Institute 2020, p. 31)

The latter stance was confirmed in 2017, when the GOC further fostered SOE corporatization government and the establishment of boards of directors, but also mandated the enterprises to formally make explicit the role of Communist Party committees into their articles of association, giving the Party oversight for all strategic decisions:

In October 2017, Qi Yu, deputy head of the CPC Organization Department, said that by the end of last year, 93.2 percent of some 147,000 SOEs

had already set up CPC organizations. As part of the party-building efforts, SOEs redrafted their by-laws to add clauses that give core roles to party committees in their governance structure. Since 2016, numerous national and local SOEs, including more than 30 SOEs listed in Hong Kong, have completed redrafting their by-laws.

(Ip 2017)

15.6 The resilience of SOEs and their key role to counter the 2020 Covid-induced shock

In the late 2010s, the State's relative strength (in terms of assets, revenue, and profits) in the three industry categories has declined smoothly but is still substantial. For instance, between 2014 and the 3rd quarter of 2020, SOEs' revenue share fell from 90% to 83% in key industries, from 52% to 44% in pillar industries, and from 20% to 15% in normal industries. SOEs' profitability is still lower than that of POEs' (mostly due to the former's mandate to pursue strategic goals rather than profit maximization). Yet, their financial health improved markedly, as its leverage ratio decreased (from 62% in 2014 to less than 58% in 2019), while that of POEs increased and is now virtually almost equal to that of SOEs.¹⁰

In 2019–2020, China kept strengthening both State and Party control on SOEs. The CPC would keep appointing SOE leaders, reviewing important proposals before the board of directors, and deeply integrate its cells with SOE production and operations. In a parallel fashion, it launched a new private-sector support plan, promising more market access and legal protection and urging government bodies and SOEs to speed up the processing of accounts payable to private firms (Asia Society Policy Institute 2020).

In 2020, SOEs powerfully contributed to maintaining high China's investment rate at a time when many POEs were frightened by the pandemic-induced downturn:

...economic downturns especially post-COVID, there's a different argument (sic), "said Wang Dan, chief economist at Hang Seng Bank China, adding that the private parties are not investing in such a difficult time to reduce financial pressure and thus the SOEs are the only hopes for China to achieve quick economic recovery.

"This is exactly what happened after the COVID-19 breakout. We saw that SOEs are the ones which return to production first, and then their suppliers from the private sector can also recover," elaborated by Wang.

(Xia Cheng 2021)

As this book goes to printing, other hints are emerging showing SOEs' resilience. According to Li Hanshi, deputy director of Enterprise Reform Research at SASAC, The number of Chinese SOEs in the global top 500 companies list increased to 80 from 67 between 2017 and 2019. The total operating income and profits of SOEs have increased by nearly 20%... the

total profit of central SOEs has increased by nearly 30% with 770,000 valid patents. The number of Chinese SOEs in the global top 500 companies list gained to 80 from 67 between 2017 and 2019. “The total operating income and profits of SOEs have increased by nearly 20%,” said Li Hanshi, deputy director of Enterprise Reform Research at SASAC, adding that “the total profit of central SOEs has increased by nearly 30% with 770,000 valid patents. ... Despite the COVID-19 pandemic effect, which dragged down SOE revenues in 2020, net profits of China’s 97 centrally-administered SOEs grew by 2.1% on a yearly basis to 1.4 trillion yuan in 2020, while nearly 80% of the central SOEs posted growth in net profit on a yearly basis”. (Xia Cheng 2021 b. See also GT 2021)

SOEs have almost totally abandoned most consumer sectors, such as logistics, retail, textiles, and electronics, while intensifying their activities in other ones, especially telecom, where they pursue non-profit goals such as systemic nationwide technical advancement and poverty reduction, by setting up digital infrastructure in rural or remote regions to foster economic modernization.

In March, 2020 China launched a three-year action plan for SOE reform., One of its core components was a 200 billion yuan national fund, aimed at facilitating the mixed-ownership reform of SOEs. By introducing private investors as stakeholders, the reform is expected to optimize SOEs’ze corporate governance and enhance their operational efficiency.

According to SASAC spokesperson Peng Huagang:

None of the key projects involved in China-proposed Belt and Road Initiative (BRI) have been suspended for reasons connected with COVID-19...81 centrally administered state-owned enterprises (SOEs) have undertaken more than 3,400 projects in economies along the routes of the BRI. So far, more than 600 have been completed...Construction work for the Jakarta-Bandung high-speed railway and China-Laos railway is on schedule, he added, and 65 companies have moved into the China-Belarus industrial park, with total agreed investment of \$1.22 billion.

(Global Times 2021)

Notes

- 1 Far from being useless, the SPC was busy and broadly successful in running the economy (the industrial sector in particular) with or without a plan due to the absence of the market to allocate resources. It for example had to allocate investment capital, ensure the supply of inputs to a factory and the procurement and allocation of its products; it also had to manage the transportation of goods and supplies, set their prices and ration them to the consumers and producers...

(Gore 2012, p. 7)

- Yet, the SPC was unable to plan in the proper sense of the word.
- 2 Arguably, from 1978 to the early 1990s the remarkable acceleration of GDP growth was indeed mainly a product of liberalization and the restoration of some basic markets, and thus the famous catchword “*Growing out of the plan*” contained more than a grain of truth (see Naughton 1996). Subsequently, however, the plan has been progressively coming back with a vengeance.
 - 3 Broadly speaking, it is natural that planning is made easier and more feasible in a context where most prices are set by markets and enterprises enjoy a certain degree of autonomy. In such a situation, the planning agency can focus on a limited number of strategic tasks, such as plan formulation and monitoring, intelligence gathering and forecasting, setting a few key macro-prices, and the like.
 - 4 See Li Shantong, Hou Yongzhi and Feng Jie, “Planning system: a key link in constructing a market economy” (Research Series on Perfecting the Socialist Market Economy, Report No. 15), available online at: <http://doc.mbalib.com/view/7b484e39e678251ef399e6407eb87b67.html>.
 - 5 The number of institutions exerting various and overlapping forms of authority on SOEs had a negative correlation with the firms’ performance. In fact, the latter improved markedly after the establishment of SASAC.
 - 6 SASAC’s role can be compared to Japan’s Ministry of Industry and International Trade and to South Korea’s Department of Economic Planning (see Johnson 1982; Amsden 1992). As usual with the PRC, however, similarities with other countries should not be overestimated, as in China the sheer scale of everything tends to be much larger and the ultimate goals of policy makers are different from those of capitalist governments.
 - 7 Peck and Zhang (2013, p. 388) suggest that the Chinese model used market links to create an “*alternative project for market rules utilization*”.
 - 8

The concepts of “strategic”, “key”, “backbone” and “pillar” sectors have a long history in China, but it was only in 2006, and after the establishment of the State-owned Assets Supervision and Administration Commission (SASAC) in 2003, that the Chinese Government more clearly delineated the role of the State in these categories of industries. SASAC was mandated to own and manage State assets at the central level, while giving guidelines for SASAC bureaus in local governments.

Poon (2014, p.10)

- 9 We argued above that this new policy stance, besides its practical and efficiency-enhancing, carried a paramount theoretical and ideological weight (see Chapter 7).
- 10 This progress has led SASAC to cautiously soften its *austerity* stance:

State-owned enterprises’ credit ratings are at a good level and their bond size is generally reasonable, Peng Huagang, spokesperson of State-owned Assets Supervision and Administration Commission, said at a briefing Tuesday. SASAC is responsible for managing SOEs.... Beijing has bucked the global trend of greater economic stimulus since last year and instead chosen to resume its long-term battle on debt. Policy makers have allowed for tighter liquidity in the financial system and tolerated a surge in bond failures by state-linked firms in recent months. However, the latest rhetoric from the state asset regulator suggests the authorities are growing wary of going too hard on a deleveraging campaign that has swayed in magnitude in recent years as policy priorities shifted

(Bloomberg 2021).

16 The new projectment economy

Summary

16.1. Rangel in Beijing. – 16.2. The double evolutionary process of political economy. – 16.3. Cost, benefit, and welfare – 16.4. The noumenal difference between a capitalist economy and a projectment economy. – 16.5. The fall and rise of projectment economy between the XXth and the XXIst centuries. – 16.6. Final remarks. – Box 16.1. Projectment, Socialism, And Reason – BOX 16.2. The Chinese Communist Party

16.1 Rangel in Beijing

The most recent phase of China's development strategy pivots on the quest for a stronger and more effective degree of control and command of the State on the national economy, albeit reaffirming in parallel the role of market forces and the willingness to leave ample room to the activities of *patriotic* private entrepreneurs – as far as the latter is consistent with government-set national priorities, generate virtuous synergies that smooth the country's path towards an ever-increasing level of welfare for the population as a whole, and do not attempt to cross the CPC or attempt to aggrandize themselves in the political domain.¹

This recent evolution is still embryonic and its very existence as a new evolutionary stage of China's market socialist trajectory is far from being an established fact. Yet, it potentially conveys major and far-reaching implications for the perspectives of socialism itself, in China and in the rest of the world. Therefore, we deem it not foolish to propose some tentative theoretical and philosophical remarks on this issue, utilizing as a starting point the seminal contribution of a still insufficiently recognized Brazilian economist, Ignacio Rangel.

16.2 The double evolutionary process of political economy

Rangel introduced the concept of *projectment economy* in his magnum opus “*Elementos de Economia do Projtamento*” (1959). In order to concisely convey a few key elements of his thought, however, it is useful to begin referring to an

earlier work, where Rangel, following Kant, argues that political economy obeys a double evolutionary process:

Political economy² is a historical science par excellence – a quality that it shares with the other social sciences. This means that it is subjected to a double evolutionary process: the phenomenal and the noumenal. And it also means that, unlike the natural sciences, especially those of the non-living nature, it cannot be studied except in this double context.

Rangel (2005a [1956], p. 204)

This view is very different from that of *vulgar economists*:

Vulgar economists explicitly admit only the phenomenal evolution of the economy. Each new theory emerges as a result of a more accurate representation of the transcendent reality, which, explicitly, would always remain the same. Thus the Smithian analysis would be, in comparison with the Physiocratic one, only a more perfect representation.

(Rangel (2005a [1956], pp. 204–205)

Thus, in contrast to the *vulgar* perspective:

If we admit that the economy, in addition to this “phenomenal” evolution (as a representation, as an idea of the thing, as a ‘thing for us’, in the Kantian sense), is also susceptible to another evolution (the “noumenal” evolution as an object, a represented thing, ‘thing in itself’) we will be led to a more respectful attitude towards what the ancients thought. This thought would perhaps be hindered by the method’s shortcomings, by the imperfect instruments of analysis, but it would contain a kind of truth that was not transmitted to the most recent theories by the simple fact that it reflected a reality that ceased to exist, that was transformed, by its own internal impulse into another reality.

(2005a [1956], p. 205)

The *phenomenal* evolution is directly related to history. The projectment perceived by Rangel in the evolution of capitalism under the Keynesian Consensus, but above all in the economic evolution of the Soviet Union, was something more practical (*noumenon*) that was developing in parallel with the theories and categories (*phenomenon*) that evolve over time and feed on the problems and solutions faced by successive approximations, systematizing the analysts’ experiences (Castro, 2014, p. 206). Historical evolution itself, with the emergence of modes of organizing and planning the production of commodities, gives rise to theories better able to explain the overall process in both its historical and present dimensions. It is in this light that the *projectment economy* at the time of Rangel, Design Economics, and the *New projectment economy* at present shall be conceived.

16.3 Cost, benefit, and welfare

Rangel's starting point in "*Elementos de Economia do Projectamento*" is to highlight cost and benefit as the fundamental categories of *projectment*:

Cost and benefit, in the sense used here, are the fundamental categories of *projectment*: useful abstractions to guide the solution of implicit problems, (...). The whole theory of *projectment* is ultimately an effort to clarify these two terms, so that we can rationally come to terms with them ... The mission is to find the common name for the two terms of the cost/benefit ratio from an economic point of view...

Wealth is the quality that certain things have to be useful to human society.
(Rangel 2005c [1959], pp. 366–367)

These passages tell us some foundational characteristics of the *projectment* economy. The first is the role of planning at the core of the process of the allocation of production factors and resources. Hence the meaning of the term *reason* as the device to achieve an optimal relationship between costs and benefits, in order to enhance the fulfilling of the material and spiritual needs (i.e., the holistic welfare³) of the population on which the *projectment* itself has an impact. Here Rangel, by the way, was avoiding entering any void controversy on the difference between *plan* and *project*: the *plan* has a macroeconomic dimension, while the *project* has a microeconomic one (usually directly related to the activity of one or more enterprises), and the term *projectment* is to be understood as a holistic combination of both.

16.4 The noumenal difference between a capitalist economy and a *projectment* economy

The *noumenon*⁴ of a capitalist economy is the market as the driving force spurring wealth generation, with exchange value as its North Star. Correspondingly, the commodity acts as the kernel of the social system and the foundation of its moral values, as commodity fetishism shapes its own self-perception. and moralizing values (for example, the fetish of commodity as a state of consciousness of a society). In a *projectment* economy commodity fetishism is superseded by a *noumenon* where the cost/benefit relationship becomes the paramount tool to collectively maximize societal welfare:

"The welfare category ... is the new basis for economic calculation. *Plan* and *project*, through the selection of techniques and allocation of resources, are its fundamental instruments. This differs from capitalism, where the production of use values is regulated by the market through value, whether it is explained by work, for the classics, or by marginal utility, for the neoclassicals.

Castro (2014, p. 208)⁵

The aforementioned *maxi-rationalization* of the production process can be perceived as a consequence of what Rangel (2005c [1959], p. 378) calls the “*invitation to change*”, represented by the global and specific effects of each project on the economy and on the society as a whole. Following Hegel- and openly rejecting Rosenstein-Rodan’s (1943) theory of “*balanced development*” – Rangel conceives development not as a permanent search for balance, but as a process that is kick-started by the exogenous generation of new imbalances (changes). The latter takes two forms, one of them being related to technological progress and the other to inter-sectoral distribution of social resources (Rangel 2005c [1959], p. 379).

Less abstractly, projectment proceeds by means of leaps from one imbalance to another, until the moment when technology becomes the paramount instrument through which reason drives the production process: “*The development project... by itself and by the changes it induced in others, leads to the sought-for result of welfare improvement*”(Rangel, 2005c [1959], p. 378):

16.5 The fall and rise of projectment economy between the XXth and the XXIst centuries

The USSR collapse conveyed to most of the world the message that ideas and ideals such as equality, socialism, and a fortiori the more obscure and apparently abstract concept of projectment economy had been thrown forever in the dustbin of history.⁶ This epochal geopolitical, ideological, theoretical, and moral Waterloo paved the way to novel and even more vicious forms of North-South domination led by US imperialism, among which the most extreme were *military keynesianism* and *hypofinancialization*.⁷ Among the many military and non-military tools at the disposition of the latter, one of the most egregious were the international financial institutions, with their sacred mission to perpetuate and exacerbate the uneven and neocolonial structure of the global market relations.⁸

A rapid regression towards grotesque, Victorian levels of inequality unfolded even inside the core capitalist countries (see Piketty 2020). Japan and the Asian NICs were also affected by the global Restoration drive. Their respective States lost much of their strength and capabilities, losing their former developmentalist shine and falling at the mercy of the irresistible hyper-financialization trend.

Few observers, at the time, realized that the basic principles of the projectment economy were undergoing a Renaissance in China and Vietnam, in a novel version that would prove itself to be more dynamic and resilient than the traditional one. This comeback, as argued above in, had been initiated in both countries by the rural reforms and the emergence of new agricultural NCMOEs, and deepened afterwards by the reform and subsequent corporatization of SOEs and by the enactment of forceful industrial policies, setting the stage for the outset of the market socialist model (see above, Parts II and III).

In China, beginning during the 10th 5-year plan (2000–2005), a further and qualitatively more advanced stage of development was emerging, characterized by a major upgrading of the State's projectment capabilities and by the shift of policy makers' priorities away from quantitative gross domestic product (GDP) growth per se and towards increasingly prioritizing technological progress, indigenous innovation, environment protection, and the overall enhancement of the population's standard of living.

Taking into account China's size and its central position in the international division of labor, these advancements lead some analysts to foresee that the new cycle of innovations will have China as its central stage:

The industrial revolution that will be needed to mitigate environmental damage and adapt hostile habitats would involve transnational public goods, heavy investments and institutions to deal with new systemic risks. China not only has an acute need, but also the financial resources and the political will to allocate large savings reserves to this supreme priority.
(Aglietta 2016, p. 124)

At the same time, revolutionary transformations are taking place in the field of the productive sphere with the spreading of new technological paradigms – a process commonly called the 4th Industrial Revolution – creating a new manufacturing pattern that will convey a paramount and still unimaginable impact:

The industry of the future will be part of this immense global digital network in the process of being formed. Industrial automation will be articulated over the internet, encompassing all production chains from the supply of raw materials, inputs, parts and sub-assemblies, through the manufacturing, distribution, commercialization processes and reaching consumers. The possibility of virtualizing, online or in real time, the operation of entire chains, through advanced computing systems, will allow to significantly optimize efficiency and productivity. (...) This new standard of connected and intelligent manufacturing will also benefit from notable advances in robotics and so-called additive manufacturing (3D printing). Machines, equipment, robots, 3D printers will gain their own cognitive skills, based on advances in Artificial Intelligence (AI). In effect, the connected digitalization of production networks will provide for the accumulation of data on a large scale (the so-called Big Data).
Coutinho (2018, p. 57)

China has now advanced very much on this path, and has actually reached the technology frontier in some areas, such as high-speed railways:

In this connection a new model has emerged in recent years, in which the main vehicles of the development of frontier technology are the

SOEs. The development of high-speed railway technology is a prominent case. (...) China started to import world-frontier technology in high-speed rail in 2004, with the targets of building up 200 km/hour trains in the first stage and 250 km/hour trains by 2009 (...). The targets were more than achieved. Not only did domestic firms fully assimilate the imported technology, but they also managed to improve upon it. By 2010 quite a number of railways had put into full operation trains with speeds ranging from 250 km/hour to 350 km/hour. By 2011 an entirely domestically produced train even managed to test the speed of 500 km/hour.

(Lo e Wu 2014, p. 320)

China's very success in its catching-up drive implies that the benefits it can still obtain through absorbing foreign technologies are bound to and will rapidly diminish. Besides that, the new quasi-cold war launched by the US and some other Western countries is forcing China to move in a relatively more autarkic direction. These trends lead the People's Republic of China (PRC) to (metaphorically) revert to Mao's famous call: *We stand for self-reliance. ... we depend on our own efforts, on the creative power of the whole army and the entire people* (Mao Zedong 1945). In other words, PRC must double-down on the intensification of its own R&D efforts to enhance its indigenous innovation capabilities. Consistently, the 14th 5-year plan (2021–2025) mandates a major increase in R&D spending:

According to the five-year plan, China intends to increase spending on research and development (R&D) by more than 7% annually. Li said that central-government spending on basic research would also increase, by 10.6% in 2021, which Cong says is higher than the average annual increase over the past five years. (Mallapaty 2021, p. 3)

16.6 Final remarks

The evolution of China's projectment capabilities has unfolded through three phases:

- 1 the successful absorption of some key elements of Soviet-style central planning, that allowed the PRC to build up a vast industrial base (1949–1978);
- 2 the transition from Soviet-style central planning to market socialism and market-compatible planning, that led to a major acceleration of economic growth and to extraordinary gains in terms of human development and technical progress. Major, gradual, and mostly gradual incremental quantitative and qualitative advancements were made also in the domains of institutional and financial, and legal development (1978–late 2000s/early 2010s).

- 3 (possibly) the passage to a new stage in the evolution of the market socialism model, made possible objectively by the cumulative impact of the enormous progress made since the 1980s, to the point of turning (metaphorically) more and more the quantitative process in enhancing the State's governing, management and projectment capabilities.

The enhancement of the role of plans and large projects, as well as other policies and institutional changes (such as the strengthening and formalization of the Party's direct participation in the governing of both public and private enterprises), herald an effort to intensify the relative role of rationally conceived and formulated proactive State-led actions in the economy as a whole, while gently downgrading that of automatic market regulation mechanisms. This evolution does reflect to some extent a subjective policy shift on the part of Xi's leadership, but it is not a voluntaristic bravado. Actually, it is consistent with the objective maturing of the Chinese State's planning capabilities, which makes it now rational and relatively risk-free for policy makers to engage in endeavors that would have been unrealistic even ten or fifteen years ago. If confirmed, this passage can be regarded as marking the beginning in China of a *New Projectment Economy*.

With a rustic simplification, it could be said that China's market socialism is gradually becoming a bit less market and a bit more socialism – albeit without forgetting the hardly learnt lessons on the folly of fighting quixotic battles against the MMP, forsaking the cardinal principle of market-compatibility in planning.

BOX 16.1 Projectment, socialism, and reason

The term projectment was proposed by Ignacio Rangel in his magnum opus "*Elementos de Economía do Projetamento*" (1959).

Projecting can be understood according to various subtly different, albeit not mutually contradictory connotations. The first and most general one, which we introduce in Section 16.3, is the holistic and harmonic fusion of plans and projects, and thus refers broadly to any attempt to intervene systemically and consistently in the economy to achieve outcomes that are superior (in terms of social welfare) to those that would stem from the automatic unfolding of unfettered market forces. In this first *weak* and most general connotation, the word projectment is not exclusive to socialism, but can apply also to the mainstream set of governance activities and economic policies that are routinely carried out in capitalist countries.

A second, stronger connotation identifies projectment with an historical process where the act of projecting large-scale investments

becomes increasingly central to the overall development strategy. In this context, the economist and the project engineer become the protagonists of the State's intervention in the economy. After the demise of the USSR, this vigorous kind of projectment is now coming back with a vengeance, allowing policy makers to go increasingly (even if not completely) beyond the constraints imposed by the law of value. This kind of projectmen unfolds not only in the productive macro-sector but also in the non-productive one, with the large-scale provision of public goods, basic and not-so-basic services.

In any case, the concept of projectment is intrinsically and strongly correlated with those of will, reason, freedom, and happiness. Projectment is the main avenue through which the collective societal aspiration to better its lot utilizes rational and scientific knowledge to emancipate itself from the limits imposed by impersonal market forces, achieving a higher level of well-being.

BOX 16.2 The Chinese communist party

The crucial leading role of the CPC is solemnly enshrined in the country's Constitution. An Amendment was adopted on March 11, 2018 by the National People's Congress (NPC), that partly modified Article 1, paragraph 2 of the text. The amendment included a new sentence, which reads "*The defining feature of socialism with Chinese characteristics is the leadership of the Communist Party of China.*"⁹

The Party's dominance, therefore, is not simply a de facto reality, but a key institutional feature.

In the realm of ideology and the communication media-sphere, not surprisingly, the Chinese Communist Party (CCP) officially portrays itself as an actor exclusively focusing on serving the interests of the Chinese people. The practical behavior of its cadres – whose human and ethical quality is inevitably uneven – is not always fully consistent with this noble principle. Corruption and opportunistic behavior are common. In addition, even when they act in good faith, CCP leaders are obviously fallible and, therefore, they can commit a strategic and tactical error and error at all hierarchical levels, including the highest ones.

However, the CCP is not a social class – at least, not according to the meaning that Marx attributed to the term class in the context of his

(Continued)

analysis of the various MPs and SEFs¹⁰ that have been in existence since the Neolithic and of capitalism in particular.¹¹ Therefore, the CPC performs its role as manager of the country's State assets in a legal and institutional environment completely different from capitalism (where the principle of private property worshipping dominates, even if often under the veneer of liberalism and democracy). Furthermore, the holistic articulation of SRPEs under market socialism is also profoundly different from that of capitalism, as it should be clear to any observer, provided that the analysis is carried out at an adequate level of depth. In fact, this is the core of our effort in this book.

Notes

- 1 In other words, capitalists are welcome and are allowed to make money, playing an important although not dominant role in the economic sphere, but a zero role in the political one. The differences with respect to capitalist countries are self-evident.
- 2 Rangel utilizes the Portuguese term *economia*. We translated it as *political economy*, according to the classical tradition, or as *economic science*, rather than *economics*, as the latter term is irredeemably tainted by its association with the *vulgar economy* mainstream.
- 3 Rangel uses the term *utilidade*, that literally translates as *utility*. Yet, as a Marxist, he consistently referred to the collective welfare of the society as a whole, while the term utility in English is usually associated to the neoclassical, individualistic corruption of the *Utilitarian* philosophical tradition that flourished in the XVIIth and XIXth centuries. For this reason, we preferred the modern term *welfare*.
- 4 In philosophy, a noumenon (from Greek: νοούμενον; plural noumena) is *The intellectual conception of a thing as it is in itself, not as it is known through perception...* exists independently of human sense and/or perception. *The noumenon classically refers to an object of human inquiry, understanding or cognition. The term is generally used in contrast with, or in relation to, "phenomenon" (plural: phenomena), which refers to appearances, or objects of the senses. A phenomenon is that which is perceived; A noumenon is the actual object that emits the phenomenon in question...* The two words serve as interrelated technical terms in Kant's philosophy. As expressed in Kant's Critique of Pure Reason, human understanding is structured by "concepts of the understanding," or innate categories that the mind utilizes in order to make sense of raw unstructured experience (Webster's Online Dictionary 2021).
- 5 As we argued above (see Chapter 7), in our view – as the law of value does not disappear under socialism – plans and projects must ultimately respect the condition of ex post market compatibility. However, under socialism the market is no longer the driving force, and its role becomes that of a constraint that limits the planners' degrees of freedom in pursuing collective welfare – the new noumenon. Such a constraint is real and must be reckoned with. Yet, its force can be expected to progressively decline, while scientific and institutional development allow planning and projecting to increasingly take the lead of socioeconomic development.

6

Perestroika, the fall of the USSR and the accelerated transition to capitalism in the former iron curtain countries eliminated every projectment elements. Likewise, the US militarized keynesianism distanced itself from the production of utilities in a full employment economy, as expected by Rangel.

(Castro 2014, p. 222)

7 During Clinton's era the US were involved in 48 military interventions, far more than during the Cold War (Fiori 2007, p. 88). On *military keynesianism* see Rangel (1983), Tavares (1997), and Medeiros (2003).

8 See Fiori (1997), Bresser-Pereira (2009a), Belluzzo 1997.

9 Quoted in Library of Congress 2018.

10 Marx often used the terms MP and SEF interchangeably, referring sometimes more generally and in other cases more specifically to contemporary and past class-based and non-class based (i.e., pre-Neolithic) societies. In this book, on the contrary, we chose to selectively reinterpret the two categories to refer to two very distinct objects.

11 Some very cautious analogies with very different types of classes exist in pre-capitalist societies (such as that of the Confucian bureaucrats in imperial China) may have some merits, as long as they are not absurdly exaggerated.



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Part III

The other two members of the new class of SEF

Vietnam and Laos



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17 Introduction to part III

Viet Nam is a large¹ East Asian country. The successive wars and invasions that plagued it during most of the XXth century, besides inflicting enormous human and material losses, did not allow it to participate in the so-called “*Asian miracle*,” nor to pursue a self-centered, centrally planned socialist development path as China did. The traumatic implications of the first years of the reunification process, compounded by international isolation, left Vietnam as one of the poorest countries in the world. However, the Communist Party of Vietnam (CPV) launched a consistent reforms program in the mid-1980s,² which – having overcome major macroeconomic imbalances and dislocation in the latter part of the decade – led to a path of exceptionally fast economic growth.

After the end of the American war, Vietnamese economic policies initially attempted to incorporate the South into the traditional centrally planned socialist model of the North. However, after barely a decade,³ CPV leaders realized that Vietnam’s economic predicament had become unsustainable, and a radical overhaul was necessary, due inter alia to major changes in the international political and economic scenario.

Even more so than in China, due to various factors (among them, a relatively higher degree of overall pluralism and the dramatic degree of disruption of the fragile planning structures of the state socialist machine), market-oriented reforms in Vietnam were initially launched in an ad hoc and experimental fashion, pressed by the urgency to avoid famine and economic collapse. In a political economy perspective, these initial market-oriented changes can be interpreted less as reforms in the proper sense of the word – i.e., as a well-conceived top-down plan of action – than as the outcome of a political damage-containing effort on the part of central government agencies to rein in spontaneous processes that were already going on, “*primarily by legalizing practices and setting formal limits*” (London 2014, p. 87. See also Fforde and de Vylder 1996).

The reforms allowed Viet Nam to avoid systemic collapse and to resume growth, even if high inflation and large macroeconomic imbalances were not fully overcome. Since the success of the 1989–1990 stabilization plan, inflation subdued, basic macroeconomic and systemic stability was achieved, and Vietnam became one of the fastest-growing countries in the world.

Vietnam's achievements in terms of gross domestic product (GDP) growth, structural change, and technological advancement, albeit impressive, have not been as stellar so far as those of China, due largely to the crippling legacy of the American war. Vietnam's economic foundations are less solid than those of the People's Republic of China (PRC), and its dependency on foreign capital is more pronounced.⁴ However, Vietnam has performed better than China along the critical dimension of turning economic growth into human development gains (see below, Ch. 26).

The distribution of productive assets at the inception of the reforms was very egalitarian, and the government has kept an eye afterwards to rein in the pace of market-driven concentration of wealth.⁵ The overwhelming majority of the people, constituted by rural dwellers,⁶ has been fully involved in the overall development process.

Therefore, "*the growth path experienced by Viet Nam in the 1990s was remarkably pro-poor*" (World Bank 2003, p. vi) until the end of the past century, and this trend has been substantially sustained so far. Vietnam has made major strides towards combating poverty and malnutrition and expanding public health⁷ and education services.⁸

Notes

- 1 Vietnam's population is 97 million (2020), ranking 15th in the world (source Worldometers 2021).
- 2 The initial steps of market-oriented reforms in Vietnam were undertaken almost at the same time as in China.
In the autumn of 1979 the 6th Plenum of the Central Committee gave a green light to already going-on changes from below, mainly in the agricultural sector. Stop-and-go reforms prevailed until the mid-1980s, continued to be implemented in the early 1980s, and the "*doi moi*" (*renewal*) policy was officially adopted by the important 6th CPV Congress in December 1986.
- 3 The economic policies of the Democratic Republic of Vietnam in the 1945-1975 were war economy policies, rather than socialist development policies. They were forced by necessity, similar to those pursued by many capitalist countries under comparable circumstances, and proved effective inasmuch as they allowed the CPV to resist and win the war. However, the length of the "*Soviet-style*" phase in the history of unified Vietnam (as well as in Laos) has been shorter than in other presently-existing Communist-led developing countries.
- 4 In a way, there is a good side of this coin. Vietnam, unlike China, presently maintains a huge potential for extensive growth. This, of course, is not an argument to underestimate the importance of enacting strong policies for environmental preservation and the acceleration of technological progress.
- 5 No massive, wanton privatization of State-owned enterprises (SOEs) has taken place, contrary to what happened in Russia and – to various extents – other formerly Soviet and European socialist countries. As a result Vietnam, like China, avoided the catastrophic *transitional* crisis that befell their peoples, causing enormous social misery and millions of deaths (see Cornia 2016).
- 6 Urban population in Vietnam is still only about 36% of the total (source: World Bank WDI).
- 7 "*Vietnam's universal health coverage index is at 73 - higher than regional and global averages - with 87% of the population covered.*" World Bank in Vietnam 2019.

- 8 Vietnam, like China, was not able to avoid some market fundamentalist excesses in the early reform period, the most disastrous being a de facto counter-revolution in health and other basic services. However, in a long run perspective, major advances towards strengthening and universalizing public services are undeniable.

18 Agricultural reforms and the launching of Doi Moi

Summary

18.1. Rural reforms in North Vietnam. – 18.2. Doi Moi

18.1 Rural reforms in North Vietnam

North Vietnam implemented collectivized agriculture since the late 1950s, with a progressive shift from work-exchange teams to low-rank cooperatives and eventually to high-rank cooperatives. This institutional and organizational trend allowed North Vietnam to achieve some economies of scale and scope, favoring the adoption of upgraded rice varieties and modern technology but led to an increasingly distorted incentive structure, labor shrinking, and low productivity.

Rice cultivation in the South, in particular, was more productive than in the North, thanks mainly to more favorable farmer/land ratio and to a higher degree of technification (apart from the absence of the problems intrinsic to rural collectivization), but land and income distribution among farmers were unequal. Eventually, the Americans belatedly pushed the South Vietnamese government to enact a land reform, but this change only began in 1970.

After 1975, collectivization was promoted in the South as well, but it was resisted by Mekong Delta farmers and made only partial inroads in the other provinces. The ensuing social and productive dislocation caused by the collectivization drive led in the late 1970s to a drop in rice production, implying severe challenges to the country's food security.

To counter such major political and economic threats, the Communist Party of Vietnam (CPV) changed course already in April 1981, issuing the Directive 100 CT that launched the Contract System. Under the new regime, farmer households agreed by contract to deliver a fixed output quota to the cooperative, which would be traded at a planned price.

The cooperatives also provided inputs and some productive services (such as land preparation, irrigation, and input distribution services) to farmers, but the latter were free to organize production on their plots and to dispose of the surplus for sale or self-consumption.

The Contract System initially led to significantly higher food output growth, but its gains began to fade out by the late 1980s, as it still failed to tackle many contradictions of the traditional approach to planned agricultural production. Major land use and crop choice decisions were still carried out by the State Planning Commission, public bodies at times failed to provide contracted inputs and even to buy the crop quotas at harvest time, and security of tenure was not sufficient to induce farmers to adequately invest in the land.

These problems were addressed in 1988 with Resolution 10, which further reformed rural SRPEs according to an approach very similar to that of China's Household Responsibility System (Benjamin and Loren Brandt 2002). The Resolution increased the length of leasing tenure to farmer households up to 20 years, further liberalized and decentralized output and input markets, and reined in the dangerous conflicts that had emerged from the previous land reforms, establishing that most farmers – but not landlords – would maintain rights on the land they owned before 1975. These policy measures led to a new surge in productivity and turned Vietnam into a major structural rice exporter.¹ In 1993, a new and comprehensive Land Law further strengthened farmers' tenure, security, and flexibility, bestowing them ample rights to exchange, transfer, inherit, lease, and mortgage their leased land.

With the benefit of hindsight, it is fair to acknowledge that Vietnam, urged by more severe macroeconomic imbalances and a more precarious food security challenge, began liberalizing agriculture earlier than China to a large extent spontaneously, by default, without a clear and coherent blueprint. Afterwards, it advanced for a few years along a perilous and bumpy road,² but it eventually managed to establish a consistent and sustainable market-based, household-centered agricultural sector, which constituted a solid foundation³ underpinning the rapid (albeit uneven) industrialization and modernization process that followed.

In the long run, however, the rapid and major positive impact on productivity and food security was also analogous in both countries (see Justin Yifu Lin 1988; Pingali and Vo-Tong Xuan 1992;).⁴ Notwithstanding the significant differences between each country's experiences, the ultimate result of the reforms was the emergence of a remarkably similar set of agricultural⁵ SRPEs both in the People's Republic of China (PRC) and in Vietnam.

This outcome was by no means the product of a copycat attitude on the part of Vietnam, or of any sort of hierarchical and ideological subservience of the CPV with respect to the Chinese Communist Party (CPC).⁶ Far from it, it was the structurally *natural* and logical upshot of each of the two parties' independent search for establishing an adequate set of SRPEs in the agricultural sector. Broadly speaking, taking into account that the resemblances between China and Vietnam outweighed their differences, this set was objectively existing per se as an abstract structure, as there was essentially only one path open for agricultural growth in the framework of a socialist-oriented strategy in two neighboring developing countries sharing many cultural⁷ features. We

will try to argue in the remainder of this chapter and in the conclusions of this work that this principle is not unique to the agricultural sector, and applies as well to industry and to the evolution of the overall socioeconomic system in socialist-oriented SEFs, under the global constraints imposed by the MMP.

18.2 Doi Moi

The 6th National Congress of the CPV (December 15–18 1986) wrapped up the scattered initiatives and proposals that had been mushrooming in the early 1980s into a coherent and radical reform strategy, the *Doi Moi*, aimed at establishing a ‘*socialist-oriented market economy*’⁸ where planning would be combined with market forces and state-owned enterprises would coexist with domestic- and foreign-owned ones.

Doi Moi encompassed sweeping policy changes across many economic areas, such as price liberalization, currency devaluation, further agricultural de-collectivization, opening up to foreign investment, increased State-owned enterprise (SOE) autonomy, upgraded accounting practices, and the limitation of the scope and authority of the state command chain essentially to macroeconomic governance and long-term strategic planning.

The congress also identified five urgent goals (see Stern 1987):

- To increase the production of food, consumer goods, and exportables;
- To support the development of a mixed economy, while effectively regulating the activities of capitalists and traders;
- To enhance the effectiveness and efficiency of the economic management system, allowing more room for decentralization and independent decision-making,
- To streamline and reorganize the responsibilities of the Council of Ministers and the various planning institutions;
- To upgrade the Party’s organizational capabilities and its leadership role.

The launching of the Doi Moi brought new impetus and coherence into the already ongoing reform process, allowing the Vietnamese economy to overcome at least in part some of its most serious imbalances and to undergo a remarkable production upturn. Both heavy and light industries grew and the discoveries of oil led to the emergence of a new sector that soon became a key contribution to export and state coffers.

However, the initial impact of price liberalization and the overall systemic dislocation brought about by such drastic and sweeping changes in inflation was alarming. The Consumer Price Index (CPI) deflator jumped at over 400% in 1986 and averaged 263% in the 1985–1989 period. By 1989, a new major adjustment became necessary. Most prices (all but 12) were liberalized, the dong was devalued to the level of the black market, interest rates were risen to bring them back in the black territory and budgetary subsidies were slashed. Such draconian measures proved very effective, to a large extent also

because they were flanked by the impact of various supply-side policies introduced since the 6th Congress, that

somewhat helped ease the excess demand strain ... eventually the inflation rate suddenly dropped to 37.7% in 1989. This can be considered as the initial success of the innovation program, triggering a new phase of Vietnam's economy. This success in inflation controlling suggests the important role of supply bottleneck and excess demand matter in the planned economy of Vietnam.

(Bui Thi Kim Thanh p. 8)

The thorny issue of enterprise ownership also began to be addressed, albeit with a less drastic and gradual approach. Until the late 1980s, there were only three types of enterprise: SOEs, cooperatives and household units of production or service. Foreign Direct Investment (FDI)-funded and (formally)⁹ private firms emerged slowly.¹⁰ By 1995 they still contributed only 13% of the gross domestic product (GDP), and this figure crawled up to just 17% by 1999. This increase, moreover, was entirely attributable to a rise in FDI-funded production (that reached almost 10% by the end of the decade), while the share of private and mixed firms stagnated at about 7%). The GDP share of household units marginally declined, but it was still about 1/3 in 1999.¹¹

In the meantime, SOEs' share remained basically stable at about 40% of the country's GDP.¹² They lost some positions in manufacturing (where their share fell from about 2/3 to a still commanding 1/2, due to the rise of FDI-funded firms¹³), but consolidated their quasi-monopolistic dominance in infrastructural services such as public utilities, transport, and communications, banking and insurance (see Tho Tran 2009).

These figures show that Vietnam was welcoming the inflow of foreign capital and technology, but – contrary to China – it did not experience a boom of TVE-led rural industrialization followed by the birth and subsequent rapid expansion of a private industrial sector. Such a significant divergence was due to several factors, the most important being three¹⁴:

- Vietnam had not previously gone through an inefficient¹⁵ but widespread wave of rural industrialization as China did in pre-reform times with the establishment of the commune and brigade-run enterprises, and therefore it lacked the pre-existing institutional, organizational, and even cultural setting that allowed TVEs to mushroom almost overnight since the late 1970s¹⁶;
- Even if Vietnam and China had a similar level of per capita GDP until the mid-1980s Vietnam's domestic saving rate by the time of the launching of Doi Moi was negligible, while it was close to 40% in China (see graph 24.6).
- Largely due to Vietnam's dearth of investible funds, the CPV firmly maintained a high degree of priority for SOEs, the only existing type

of domestic modern enterprises,¹⁷ channeling towards state industry also the bulk of the newly-available resources made (nationally) available by increasing agricultural productivity.¹⁸

Conversely, the Government of Vietnam (GOV) focused on restructuring, revitalizing, and strengthening central¹⁹ industrial SOEs, which consolidated and extended their dominant position.²⁰ Enterprise reforms²¹ revolved around improving management practices, hardening budget constraints, allowing firms to retain more autonomy, and restructuring them through merging in order to achieve economies of scale.²² One of the earliest measures introduced in early 1981 was the “*Three Plans*” system, which established a production quota and let SOEs free not only to dispose of the surplus but also to partially reallocate its assets and resources to produce and sell new “minor products”²³ (see Naughton 1996; Riedel and Turley 1999).

The competition was enhanced via trade liberalization, price and material balance planning relations between government and SOEs were superseded in favor of contract-based monetary transactions pivoting on market prices, thereby moving the system towards endogeneizing underlying, objectively existing proportional relations among labor, fixed capital assets, inputs and outputs according to the law of value.

Notes

- 1 Rice production more than doubled between 1987 and 2000 (see Young et al. 2002).
- 2 Agricultural output growth was negative in 1987 and did not match population growth in 1990–1991 (source: WB WDI).
- 3 Still in the late 1980s agriculture, besides employing the vast majority of the population, was by far the largest sector in the Vietnamese economy.
- 4 Pingali and Vo-Tong Xuan (1992) carried out an econometric exercise on the results of agricultural reforms in Vietnam in the 1980s. They estimated an impact on agricultural productivity well over 10%, and observed that “*The productivity gain attributable to the contract system in Vietnam is similar to the amount estimated by Lin for China*” (p.714).
- 5 Overall rural SRPEs were more different, due largely to the relevance of the TVE surge in China, a unique phenomenon that had no counterpart in Vietnam. Still now, the degree of urbanization in China is much higher, while simple commodity production activities are more prevalent in Vietnam.
- 6 Actually, the inter-state and inter-party relations between China and Vietnam were extremely tense in the late 1970s and in the 1980s, culminating in a brief border war in 1979. Diplomatic ties between the two countries were only re-established in 1991.
- 7 The term cultural here is meant to refer to both spiritual and material culture. A key aspect of the latter in both countries is the centrality of labor- and land-intensive rice cultivation, a production technique that does not exhibit relevant economies of scale. The same set of SPRPEs that was so successful in China and Vietnam would not have been fully appropriate, for instance, in the USSR, where due to natural and historical circumstances the main staple was wheat, a grain that is suitable to extensive, mechanized, capital-intensive production

techniques, or in Cuba, where the natural environment and agricultural traditions are also different. This proviso, however, should not be overemphasized and exaggerated as an endorsement of technological determinism, thereby falling in the fallacy of those old-fashioned socialists that wrongly thought that Marx's materialism was tantamount to positing a mechanical dependency of human history from the interplay of impersonal production techniques. As stated elsewhere in this book, we maintain that, in very general terms, objective general laws and constraints applying to socialist-oriented development do exist, exhibiting a high degree of universality.

- 8 The wording '*socialist-oriented market economy*' is very similar to China's self-representation as a *socialist market economy* (see" (CPC 2017a), as stated explicitly in *Article 15 of the Constitution Constitution* (see" (CPC 2019), but not identical. The Vietnamese Party's formulation is more conservative, as it does not semantically imply that the country's market economy is already in fact socialist, only that it is oriented towards socialism. The concept of socialist-oriented market economy has been officially maintained throughout the whole reform period (see VietnamLaw 2015, Roc-Sennett S., 2019).
- 9 Like in China, the *red hat* phenomenon is not unknown in Vietnam. Therefore, it is likely that some enterprises formally classified as household units or collectives are in fact privately owned.

10

The process of establishing the institutions needed to support private sector activity outside agriculture did not begin until 1990. In that year, the Law on Private Enterprises and the Law on Companies were passed, establishing legalized ownership forms – proprietorship, limited liability companies and joint stock companies – necessary for the development of private sector enterprises. Due to various restrictions and biases in favour of SOEs, this system was not very effective in setting the stage for the development of the non-state sector. In particular, the procedure for obtaining business licenses and re-registration were complicated and opaque, giving ample room for bureaucratic red tape and corruption. Consequently, development of the domestic private sector over the period 1986–1999 was relatively weak compared with the other sectors of the economy, in particular domestic agriculture and the foreign invested sector.

(Athukorala and Tien Quang Tran 2009, p. 10)

- 11 Household units are micro-firms mostly engaging in small-scale farming and petty trade or handicraft production. Their resilience over time is consistent with the coexistence in Vietnam not only of different types of ownership, but also of modern and pre-modern activities characterized by vastly different technologies, capital intensities and labor productivity.
- 12 SOEs' GDP share would be somewhat higher if it were adjusted taking into account their participation in joint ventures (see Tran Van Tho 2000, table 7, p. 91).
- 13 FDI flows flocked mainly towards high-tech manufacturing sectors such as office machines and consumer durables, while SOEs kept their commanding position in heavy industry. Investment in the new, booming oil industry was carried out according to the joint venture modality (see Nguyen Thi Tue Anh, Luu Minh Duc and Trinh Duc Chieu 2016).
- 14 All these three factors were in turn mainly stemming from the legacy of the losses and dislocation caused in Vietnam by the war and its aftermath, the impact of which was far graver than that of the Cultural Revolution in China. Actually, the latter, while severely damaging the urban economy and the country's achievements in the area of high education, led to a massive, if temporary transfer of human capital to the countryside and to an overall lessening of the structural

- anti-rural bias of China's development strategy, thereby seeding some pre-conditions for the post-1978 boom in the countryside (see Kerkvliet and Selden 1998)
- 15 Commune and brigade-run enterprises only produced 9% of China's total industrial output in 1978, due to their very low productivity, caused mainly by their concentration in relatively heavy subsectors while lacking capital, technology and economies of scale. Once they were allowed to switch to the production of market-oriented light manufactures, they soon became efficient and (locally, at least in the early years) competitive (see Kerkvliet and Selden 1998; O'Connor 1998).
 - 16 Local governments in Vietnam did not act in an entrepreneurial and developmentist way as in China: The principal explanation is that Local governments in VN usually defined their role to be that of taxers and regulators. Few have seen their role as one of promoting local industry (Perkins 1998, p. 27).
 - 17 FDI-funded enterprises were non-existing in the early doi moi years, and began flourishing only in the early 1990s. Formal POEs never developed to a level comparable to that of China (see Rand 2020).
 - 18

...(In Vietnam) farmers enjoyed a smaller and shorter-lived terms-of trade improvement than in China. Continued state monopoly of agricultural input supplies and certain product markets has deprived farmers of a larger share of agricultural productivity gains. State credit allocations — the lion's share of all formal credit — have continued to favour state enterprises. Until recently, limited reach of — and lack of confidence in — formal rural credit institutions have made it difficult to mobilise rural savings for medium- to long-term investment. What off-farm investment has occurred has been largely by household enterprises with little access to formal credit channels.

(O'Connor 1998, p.14)
 - 19 The quasi-spontaneous move towards the market in the early 1980s, with the partial breaking up of the planning system, led to the proliferation of precariously-funded local SOEs. The draconian anti-inflationary drive in the late 1980s led many local SOEs and cooperatives to disappear or being absorbed into Central SOEs.
 - 20 Since the early 2000s SOEs' prominence has declined somewhat, and the role of foreign and (less so) domestic capitalists has been on the rise. Still, by 2018 SOEs' share of total industrial output was over three times bigger than that of formal POEs.
 - 21 Initial reforms in the early 1980s began with the "Three Plans" system, that established a production quota and let SOEs free not only to dispose of the surplus, but also to decide how to allocate its assets and resources and to produce new "minor products"(provided the quota was met).
 - 22 Most Vietnamese firms were too small and weak to withstand international competition.
 - 23 Provided, of course, that the quota was met.

19 Equitization

Summary

19.1. 1990s: slow pace and contradictions. – 19.2. Acceleration and consolidation in the new century. – 19.3. You can't make an omelette without breaking eggs

19.1 1990s: slow pace and contradictions

The idea of equitization (the preferred Vietnamese term for corporatization) has been floated since the early 1990s, but the process has been unfolding very cautiously and has led so far to the transfer of a quite small share of public capital.¹ The process has been slowed, among other factors, by the resistance of both managers and workers,² by the hurdles encountered by the preparation of the security market, and by the dearth of public information.

As most Vietnamese State-owned enterprises (SOEs) were too small and weak to withstand international competition, they were required since 1991 to undergo a re-registration process aimed to let only the strongest and more profitable to survive. As a result, the number of SOEs was halved (from over 12,000 in 1990 to about 6000 in 1994–1996). Some particularly weak and inefficient SOEs exited the market.

The consolidation drive was further promoted in 1994 with the Decisions 90 and 91, establishing a small number of chaebol-like General Corporations (GCs) or state enterprise groups (SEGs), and with the approval of the Law on State Enterprises in 1995, that bestowed on the new state-owned holding companies a very high degree of autonomy. These measures led to the emergence of 93 SEGs controlling the strongest firms – about 1400– accounting for about 1/4 of their total number but 2/3 of SOE assets (see Cheshier et al. 2006; Bùi Văn Huyền 2008; Gainsborough 2010; Fujita 2017). The ultimate goal was to nurture a small elite of strong national champions endowed with abundant assets and ample financial resources, that would be capable to achieve economies of scale and rapid technological upgrading, thereby achieving a high degree of international competitiveness.³

Such a move towards equitization was a bold one, as it preceded the analogous ownership reforms in China (the State-owned Assets Supervision and

Administration Commission (SASAC) was established in 2003),⁴ in a country that was still much less developed than its northern neighbor. Nevertheless, its implementation was not the extent of familiar shortcomings and problems, such as the emergence of an excessively complex and opaque property rights structure leaving room to opportunistic behavior on the part of managers (including episodes of de facto asset stripping) and the impossibility to uphold consistently the hard budget constraint principle under stress conditions – as it happened, due also to endogenous factors, after the Asian crisis (see Mitsui and Wada 1998). However, these institutional inconsistencies and governance problems were not severe enough to undermine the unfolding of the SOE reform process and its ultimate effectiveness, as “*apparent gaps in hierarchical control and policy incoherence mask a situation in which a variety of state and party actors with conflicting interests find mutual accommodation within a broad framework of party-sanctioned policy settings.*” (Painter 2003, p. 20).

Other contradictions emerged with respect to another aspect of equitization, the search for a mixed ownership structure that would include the participation of private capitalists.⁵ At first, only small SOEs were involved. In 1998 SOEs were classified into two groups, comprising respectively core strategic enterprises, where the State would maintain 100% ownership and were thus exempted from equitization, and other SOEs.⁶ Initially, potential buyers included only insiders (managers and workers), but eventually, also ordinary Vietnamese citizens and foreigners were allowed to participate.

19.2 Acceleration and consolidation in the new century

Notwithstanding the many hurdles and the less-than-expected speed in implementing policy changes in some areas, industrial reforms carried out in the Doi Moi framework can be regarded as very successful. GDP growth in the late 1980s and 1990s was very fast and industrialization proceeded apace, oil and manufactured exports rose, Vietnam upgraded its (initially abysmal) degree of international competitiveness, and the bases of the socialist-oriented economy were laid down (see Nguyen Thi Tue Anh, Luu Minh Duc and Trinh Duc Chieu 2016; Fforde 2019).

The dawn of the new century saw Vietnam doubling down on its already-established market socialist development path. The core tenets of the Doi Moi gradualist development strategy have been upheld and consolidated, enabling Vietnam’s socialist-oriented market economy to achieve rapid growth and modernize⁷ rapidly.

Trade opening and commercial diplomacy initiatives to deepen the country’s insertion in the global economic network were intensified and led to major breakthroughs. The trade agreement with the US (under which Vietnamese imports were granted the most favored nation status) was signed in 2000, and the World Trade Organization (WTO) accession process was completed in 2007 (see Fujita 2017; WTO 2020).

The ownership and institutions reform process aimed at rationalizing, consolidating, and upgrading industrial enterprises and SOEs in particular continued to pivot on the transition towards indirect, market-compatible forms to realize the valorization of public capital and utilize it as a powerful tool to foster overall national development.

Yet, the speed and scope of the equitization process routinely fell short of the goals officially set by the government, generating a permanent contradiction rooted in Vietnam's own idiosyncratic political economy.

Initially, large strategic SOEs were not slated for equitization. A pilot program in 1992–1996 envisaged to equitize several state-owned SMEs, but eventually, only five of them underwent the ownership transformation process. This setback led to the issuing of Decree 28, which set the path to equitize all non-strategic small and medium-sized SOEs. Still, only 25 additional SOEs were equitized in 1996–1998 (see Fforde and de Vylder 1996).

The process only took off massively after the turn of the century, but it still proceeded unevenly and was confined to Small and Mid-size Enterprises (SMEs). By early 2008 about 4000 SOEs had been equitized, out of which 3400 since the year 2000 (Sjöholm 2006).

In the mid-2000s large, strategic SOEs (concentrated mainly in telecommunication, retail, and other infrastructural services) began diversifying their operation into non-core businesses and forming conglomerates. This trend accelerated after the international crises, with these conglomerates venturing even into risky deals in real estate and stocks, with some of them ending up in a precarious financial position. In the meantime, policy makers intensified the efforts to attract private capital into public sector industry, mainly aimed at relieving SEGs' balance sheets and injecting a dose of the market-based discipline into managers' behavioral patterns.

The corporatization drive was particularly intense in 2006–2007 when 845 firms were transferred under State Capital Investment Corporation (SCIC) management. Conversely, for instance, in 2011–2013 only about 100 firms were equitized, much less than planned. This figure rose to 140 in 2014, higher but still behind schedule.⁸ 289 SOEs were slated for equitization in 2015, but only half of them actually sold shares,⁹ raising half of the expected capital. VBF (2015).¹⁰ Albeit unevenly, the process eventually covered the vast majority of the public industry, as the number of *pure* (wholly state-owned) SOEs did decline drastically over time, from about 12,000 in 1991 to 652 by 2015 (Suiwah Leung 2015).

19.3 You can't make an omelette without breaking eggs

In the early 2010s, taking into account the systemic risks stemming from the inadequate governance of SEGs's empire-building excesses, the government reoriented its overall development strategy, shifting from a growth-first stance to a more prudent one that attached a high priority to macroeconomic and financial stability. In 2014, and again in 2016, SOEs were re-classified

into three groups, maintaining the key criterion of setting higher public ownership quotas for the most strategic ones. The GOV listed 147 SOEs to be converted into joint-stock companies by 2020.¹¹

With the 12th National Congress, held in January 2016, the Vietnamese Communist Party (VCP) threw more political support to the equitization policy. In February 2017, the GOV issued a directive instructing the ministries of finance and planning to revitalize and streamline the equitization ventures and to conform them to international standards. In May it set a target to sell shares of 137 more SOEs by 2020, most of them large, raising VND250 trillion (US\$11 billion).¹²

Several SEGs and large GCs, such as Vinatex, Vietnam Airlines, and the Airport Corporation of Vietnam, were in fact equitized in the 2010s. Yet,

The state continues to hold very high proportions of capital in equitized enterprises, which casts doubts on the effectiveness of equitization in transforming SOEs. While the state held 46.1% of the total shares of equitized enterprises as of the end of 2004 (Perkins and Vu Thanh Tu Anh 2010: 17), this share is reported to have increased to 92% by 2017.¹³ This has happened as the state continues to hold large stakes, particularly in large SOEs in strategic sectors, even after equitization.

(Fujita 2017, pp. 7–8)

In 2016 and early 2017 the equitization proposals of 63 SOEs were approved, most of which are large enterprises. Several of the largest SOEs, including Vietnam Engine and Agricultural Machinery Corporation, Vissan, Resconha, Vinapharm, Vinafor, and FiCO, launched their Initial Public Offering (IPO) in 2016, and many other ones were expected to do so in 2017 and thereafter. By 2017 over 96% of SOEs had been equitized. Yet, private investors bought only 8% of their shares¹⁴. The equitization list for 2018 included 85 SOEs, out of which 21 originally expected to sell shares in 2017. However, the stop-and-go process slowed down again, and only 12 firms were actually corporatized by 2018¹⁵.

In August 2019 Prime Minister Nguyen Xuan Phuc reported that the equitization program was still falling behind schedule. Only 162 SOEs had been equitized since 2016, against a target of more than 4,400 SOEs for the 2016–2020 period. In order to revamp the process, the GOV issued Decision 26, which approved the list of 93 SOEs to be equitized by end of 2020. The State will maintain at least 65% of the capital in four of them¹⁶ – and at least 50% to below 65% in other 62 SOE.

In essence, so far, the Vietnamese state has been unable (or unwilling)¹⁷ to beef up the equitization process creating truly mixed (if still publicly-controlled) enterprises¹⁸ (see Infrastructure Working Group of the VBF 2015; Wacker 2016). However, as the political determination to proceed more forcefully on the corporatization path has been recently re-affirmed with strength, this state of things might change rapidly in the present decade.

The less-than-planned results of the equitization process were due to the above-mentioned impediments, revolving mainly around the institutional complexity of the chain of command and to the multiplicity of goals embedded in SOEs' objective functions, ranging from macroeconomic stability to job security. In this respect, it is worth mentioning that these two factors differ from each other with respect to their tractability on the part of the government. A streamlined and effective chain of command embodying optimal incentive structures for all involved actors is difficult to design and achieve in practice, yet in principle conceivable. Conversely, the multifunctional role of strategic SOEs is intrinsic to their own nature, and thus constitutes an objective and ineliminable element of complexity that must be assumed by policy makers.

The equitization process did not bring out a thorough transformation of most SOEs into mixed enterprises with significant private participation, but it was instrumental as a tool to consolidate the public industry into a reduced number of large enterprises and groups and to transform them into more modern and market-oriented organizations. Corporatization drives SOEs to become more transparent, to adopt a series of international accounting and management practices, and to be more responsive to market signals (taking into account that the value of public capital is now more openly exposed than before,¹⁹ and that, at least theoretically, they are now potentially contestable).

The process contributed to uplift profitability²⁰ and to enhance the overall performance of SOEs, also because it favored the emergence of a more effective incentive structure, and led planners and managers alike to internalize a more modern and realistic understanding of the intrinsically value-based, rather than mechanistic nature of socialized capital. Along with other elements of the SOE reform process, equitization resulted in the transfer of power from planners to managers and technocrats, with the latter acquiring some sort of quasi-property rights and enhancing their status and their ability to capture shadow economic benefits.

According to some observers, this transformation was tantamount to emasculating the very nature of public property:

despite nominal state ownership, many SOEs had been effectively 'privatised' to a significant degree. Thus, capital and land would be seen as in practice controlled by 'owners' who treated them as well-priced productive asset.

(Fforde and Mazyrin 2004, p. 2)

In our view, this critique is overblown. The principal-agent dialectic constitutes an inescapable complexity that cannot be ignored by policy makers, and should not be tackled in a gross dirigiste fashion. On the contrary, the effective implementation of the time-honored principle of public ownership on the main means of production has to be incessantly and pragmatically

fine-tuned without negating the monetary, value-based nature of capital (be it public or private), striving to achieve second- and third-best solutions to rein in the trade-off between efficiency and equity also in this crucial domain.²¹

The bottom line, substantially, is that you can't make an omelette without breaking eggs. In the framework of any modern market socialist-oriented development strategy, there is no alternative²² to transitioning gradually towards more sophisticated and complex modalities of managing and supervising large state-controlled enterprises.

Notes

- 1 Equitization accelerated since 1998. however, in the following two decades, it always proceeded at a lower-than-anticipated pace, and the SOEs share led by private actors is still relatively small.
- 2 Such resistance was to a large extent justified, taking into account that Vietnam lacks a developed safety net, including unemployment protection.
- 3 The establishment and subsequent consolidation of SEGs has been criticized as inconsistent with the 2004 Competition Law and, more generally, with Vietnam's WTO Accession commitments (Ishida 2013, Vu Thanh Tu Anh 2017).
- 4 Vietnam set up the State Capital Investment Corporation (SCIC) in June 2005, when the equitization process had already been officially on the way (albeit advancing very slowly in practice) since more than a decade. SCIC is a holding corporation broadly similar to China's SASAC and Singapore's Temasek, but it was still designed to handle only small and medium-sized SOEs.
- 5 This form of partial privatization is of course different from *true* privatization (the selling of controlling shares to private operators).
- 6 The second group was further subdivided in various sub-categories.
- 7 As Vietnam's initial conditions at the start of *doi moi* were extremely backward, such an (undeniable) modernization coexists with the reality of a country where over 60% of the population still lives rural areas and is involved to varying degrees in pre-capitalist SRPEs.
- 8 Among the few larger equitizers were others, Vinamotor and Vietnam Airlines. However, they only sold little more than 3% of their shares.
- 9 Several ports tried to sell shares in 2015. Most failed, with the exception of Saigon Port.
- 10 VBF (2015) also noted that most shares were acquired by banks and other passive investors who tended to behave passively and not to intervene to upgrade management practices.
- 11 The share sales plan was further detailed in August 2017.
- 12 A CPV resolution also envisaged to equitize all remaining SOEs by 2030.
- 13 By 2017, over 96% of SOEs had been equitized, but only 8% of the total assets (see Fujita 2017; Trí Dũng 2017).
- 14 According to Le Hong Hiep 2017, this outcome shows that "*there has been more symbolism than substance in Vietnam's equitization of SOEs over the past two decades.*" (p. 4). We do not fully share his view, as we think that the equitization process did imply a certain degree of modernization and relevant changes in the nature and behavioral patterns of SOEs, even if the bulk of their assets are still state-owned.
- 15 On November 21, 2018, Finance Minister Dinh Tien Dung declared in conference that "*the low efficiency of equitization and divestment could be ascribed to delays in the ratification of restructuring projects.*" (Ngoc Lan 2018).

- 16 Bank for Agriculture and Rural Development (Agribank), National Coal-Mineral Industries Holding Corporation Limited (Vinacomin)-parent company, Northern Food Corporation (Vinafood1), and Mineral One-member Company Limited.
- 17 Like all states, that of Vietnam is a complex, collective upper-tier institutions made up of numerous lower-tier ones. At all levels, within- and intra-institutional conflicts of interest and non-homogeneous perceptions and viewpoints arise among different groups, generating an internal dialectic that is far more complex than the official discourse. Ideological contests and diverging strategic perspectives are also present, especially taking into account the special relationship between the state and the CPV. These tensions and contradictions might result in a gap between policy goals and formulations, on one hand, and the willingness to implement them in practice on the part of some components of the state apparatus, on the other hand.
- 18 More and more SOEs were formally equitized, but in most cases the bulk of their shares were still owed by the SOE itself or other non-private entities.
- 19 An enterprise's valuation on stock markets is far from representing a perfect and objective measure of its true value. This is obvious in typical, largely speculative capitalist contexts, and is also true under the peculiar conditions that prevail in market – socialist SEFs such as China and Vietnam. Yet, compared to the pre-equitization situation, it is an element that (albeit not exempt of a new type of risks and complexities) does inject at least a modicum of *market discipline* into managers' behavior.
- 20 As Ramstetter and Kien Trung Nguyen 2017 rightly point out: *“it is important for policy makers to recognize that the economic roles of MNEs (Multi-national Enterprises) and SOEs often differ greatly among economic activities.”* (p.21). In particular, governments cannot regard profitability as the only objective to be pursued by the powerful policy tool constituted by SOEs. These objectives include the fulfillment of a vast range of development- enhancing functions, such as supporting the country's accumulation effort (acting as investors of last resort), safeguarding employment, welfare, and macroeconomic stability, and fostering R&D, innovation and technological upgrading. SOEs shall be directed by holding institutions (principals) and regulatory agencies to include in their objective function one or more of these goals (including productivity, or at least the maintenance of financial health), attaching to each one varying weights in correspondence of the specificity of each firm, its more or less strategic character, the sector in which it operates, and other variables.
- 21 This is not to deny that risks of insider capture, asset stripping and corruption are indeed serious threats that must be strictly monitored and repressed as much as possible.
- 22 We dislike this Thatcherian-sounding and apparently arrogant expression, but we maintain that structural general laws of socialist-oriented development do exist, and can be ignored by even the best-intentioned policy makers only at their peril.

20 SOE, FDI, and simple commodity production

Summary

20.1. SOEs. – 20.2. The evolution of the ownership structure

20.1 SOEs

The number of State-owned enterprises (SOEs) has been shrinking over time. They were about 12,000 in 1990 to 3,259 in 2012 (out of which only 846, including 8 SEGs and 97 GCs, were fully state-owned¹) and 3,048 in 2014 (GSO 2016).² The number of SEGs also shrank, from almost 100 in the mid-1990 to a dozen in 2010 (Fujita 2017). By 2019, fully state-owned SOEs were reduced to only 136 (VietnamNews 2019). SOEs are now a small fraction of the total number of enterprises³ and provide a modest share of total employment. However, they still control a large share of assets and earn a big share of profits,⁴ as they dominate capital-intensive and infrastructural sectors. SOEs are also quite productive and profitable, due to their market power, on one hand, but also to their superiority with respect to most private firms in terms of capitalization, technology, and management (see Wacker 2016)

The quasi-absolute prevalence of state ownership in SOEs, as well as the dominant role of SOEs amongst domestic modern enterprises, changed little over the four-decades long process of liberalization, market opening, and legalization of private entrepreneurship, as well as throughout the process of equitization.⁵ Actually, the degree of state dominance on the core component of Vietnam's economy has risen over time, both through the strengthening of ownership control and the upgrading of the legal and institutional framework in which SOEs operate.⁶

In China, this has been the case only for a few infrastructural giants (that nevertheless keep controlling a very large share of assets and to play a key structural and macroeconomic role), while a sizeable group of genuinely mixed enterprises with significant private participation has emerged, even if the ultimate control is still exercised indirectly by the state. However, this difference is significant, but not paramount: on balance, the evolution of the role of SOEs in Vietnam closely parallels that of China.

Table 20.1 Gross domestic product at current prices by types of ownership (% shares, normalized)*

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
State	37	37	35	35	35	33	33	33	32	32	32	32
Non-state collective	47	47	48	47	49	49	50	50	48	48	48	47
Private	7	7	6	6	5	5	5	4	4	4	4	4
Household	9	9	10	10	8	8	8	9	9	9	9	9
Foreign Investment	32	32	32	32	37	37	37	36	35	35	35	34
Sector	15	16	17	17	17	17	18	18	19	20	20	21
National (GDP-FDI)	84	84	83	82	83	82,62857	82,37288	82,13097	80,64516	80	79,88889	78
DGDP**/GDP												

* Source: GSO. Since 2010, the GSO reports the item Products taxes less subsidies on production separately as if it corresponded to one more type of ownership.

To facilitate the grasping of the evolving relationships among domestic and foreign, private and non-private agents, we normalized the data eliminating the Products taxes less subsidies on production item

Therefore, shares are to be understood as referring to total GDP- Products taxes less subsidies on production

Table 20.2 National GDP by types of ownership

DGDP%	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
State	44	44	42	43	42	41	40	40	40	40	40	40
Non- State	56	56	58	57	58	59	60	60	60	60	60	60
Collective	8	8	7	7	7	6	5	5	6	6	6	5
Private	11	11	12	12	12	10	10	11	11	11	11	11
Household	38	38	39	39	39	44	45	44	44	44	44	43
S+C	52	52	49	50	49	46	45	45	46	45	45	46
P+H	49	49	51	51	52	54	54	55	54	55	55	54

The remarkable resilience and consolidation of SOEs as the core of Vietnam's economy is confirmed by recent statistical data, covering the 2005–2018 period. The overall contribution of the state sector⁷ (i.e. SOEs) to gross domestic product (GDP) decreased moderately, from 38% in 2005 to 31% in 2018. That of collectives also shrank, from 7% in 2005 to 4% in 2018. Most of this relative decline is due to the surge of Foreign Direct Investment (FDI)-funded enterprises, as their GDP share rose from 15% in 2005 to 25% in 2018. The share of (formal) POEs (9–10%) and of households (32%) are virtually unchanged over the whole 14-year period (see Tables 20.1 and 20.2).

20.2 The evolution of the ownership structure

Normalizing by the GDP share produced by FDI-funded enterprises (i.e., considering only the national GDP, or the national component of the GDP), we can focus on the evolution of the relative weights of Vietnamese agents. This focus allows us to identify the following trends:

- The weight of the state declines moderately until 2011 and stabilizes afterwards at 40%.
- The weight of collectives follows a very similar trend and has also stabilized since 2011.
- Households and POEs follow diverging paths. Households' share increases in the first decade and declines afterwards. Yet, by 2018 it is still 42%, higher than that of the state. This finding confirms that a very large portion of Vietnam's economy (that still employs the vast majority of the labor force) is constituted by households engaged primarily in agriculture or in informal simple commodity production activities.⁸ Conversely, POEs' share remains stable in the 2000s and increases slowly in the 2020s, reaching 13% by 2018. This phenomenon is due to the slow evolution and growth of some small non-agricultural production units, which *graduate* and become formal POEs.
- The cumulative weight of state and collectives declines in the 2000s, and stabilizes in the 2010s at 45% of national GDP;
- The cumulative share of POEs and individual enterprises increase in the first decade of the century and stabilizes afterwards at 55%;

These data show that the role of FDI has been on the rise and is now a very relevant one, and that about 1/3 of the pre-modern component of Vietnam's economy is still constituted by simple commodity producers.⁹ SOEs maintained their prominence among domestic actors, while the role and weight of the newborn formal capitalist sector is an ancillary one, that has not been growing significantly since the mid-2000s.

Notes

1 By 2015 the number of fully state-owned SOEs further declined to 652 (see Le Hong Hiep 2017).

- 2 These numbers refer to enterprises with at least 50% state ownership. Therefore, they understate to some extent the prevalence of state-controlled firms, as in some cases (as in China) the state maintains control with a less than 50% share. By the way, a property structure where the controlling interests own a less than 50% share is the norm among large Western private corporations
- 3 However, there are still several relatively small SOEs, mostly owned by local governments.
- 4 “According to a 2014 report, SOEs account for 65.5 per cent of corporate income tax payments among the 1,000 largest corporations surveyed, although they only made up 29 per cent of the total number of businesses among this sample” (Wacker 2016, p. 6).

5

Also, when the equitisation process began to concern large and important enterprises, the state maintained a majority ownership or at least remained as a substantial shareholder... The hesitation of the Vietnamese authorities towards a rapid equitisation of large SOEs was partly (and understandably) related to the fact that these companies made an important contribution to the state budget.... The long-term motivation was that these companies were meant to serve strategic national interests. The eligibility of SOEs for total or partial equitisation depended on the industrial sector in which they operated, and on the strategic importance of that sector for the country. Although the state increasingly defined its role as that of an investor both for fully state-owned companies and for those in which the state had only a majority share, it did not intend to relinquish control over enterprises operating in strategic sectors. Qualitative research conducted on equitised enterprises suggested that, through administrative and legal mechanisms, the state continued to exert a hold well beyond the amount of shares it officially controlled.

MC 7–8

- 6 It has been estimated that that the state-owned share in equitized firms rose from less than 50% in the mid-2000s to over 92% by 2017 (see Perkins and Vu Thanh Tu Anh 2010; Fujita 2017). The Competition Law was amended in 2018 in order to restrain “*anti-competitive practices occurring outside Vietnam that have the effect of restraining competition within Vietnam, and the law has extended its governing scope to “Foreign agencies, organizations, and individuals.”*” (Diep Hoang and Trang Nguyen 2019). The new Law effectively upholds the competitive position of Vietnamese SOE group vis a vis foreign-owned TNCs.
- 7 GSO data on the state sector probably refer to SOEs and public administration.

8

Many small firms continue to operate as household enterprises at the border between formality and informality. They often remain credit rationed and/or constrained, with negative repercussions for an optimal allocation of scarce resources... Only a very small fraction of smaller household businesses have become registered over the past three decades ... official statistics do not capture over 30 million employees.

(Rand & Tarp 2020, pp. 2–3)

- 9 Simple commodity producers can be regarded as non-capitalist market-oriented enterprises engaged in pre-capitalist (and pre-socialist) social relations of production and exchange SRPES (see above Chapter 3, Part I). Their activities are concentrated in labor-intensive, low-tech services, handicraft and micro-industrial manufacturing.

21 Employment, wages, and productivity

Summary

21.1. Structural changes. – 21.2. Lewis is still far away

21.1 Structural changes

Since the turn of the century, employment in the foreign investment sector has grown from negligible to 8.4% of the total, a share about equal to that of the state sector. In a parallel fashion, the shares of both the state and the (domestic non-state) sector¹ have been declining (see Table 21.1).

Table 21.1 Annual employed population at 15 years of age and above by types of ownership

	<i>State</i>	<i>Non-state</i>	<i>Foreign investment sector</i>
Structure (%)			
2000	11.7	87.3	1.0
2001	11.7	87.4	0.9
2002	11.8	87.1	1.1
2003	12.1	86.0	1.9
2004	12.1	85.7	2.2
2005	11.6	85.8	2.6
2006	11.2	85.8	3.0
2007	11.0	85.5	3.5
2008	10.9	85.5	3.6
2009	10.6	86.2	3.2
2010	10.2	86.3	3.5
2011	9.9	85.9	4.2
2012	9.7	85.9	4.4
2013	9.5	85.7	4.8
2014	9.2	85.4	5.4
2015	9.0	85.0	6.0
2016	8.8	84.5	6.7
2017	8.6	83.6	7.8
PreI. 2018	8.3	83.3	8.4

The evolution of employment trends by kinds of economic activity shows the uneven path of structural change in Vietnam in a particularly clear fashion.²

Structural changes were rather slow during the 1990s. The share of agriculture remained overwhelming, declining only from 73% in 1990 to 68% in 2000. The tertiary sectors captured the bulk of the quota lost by the primary one, growing from 16% to 20%. The industry gained very little (from 11% to 12%), and so did the manufacturing subsector (from 8% to 9%). Thus, progress in industrialization was scarce.

Things changed markedly in the 2010s. In the 2000–2005 period the share of agriculture falls markedly (from 68% to 55%) and that of services increases, to 27% of the total. Industrialization also gained momentum, with the share of the secondary increasing by 50% (from 12% to 18%) and that of manufacturing also rising, but less markedly (from 9% to 12%).³ These figures imply that the SOE-dominated non-manufacturing subsector (mining included) was expanding faster than manufacturing (see Table 21.2).

Subsequently (2005–2018), agriculture's employment share kept declining steeply, from 55% to 38% (a level that is still very high by international standards), and that of services kept increasing (from 30 to 39%).⁴ The growth in overall industrial employment share kept growing (from 18% of the total to 27%). Both industrial subsectors increased their share of total employment by about 50%:

Foreign Direct Investment (FDI)-led manufacturing rose from 12% in 2005 to 18% in 2018,⁵ and non-manufacturing industries from 6% to 9%.⁶ As construction activities were still expanding, the steep relative decline was concentrated in the State-owned enterprise (SOE)-dominated subsectors, which were becoming more and more capitalized and exhibited fast-rising LP (see Tables 21.1–21.3).

In contrast to the domain of literacy and basic education, Vietnam is still rather backward in the area of vocational training. The percentage of trained workers more than doubled in 2000–2018, but it is still just above 1/5⁷, and Vietnam still ranks low in the Global Talent Competitiveness Index (GTCI). To overcome this constraint, the Government of Vietnam (GOV) has recently revamped the establishment and accreditation of training facilities.⁸ By the end of the past decade, there were about 2000 vocational centers, training over 2.2 million apprentices (see Table 21.4).

Table 21.2 Employment structure 1990–2005.

	1990	2000	2005
AGRICULTURE	73	68	55
INDUSTRY	11	12	18
Manufacturing	8	9	12
SERVICES	16	20	27

Source: Authors' elaboration from GSO, Kien Nguyen 2014, Table 4.3, p. 62

Table 21.3 Annual employed population and the annual employed population at 15 years of age and above by kinds of economic activity

Structure (%)	2005	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Prel. 2018
Agriculture, forestry and fishing	55.10	52.90	52.30	51.50	49.50	48.40	47.40	46.70	46.30	44.00	41.90	40.20	37.70
Mining and quarrying	0.60	0.70	0.60	0.60	0.60	0.60	0.60	0.50	0.50	0.50	0.40	0.40	0.30
Manufacturing	11.80	12.50	12.90	13.50	13.50	13.80	13.80	13.90	14.10	15.30	16.60	17.30	17.90
Electricity, gas, steam and air conditioning supply	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Water supply, sewerage, waste management and remediation activities	0.30	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.20	0.30
Construction	4.60	5.20	5.30	5.40	6.30	6.40	6.40	6.30	6.30	6.50	7.10	7.50	7.90
Wholesale and retail trade; repair of motor vehicles and motorcycles	10.70	10.90	11.00	10.80	11.30	11.60	12.30	12.60	12.60	12.70	12.60	12.90	13.50
Transportation and storage	3.00	3.00	3.10	3.00	2.90	2.80	2.90	2.90	2.90	3.00	3.00	3.30	3.30
Accommodation and food service activities	1.90	2.40	2.80	3.30	3.50	4.00	4.20	4.20	4.40	4.60	4.70	4.60	5.10
Information and communication	0.40	0.40	0.40	0.50	0.50	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Financial, banking and insurance activities	0.40	0.40	0.40	0.50	0.50	0.60	0.60	0.60	0.70	0.70	0.70	0.70	0.80
Real estate activities	0.00	0.10	0.10	0.10	0.20	0.20	0.30	0.30	0.30	0.30	0.30	0.40	0.50
Professional, scientific and technical activities	0.40	0.40	0.40	0.50	0.40	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Administrative and support service activities	0.30	0.30	0.30	0.40	0.40	0.40	0.40	0.50	0.50	0.50	0.50	0.60	0.60
Activities of Communist Party, socio-political organizations; public administration and defence; compulsory security	3.90	3.70	3.60	3.30	3.20	3.10	3.10	3.10	3.20	3.20	3.20	3.20	3.10
Education and training	2.90	3.30	3.20	3.30	3.40	3.40	3.40	3.50	3.50	3.60	3.60	3.80	3.90
Human health and social work activities	0.80	0.90	0.80	0.80	0.90	1.00	0.90	0.90	0.90	1.00	1.10	1.00	1.10
Arts, entertainment and recreation	0.20	0.30	0.40	0.40	0.50	0.50	0.50	0.50	0.50	0.60	0.60	0.50	0.50
Other service activities	1.80	1.60	1.50	1.20	1.40	1.50	1.40	1.40	1.40	1.50	1.60	1.60	1.70
Activities of households as employers; undifferentiated goods and services producing activities of households for own use	0.40	0.40	0.40	0.40	0.40	0.40	0.30	0.30	0.30	0.30	0.40	0.40	0.40
Activities of extraterritorial organizations and bodies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.01	0.01

Table 21.4 Percentage of trained employed workers by sex and by residence by the percentage of trained employed workers, 15 years and above

<i>Total</i>	<i>Male</i>	<i>Female</i>	<i>Urban</i>	<i>Rural</i>	
2000	10.3	11.8	8.6	25.2	5.3
2001	10.7	12.3	9.0	25.9	5.9
2002	11.1	12.9	9.5	25.6	6.4
2003	11.5	13.2	9.7	26.0	7.0
2004	12.0	13.8	10.2	26.5	7.3
2005	12.5	14.3	10.6	27.2	7.6
2006	13.1	14.9	11.2	28.4	8.1
2007	13.6	15.6	11.6	29.7	8.3
2008	14.3	16.3	12.2	31.5	8.3
2009	14.8	16.7	12.8	32.0	8.7
2010	14.6	16.2	12.8	30.6	8.5
2011	15.4	17.2	13.5	30.9	9.0
2012	16.6	18.6	14.5	31.7	10.1
2013	17.9	20.3	15.4	33.7	11.2
2014	18.2	20.4	15.8	34.3	11.2
2015	19.9	22.4	17.3	36.3	12.6
2016	20.6	25.0	18.0	37.2	12.8
2017	21.4	25.0	18.7	37.9	13.7
Prel. 2018	21.9	25.4	19.3	38.0	14.3

21.2 Lewis is still far away

Vietnam still has an enormous reserve army of labor and is far from the Lewis turning point. Over $\frac{1}{2}$ of the nonagricultural labor force in informal employment. Still in the mid-2010s, only about $\frac{1}{3}$ of the total labor force was in wage employment, but their share has climbed fast in the late 2010s,⁹ and wage workers are now a plurality in Vietnam's labor market. Yet, they constitute less than half of Vietnam's total labor force, a share much lower than the world average (see Table 21.5).

Wages in Vietnam are very low and their absolute level is insufficient to ensure full labor force reproduction and proletarianization. However, wages have been increasing quite fast in the first two decades of the XXIst century, and their rise has outpaced that of labor productivity.¹⁰ A major engine of wage increases has been constituted by minimum wage increases, which also contributed to decreasing overall wage inequality (see Hansen, Rand and Torm 2016, VEPR 2021^{11, 12}). The effectiveness of this policy tool has largely been attributable to the fact that Vietnam has performed much better than other Asian countries in forcing employers to comply in practice with mandated minimum wages¹³ (see Cowgill M. And Phu Huynh 2016¹⁴). The upward trend in wages has accelerated towards the end of the past decade (see ILO 2018; Nguyen Quy 2019).

Labor productivity (LP) (at current prices) rose fivefold in 2000–2018. In relative terms, LP in mining and infrastructural industries, which was already much higher than the average, grew even more so. The traditionally

Table 21.5 Annual population at 15 years of age and above by status in employment by Status in employment and year.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Prel. 2018
TOTAL	47,743.6	49,048.5	50,352.0	51,422.4	52,207.8	52,744.5	52,840.0	53,302.8	53,703.4	54,259.4
Wage worker	15,981.0	16,572.7	17,431.7	17,862.1	18,188.6	18,801.2	20,772.9	21,958.4	25,000.8	25,835.3
Employer	2,286.2	1,687.0	1,455.1	1,387.1	1,300.1	1,102.6	1,532.9	1,510.3	1,092.4	1,161.7
Own account worker	21,357.9	21,252.6	22,103.6	25,175.4	25,746.4	21,534.2	21,446.9	21,251.0	21,225.5	21,146.3
Unpaid family worker	8,062.5	9,525.9	9,350.5	8,981.6	8,963.8	11,298.6	9,074.9	8,557.4	8,374.2	8,101.9
Member of cooperative	55.9	22.3	11.2	16.2	8.9	7.9	12.5	25.7	10.5	4.2

Table 21.6 Productivity of employed population by industry and year

Unit	Mill. dong\$/person (current prices)												
	2005	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Prel. 2018
Total	21.4	25.3	32.0	37.9	44.0	55.2	63.1	68.7	74.7	79.4	84.5	93.2	102.2
Agriculture, forestry and fishing	7.5	9.7	13.6	14.1	16.3	22.3	25.6	26.4	28.6	30.6	32.9	35.6	39.8
Mining and quarrying	346.6	373.8	503.1	567.1	742.2	982.8	1,298.6	1,474.3	1,683.3	1,695.6	1,548.5	1,775.4	2,250.7
Manufacturing	34.2	42.7	50.1	51.3	42.0	53.2	60.7	65.8	70.0	71.0	72.4	82.4	91.2
Electricity, gas, stream and air conditioning supply	220.0	312.2	337.7	468.6	504.8	580.4	751.3	862.2	1,025.7	1,146.6	1,190.5	1,403.8	1,490.0
Water supply, sewerage, waste management and remediation activities	37.3	85.3	125.5	84.7	94.6	128.4	141.8	164.4	179.0	179.9	171.2	193.9	192.1
Construction	26.9	33.6	38.8	42.5	42.7	48.5	53.4	55.6	60.7	66.5	66.5	71.3	75.7

Wholesale and retail trade; repair of motor vehicles and motorcycles	25.3	31.2	40.9	46.7	31.1	40.3	47.4	51.7	58.3	63.4	70.2	77.6	82.3
Transportation and storage	21.7	29.1	35.4	38.8	43.8	55.9	62.2	67.0	73.2	71.9	74.8	76.0	84.3
Accommodation and food service activities	35.6	41.0	43.6	42.8	45.5	51.1	55.3	60.7	64.2	63.7	69.0	77.1	76.1
Information and communication	66.0	76.3	85.9	84.9	77.3	78.4	80.3	82.8	84.9	87.0	92.9	101.4	117.8
Financial, banking and insurance activities	257.3	84.0	103.3	435.6	457.8	493.0	547.7	581.9	588.2	631.1	660.7	712.4	699.2
Real estate activities	3,252.2	541.0	699.8	1,769.2	1,300.0	1,370.6	1,204.8	1,263.6	1,278.6	1,284.7	1,273.9	1,061.0	951.5
Professional, scientific and technical activities	82.0	107.2	117.6	111.2	128.8	160.4	166.5	190.2	204.2	220.7	256.9	255.8	259.1
Administrative and support service activities	32.3	34.7	40.8	41.6	42.5	50.8	51.3	55.0	56.3	56.6	60.8	60.4	59.8
Activities of Communist Party, socio-political organizations; public administration and defence; compulsory security	13.7	18.8	25.0	29.5	35.2	45.5	51.9	57.9	62.5	66.9	73.7	79.6	89.2
Education and training	21.4	25.0	25.6	27.0	30.0	38.3	47.6	58.0	64.9	72.1	81.4	87.5	95.8
Human health and social work activities	35.0	41.5	51.8	58.3	53.4	55.2	69.2	119.5	134.4	133.8	170.5	256.7	254.4
Arts, entertainment and recreation	76.9	70.2	61.6	61.9	62.8	67.3	73.0	78.1	80.7	84.6	88.9	104.9	116.6
Other service activities	17.9	25.6	37.0	51.1	50.0	59.0	68.5	76.9	85.6	90.0	94.7	102.1	102.5
Activities of households as employers; undifferentiated goods and services producing activities of households for own use	7.5	11.0	15.6	15.8	15.0	20.5	25.4	28.7	32.9	35.9	37.3	41.2	44.9

Table 21.7 Productivity by industry, % of the total (2005–2018)

	2005	2010	2018
Agriculture, forestry and fishing	35%	37%	39%
Mining and quarrying	1620%	2254%	2202%
Manufacturing	160%	95%	89%
Electricity, gas, stream and air conditioning supply	1028%	1147%	1458%
Construction	126%	97%	74%

backward agricultural sector improved somewhat its relative position, as its LP grew faster than the national average. The opposite happened with manufacturing where LP rose much less than in most other sectors and is now lower than the national average (see Table 21.6).

According to Koushan Das (2018),¹⁵

...the average annual productivity growth rate between 2011 and 2017 was 4.7¹⁶ percent, while the growth in investment capital was higher at nine percent...The gap between the growth in economy and productivity has led to an increase in wages, faster than the productivity growth. From 2004 to 2015, the average wage increased by 6.67 percent, while labor productivity only grew by 4.96 percent...Wage growth with respect to productivity has increased the highest for FDI firms, while for private firms it has stayed at almost the same levels. For state-owned enterprises, the growth in wages was below the productivity growth¹⁷...Historically, increases in minimum wages have led to an increase in average wages, reduced profits, and lower employment, especially for FDI and private firms¹⁸

High productivity sectors include mining, gas and electricity, finance, insurance, technological activities, real estate, and water supply. All of them are SOE-dominated.¹⁹ Processing and manufacturing industries,²⁰ where foreign-invested and (less so) POEs are prevalent, have lower LP. Productivity is still lower (but increasing faster than in manufacturing) in agriculture, forestry, and fisheries (see Table 21.7).

However, in spite of sustained progress, overall average productivity in Vietnam is still very low by international and regional standards (see Dat Nguyen 2018),²¹ due mainly to the relatively modest share of labor incorporated into the modern formal sector.

Notes

- 1 The non-state sector is a sort of catch-all category that includes farmers, petty commodity producers, POE workers and cooperatives.
- 2 Due to huge inter-sectoral productivity differentials, this evolution is harder to grasp from looking at the series on sectoral GDP shares.
- 3 This trend is consistent with that of employment Foreign investment sector, that was still marginal in the early 2000s (see Table 21.2).

- 4 As argued below in Chapters 22 and 23, such a services rise is not (so far) sufficiently big to indicate a major (and probably unhealthy) early tertiarization phenomenon.
- 5 The share of employment in manufacturing is still lower than in many Asian countries.
- 6 As already-high productivity in capital-intensive heavy industry and infrastructural services rose more than in manufacturing, the growth differential in favor of the former was even more pronounced in value terms. It has to be taken into account, however, that GSO data (like all national accounting statistics) reflect the value *captured* by each sector, not its *intrinsic* labor productivity. This value is heavily affected by each sector's enterprises' market power and by state-mandated price regulations.
- 7 According to one estimate, trained workers were only 2.5% of the total in 2017 (was estimated at 21.5% Koushan Das 2018).
- 8 In 2018 the GOV approved No. 49/2018/ND-CP to foster vocational education
- 9 The number of wage workers climbed, from 16 M in 2009 to 25 M in 2018, while that of own account and unpaid family workers remain stable.
- 10 This trend implies a reduction of the degree of exploitation (a concept to be understood holistically and ethically, not as a precisely quantifiable numerical indicator). However, in the meantime FDI has kept flowing to Vietnam and foreign capitalists have showed little urgency to upgrade the technological level of their investments. The latter evidence is proof that the absolute level of exploitation is still quite high.

11

Before 2011, although the growth rate of regional minimum wage was higher than that of labor productivity, regional minimum wage grew abreast with productivity. However, since 2012, the gap between growth rate of regional minimum wage and labor productivity of state-owned enterprises, domestic enterprises, and foreign direct invested enterprises has widened over time.

(VEPR 2021, p. 7).

12

...minimum wages have reduced wage inequality in the formal sectors by increasing the wages at the lower end of the distribution while it has increased wage inequality in the informal sectors by increasing the wages at the upper end of the distribution. The overall effect has been a significant decrease in wage inequality

(Hansen, Rand and Torm 2016, p. 47)

- 13 The official *Vietnam General Confederation of Labour (VGCL)* has consistently and aggressively bargained to raise minimum wages, correctly lamenting that they are still too low (see Chan 2019).
- 14 Minh Tuyet 2016 reports the results of an ILO survey, that found that

Non-compliance rates in the sector range from 6.6 to 53.3 per cent. Vietnam has the lowest non-compliance rate, of 6.6 per cent. Cambodia, Pakistan, Thailand and Indonesia follow, with 25.6 per cent, 37.4 per cent, 37.5 per cent, and 39.1 per cent, respectively. The highest non-compliance rates were found in India and the Philippines, of 50.7 per cent and 53.3 per cent, or about eight times higher than in Vietnam.

(Cowgill M. And Phu Huynh 2016, p. 1)

- 15 The author also warns that

If the wage growth continues to outgrow productivity, firms will see reduced profits, which would compel them to reduce hiring or shift their businesses to other competitive countries. Growth in wages, need to be at par with productivity if Vietnam wants to remain competitive.

It has to be taken into account that the article appeared in Vietnam Briefing, that is published by Asia Briefing, a subsidiary of Dezan Shira & Associates. The latter provide business intelligence, due diligence, legal, tax and advisory services throughout the Vietnam and the Asian region. Thus, this source reflects the viewpoint of international investors.

- 16 Such a rate of productivity increase is quite good, albeit not stellar. As both productivity and manufacturing employment went up (at least, in absolute terms) this implies, that , notwithstanding the abundance of potential labor supply not yet incorporated in the modern sector, Vietnam did not follow a purely Lewisian growth trajectory (as the latter would have implied no productivity growth in industry).
- 17 SOE are more capitalized than other industrial enterprises. They exhibit faster productivity growth and strengthen their relative position vis a vis domestic and foreign capitalist firms.
- 18 Labor costs are expected to increase the with the entering into force of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and EU-Vietnam Free Trade Agreement (EVNFTA). These agreements require Vietnam to apply in full the requirements listed in the 1998 ILO Declaration on labor rights.
- 19 In some cases, SOE operate jointly with FFI in the JV modality.
- 20 Mostly FFI, POE
- 21 “The General Statistics Office says that Vietnam’s labor productivity is only 1/18th of Singapore, 1/16th of Malaysia and 1/3 of Thailand and China.” (Dat Nguyen 2018)

22 Accumulation, growth, and structural change

Summary

22.1. FDI – 22.2. Industrialization and tertiarization – 22.3. Manufacturing – 22.4. Lack of intersectoral integration –22.5. Vietnam's experience in a comparative perspective

22.1 FDI

Vietnam's national savings were extremely low in the early Doi Moi period. To compensate for this weakness, Vietnam welcomed abundant Foreign Direct Investment (FDI) inflows, that have been playing an important role in sustaining its overall development trajectory so far.¹ Vietnam has also received sizeable aid from Western donors and international financial institutions (see Figure 22.2).

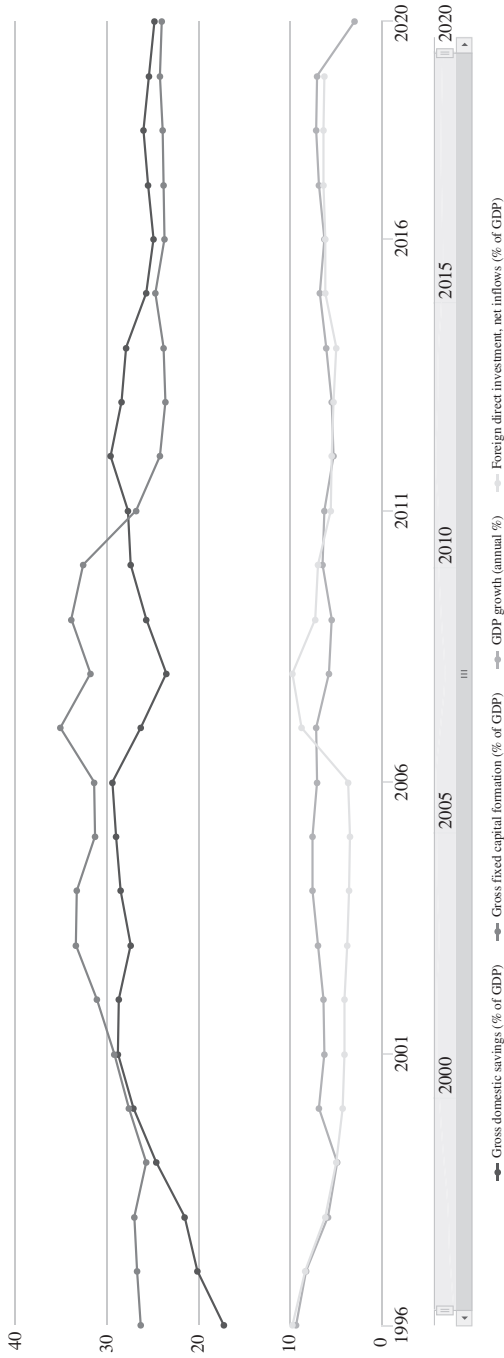
However, since the early 1990s, Vietnam dramatically raised its gross national savings/GDP ratio, which surged from 3% in 1990 to almost 30% in the early 2000s. National savings took a hit in 2008 but then recovered fully in 2012 at about 30%, then declined again moderately and stabilized at a good (if not stellar) level of about 25–26% of GDP.²

Vietnam has manifestly enhanced its capability to sustain rapid accumulation and gross domestic product (GDP) growth while decreasing (in relative terms) its dependency on FDI.³ (see Figures 22.1 and 22.2).

22.2 Industrialization and tertiarization

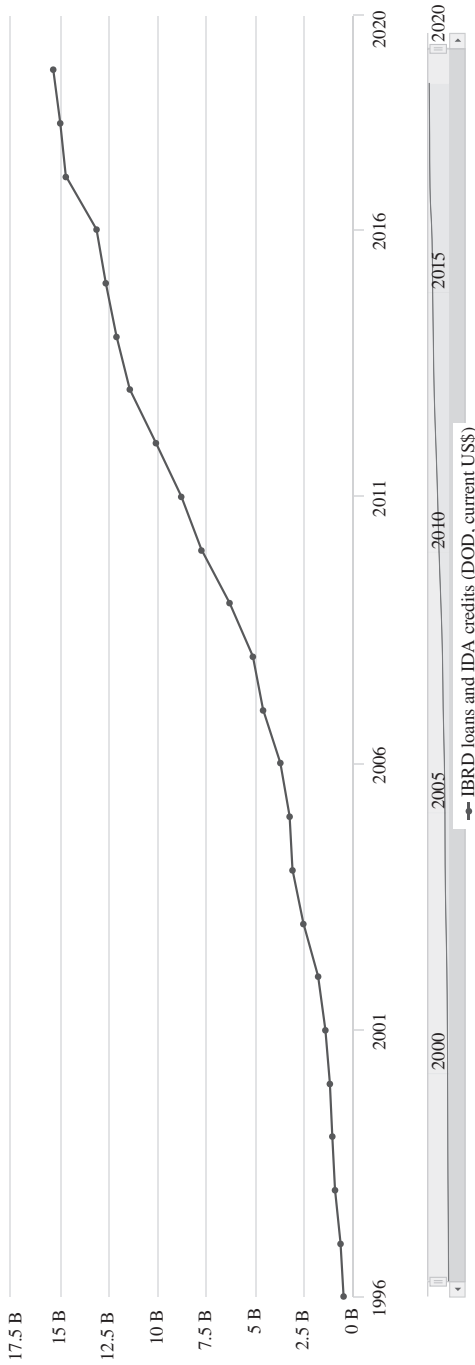
Since the early Doi Moi years, value-added growth in the secondary and tertiary macro-sectors has been much faster than in agriculture. After the turmoil of the late 1980s and early 1990s, growth in the industry has been faster than in services until the mid-2006. The industrialization process slowed down in the late 2000s and took a severe beat in 2010, mainly as a consequence of the FDI flight induced by the international crisis. In the 2010s industry became again the most dynamic sector.

The agricultural macro-sector was still the largest until the late 1980s. Afterwards, its GDP share declined steadily, and it had fallen to 15%



Country : Vietnam
 Source: World Development Indicators
 Created on: 08/05/2021

Figure 22.1 Savings, investment, and growth.



Country : Vietnam
 Source: World Development Indicators
 Created on: 08/05/2021

Figure 22.2 International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) loans.

(a still relatively high figure) by 2019. The share of industry has been on the rise in the 1990s and early 2000s, surpassing that of services in 2003 and peaking at 40% in 2004. It declined in the late 2000s and recovered in part afterwards, stabilizing at around 34% in the 2010s.⁴ The share of the tertiary macro-sector climbed in the early reform period, peaked at 44% in 1995, and declined gently afterwards. It rose on the rise again in the early 2010s and appears to have stabilized at about 41% in the last years of the decade (see Figure 22.3).

Oil reserves began to be exploited in the early Doi Moi years, and rapidly became a major component of the Vietnamese economy: the weight of oil rents over GDP peaked in 2005 at over 9%. Afterwards, the importance of oil declined and is now negligible.

Oil exports played a key role in the 1990s and early 2000s to sustain the BoP and allow fostering SOE-led industrialization in heavy and infrastructural subsectors.⁵ Subsequently, oil's role has been taken over by manufacturing⁶ (see Figure 22.4).

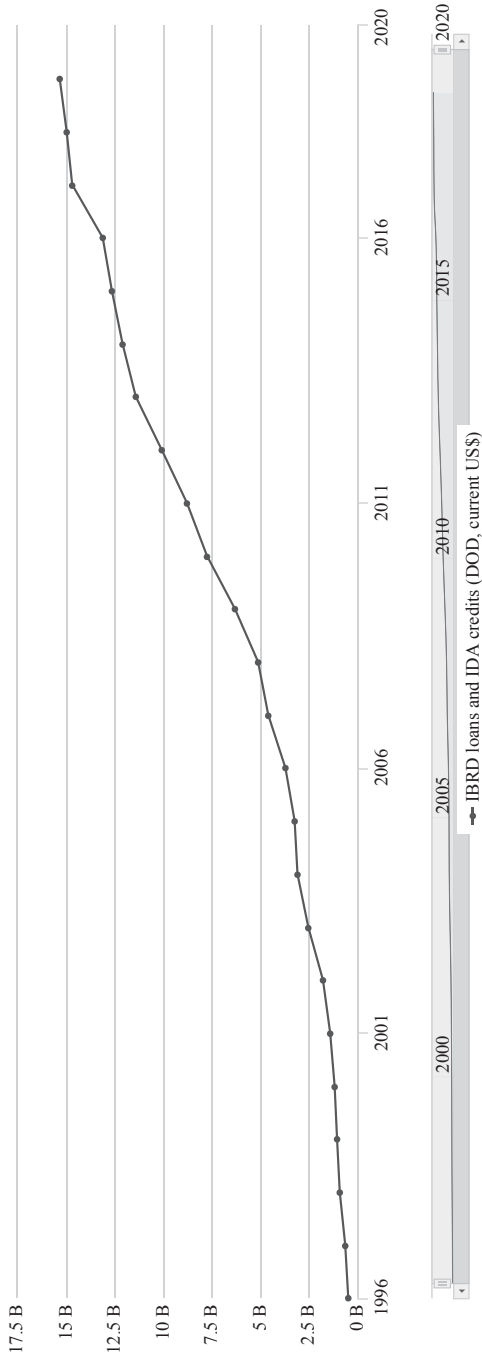
22.3 Manufacturing

The manufacturing subsector has been growing fast in absolute terms (more so than services, see Figure 22.5), and now provides the bulk of export earnings⁷ (see Figure 22.6). Yet, its contribution to GDP is relatively modest,⁸ although it has been on the rise in the 2010s. Actually, the manufacturing GDP share fell abruptly in the early Doi Moi period, from 22% in 1986 to 12% in 1990. It recovered afterwards (albeit not fully), peaking at 20% in 2002. Subsequently, it declined again and recovered slowly in the 2010s. By 2018, it stood at 16%, lower than in the early Doi Moi period and in the 2000s.

The relative weight of manufacturing in the industrial macro-sector was very high in 1986, but declined in the late 1980s and stayed at about 50% in the following two decades. It has been falling again in the 2020s. By 2008, it was 47%. These figures show that, in the long run, the non-manufacturing industrial sub-sector has been growing more than the manufacturing one (notwithstanding the huge FDI inflows, that were mostly earmarked to the latter), and is now the largest component of Vietnam's secondary sector (see Figure 22.5).

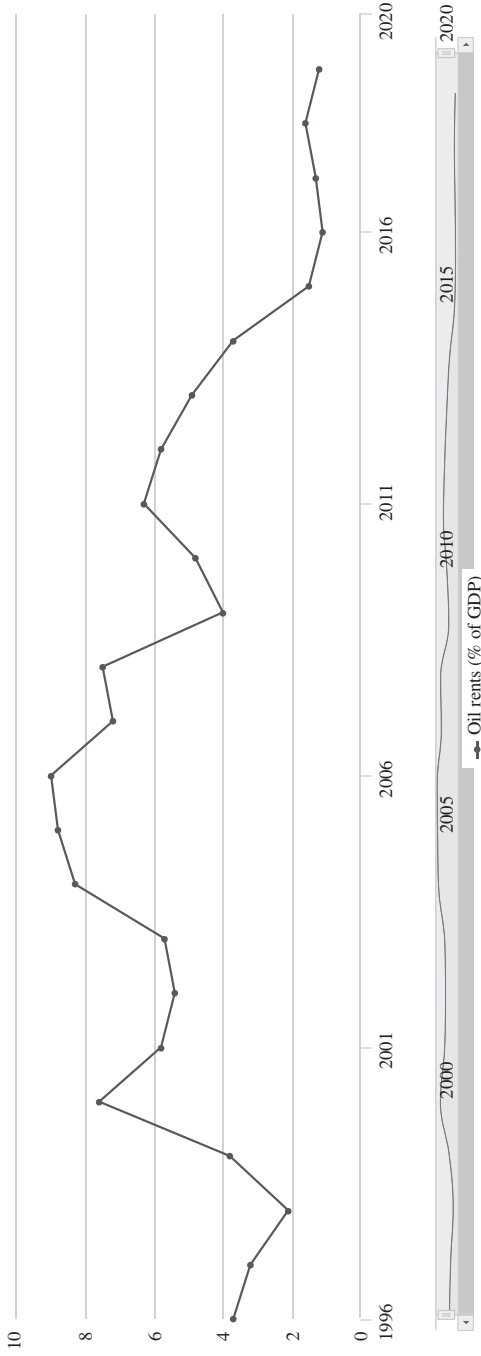
22.4 Lack of intersectoral integration

These trends suggest that, rather than spearheading and leading the industrialization and overall technological upgrading process, FDI-led manufacturing in Vietnam is rather poorly integrated with the rest of the national economy. However, FDI appears to be fulfilling an ancillary, yet indispensable function: sustaining the Balance of Payments (BoP). Like oil before it, manufacturing has enabled fast gross domestic product (GDP) growth and has been buying time for the indigenous industry to gain strength and modernize itself (see Figures 22.6 and 22.7).



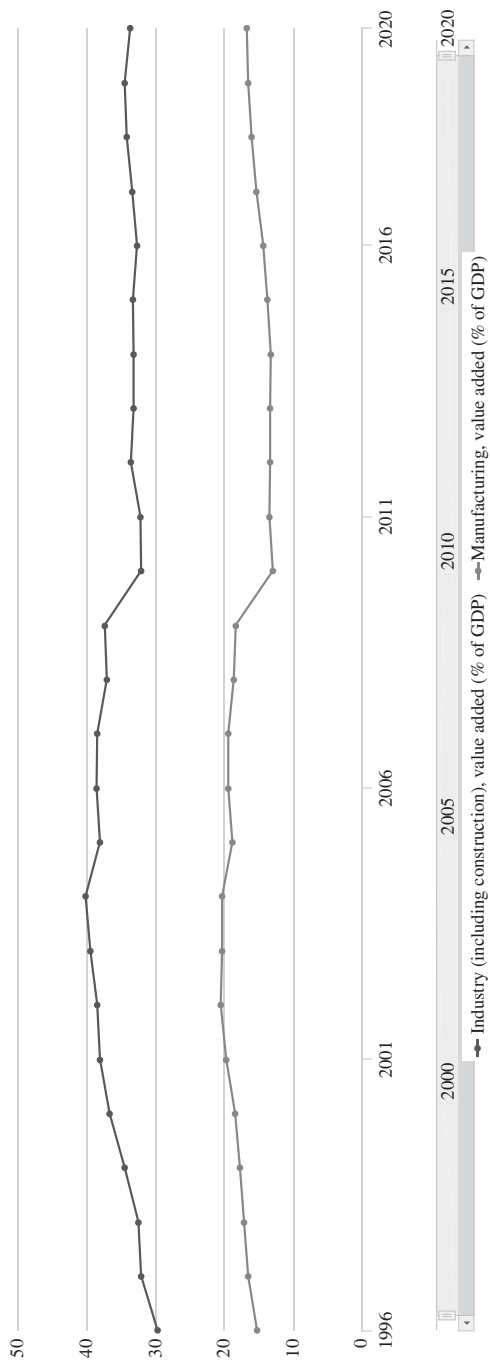
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Figure 22.3 Structural change.



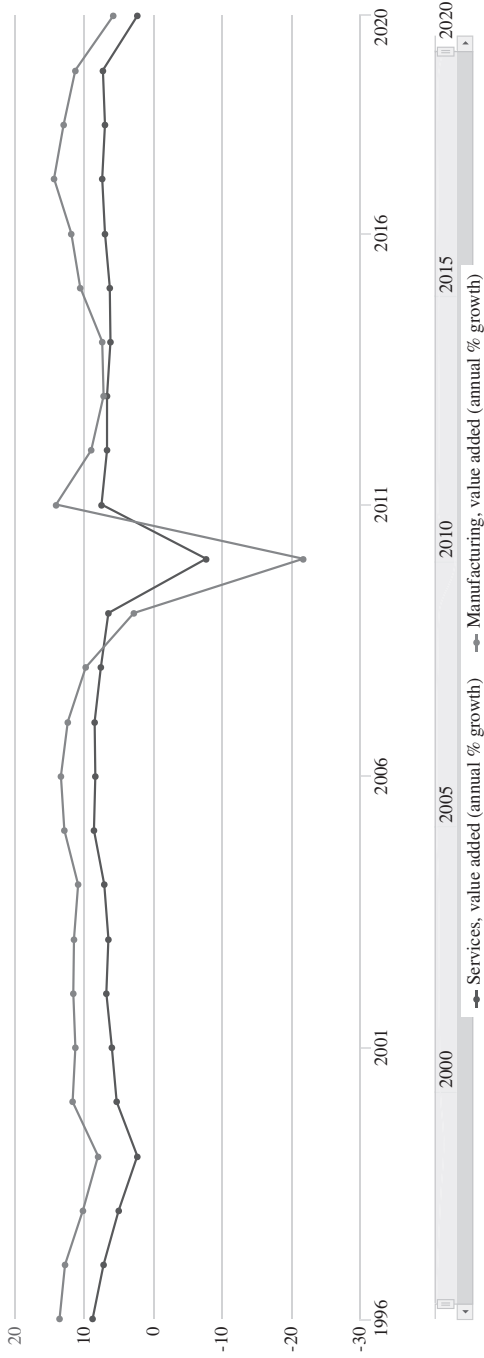
Country : Vietnam
Source : World Development Indicators
Created on : 08/05/2021

Figure 22.4 Oil.



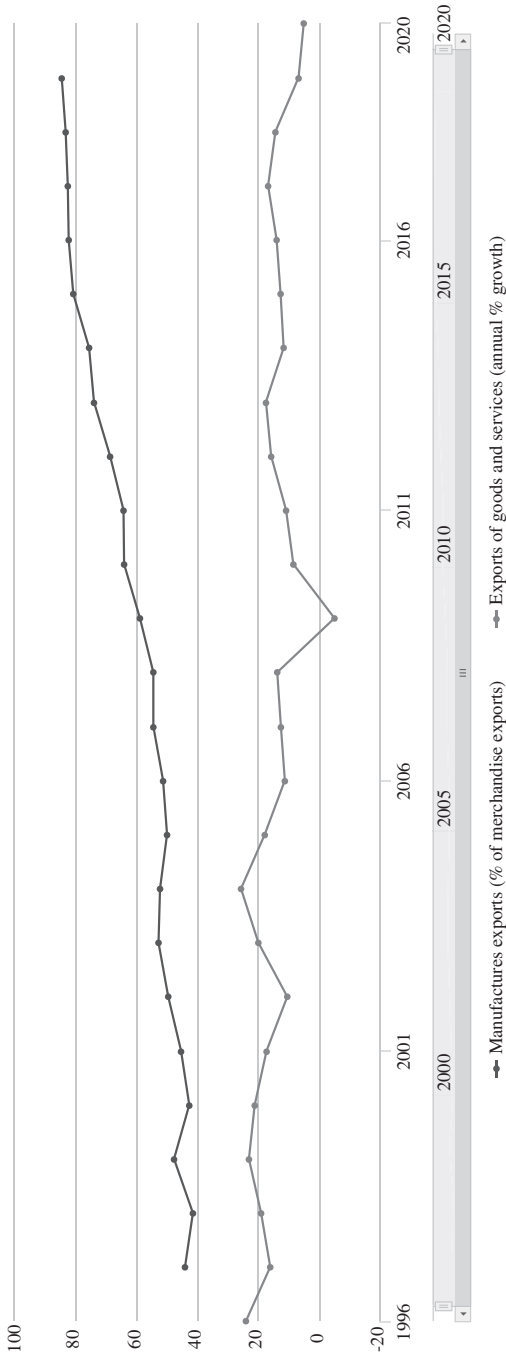
Country : Vietnam
 Source: World Development Indicators
 Created on: 08/05/2021

Figure 22.5 Industry and manufacturing.



Country : Vietnam
Source: World Development Indicators
Created on: 08/05/2021

Figure 22.6 Manufacturing and services growth.



Country : Vietnam
 Source: World Development Indicators
 Created on: 09/07/2021

Figure 22.7 Manufacturing exports.

This specificity, to some extent, is consistent with the consistent priority attached by the GOV to the development and consolidation of the State-owned enterprise (SOE)-led non-manufacturing industry. However, this dichotomy can only be relatively healthy (if probably suboptimal) for a limited period of time, after which domestic industrial enterprises should also venture into technologically advanced manufacturing activities.

22.5 Vietnam's experience in a comparative perspective

This final section presents some stylized statistical evidence that can help to appreciate Vietnam's development experience in comparison with its regional neighbors and other semi-industrialized peripheral countries.

Since the 1990s, Vietnam has outperformed the most advanced semi-industrialized capitalist countries in Southeast Asia (SEA)⁹ along many dynamic dimensions, including growth in GDP, GDP per capita,¹⁰ labor productivity, and wages – even if its overall level of development has remained lower. One important contributing factor has been that even though Vietnam experienced slowdowns as a result of the 1997–1998 regional crisis and the 2008–2009 global capitalist crisis, it avoided falling in outright recessions (see Figure 22.7, Table 22.1).

Figure 22.8 shows that there is some evidence of a (mild) deindustrialization trend in SEA since the major international crisis of the late 2000s. Relative deindustrialization also affected the BRICS (excluding China) and other so-called emerging peripheral capitalist countries (Figure 22.9).

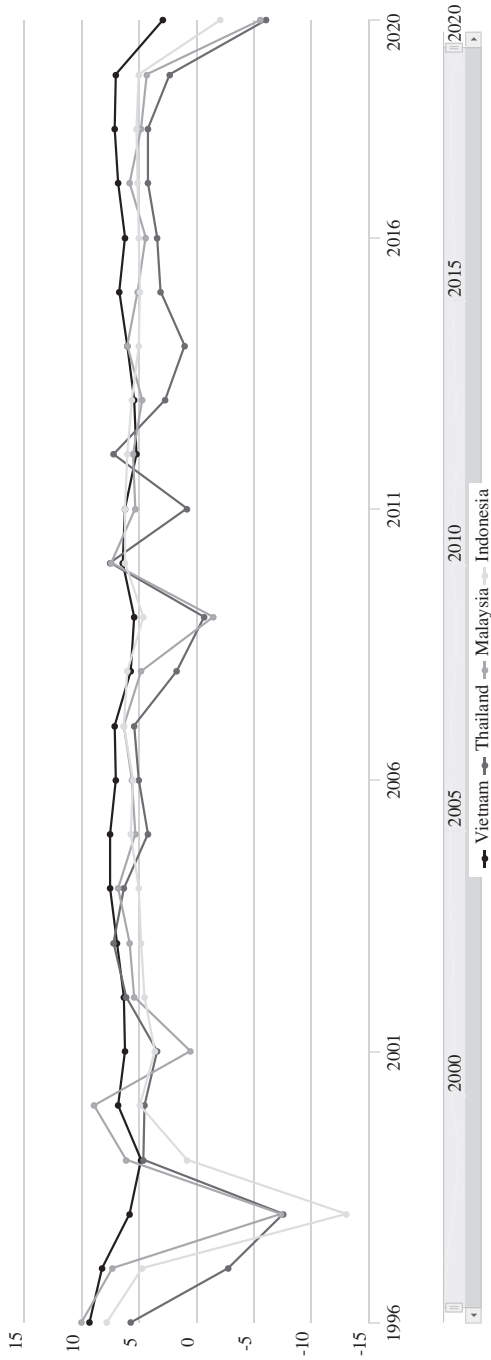
In this regional and global context, Vietnam is to some extent an outlier. In the long run, its industrialization process, albeit not spectacular, has broadly maintained its consistency. Moreover, Vietnam appears to have bucked the deindustrialization trend in the last decade, as its industry/GDP ratio has been increasing, albeit slowly, and is now on a par par with that of Thailand.

A similar trend is apparent in the manufacturing sub-sector, an area where the relative weakness of Vietnam vis a vis its neighbors is more pronounced than for industry as a whole (Figure 22.10).

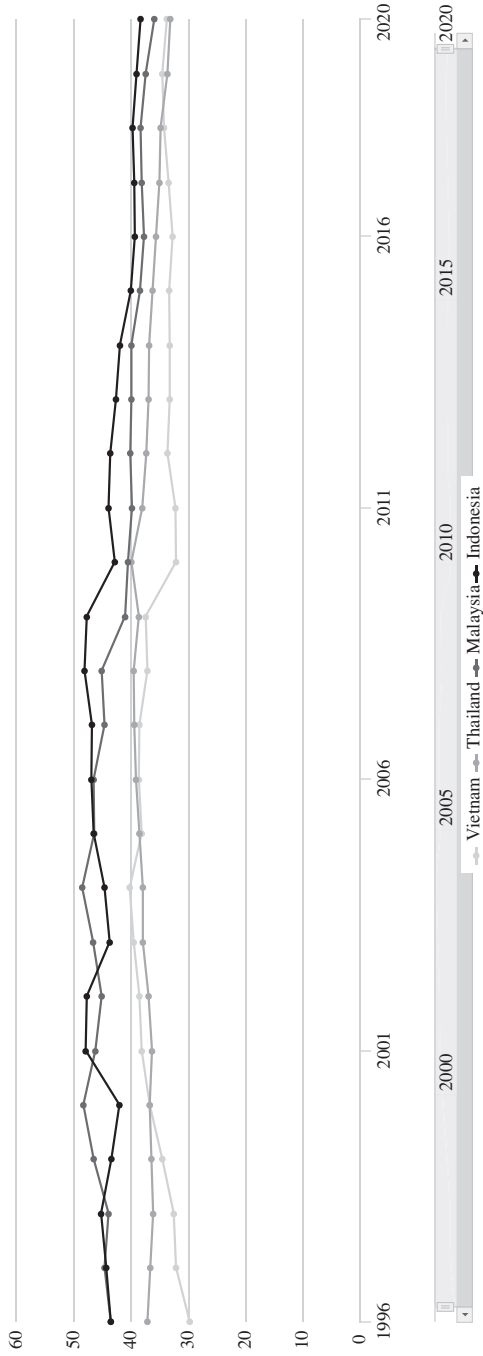
Table 22.1 GDP growth

<i>GDP growth (annual %), 1995–2018 (average)</i>	<i>GDP</i>	<i>GDPpc</i>
Vietnam	6,7	5,5
Thailand	3,5	2,8
Malaysia	5,1	3,1
Indonesia	4,5	3,1

Source: Authors' elaboration from WDI.

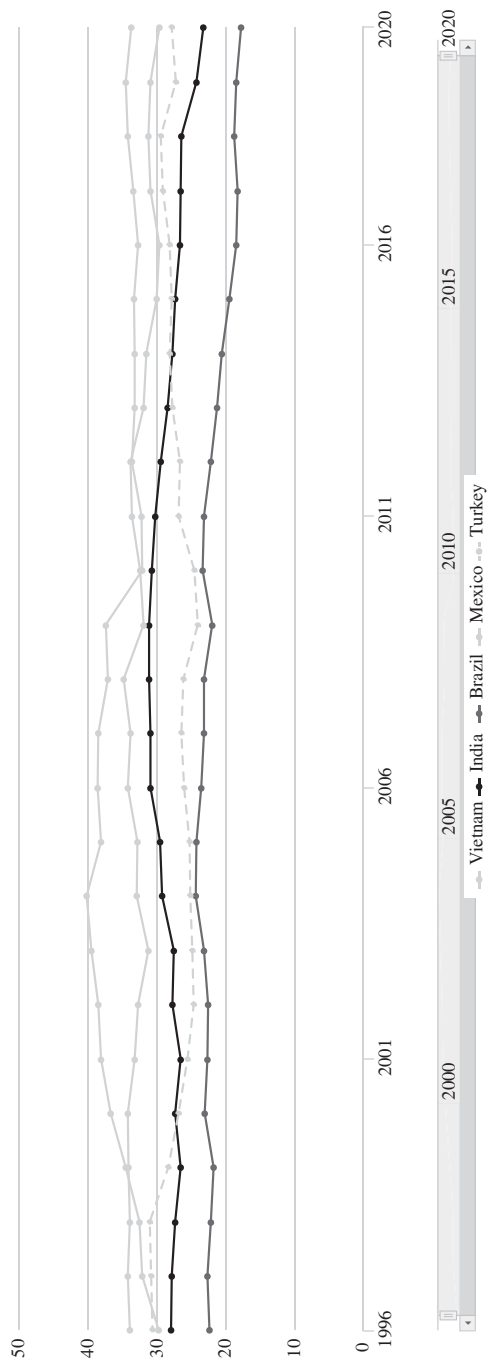


Series : GDP growth (annual %)
 Source: World Development Indicators
 Created on: 08/05/2021
 Figure 22.8 GDP growth vis a vis SEA.



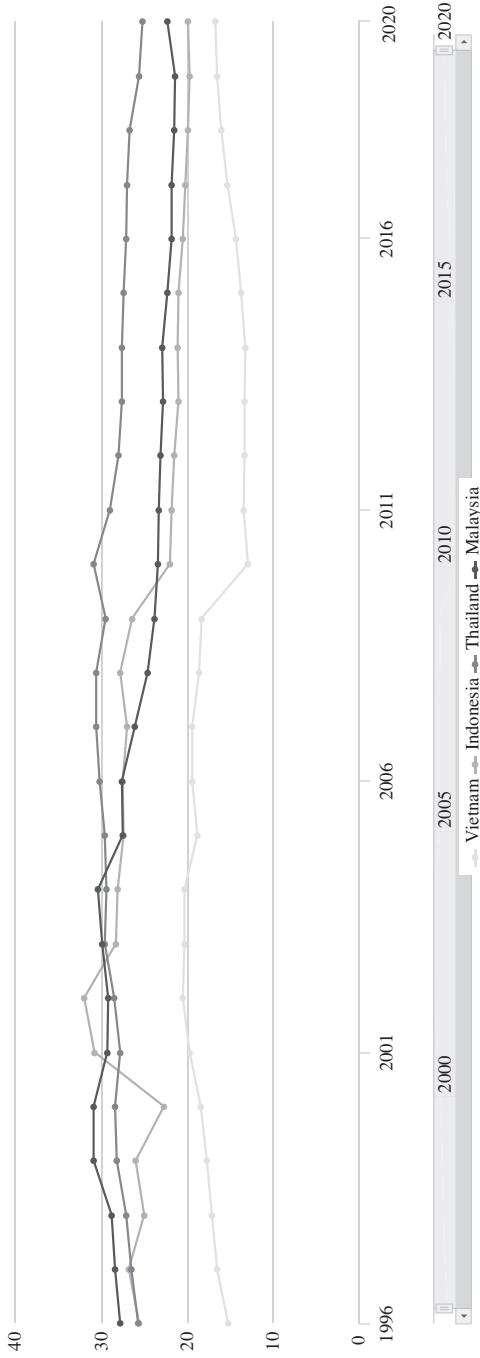
Series : Industry (including construction), value added (% of GDP)
 Source : World Development Indicators
 Created on: 08/05/2021

Figure 22.9 Industry/GDP ratio in SEA countries.



Series : Industry (including construction), value added (% of GDP)
 Source : World Development Indicators
 Created on: 08/05/2021

Figure 22.10 Industry/GDP ratio in SEA countries.



Series : Manufacturing, value added (% of GDP)
 Source: World Development Indicators
 Created on: 08/07/2021

Figure 22.11 Manufacturing/GDP ratio.

However, there is a bright side to Vietnam's relative manufacturing underdevelopment. Vietnam, at least until recently, has been less vulnerable than the rest of the Southeast Asia (SEA) region to external shocks.¹¹

More importantly, Vietnam State-owned enterprises (SOEs) have built a strong and firmly nationally-owned infrastructural and heavy industry base, more relatively advanced (even if less internationally competitive) than its manufacturing sector.¹² This feat has been possible, at least in part, thanks to Vietnam's socialist-oriented, not (fully, at least) capitalist development strategy, that has not been totally dependent on international or domestic capitalists. The existence of these solid indigenous industrial foundations has allowed Vietnam to fine-tune its development strategy, upgrade and expand industrial policies, accord a higher priority to R&D and innovation, and progressively lessen Foreign Direct Investment (FDI) dependency.

Notes

- 1 A sort of bizarre coincidence shows that GDP growth is strongly correlated to FDI and approximately equal to the FDI/GDP ratio in the 2010s. Much of this correlation is probably spurious. Anyway, it suggests that Vietnam's big opening to FDI was broadly effective, taking into account the country's limited saving capability, poor productivity, and technical backwardness.
- 2 This level is still much lower than that of PRC.
- 3 However, contrary to the PRC, Vietnam would still benefit if it were capable to further strengthen its indigenous accumulation capability.
- 4 These figures show that the *de-industrialization cum hypertertiarization* story does not apply to Vietnam.
- 5 Oil exports never played a comparable role in China.
- 6 The mining sector as a whole still contributes about 8% to Vietnam's total GDP. This figure is not negligible, although it has been moderately declining since the mid-2000s, when it was almost 10% (GSO)
- 7 The manufacturing share in total merchandise exports has surged, reaching over 83% in the late 2010s. Exports have also been growing very fast.
- 8 Until recently, manufacturing's contribution was somewhat overshadowed by oil. Given the circumstances, Vietnam is to be praised for having avoided the fate of other primary resources exporters, who never developed a strong manufacturing sector or let it be killed by the Dutch Disease. However, it has to be acknowledged that Vietnam (so far) has not been as successful as China in developing a very strong indigenous manufacturing sector, fully integrated with the rest of the national economy. Vietnam is now experiencing a manufacturing surge, but it is still hampered by the semi-enclave nature of the sector and its excessive dependency on FDI.
- 9 For the sake of shortening and focusing the exposition, we do not refer to the Philippines in this section. We just mention in this note that, in the long run, Vietnam has consistently outperformed the Philippines both in economic and human development terms.
- 10 VN's accomplishments are particularly evident in per capita terms. Vietnam's superiority is largely a byproduct of early human development achievements and, particularly, of an advanced status of women, that led to lower population growth than in richer, yet Muslim-dominated Malaysia and Indonesia.

- 11 There are predicaments where too little of a good thing can be a good thing. The relatively low dependency of the national economy as a whole on FDI-led manufacturing helped Vietnam to avoid a recession after the 2008 crisis.
- 12 In doing so, Vietnam has been challenging the law of value to a larger extent than most poor capitalist peripheral countries.

23 Finance

Summary

23.1. Central bank and commercial banks – 23.2. Other financial institutions – 23.3. The development of Vietnam’s financial system – 23.4. Problems – 23.5. The banking reform strategy

23.1 Central bank and commercial banks

The Vietnam National Bank was established in Hanoi in February 1951. In October 1961 it was renamed the State Bank of Vietnam (SBV). During the war years, the Bank regulated currency management and circulation, promoted the design and implementation of credit schemes for State-owned enterprises (SOEs) and collectives, and the creation of payment centers, fostered the expansion of international credit, and payment relationships, and developed a foreign exchange management scheme. In the early postwar economic recovery period the Government of Vietnam (GOV) took over the Southern banking system and issued new kinds of banknotes of the Socialist Republic of Vietnam.

In 1976, the GOV mandated the SBV to act as the country’s central bank. Subsequently, four state-owned commercial banks (SOCBs) were established: Vietnam Bank for Agriculture and Rural Development (Agribank, or VBARD), Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV), Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank) and Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank). However, until the mid-1980s, the state banking system acted essentially as an administrative budget tool, without engaging in effectively market-oriented operations.

The early doi moi years were a period of major challenges, such as macroeconomic and financial¹ disorder, quasi-zero savings, hyperinflation, and overreliance on money printing. This predicament required an accelerated institutions building drive.

In March 1988, Decree No. 53/HDBT set the preliminary conditions to “transform the banking system to commercial operations” (State Bank of Vietnam 2021). The State Treasury Department was separated from the central bank and a positive real interest rate policy was implemented.

In May 1990, the GOV issued ordinances on the SBV, banking, credit co-operatives, and finance companies, thereby initiating the transaction towards a two-tier system. In this system, the SBV is in charge of overseeing and supervising all financial activities, thereby acting as a modern central bank, while commercial banks and credit institutions carry out currency trading, credit, payment, foreign exchange, and banking services. In September 2005 the five state-owned banks were equitized, and a credit-rating agency and performance standards were established to promote transparency.

23.2 Other financial institutions

Besides the four SOCBs, there are other two groups of banks: over 30 smaller, indirectly state-controlled Joint Stock Commercial Banks (JSCBs),² which have been playing an increasingly important role, and Foreign-owned commercial banks (FOCBs). There are also smaller, specialized banks, set up to support development and poverty reduction programs: Vietnam Bank for Social Policy (VBSP),³ Vietnam Development Bank (VDB), and Cooperative Bank of Vietnam (CoopBank).⁴ By 2015 SOCBs had 45% of total banking assets, JSCB 45%, and FOCBs 10% (see Vuong, 2019).

Besides banks, there are two stock exchange markets and other non-bank financial institutions (NBFIs).

The stock exchanges have been operating respectively in Hanoi and Ho Chi Minh since the early 2000s. These markets have hosted inter alia various waves of M&A activities, and are instrumental for the commercialization of bonds, which have become an increasingly important tool for government financing. Their total market capitalization is equal to about 1/3 of the country's gross domestic product (GDP). There are also several securities broker firms, insurance companies, financial leasing firms, and investment companies.

23.3 The development of Vietnam's financial system

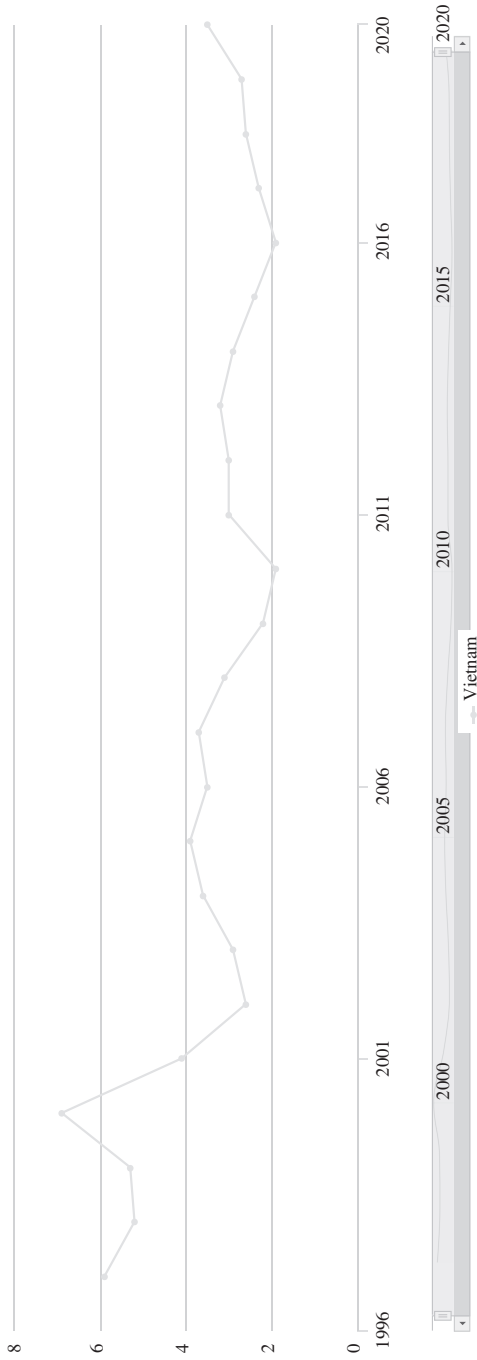
Financial sector reforms have brought about important results, among them a marked drop in the interest rate spread (see Figure 23.1).

The overall outcome of these major institutional developments, taking place in a context of sustained GDP growth and structural change, has been a

significant improvement in the Vietnam financial system in the last few decades. Obviously, the Vietnam financial market has been gradually becoming more integrated into the global market. Similar to other emerging economies, the integration process poses various challenges for the current institutional and legal framework in the financial system.

(Xuan Vinh Vo 2016)

Vietnam's financial system (VFS) has become a mixed one, where state-owned, joint-stock, joint-venture, and foreign banks, as well as non-banking



Series : Interest rate spread (lending rate minus deposit rate, %)
 Source: World Development Indicators
 Created on: 08/07/2021

Figure 23.1 Interest rate spread.

financial operators, coexist. However, in the specific context of Vietnam's socialist-oriented development strategy, the partial and selective financial liberalization taking place after the World Trade Organization (WTO) accession has not undermined the commanding role of the state.⁵ The performance of state banks, with respect to efficiency, in particular, has actually been more favorable than that of private financial operators (see Le Phuong Thanh, Harvie, Arjomandi and Borthwick 2019). Over 90% of VFS's assets are held by the banking sector, and 80% of financial intermediation is still carried out by the large state-owned commercial banks.

23.4 Problems

The VFS has grown and developed rapidly, but it is not without problems, stemming both from the inadequacies of the reform process and the permanence of old inefficiencies bequeathed by the command economy legacy and by the emergence of distortions induced by liberalization and marketization excesses.

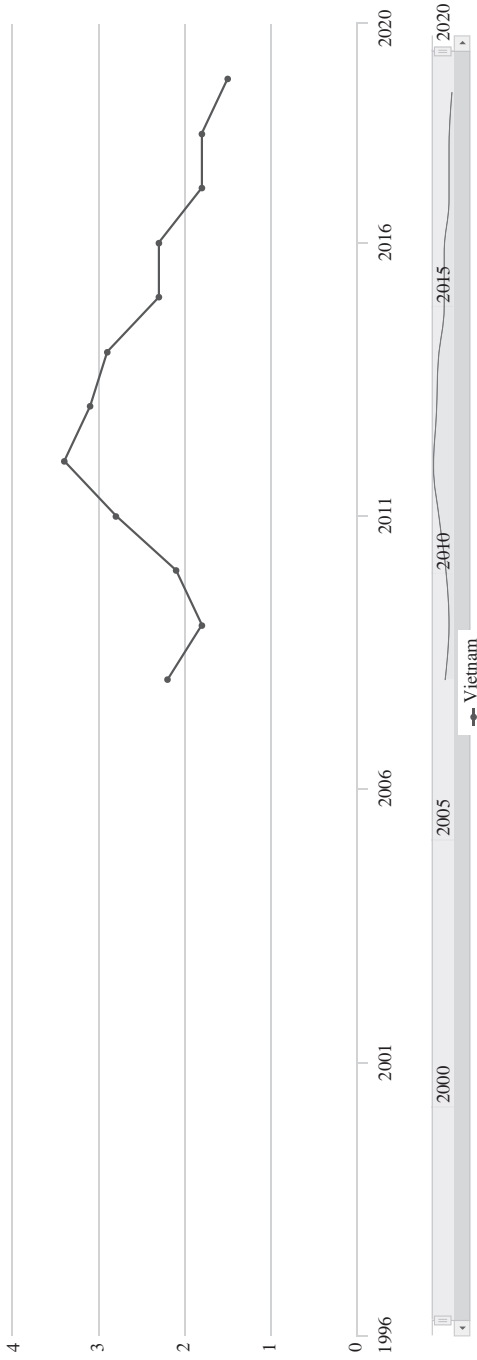
Notwithstanding its rapid progress and modernization⁶ (and, in part, due to the very tumultuous pace of the transformations it went through), Vietnam's banking sector has traditionally been tainted by serious systemic problems, including unwarranted administrative and ad hoc state intervention,⁷ weak regulatory oversight, and corruption (see Larsen 2019).

Insufficiently scrutinized directed lending and relationship-based credit practices are widespread. Access to credit is still too restricted, especially for Small and Mid-size Enterprises (SMEs), and interest rates are high. In a parallel fashion, there are also signs that banks have grown too powerful and capitalized with respect to the modest size of the real economy, and that the country's overall degree of financial development might be both qualitatively deficient and quantitatively excessive. Financial sector assets are over 200% of GDP, and Vietnam's financial deepening is very high with respect to most other middle-income countries.

Banks may also have gone too far on the way towards market orientation, adopting overtly commercial attitudes, with managers eager to capture personal rents while exploiting borrowers. Corruption in the banking sector has been for a long time a very serious ethical, economic and political hurdle. Like in China, moreover, the 2008 stimulus package increased the systemic risk of finance misallocation, overly risk-prone behaviors, and speculative utilization of credit (Thanh, Cuong, Dung and Chieu 2011; Dinh, Malesky, To and Nguyen 2013; Vuong 2019).

In a period of tumultuous growth, Vietnam has not been able so far to optimally coordinate and harmonize the behavior of the various components of the financial sector with the development needs of the productive sector and the urgency to minimize the opportunistic behavior of many agents and overall systemic risks.

As a result, Vietnam's banks are plagued by low public confidence, regulatory and managerial weakness, high levels of non-performing loans (NPL), non-compliance with the Basel capital standards, and the absence of international auditing (see Figure 23.2).



Series : Bank nonperforming loans to total gross loans (%)
 Source: World Development Indicators
 Created on: 08/07/2021

Figure 23.2 Nonperforming loans.

23.5 The banking reform strategy

The GOV realizes the problems of the banking sectors and has been intervening with increasing forcefulness in the past decade, targeting in particular the structural plague of nonperforming loans (NPLs). During the 9th five-year plan (2011–2015) the SBV successfully prioritized the sanitization of bad debt, mainly through the restructuring or taking over of unsolvable ailing lenders, and managed to drastically curtail the NPL ratio from 13% to only 2%.⁸

According to many observers, a key strategic priority is to enhance the relative independence of the SBV, as the quality of monetary policy and the effectiveness of regulatory and supervisory functions are becoming increasingly crucial to steer Vietnam through the present stage of development, that presents challenges and opportunities requiring a more modern and sophisticated form of market-compatible planning than in the past (see Soedarmono, Machrouh and Tarazi 2011; Vuong, 2019).

This view is being upheld by the GOV, which is acting consistently to strengthen the pivotal role of SBV. On August 8th, 2018, the GOV issued a decision on the *Development Strategy of Vietnam Banking Sector to 2025, with Orientations to 2030*, setting its views and strategic objectives on the roles and development of the SBV and the various credit institutions (CIs).

The strategy observes that

The institutional improvements in the monetary and banking sector plays an important role in contributing to the improvements of the socialist-oriented market economy. The State, through the role of the State Bank of Vietnam (SBV), creates a stable and secure monetary and banking business environment, encourages healthy competition, ensures discipline, the rules of law, and respects the market rules. The State intervenes mainly with market instruments, or through state financial resources. The CIs within the system from all economic sectors are treated equally and can compete under the law, can have autonomy in their operations and are accountable for their actions.

The SBV shall modernize and rationalize its operation mechanism consistent with the country's socialist-oriented market model, and comply with high legal and accountability standards. Its utmost priorities are inflation control and the promotion of macroeconomic and financial stability and sustainable growth, while effectively regulating and supervising CIs' operations and acting as a payment and settlement center for the payment systems and the financial and monetary transactions in the national economy. To this purpose, the SBV shall:

- gradually increase its independence, autonomy, and accountability;
- toughen and strengthen the regulatory framework, enhancing its institutional capacity and its effectiveness and efficiency in carrying out banking inspection and supervision tasks, according to Basel's principles;

- promote the development of non-cash payments⁹;
- expand access to formal credit on behalf of all economic operators.
- develop and implement law projects, sectoral strategies, and projects/schemes according to the overall framework of the Strategy
- along with other state institutions, steer the CIs network to progressively upgrade its functioning, focusing on its stabilization and consolidation and on the proper handling of non-performing loans.

The Strategy also identifies a few targets, the most important being to get 12–15 commercial banks to apply Basel II standards on minimum-capital and risk-management thresholds by the end-2020, and most of them to do so by 2025. This endeavor would be a major one, as it is made difficult, among other things, by the scarcity of domestic-capital, that induces banks to lure foreign investors. However, seven banks are actually ahead of schedule in meeting Basel II requirements.

To protect the position of national banks, as stated in August 2018 by Deputy Prime Minister Vương Đình Huệ, *Vietnam will strictly limit, or may stop, issuing new licenses for 100-percent foreign-owned banks in the country*.¹⁰

The early impact of the new strategy appears to have been positive, as most national and foreign analysts and financial operators acknowledge an improvement in Vietnam's business situation, financial stability and foresee an increase in lenders' profitability.

A consensus appears to hold among security companies that Vietnam's financial health is improving. The strengthening of regulatory measures and the powers of SBV is expected to create a more predictable and orderly environment, and to impact positively on banking profitability. As the macroeconomic situation is stable and the growth momentum is strong, credit demand is expected to surge, but liquidity should be assured as the risk of sudden capital flights towards China is remote, and Foreign Direct Investment (FDI) inflows continue to be sustained.

Notes

- 1 Institutionally and managerially weak and poorly regulated credit cooperatives exhibited erratic behavior and eventually went bankrupt. In 1990, they were superseded by better-structured PCFs.
- 2 Some western capitalist entities hold minority shares in JSCBs.
- 3 Both VBARD and VBSP run large microfinance programs, including over 1000 PCFs and two licensed microfinance institutions (MFIs) (see ADB 2016). Microfinance programs are now quite developed in Vietnam (where, like everywhere in the less developed areas of the periphery, the poor lack access to ordinary formal credit), reach many poor people and appear to create jobs and foster micro-entrepreneurship. However, prudence is warranted. Contrary to mainstream Western propaganda, the shortcomings and risks of microfinance are becoming increasingly apparent (Bateman and Chang Ha-Joon, 2012).
- 4 These banks are totally or overwhelmingly funded by the state, but formally they are not SOCBs.
- 5 This crucial feature parallels the development of China's financial system.

- 6 Besides institutional reforms, the banking industry is also undergoing a rapid technological upgrading. Among other issues, for instance, most transactions are still cash-based, but by the early 2010s Vietnam had already set up over 10000 ATMs, and 40 million ATM Cards circulated in the country.
- 7 Generally speaking, given the sector's unique nature, there cannot be excessive state intervention as such in the national financial system, especially so in a peripheral country. Governments should pursue an optimal degree of (de)centralization, to fine tune the balance between market-driven and strategic objectives, and to judiciously carve out not-too-large and well-regulated niches where profit-driven domestic and foreign capitalists can be allowed to play a limited role.
- 8 According to some observers, official statistics are overoptimistic, and partly underreport the gravity of the problem (Larsen 2019).
- 9 By the end of 2020, the ratio of cash to total liquidity will be not higher than 10%; By the end of 2025, this figure would be reduced to 8%
- 10 Quoted in Larsen 2019. At present, Vietnam has given licenses to 10 foreign lenders, including HSBC (Hongkong and Shanghai Banking Corporation), Standard Chartered and CIMB (Commerce International Merchant Bankers).

24 Development of productive forces and modernization in Vietnam and China

Summary

24.1. Growth and industrialization – 24. 2. Accumulation – 24.3. Structural change – 24.4. International integration – 24.5. R&D

24.1 Growth and industrialization

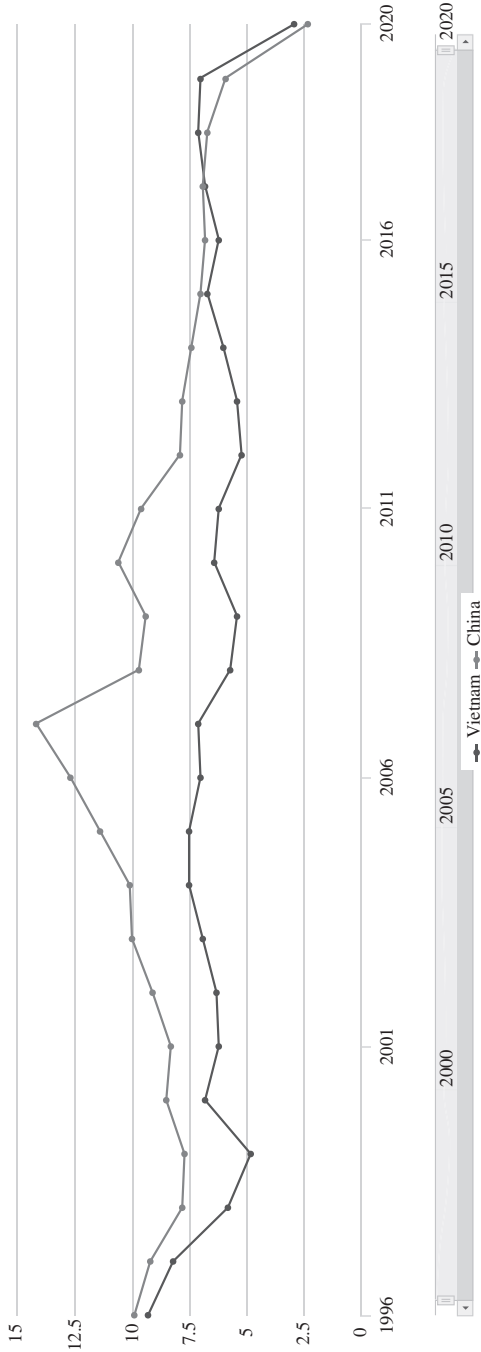
Until 1990, China and Vietnam had about the same GDP per capita. Since the subsequent decade, China's GDP growth has been faster than in Vietnam, while population growth (due largely to the One-Child Policy program) has been lower. The gap between China's and Vietnam's overall degree of economic development widened in the XXIst century (Vu Minh Khuong 2015). Since the mid-2010s, however, Vietnam has been slowly catching up with China, and this trend appears bound to continue (Figures 24.1–24.3)

The weight of industry in the national economy has always been higher in China than in Vietnam. This gap deepened in the early Doi Moi years, but since the 1990s industrialization in Vietnam proceeded apace, with the Industry/GDP ratio peaking in 2004 at over 40% – a very high figure. The ratio declined in the second part of the decade but stabilized afterwards at a respectable level of about 34% (Figure 24.4).

Shifting the focus on the manufacturing subsector, Vietnam's relative weakness vis a vis China is more apparent. Long-term trends in the manufacturing/GDP ratio are erratic and do not exhibit a clear upward bend. During the 2010s, the manufacturing/GDP ratio increased in Vietnam, while it declined modestly in China. Yet, by 2018, it was still almost 30% in China, almost double that of Vietnam (16%) (Figure 24.5)

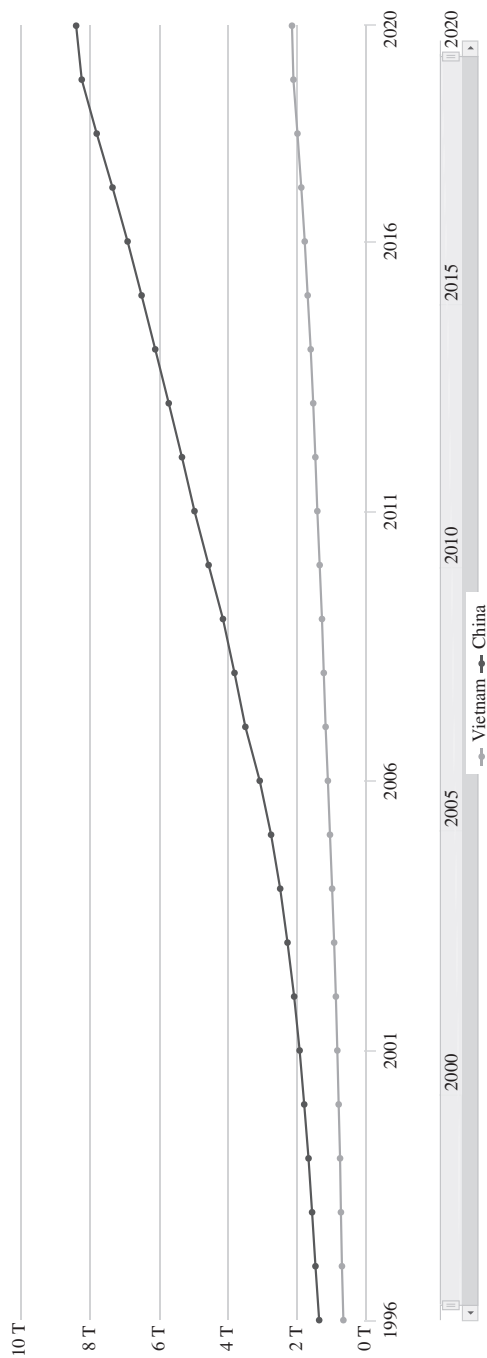
24.2 Accumulation

China has achieved a robust capability to self-finance accumulation since the 1970s. Conversely, by 1990 gross domestic savings in Vietnam were almost zero. Subsequently, Vietnam has significantly strengthened its national savings and investment capabilities in the 1990s and 2000s (see above, Chapter 22), yet China's structural superiority in this domain is still apparent. China is also less dependent on FDI inflows (see Figures 24.6–24.8).



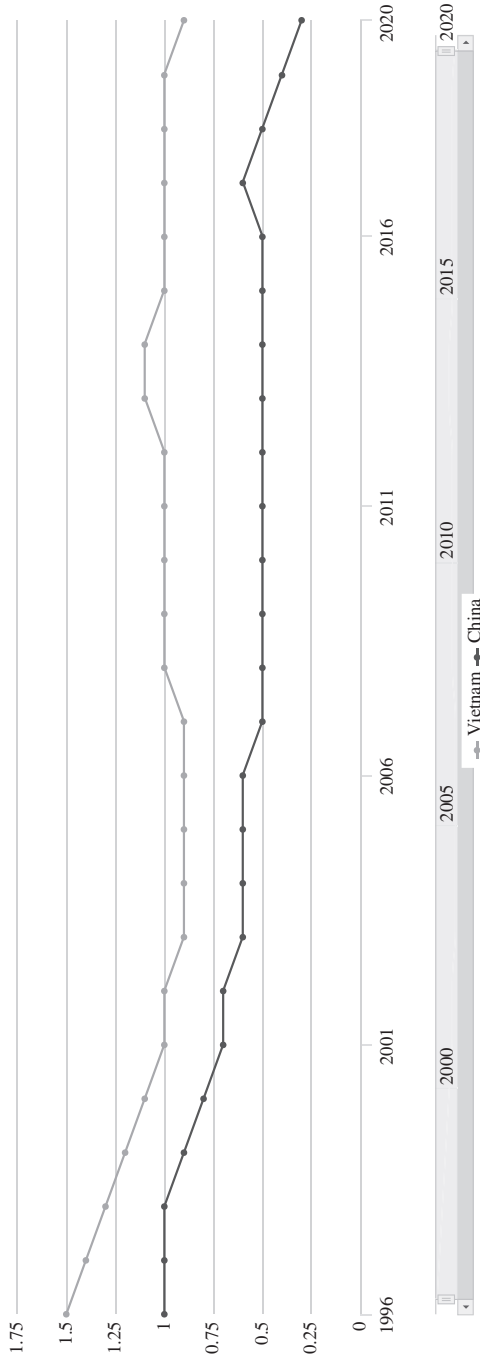
Series : GDP growth (annual %)
Source : World Development Indicators
Created on : 08/07/2021

Figure 24.1 GDP growth.



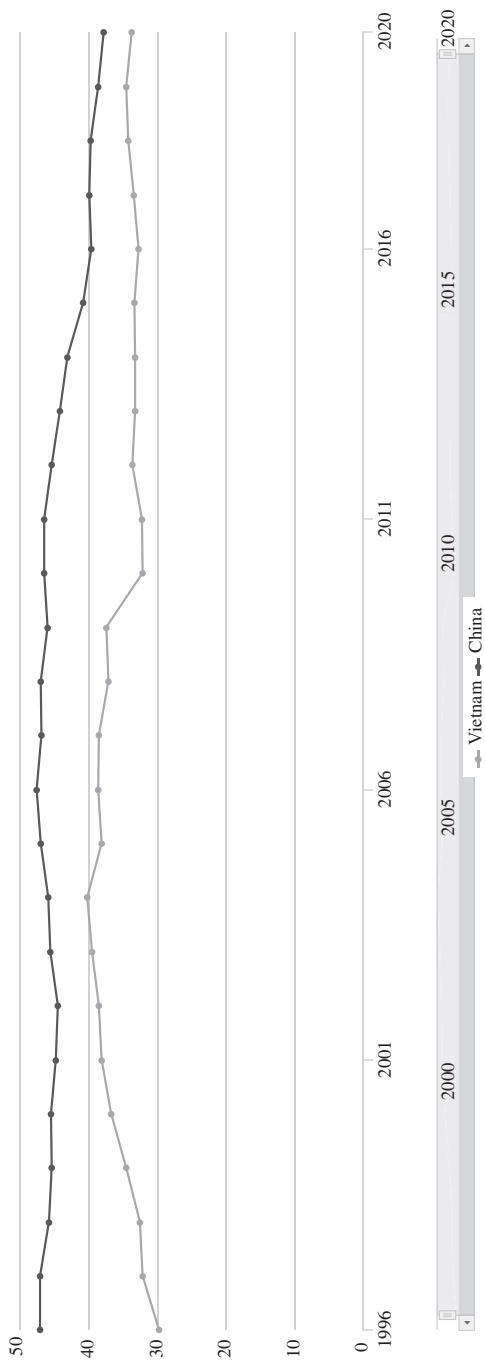
Series : GDP per capita (constant 2010 US\$)
 Source: World Development Indicators
 Created on: 08/07/2021

Figure 24.2 GDP per capita growth.



Series : Population growth (annual %)
 Source: World Development Indicators
 Created on: 08/07/2021

Figure 24.3 Population growth.

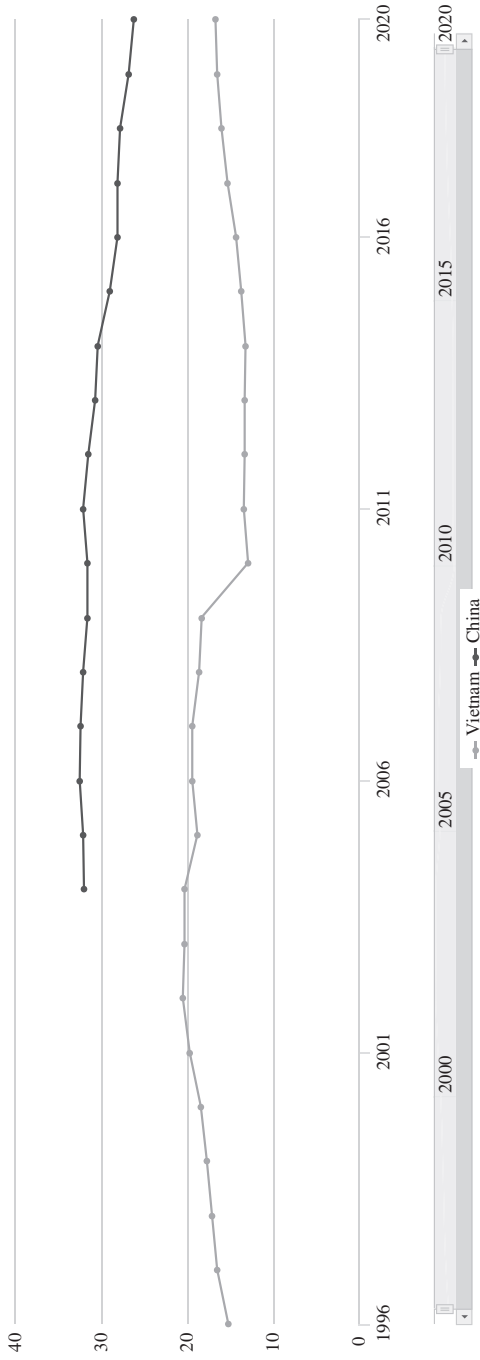


Series : Industry (including construction), value added (% of GDP)

Source : World Development Indicators

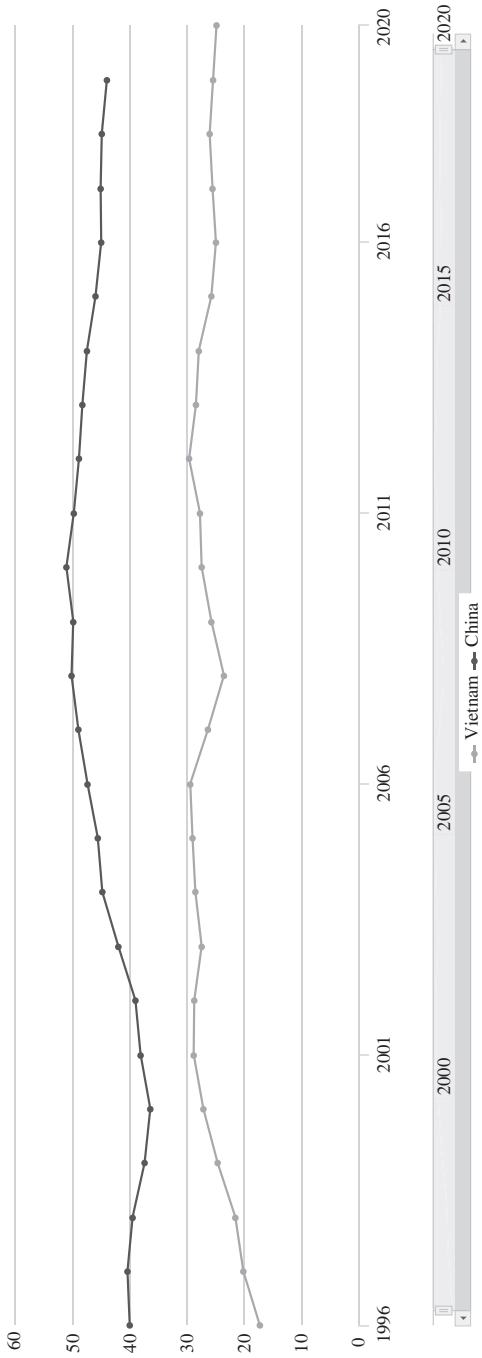
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Figure 24.4 Industry/GDP ratio.



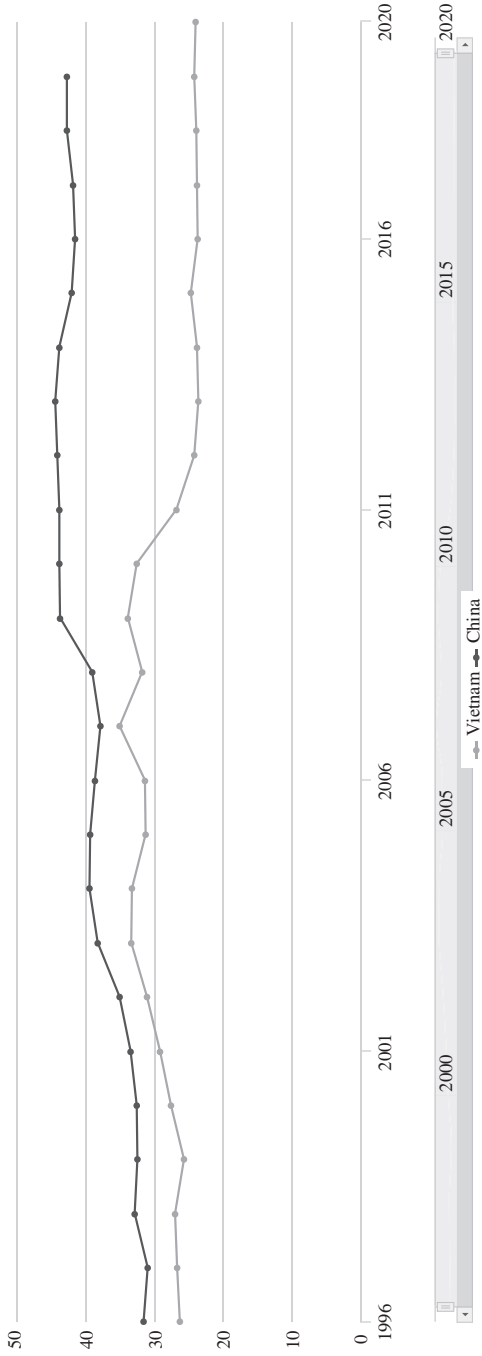
Series : Manufacturing, value added (% of GDP)
 Source: World Development Indicators
 Created on: 08/07/2021

Figure 24.5 Manufacturing/GDP ratio.



Series : Gross domestic savings (% of GDP)
 Source: World Development Indicators
 Created on: 08/07/2021

Figure 24.6 Savings/GDP ratio.



Series : Gross fixed capital formation (% of GDP)
Source: World Development Indicators
Created on: 08/07/2021

Figure 24.7 Investment/GDP ratio.



Series : Foreign direct investment, net inflows (% of GDP)

Source : World Development Indicators

Created on: 08/30/2021

Figure 24.8 FDI.

24.3 Structural change

Vietnam has maintained a decade-long lag vis a vis China in the long-term process of shifting its national labor force from agriculture towards the secondary and tertiary sectors. Among the latter, two contrasting trends are apparent. In industry, Vietnam has progressively been catching up with China, and both countries have now about the same share of total employment in the industry. Conversely, in services, Vietnam had the same share as China in the early 1990s but subsequently has been increasing it at a much slower pace (see Figures 24.9–24.11).

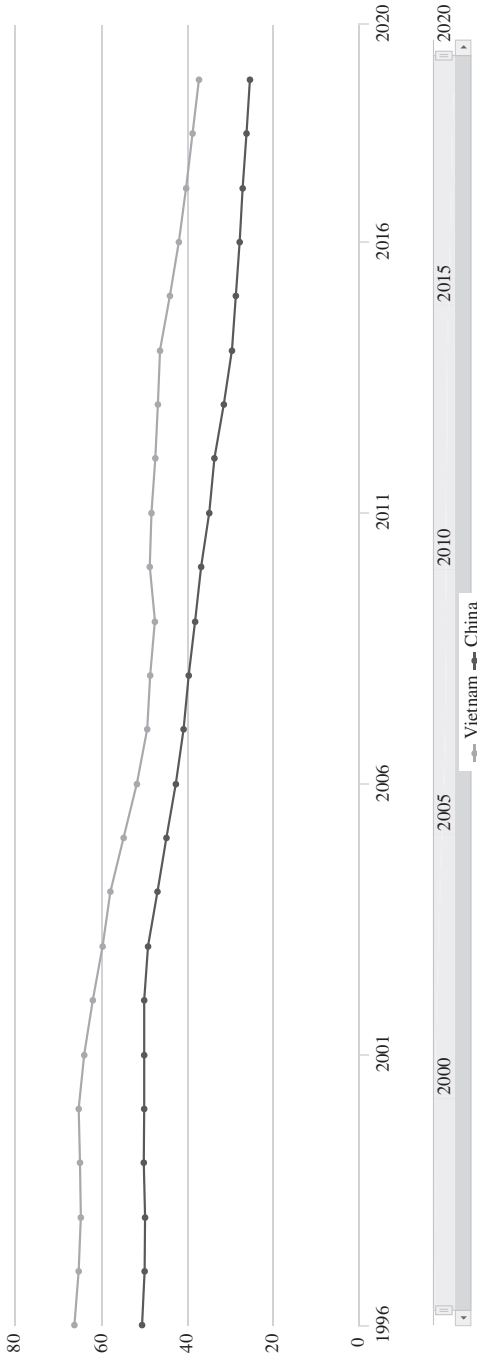
In terms of sectoral GDP shares, trends in Vietnam and China are broadly similar to those in employment, especially so with respect to agriculture. Due to China's higher degree of industrial productivity, its industry/GDP ratio is still much higher than that of Vietnam. The services/GDP ratio was initially higher in Vietnam and has been on par in both countries until the late 2000s. Afterwards, it has increased in China, while it has broadly stabilized in Vietnam (see Figures 24.12–24.14).

These trends – taking into account the structural gap between the two countries in terms of overall development of productive forces – run counter the much-touted story of early and excessive tertiarization and lack of industrialization in Vietnam.

24.4 International integration

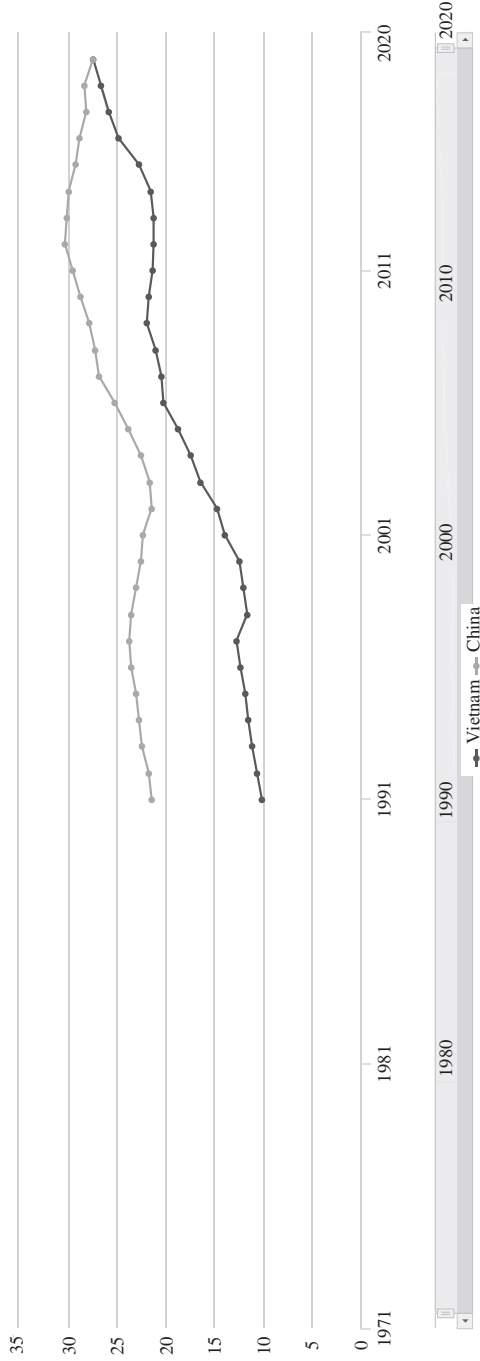
By the inception of *doi moi*, both China and Vietnam were very close to international trade flows. Subsequently, China's trade ratio has been regularly increasing until the mid-2000s, peaking at 64.5 in 2006, and then declined smoothly. In Vietnam, initially, the ratio actually fell due to systemic economic disruption in 1987–1988, then climbed fast. By 2018 Vietnam's trade ratio was exceptionally high, at 208.3%, over 6 times that of PRC (see Figure 24.15). After an initial growth period that was quite trade- and export-intensive by a gigantic country as it is, China has purposely opted for prioritizing the expansion of its domestic market. Vietnam's trade ratio is inflated by the large weight of intra-industry trade (i.e., only a fraction of the final value of exported manufactures is actually generated in the country). Apart from this, it is high also because manufacturing exports loom extremely large vis a vis the rest of economy, where most of the workforce is still engaged in pre-modern activities, and overall productivity remains very low by international standards.

These caveats should not be overestimated. In Vietnam, import of both investment and consumer goods have increased, non-TNC corporation exports also rose, and the country has genuinely become a quite open, trade-intensive industrial hub, very integrated in the global value chains (albeit still in a low-key, low-tech, low value-added generating position).



Series : Employment in agriculture (% of total employment) (modeled ILO estimate)
 Source: World Development Indicators
 Created on: 08/07/2021

Figure 24.9 Employment in agriculture.

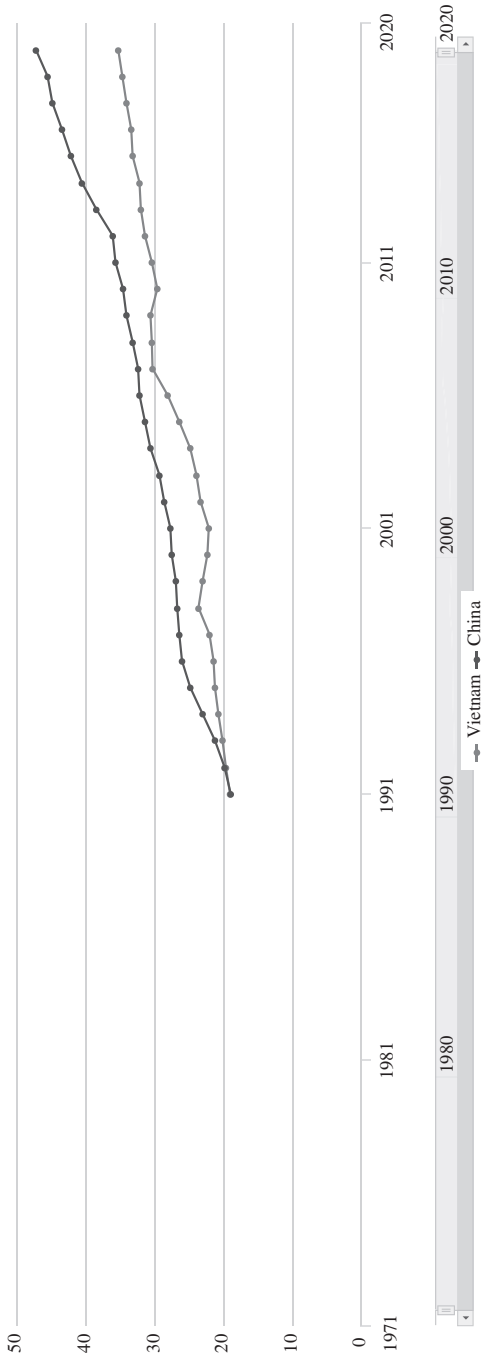


Series : Employment in industry (% of total employment) (modeled ILO estimate)

Source : World Development Indicators

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Figure 24.10 Employment in industry.

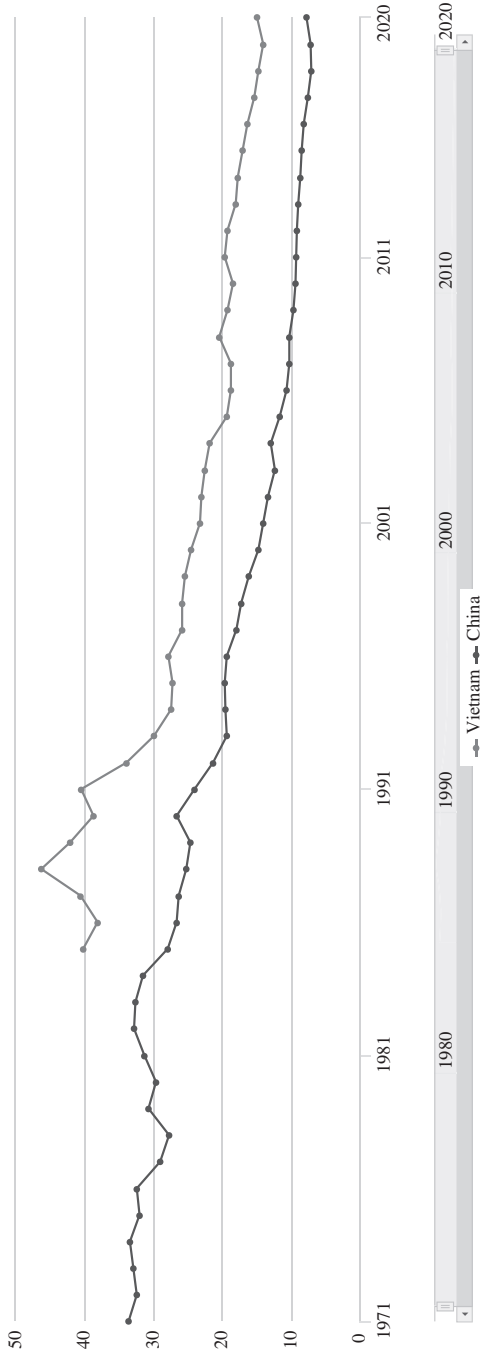


Series : Employment in services (% of total employment) (modeled ILO estimate)

Source: World Development Indicators

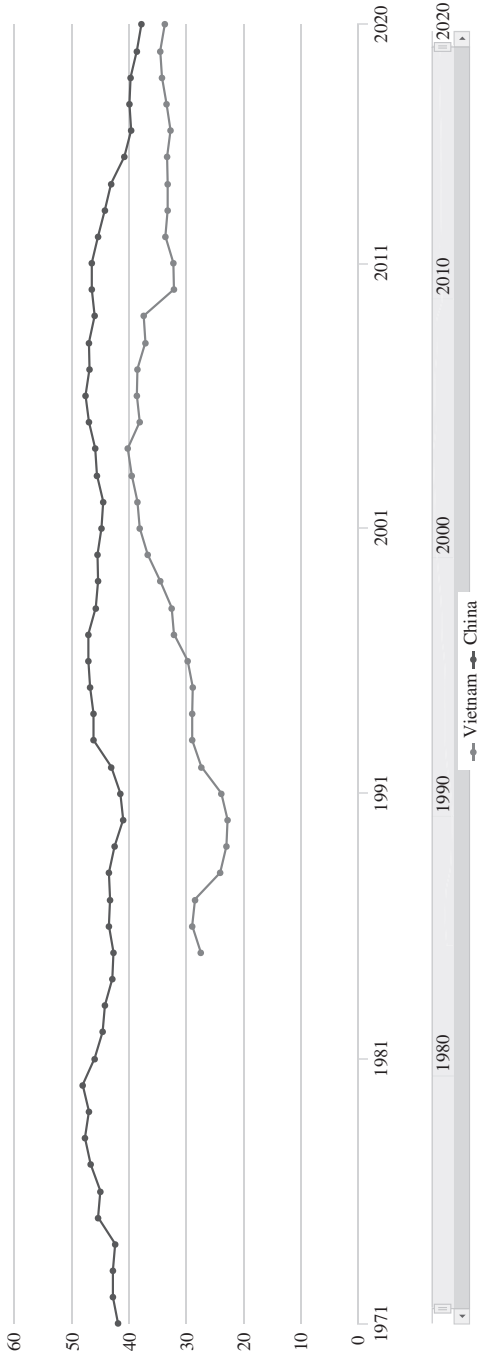
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Figure 24.11 Employment in services.



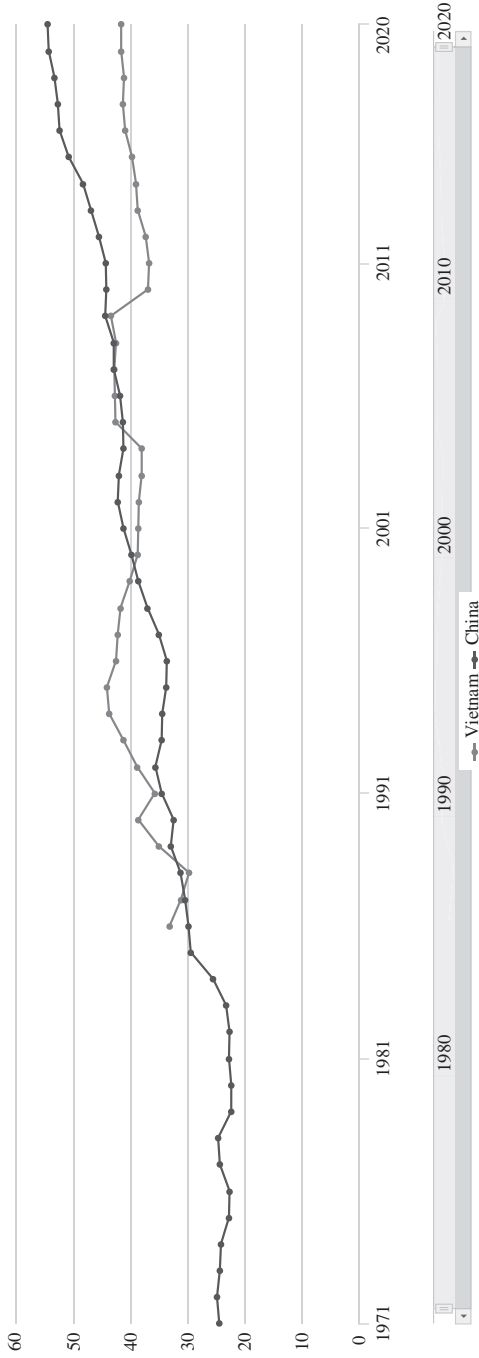
Series : Agriculture, forestry, and fishing, value added (% of GDP)
Source: World Development Indicators
Created on: 08/07/2021

Figure 24.12 Agriculture/GDP ratio.



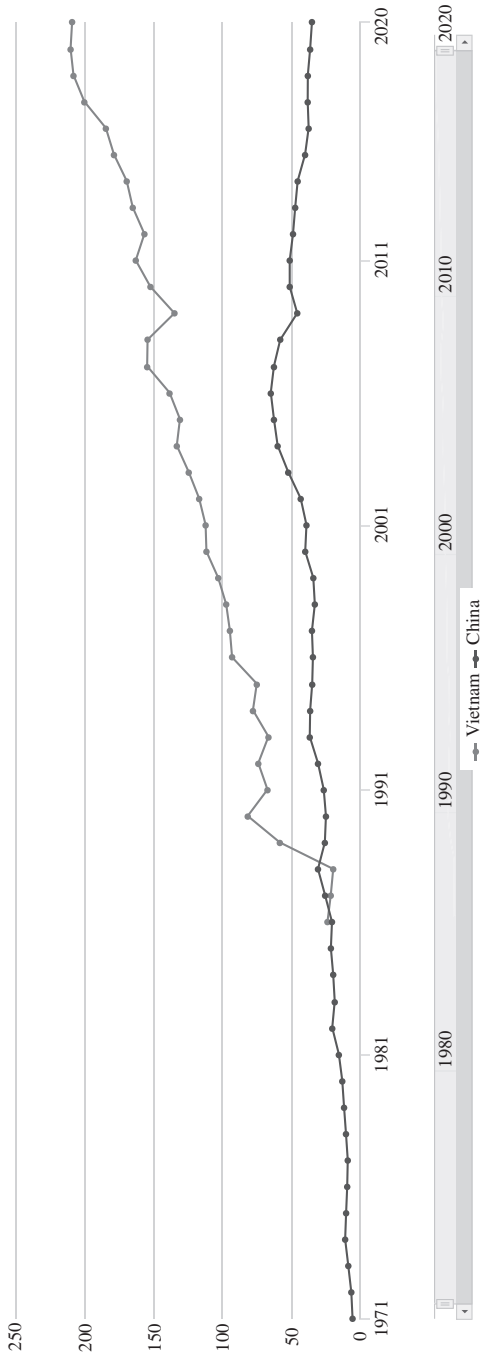
Series : Industry (including construction), value added (% of GDP)
Source: World Development Indicators
Created on: 08/07/2021

Figure 24.13 Industry/GDP ratio.



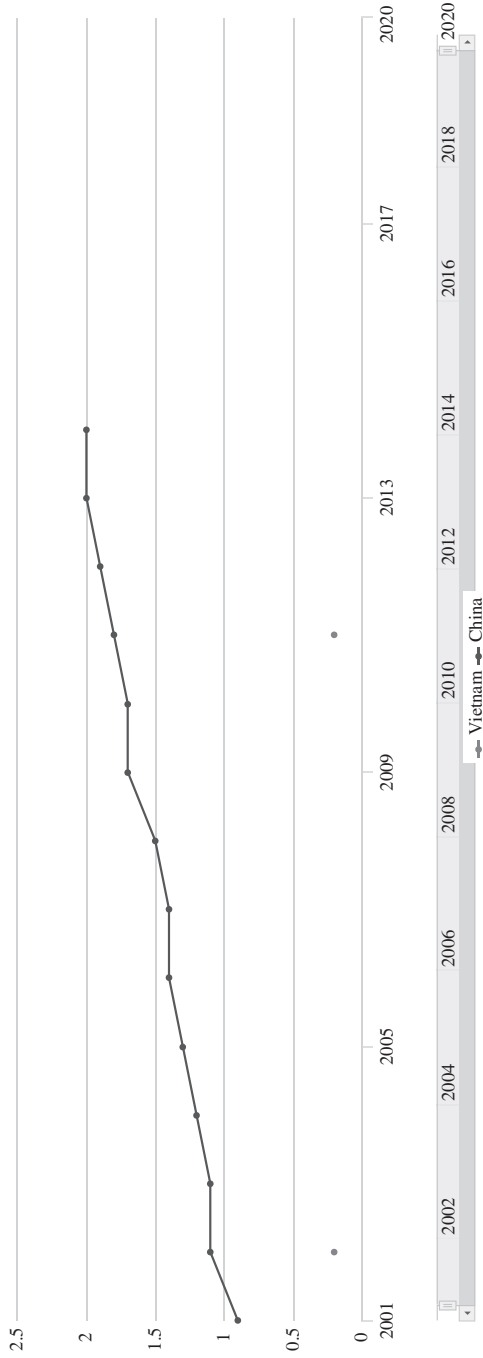
Series : Services, value added (% of GDP)
Source : World Development Indicators
Created on: 08/07/2021

Figure 24.14 Services/GDP ratio.



Series : Trade (% of GDP)
Source: World Development Indicators
Created on: 08/07/2021

Figure 24.15 Trade ratio.



Series : Research and development expenditure (% of GDP)
Source : World Development Indicators
Created on: 08/07/2021

Figure 24.16 R&D/GDP ratio.

24.5 R&D

The synthetic indicator that most plastically shows that China has achieved a qualitatively superior stage in developing its market socialist system with respect to Vietnam is R&D intensity.¹ In China, R&D expenditure has climbed, to the point of putting the People's Republic of China (PRC) in a favorable position to withstand the US offensive launched in 2018 with the trade and tech war. Vietnam's engagement in R&D is still negligible (see Figure 24.16).²

Notes

- 1 As we make it clear throughout the whole of this book, we maintain that both China's and Vietnam's economies can in fact be considered as forms of market socialism (or socialist market economies), albeit only tentatively, provisionally, and in a qualified and limited sense. Only history will have the final word.
- 2 It has to be taken into account, of course, that such a lack of R&D investment is normal for a peripheral country with an overall level of economic development of the order of that of Vietnam.

25 Poverty, inequality, and human development

Summary

25.1. Basic indicators – 25.2. Inequality: basic trends – 25.3. Inequality and size – 25.4. Human Development Index

25.1 Basic indicators

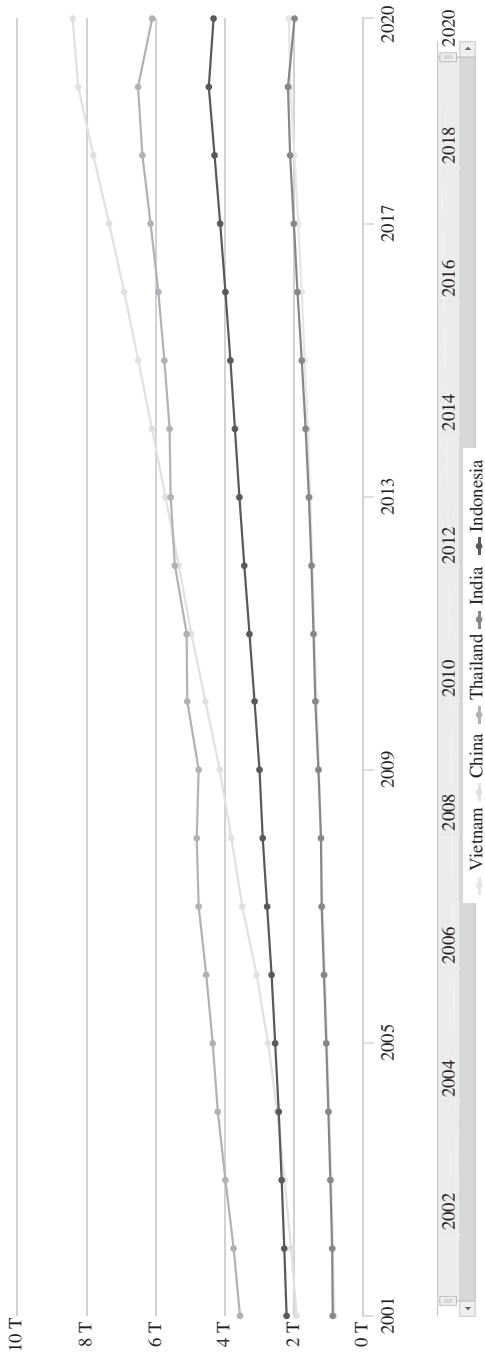
In order to discuss some basic poverty and illiteracy data for Vietnam in a comparative perspective, we present them jointly with those of other four fast-growing Asian countries: China, Indonesia, Thailand, and India. India's GDP per capita is similar to that of Vietnam, Indonesia's is about 200% higher, and Thailand's is 300% higher (see Figure 25.1).

Vietnam's record in poverty reduction is quite good, with the trend in the poverty headcount ratio reduction far more favorable than that of Indonesia's one, following closely that of China. Conversely, India – with a GDP per capita very similar to that of Vietnam – exhibits a trendless poverty headcount ratio at a much higher level, even in the period of very high economic growth (Figure 25.2).

Female literacy, infant mortality, and life expectancy are three basic human development indicators. They exhibit a significant degree of correlation¹ across the Global South (see Gabriele and Schettino 2012; Saurabh, Sarkar and Pandey 2013; Susuman, Lougue and Battala 2016; Zimmerman 2016).

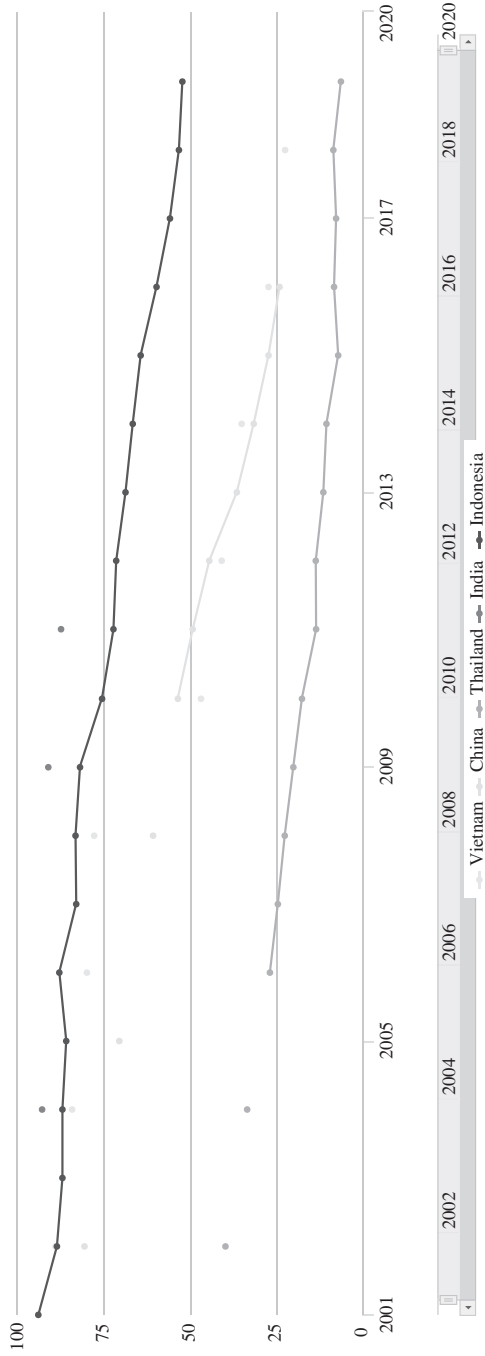
All Asian countries in this small sample improved their performances over time, at a rate higher than that of many other peripheral countries. However, their degree of success has been uneven.

The female literacy rate in Vietnam is very high (well over 90%), as it is in China, Thailand, and Indonesia. India lags far behind, as over 1/3 of women are still illiterate. Vietnam's record in combating infant mortality and lengthening life expectancy is outstanding, with figures close to those of China and Thailand² and significantly better than those of Indonesia and India (see Figures 25.3–25.5).³



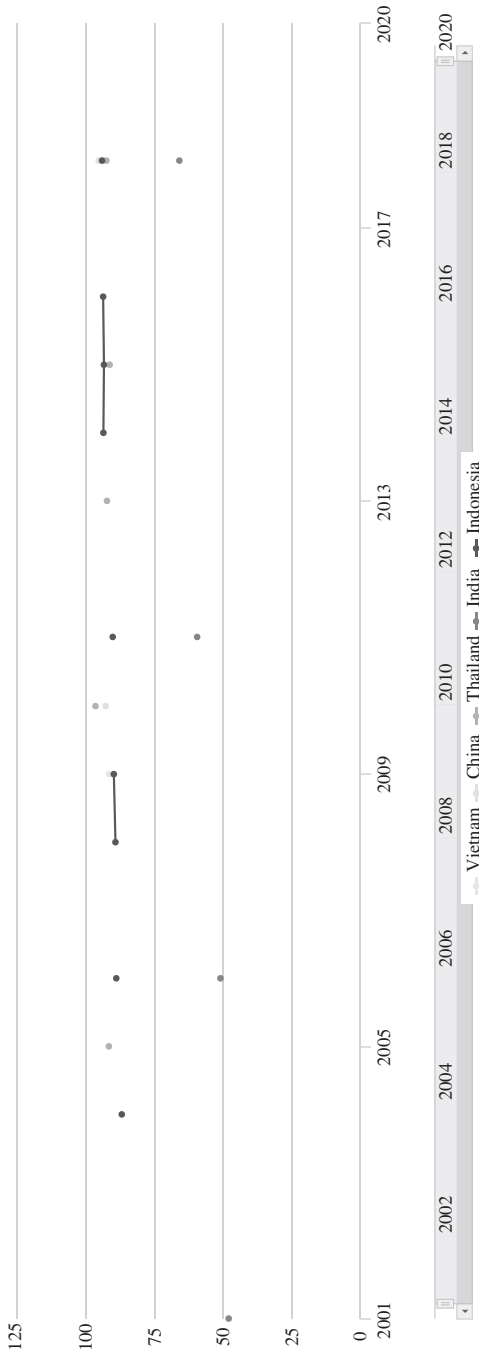
Series : GDP per capita (constant 2010 US\$)
 Source : World Development Indicators
 Created on: 08/07/2021

Figure 25.1 GDP per capita



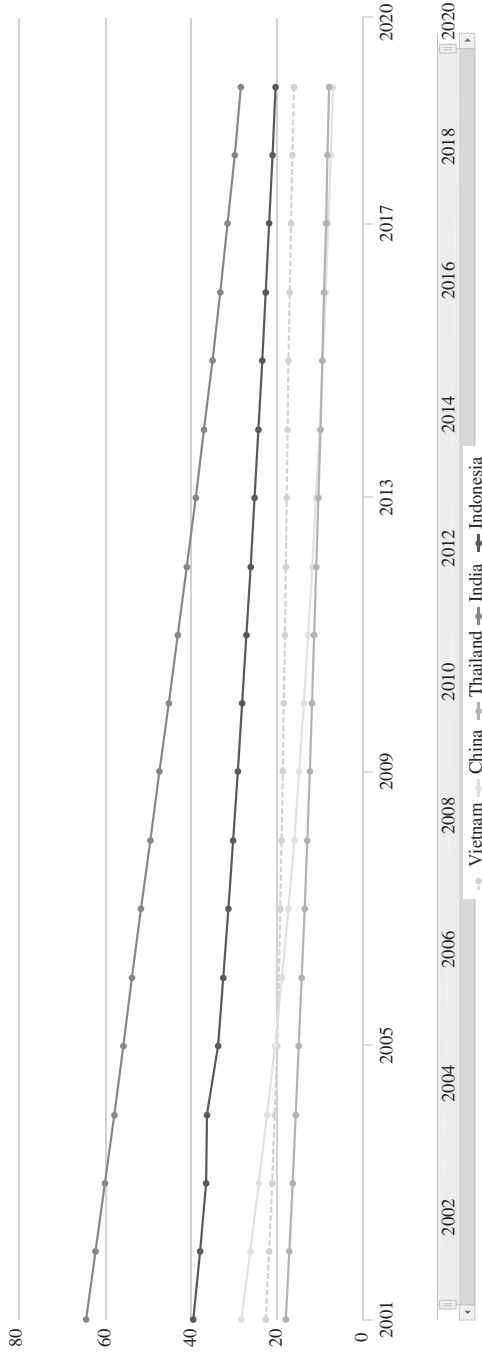
Series : Poverty headcount ratio at \$5.50 a day (2011 PPP) (% of population)
 Source: World Development Indicators
 Created on: 08/07/2021

Figure 25.2 Poverty



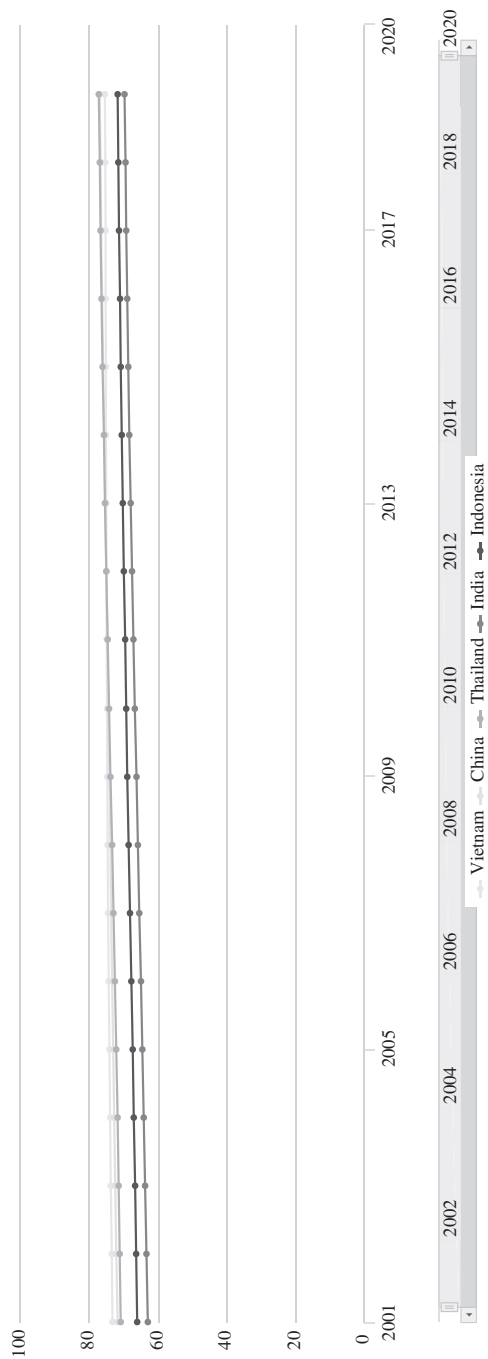
Series : Literacy rate, adult female (% of females ages 15 and above)
 Source : World Development Indicators
 Created on: 08/07/2021

Figure 25.3 Female literacy rate



Series : Mortality rate, infant (per 1,000 live births)
 Source: World Development Indicators
 Created on: 08/07/2021

Figure 25.4 Mortality rate, infant



Series : Life expectancy at birth, total (years)
 Source: World Development Indicators
 Created on: 08/07/2021

Figure 25.5 Life expectancy

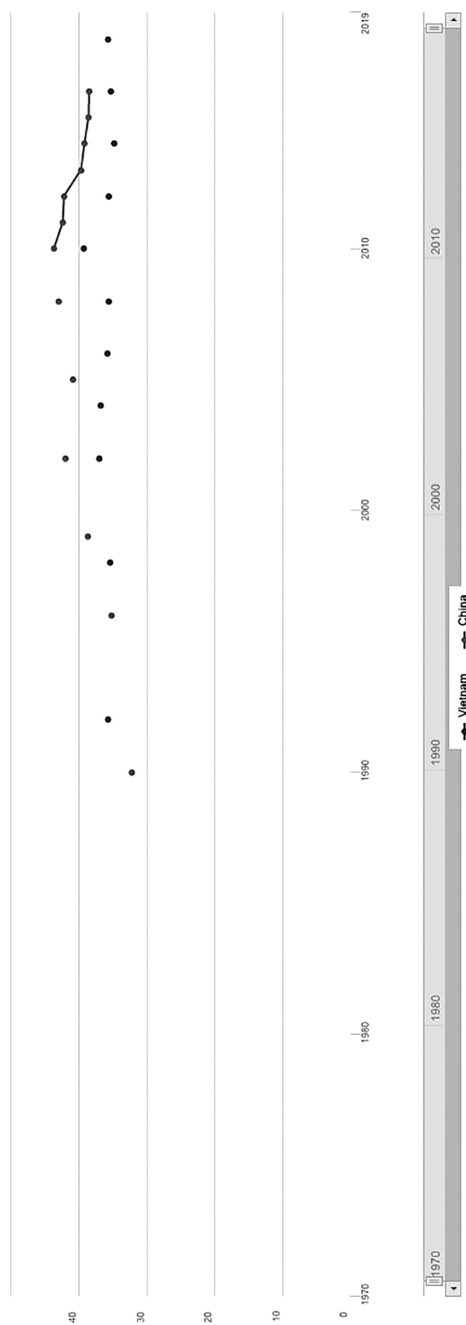
25.2 Inequality: basic trends

There is ample and ever-growing literature on inequality and polarization in China (see Wan and Wang 2015; Zhuang and Li 2016; Piketty, Yang and Zucman 2017; Khan, Schettino and Gabriele 2021). These studies focus on different aspects and dimensions (among them the multiple manifestations of geo-Figurey-based inequalities, the discriminatory impact of the *hukou* system, and the surge of a new class of private capitalists, and the relationship between inequality and polarization). However, consensus holds on a few basic stylized facts:

- i Pre-reform socialist China was on balance very egalitarian. Yet, major differences in income and welfare persisted between urban and rural areas. Thus, both rural and urban inequalities were low, but the gap between city and countryside was large.
- ii In the late 1970s and early 1980s, the inequality-enhancing impact of emerging market forces was dwarfed by the equalizing impact of the major boost to rural growth stemming from agricultural reforms, that led to a reduction in the urban-rural gap. In these years, overall inequality in China declined. With the benefit of hindsight, it is probably fair to acknowledge that these years were probably the most egalitarian in the history of China.
- iii Since the late 1980s, the spectacular, yet unevenly-spread boom of TVEs, and the successive rounds of industrial reforms led to a widening of inequalities within both the rural and the urban parts of the economy, and to a new increase in the urban-rural gap. Inequality increased along many dimensions.
- iv This trend intensified with the reforms launched in the 1990s, the restructuring and (in some cases) privatization of many (mostly small and medium-sized) enterprises, and the full legalization and concomitant boom of private enterprises. By the late 2000s inequality in China had soared, reaching an alarmingly high level.
- v Inequality peaked around 2010 and since then has exhibited a moderately declining trend (Figure 25.6). The main causes of this development are probably two. One was that China reached the Lewis turning point, and the majority of the population became urban. The other was the impact of a series of targeted inequality-containing programs and policies on the part of the government.

Trends in inequality in Vietnam have been studied as well, but not to the extent as those in China. One basic similarity is rather clear: market-oriented reforms since the launching of *doi moi*, while spurring economic growth, led to increasing inequality also in Vietnam. However, statistical evidence on this phenomenon in Vietnam is more nuanced than in the case of China, is not fully consistent, and broadly points towards a less pronounced nuanced trend.

The most readily-available and directly comparable source, the WB-estimated Gini index, fails to show a clear long-term increasing trend (see



Series : GINI index (World Bank estimate)
 Source: World Development Indicators
 Created on: 04/04/2020

Figure 25.6 Gini index⁴

Figure 25.6).⁵ This evidence might be compatible with an increase in inequality in the early reform years (this WB source does not report any estimate before 1992), although it looks a bit odd that a major jump could have occurred in such a short period of time (1986–1992).⁶

Yet, many studies and other sources, some of which are based on anecdotal and case-studied based evidence (Fritzen 2002; Oxfam 2017; Masina and Cerimele 2018; Wells-Dang and Vu Thi Quynh Ho 2019) indicate that there was in fact a significant increase in inequality in Vietnam. The most important interesting recent contributions on the multiple dimensions of this phenomenon have been provided by Oxfam and UNRISD. According to Oxfam (2017):

Vietnam has a strong record of poverty reduction, but today, increasing inequality is threatening decades of progress. Vietnam's 210 super-rich earn more than enough in one year to lift 3.2 million people out of poverty and end extreme poverty in Vietnam. Economic inequality is reinforced by inequality of voice and opportunity, with the poorest excluded in favor of the rich... To tackle the dangerous gap between rich and poor, Vietnam should urgently implement progressive policies on governance, taxation, public spending, public services, labor rights and civic engagement Economic inequality in Vietnam is growing by any measure. World Bank data shows that income inequality in Vietnam has increased in the last two decades,⁷ and more importantly, the richest are taking a disproportionate share of income. In 2012, the Palma ratio for Vietnam was 1.74, meaning that the richest 10 percent of people had an income 1.74 times higher than the poorest 40 percent.¹¹ The gap between the richest 20 percent and the rest has also been widening since 2004,¹² and the number of ultra-wealthy individuals is also on the rise. (p. 7)

The United Nations Research Institute for Social Development (UNRISD) study (Wells-Dang and Vu Thi Quynh Ho 2019) states that:

For the past dozen or so years, however, Vietnam's economic track record has featured growing inequalities in income, opportunity and participation. This shift has coincided with an increasing emphasis on export-led industrialization, rather than agricultural and small business development as in the past. ... The benefits of economic growth are increasingly accruing to the richest 10 percent of the population ... In some provinces, the income gap between the richest and poorest 20 percent is as much as 21 times. ... Poverty, while reduced according to national statistics, is concentrated among marginalized groups in society, such as ethnic minority farmers, female-headed households, migrants and people with disabilities. ... Overall, social mobility declined in 2010–14 compared to 2004–08.... In the earlier period, almost all social groups, notably

the Kinh-Hoa ethnic majority, showed high levels of mobility from the poorest income quintile to higher quintiles. These increases were mainly due to wage growth, including increases in the minimum wage. In 2010–14, by contrast, upward mobility declined among all ages, genders and regions. The only slight increase was among ethnic minorities (EM groups) who started from the lowest level of mobility. The limitations to social mobility are contributing to greater economic inequality, which then creates an uneven playing field that leads to greater obstacles to mobility.

Several factors are likely to have contributed to a lower increase in inequality in Vietnam with respect to China. Three are as follows:

- China's sheer size.
- As both countries started their market socialist journey with a very low degree of inequality to begin with, rapid growth was inevitably bound to bring about a certain degree of (mainly spatial) inequality. This effect was more pronounced in faster-growing China.
- Inequality in China is higher in rural than in urban areas. This difference is partly due to the legacy of the geographically uneven TVE-led accelerated industrialization drive in the 1980s and 1990s. This experience was not replicated in Vietnam.
- The State-owned enterprise (SOE) restructuring and reform process has been more gradual in Vietnam than in China.

25.3 Inequality and size

Ceteris paribus, within-country inequality tends to increase with population size.⁸ Intuitively, for instance, a Gini index estimate for the European Union (EU) as a whole (if such a thing existed) would be higher than both Germany's and Italy's national ones taken separately, as it would embody also the between-countries inequality between the two member states. On this basis, Siththiyot and Holasut (2016) carry out an international study aimed at capturing a stylized statistical function representing the relationship between population size and inequality, assuming "*that a country with small populations should have relatively lower Gini coefficient than a country with large populations due to the degree of economic, social, and political diversities as already reflected by the size of population.*" (p. 4), and thus "*the appropriate level of income inequality as measured by Gini coefficient for a country should be positively correlated with population size of that country.*" (p. 6). In this respect, a methodological caveat is appropriate: the authors funnily use the word *appropriate*, and argue that the statistical relationship between actually existing inequality and population size in the world is in fact *the right* one, as if reality as it is represented an ideal norm to be followed by all policy makers. Consistently, they even criticize

those countries that exhibit an actual degree of inequality lower the one that would theoretically correspond to their population size, saying they should strive to make their societies more unequal to conform to the global standard. In our view, this approach is tantamount to saying that countries with a life expectancy higher than the world average should try to make their citizens' life shorter!

However, apart from this absurd, neo-Panglossian confusion between the positive and the normative domain,⁹ Sitthiyot and Holasut's analysis is sound on a purely statistical ground. They analyze income inequality and population data of 69 countries in the year 2012 from the World Bank. Actually, their work is particularly useful because they use WB estimates of the Gini index, and therefore their results are directly comparable with the Gini estimates for China and Vietnam presented above.

They thereby obtain scatter plots indicating that the relationship between the two variables is indeed positive, and run a regression showing that

...the relationship between the level of income inequality as measured by Gini coefficient and natural logarithm of population size is nonlinear that can be best described by a second degree polynomial function. (p. 8)

On this basis, they estimate for each country in the sample a series of *estimated Gini values*, that correspond to the degree of inequality they should exhibit if they lied exactly on the theoretical function showing the actually-existing statistical relation between population size and inequality that prevailed in the world in 2012.¹⁰ Countries that had an estimated Gini higher than the actual Gini exhibit a higher-than-average *revealed propensity for equality*, and vice versa. The term *revealed propensity for equality*, of course, is to be interpreted in purely statistical terms, as it does reflect a fact of the real world, which in turn is the product of complex centuries-old historical, economic, and demographic processes, and thus is not the simple result of the policies of the governments that have been in charge in the last couple of decades, and even less (in a mechanical way) a manifestation of each country's innate culture or system of values.

Table 2, p. 12 in Sitthiyot and Holasut (2016) shows that, on balance, rich countries have a higher propensity for equality than poor ones. This finding is consistent with well-established accepted wisdom. The inequality-enhancing impact of past and present exploitation and dependency on Northern powers in the South is too obvious to be worth discussing further. Conversely, rich countries' relatively high propensity for equality is a comparatively more intriguing phenomenon, that can conceivably be attributed to a number of factors (such as the Kuznets's curve effect, relative ethnic, linguistic, and religious homogeneity, closeness to the global technological frontier,¹¹ political democracy, and of course the absence or relatively lower relevance of the

distortionary impact of past and present colonial, neo-colonial and imperialist domination), that cannot be developed further here.

Among developed (i.e. rich) countries:

- Northern European countries, such as Holland and Belgium have a very high revealed propensity for equality;
- Most EU countries have a higher than average revealed propensity for equality.¹²

Among developing (i.e. non-rich) countries:

- Most East European and ex-USSR still have (somewhat paradoxically) a high or very high revealed propensity for equality.¹³ However, there are several exceptions, the most egregious being Russia.
- Latin American countries have a very low revealed propensity for equality. There are no exceptions among capitalist countries in the subcontinent.¹⁴
- Most African countries have a quite low revealed propensity for equality.
- Most Asian countries have a low revealed propensity for equality.

Both China and Vietnam are Asian non-rich countries. Therefore, they belong to a large group of countries that (with the exception of formerly socialist ones) tends to exhibit a low revealed propensity for equality. This bias is particularly pronounced in Latin American and African countries but is present also among Asian countries.

Vietnam is one of the countries in Sitthiyot and Holasut's sample. Its actual 2012 Gini (0.387) was slightly lower than its theoretical estimated one (0.389). China is not part of the sample. However, applying to its enormous population size the same function estimated by Sitthiyot and Holasut we get a value of approximately 0.440. This figure is higher than the most recent WB estimate for China's 2012 Gini (0.422) (see Figure 25.6).

By 2012, Vietnam and China had already experienced many years of very fast economic growth following a partly market-oriented pattern that, while allowing for major poverty reduction, had implied an increase in inequality (more severely and unambiguously in China, less so in Vietnam). A number of policy-related and other factors that would subsequently lead to a still embryonic, yet clearly identifiable reversal in the previous inequality-increasing trend had not yet had a recognizable impact on the two countries' distributional structures.

In sum, differences in size and population between China and Vietnam contributed both to bringing about in the former (statically) a higher absolute level of inequality, and (dynamically) a more spatially uneven development pattern. Nevertheless, both China and Vietnam still exhibited a moderately high revealed propensity for equality by global standards, and a markedly high one with respect to most other developing (non-rich) countries.

25.4 Human Development Index

UNDP (2019) presents estimates for the 2018 *Human Development Index (HDI)* for a total of 189 countries. For most of them, it also presents the average annual HDI growth over the 1990–2018 period.¹⁵

To properly understand the relationship between these two statistics, a caveat is to be mentioned. A cursory look at Table 2 (UNDP 2018, pp. 304–307) shows that a broad negative correlation holds between the level of HDI and its rate of growth.¹⁶ The reason is simple. A sort of *human development frontier* exists, and countries that are further away from that frontier can make rapid progress with relative ease (think, for instance, at a vaccination campaign that drastically reduces child mortality and lifts life expectancy).¹⁷

The Report identifies four groups of countries according to their respective 2018 HDI scoring:

- Very high human development countries (62)
- High human development countries (54)
- Medium human development countries (37)
- Low human development countries (36)

China ranks 85th, and belongs to the high human development group, occupying an intermediate position. Vietnam ranks 118th and belongs to the medium human development group. Within this group, Vietnam ranks second.

Average annual HDI growth over the 1990–2018 period was 1.48 in China and 1.36 in Vietnam. China's HDI growth was the highest among all 116 high and very high human development countries. Vietnam's HDI growth was the 7th among medium human development countries.

These figures show that China's record in enhancing its population's human development is unique and unparalleled. Vietnam's one is very good (especially so, taking into account that its present HD human development ranking is only marginally below the threshold separating the medium HD group from the high HD group).¹⁸

Notes

- 1 Of course, female literacy is negatively correlated with infant mortality and positively correlated with life expectancy.
- 2 Thailand's health performance in the first two decades of the XXIst century has been exceptionally good by peripheral capitalist countries' standards, thanks to the establishment of a very advanced, universal access-based public health service (see Jongudomsuk et al. 2015; Paek, Meemon, and Wan 2016; Sumriddetchkajorn et al. 2019).
- 3 Vietnam has also been extraordinarily successful in reducing maternal mortality (see World Bank 2015b).
- 4 These estimates, like all the other ones presented in this chapter, refer to consumption-based inequality. As is well known, consumption-based inequality measures are consistent lower than income-based ones.

- 5 Vietnam's Gini is consistently lower than China's one (albeit not by a very large margin), and oscillates basically trendless over time between 35 and 37 (the 39.3 peak in 2010 appears to be a statistical outlier).
- 6 The early doi moi period was characterized by severe macroeconomic instability, but not by a major and geographically-uneven surge of rural industrialization, the most important inequality-enhancing factor in China until the end of the XXth Century.
- 7 There is a kind of a puzzle on this point. Oxfam refers to the same source (WB-WDI estimates of the consumption-based Gini index) on which Figure 25.6 is based. Yet, as commented above, this source does not show a consistent increasing trend in inequality.
- 8 A simple mathematical rule shows that the maximum value of the Gini coefficient increases with population size:

If a country has only a population of 1, then there is obviously no income inequality and the value of Gini coefficient would be zero. That is the minimum value of Gini coefficient this country could attain. However, as the number of population gets larger, say, 2, 3, 5, 8, ..., or P, and only one person has all the income while others have none, a situation of perfect income inequality, the maximum value of Gini coefficient for this hypothetical country to attain would be $1/2$, $2/3$, $4/5$, $7/8$, ..., or $(P-1)/P$, respectively.¹ In practice, the value of Gini coefficient, therefore, should be greater than zero but less than $(P-1)/P$." The above example indicates that, theoretically, there should be an association between the degree of income inequality as measured by Gini coefficient and the size of population.

(Sitthiyot and Holasut p. 2)

- 9 The authors appear to follow in the footsteps of Voltaire's dystopian hero, who maintained that *we live in the best of all possible worlds* – and thus, of course, any attempt to change the status quo should be damned as futile and counterproductive.
- 10 We reiterate that this relationship is interesting as it captures a feature of the real world, but there is nothing optimal or virtuous about it.
- 11 The impact of foreign-born new technologies in poor, colonized or neo-colonized countries tends to be inequality-enhancing, as it confers to the foreign-connected elites new instruments of domination. Exceptions are possible, as it could be the case for instance with Internet.
- 12 A cursory look to WDI-WB Gini data shows that the same token applies to non-European rich countries (Japan, Canada, Australia, New Zealand). The US, of course, is an exception.
- 13 This relative egalitarianism is a legacy of the former, centrally-planned socialist regimes (see Cornia 2016).
- 14 Gini estimates data for Cuba are very hard to get. However, in spite of increasing inequality, Cuba is still a much more egalitarian country than any other in Latin America (see Echevarría et al. 2019). In spite of many valiant and heroic attempts, no sustainable and consistent process of construction of a socialist-oriented economy has taken place in other Latin American country yet.
- 15 Very poor and underdeveloped countries are bestowed with the dubious privilege of having more potential for HDI improvement. Therefore, ceteris paribus, each country's HDI growth tends to be higher, the lower its initial level.
- 16 Only one country recorded an average annual HDI growth over 1 among those in the very high development group, 3 in the high development group, 12 in the medium development group, and 15 in the low development group.
- 17 This *advantage of backwardness* is much stronger and clearly identifiable in the domain of HD than in that of economic development, as in the latter multiple

structural, historical and cultural factors often contribute to perpetuate poverty and backwardness.

- 18 Among these well-performing countries, only one (Morocco) has a HD ranking (121) close to that of Vietnam. It has to be taken into account, however, that Morocco's per capita GDP is about 50% higher than Vietnam. The other six have a much lower HDI. Among them there are Lao PDR and Cambodia – the other two Asian countries that could roughly be seen as embryonically or tentatively following a market socialist path - with a very high average annual HDI growth (1.49).

26 The differences between comrades Masina and Cerimele and us¹

Summary

26.1. The dark side of Vietnam's development strategy – 26.2. A half full, half empty glass

26.1 The dark side of Vietnam's development strategy

The story of Vietnam's development under the market socialist strategy inaugurated since the Doi Moi has not been tainted – contrary to China – by national tragedies such as the Great Leap Forward and the Cultural Revolution,² or even the relatively minor *Tiananmen Square Incident*. However, this is not tantamount to saying that everything has gone smoothly for the best as if the Communist Party of Vietnam (CPV) had a sort of magic wand that all other socialist and communist forces in the world unfortunately lack.

In this respect, Masina and Cerimele 2018 provide a thought-provoking perspective on the *dark side* of Vietnam's development strategy. Interestingly, the authors, rather than prioritizing the specifically socialist-oriented uniqueness of Vietnam's development strategy, set their analysis in a regional perspective, reading its recent economic history in the context of a region of the Global South that – albeit faring better than most of the rest – has not lived up to the expectations of a few decades ago, largely due to its structural dependency on international capital.

Masina and Cerimele observe that, since the regional crisis of 1997–1998, countries in Southeast Asia kept growing, but at a decelerated pace. Structural change and technological progress slowed down, and labor conditions remained far more disadvantaged and exploitative than in developed countries. Thus, Southeast Asia failed to follow smoothly in the path of the early Asian Tigers, as they were expected to do according to a Panglossian and mechanistic interpretation of the Flying Geese and convergence paradigms.

The authors rightly dismiss popular yet hollow explanations such as the *middle-income trap*,³ and identify this disappointing trend as a *stalled transition*, to be understood as a byproduct of the evolving relationship between

domestic and international capital during the latest globalization drive. The core of the problem is constituted by a high, possibly excessive dependency on Foreign Direct Investment (FDI) inflows, and (somewhat paradoxically) an apparent plateauing of the long-run shift of the core of the economy towards manufacturing.

Why? In our view, the story basically goes as follows.⁴ In the past, FDI inflows increased over time in some, but (initially) not all countries in the global South, as minimum conditions for international capital valorization (infrastructure, education, trade policies) were non-existent. A large part of the periphery was run by communist parties pursuing (with varying success) Soviet-style development models de-linked from the capitalist world. Only a few peripheral countries had, or managed to create, the conditions for profitable manufacturing FDI. Partly as a result, very few of them even reached a level of development equal or close to that of the central capitalist countries.

Things changed with the demise of the USSR and the global shift of the relation of forces between capital and labor. Enormous prairies open up to choosy international profit maximizers. Virtually the whole global periphery rushed to join the liberalization-cum-globalization drive, and a mix of technological advances and subsidies abated the costs of transport and telecommunication, as well as the amount of initial and non-recoverable investment needed to set up a light manufacturing operation. Only China and (less so) a few other peripheral countries were large, strong, and independent enough to successfully bargain with international investors, in order to obtain the maximum possible benefits in terms not only of employment but also of technology and acceleration of national development.

Most poor countries just scrambled to attract scarce FDI flows, and for most of them, the only weapon in this beggar-my-neighbor struggle was the concession of ever more favorable conditions and privileges to foreign investors. Some of them did manage to foster significant FDI-led manufacturing growth, but TNCs had little incentive to go beyond the classical enclave-like investment model, which does not contemplate in its playbook to generate spillovers and integration with the remainder of the domestic economy. It is overwhelmingly predicated on low wages and only transfers towards host countries L-intensive low value-added segments of the overall global value chain, as TNCs are not interested in transferring proprietary technology that could eventually be absorbed by host countries.

Under these circumstances, once the share of manufacturing in the GDP in a host country reaches a relatively high level as a result of FDI-propelled growth, and thus labor market conditions point towards higher wages, it is more convenient for TNCs to just pack their machines and ferry them towards an even poorer and less developed neighbor. As a result, a *stalled transition* occurs.

Vietnam was already the largest recipient of FDI among all developing countries in proportion to the size of its economy since 1997, and after an initial intransigence on the adoption of the joint venture (JV) modality let ample space to the proliferation of wholly owned foreign investment, most of which went into manufacturing (see Masina 2002; Kokko et al. 2003). According to the authors, it failed to act as a consistent developmentalist state, articulating a coherent set of industrial policies apt to steer industrial expansion towards rapid structural change and technological development,⁵ and further curtailed its degrees of freedom to challenge international market forces as a price to access World Trade Organization (WTO)⁶ Moreover, a corrupt and quasi-neoliberal clique closely linked to national and international capitalists seized almost complete control of the highest echelons of the CPV, and maintained it for about ten years until it was finally kicked out after a dramatic showdown in the 12th National Congress held in January 2016.⁷

According to the authors, Vietnam did not substantially escape the fate of its neighbors:

...a debate has already developed about a possible impasse in its industrial development. Statistical data reveals that the proportion of manufacturing on the national GDP has actually declined since the admission to the WTO. Foreign-invested, export-oriented productions have continued to grow, but the development of a national supporting industry has remained very limited.⁸ Some analysts have voiced the concern that Vietnam may be caught in a 'middle-income trap'. Our research suggests, instead, that the challenges for the country's industrial development are connected with an excessive dependence on foreign capital and the weakness of national industrial policies. (p. 4)

Of course, workers are those who pay the highest price:

Industrial employment has increased in absolute terms but has levelled out to just above 20 per cent of the total labour force.⁹ Our research, based on an extensive field investigation in the new industrial areas of the Red River Delta, reveals that industrial wages are slightly above the subsistence level for single workers, and too low to support workers' households in the industrial areas. Exploitative working conditions and low wages result in circular migration to and from industrial employment, with industrial workers typically young, precarious and in a restless search for better opportunities. Critically, given the weakness of the Vietnamese industrialisation process, these exploitative conditions do not risk being confined to a painful transition towards 'modernity' but rather remain as a distinctive feature of the country's involvement in the regional production system. The low cost of labour remains—structurally—the main competitive factor (p. 4).

26.2 A half full, half empty glass

Masina and Cerimele's article is a powerful and well-informed critique of a crucial dimension of Vietnam's development unfolding since the 1990s, and of the way it has been handled by the GOC and the CPV. Yet – while entirely agreeing with the authors on the need for a more bold and effective developmentalist policy turn, more consistent with the country's socialist-oriented stance – we agree with them on some points and disagree on some other ones.

In our view, Masina and Cerimele are right arguing that:

- Vietnam's pattern of international integration has been largely similar to that of its capitalist (and richer) SEA neighbors, and even more FDI-dependent.
- The manufacturing component of the economy is relatively small, dominated by FFIs running, labor-intensive, low tech, enclave-like operations, characterized by low labor productivity and not integrated with the rest of the national economy.¹⁰ There is no hint that such negative features will disappear in the future in virtue of the spontaneous working of market forces.
- The growth of domestic manufacturing enterprises has been stunted to some extent, and there has been a certain amount of crowding out on the part of FFIs.¹¹
- Not only manufacturing wages are *ethically*¹² hyper-exploitative. They are still too low to ensure workers' labor power reproduction. This phenomenon is possible thanks to the permanence of the vast pre-modern component of the economy, especially in rural areas – an occurrence that is the norm in the Global South.
- At this stage of Vietnam's trajectory, the negative features of FDI-led manufacturing growth tend to intensify and aggravate their impact on national economic development and shall be reined in.
- Systemic global and regional market forces dominated by transnational capitalist interests shape the evolution of globalizing manufacturing value chains, and governments in relatively little and poor peripheral countries have scarce bargaining power in negotiating the modalities of FDI inflows. However, host countries' governments do enjoy a nonzero, if limited policy space. The effectiveness and forcefulness of how they utilize this potential stems from the dialectic interplay of the non-homogeneous interests of classes and social groups in each country. This political economy complexity has been particularly relevant in Vietnam. The CPV did risk to be definitively captured by a (practically and ideologically) corrupt faction of free marketeers allied with international capital and imperialist forces, and therefore eventually to suffer the same fate of the USSR. The very fact that such a destiny could have damned such an extraordinary and war-hardened revolutionary party is mind-boggling, but we know that human nature is complicated indeed. We leave the analysis

of these issues to political scientists and historians. As economists, we try to identify and explain the logical and systemic *economic laws* of socialist development, as we posit their existence at a high level of abstraction – that, of course, is much less rigorous and amenable to formalization than what is the case for *hard sciences*. By no means this implies that we are naïve and deterministic to the point of ignoring that history (including, of course, economic history) is made by humans, with all their passions, virtues, and defects.

However,

- Wages in Vietnam have actually increased quite fast, especially in 2010s, outpacing productivity increases. To a large extent, this improvement has been due to two interrelated domestic factors: GOV-mandated minimum wage rises and informally tolerated labor conflicts¹³. Besides that, international investors were still extracting enough surplus value to be content with such a slightly less profitable situation.
- The manufacturing sub-sector suffered from the above-mentioned ills, but the overall process of industrialization at large advanced at a rather firm and sustained pace. Industry's GDP share followed a rising long-term trend until the mid-2000s (in a period when GDP itself was growing very fast), fell moderately afterwards, and stabilized at the far from negligible level of about 34% in the 2010s. The services sector expanded faster than industry until the mid-1990s but stabilized thereafter.¹⁴ In our view, these trends are basically physiological, taking into account that also in peripheral countries some key features of economic development in the XXIst century are quite different from those that prevailed a few decades ago, and do not portray a scenario where unhealthy hyper-tertiarization kills industrial development.(see above, Chapters 22, 259.
- The broad picture is that of a glass that is more full than empty. Key indicators such as growth in GDP, GDP per capita, labor productivity and wages has been faster in Vietnam than in other countries in South East Asia (SEA),¹⁵ which in turn (with all its shortcomings) remains one of the best performing regions in the Global South (see above, Chapter 25). In terms of human development and the expansion of universal access to basic services,¹⁶ Vietnam's superiority (with some exceptions)¹⁷ is even more apparent. These achievements are welcome for their own value, but they also imply an upgrading of Vietnam's human capital endowment, which is presently outstanding for a country at its present level of development (see above, note 137).¹⁸ The country's non-human capital has also been powerfully enhanced by State-owned enterprise (SOE)-led growth in heavy industry and infrastructural services. These advances have created a huge potential for future growth, not only along an extensive path¹⁹ but also along an intensive one centered around advanced, high-tech manufacturing.

Notes

- 1 See *Renmin Ribao* 1962
- 2 In Chapter 18 we acknowledge that, in historical perspective, also the Great Leap Forward and the Cultural Revolution left some positive legacy, as they contributed to create the premises for the TVE-led rural industry boom. To some extent, the same can be said even for the frenzied and murderous heavy industrialization drive in Stalinist USSR. However, the realization of the complex and dialectic, and often contradictory nature of human development should not be stretched to the point of over-relativizing the essentially calamitous nature of these phenomena.
- 3 On the inconsistency and shakiness of the middle income trap concept see also Glave and Wagner 2016; Masina 2018.
- 4 This stylized interpretative scheme is ours, even if it is broadly consistent with Masina and Cerimele's analysis
- 5 The CPV is surely not an infallible and all-powerful *modern prince*, due inter alia to its own limitation and to its objectively disadvantaged bargaining position vis vis international capital. Many scholars have emphasized this point, with some going as far as arguing that, in practice, planning and socialist orientation are a fiction, the GOV it has no significant control on the country's economy, and Vietnam is actually become just one more neoliberal-oriented peripheral capitalist country dominated by foreign capitalist forces, ganging up with a sort of subjugated *red-hat wearing* comprador bourgeoisie (see, for instance, Fforde 1996)
- 6 In the framework of the WTO accession negotiations, Vietnam approved three very important laws: the Law on Foreign Investment, the Law on Domestic Investment, and, in 2005, the more comprehensive the new Law on Investment. The international bourgeoisie appreciated: in 2007, the first year of operationality of the WTO accession, FDI flows almost tripled with respect to the year before.
- 7 The internal CPV power struggle, far from being a complot theory fantasy in the old-fashioned kremlinology style, is a fact that was amply reported by the national and international press. The defeat of the rightist faction brought to power a more orthodox and nationalistic coalition led by Nguyễn Phú Trọng. Since then, some excesses have been corrected, corruption has diminished, and a relatively less market-friendly policy stance has been adopted by the CPV.
- 8 FFI only procure about ¼ of their inputs in Vietnam, generate very modest spillovers and forward and backward linkages. Technology transfers are also very modest.
- 9 See above, Chapter 21.
- 10 These features have emerged mainly in the first two decades of the XXI century, as FDI has increasingly focused on fully-owned light manufacturing. In the 1990s, conversely, FDI took prevalently the form of joint ventures with SOEs, and concentrated rather on capital-intensive projects (see Athukorala and Tien Quang Tran 2009).
- 11 To a large extent, this outcome is the result of specific policy choices. Contrary to what happened in China, the CPV did not foster the blossoming of a strong domestic industrial private sector. In our view, this stance has its merits. Taking into account that the socialized industrial sector was not very strong and capitalized, the rise of a powerful indigenous capitalist class could have entailed significant political risks.
- 12 The category of exploitation is an ethical and social one, not an economic one. Of course, from a strictly economic viewpoint, there is not such a thing as a *just* level of wages – as there is not, for instance, a *just price* of coffee or avocado. Within the boundaries set by the LV, wages and market prices are set by class struggle, both at the national and international level.

- 13 In spite of the corruption of the top leadership, the CPV as a whole did not relinquish its historical bond with the working class. Moreover, contrary to China, formal and informal rules governing industrial disputes leave significant space to the autonomous conflictuality of workers vis a vis capitalists. The *VGCL union also enjoys a high degree of autonomy from the state and the Party, and tends to support (usually successfully) striking workers* (Chan 2020).
- 14 The GDP share of services in 2018 was 41%, lower than its 1995 peak (see graph 24.14).
- 15 To some extent, this outcome is attributable to Vietnam's lower starting point. However, the so-called *advantages of backwardness* for poor countries should not be overstated. They are amply counterbalanced by an array of underdevelopment-related traps that tend to perpetuate misery indefinitely. Otherwise, the conventional universal convergence hypothesis would be true, which is obviously not the case.
- 16 Access to modern infrastructure, including electricity has improved dramatically since the 1990s, when it was restricted to a small (almost exclusively urban) minority. Almost all Vietnamese households have electricity, and the percentage having access to clean water is over 95% in urban areas and 70% in rural areas (World bank Vietnam 2019)
- 17 Even taking into account the major difference between the two countries' degree of economic development, Thailand has performed better than Vietnam in the area of building up a universal public health system (see above, Note 98).
- 18 A somewhat puzzling and contradictory piece of evidence is constituted by the scarcity of skilled labor supply (see above, Chapter 21). In part, this constraint can be attributed to the perverse impact of FFI's preference for low-tech manufacturing on the labor market, and is likely to be overblown by capitalists as a convenient excuse to keep following the same path. However, it is also plausible that the GOV underinvested in vocational training, as it probably did in R&D. These two are areas where major gains can be expected by a relatively minor re-orientation of policy priorities.
- 19 As mentioned above, Vietnam is still far from the Lewis turning point –contrary to China, that has surpassed it years ago.

27 Vietnam and China

Brothers, not twins

Summary

27.1. Vietnam's outstanding development record – 27.2. China's and Vietnam's performances: respective strengths and weaknesses – 27.3. Vietnam and China as market-socialist socioeconomic formations

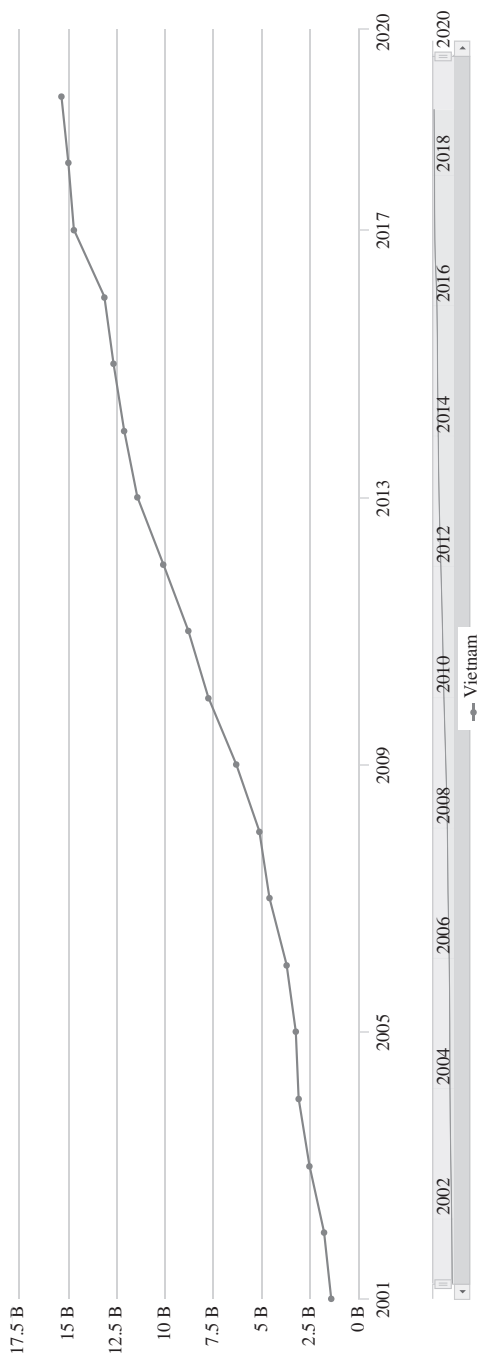
27.1 Vietnam's outstanding development record

Our broad evaluation of the outcome of market-oriented reforms carried out since the early 1980s in Vietnam is a positive one – conditional to the many caveats mentioned above. Enterprise reforms, along with price liberalization, the opening up of the domestic market, and a set of complementary measures carried out in the framework of the *doi moi* development strategy, were substantially successful in promoting GDP growth, integrating Vietnam in the international economy, attracting Foreign Direct Investment (FDI), and (taking into account the extreme backwardness of the country's abysmal initial conditions) fostering modernization and technological progress.

Vietnam also experienced rapid structural change. The once-prevalent weight of agriculture in the national economy progressively declined. The country exploited its newly-discovered potential as an oil exporter, and the services sector did increase its role, as it is to a large extent physiological. Yet, there is no evidence suggesting that Vietnam succumbed to the Dutch Disease, falling into the trap of premature low-productivity hyper-tertiarization, with its de-industrializing and underdevelopment-entrenching implications, as it was the case in many peripheral capitalist countries.

Industrialization did take place, although manufacturing growth was uneven and, on balance, less than fully satisfactory. The Vietnamese secondary sector is now structurally dualistic, with State-owned enterprises (SOEs) dominating the heavy industry and infrastructural services, and FFIs increasing prevailing in export-oriented manufacturing and thereby acquiring a pivotal role in sustaining the country's BoP position.

Such industrial dualism, the low level of overall productive integration in the national economy, and the high degree of dependency on Western aid¹ and foreign capitalists are not without problems and put Vietnam in a weaker geostrategic position than China (see Figure 27.1). However, Vietnam's



Series : IBRD loans and IDA credits (DOD, current US\$)
 Source : World Development Indicators
 Created on: 08/07/2021

Figure 27.1 International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) loans.

overall growth record since the inception of Doi Moi remains an astounding one and has contributed to creating a solid productive base that bestows on policy makers a huge development potential – especially so in the present, rapidly shifting global economic and geopolitical landscape.

27.2 China's and Vietnam's performances: respective strengths and weaknesses

In spite of huge structural differences (the most evident being the size of both population and territory and the fact that Vietnam was war-torn until little more than one decade before the inception of the Doi Moi) the degree of economic development of Vietnam and China in the early 1980s was quite similar. Afterwards, The People's Republic of China (PRC) developed faster than Vietnam. As a result, Vietnam is now much poorer and technologically backward than China. Yet, the reverse is true in recent years: Vietnam is growing faster than China. However, it is too early to gauge whether or not this recent development heralds a period of sustained catching up.

Notwithstanding its relatively lesser economic dynamism, Vietnam's human development achievements have been exceptional by international standards. The under-5 mortality rate was lower in Vietnam than in China until 2005, and life expectancy in Vietnam was higher until 2012. This phenomenon was due to a relatively lesser negative impact of the decay of the traditional welfare structures and the commoditization of health and education that accompanied otherwise successful market-oriented reforms in their early stage. Subsequently, still-inadequate yet effective *counter-counter-reforms* aimed at establishing a modern, universal welfare and safety net system were gradually implemented in both countries. As China is more economically and institutionally advanced than Vietnam, human development outcomes so far are now more favorable in the former.

Vietnam is not doing as well as China with respect to the capability to foster self-centered accumulation. The Gross Capital Formation/GDP ratio was initially abysmally low. It rose smoothly since the launching of doi moi, but it declined in the late 2000s as Vietnam was hit more than PRC by the world crisis.

Largely due to this structural weakness, Vietnam has relied on FDI more than China. This strategic option has been largely justified by its very backwardness and by the weak and unstable financial position in the initial phases of the reform period. However, it has had negative consequences, such as among them persistently low wages (below the full cost of the reproduction of the labor force, which has remained to a large extent semi-proletarian), scarce spillovers and technical progress, economic dualism, and a relatively slow path towards industrialization. Moreover, it has proven itself to be risky, leading to the quasi-capture of the party leadership on the part of foreign capitalists and their local private partners. Yet, since the celebration of the 12th National Congress, the PCV appears to

have overcome the greatest dangers and to be in a better position to govern this contradiction.²

It has also to be taken into account that Vietnam while leaving ample leeway to foreign capitalists in the manufacturing subsector, has maintained firm control on other industrial subsectors. Vietnam did not significantly scale down its SOE sector in the 1980s and 1990s to the extent that China did. Subsequently, it reformed SOEs mainly through equitization and mergers into large conglomerates, achieving important (if partial) results.

The weight of mostly informal simple commodity production in agriculture, very small scale industry/handicraft, and local trade is very high in Vietnam (it employs $\frac{3}{4}$ of the active population). In China, household-based farms and other simple commodity producers still play an important role, but the PRC has progressed more towards the formalization of their operations. This difference is one of the manifestations of China's more advanced degree of institutional development.

Overall productivity in Vietnam is still very low, and the country is relatively more underdeveloped than China in many respects (institutional modernization, formalization of economic activities and transitions, R&D, and innovation). It also appears to have advanced less than China in overcoming the terrible damage caused by the counter-revolution in public health in the last two decades of the XXth century.

Yet, Vietnam has many idiosyncratic assets that, at present, enhance its overall performance in terms of both economic growth and human development, and also constitute favorable preconditions for further development in the future:

- a high levels of literacy and human capital formation³;
- b relatively high institutional development in some areas, such as those of international trade integration and of SOEs corporatization and modernization;
- c a peculiar form of *advantage of backwardness*. The bulk of the Vietnamese workforce is unskilled and is still engaged in informal, very low productivity simple commodity production activities. Modern industry is still an enclave, and a national system of innovation is almost non-existent. Vietnam, contrary to China, has enormous potential for future extensive growth before reaching the Lewis point. Of course, such an *advantage of backwardness* is not an excuse for complacency and for overlooking the urgency to re-orient the country's overall development strategy.

27.3 Vietnam and China as market-socialist socioeconomic formations

In Chapter 9, Section 9.4, we identified a few basic criteria that are necessary and sufficient to (heuristically and provisionally) consider the national economic system in a peripheral economy⁴ to be a market-socialist one.

These criteria revolve around the crucial principle of acknowledging that the law of value cannot be thoroughly superseded under socialism, and therefore planners must substantially respect the socialist principle of distribution (approximately matching workers' incomes with labor productivity), and maintaining in the national economy a structure of relative prices not too different from that of international prices.

To this purpose, enterprises ownership and institutional settings in each component of the productive sector must be harmonized with the objectively-existing reality of SRPE, allowing ample space for the unfolding of market forces. To this purpose, the agricultural sector must be organized around small-scale, household-based production units.⁵ Industrial SOEs must be restructured, made more independent and market-oriented, and eventually evolve towards an arms-length, value-based, corporatized mode of realization of socialized capital. The planning mechanism must be guided by the principle of market compatibility.

In a parallel fashion, basic non-capitalist tenets must be firmly and unflinchingly upheld. The main ones are threefold:

- overwhelming dominance of state-owned banks and quasi-zero tolerance for private financial activities
- strategic control on the key means of production
- prioritization of poverty reduction, the provision of basic social services, the enhancement of human capital, and the judicious centralized transfer of resources towards strategic sub-sectors key to enhance long-term technical progress, such as R&D and modern infrastructure.

Like China, Vietnam satisfies the basic criteria we identified. Therefore, in our view, Vietnam is also in fact a socialist-oriented SEF, albeit less advanced than China. The PCV (not without hesitations and contradictions) is pursuing a long-term strategy based on developing a market economy with a socialist orientation. After over three decades of initially reactive, survivalist, and quasi-passive reforms, a consistent, albeit fast-evolving model has now emerged and consolidated itself in Vietnam. Without underestimating important differences⁶ between the two, the Vietnamese model of a socialist market economy closely resembles the Chinese one.

In this respect, nothing could be further from the truth than attributing such similarity to anything such as a copycat attitude or a cultural submission on the part of the PCV.⁷ On the contrary, Vietnam was led to follow a path similar to that of China by the same basic *laws of movement* that necessarily steer and constrain socialist-oriented economic development under the MMP (see Chapters 7 and 8). These laws are essentially universal and objective in nature, and therefore necessarily apply to any country embarking on a socialist-oriented development strategy in the present historical epoch.

Notes

- 1 This factor has led some international observers to believe that Vietnam has been not only financially, but also intellectually and ideologically captured by the World Bank, that spoils it as a sort of Uncle tommish good communist child while leaving it towards the perdition of neoliberalism (Fforde 2019; Fforde and Homutova 2017; See also, for a more balanced discussion, Masina 2006; Masina and Cerimele 2018). Without denying the complexity of the relationship between Vietnam's leadership and the World bank, and its implicit political and ideological contradictions, we rather tend to believe that reports of CPV's neoliberalization have been greatly exaggerated. It is actually more plausible that Vietnam is a very important country for the World Bank, that portraits it as a model development example, especially in terms of poverty reduction –largely because the Bank itself must also sell its products like everybody else after all and the global reputation of most of them is not particularly sexy. In practice, the Bank's influence over Vietnam's development path is limited. The Vietnamese government has always refused to adopt policies imposed by foreign organizations and the Vietnamese institutions are strong enough to be able to form an alter ego for the Bank and to achieve “ownership” of public policies.” (Cling, Razafindrakoto and Roubaud 2010, p. 2).
- 2 Due partly to its weaker relative position and smaller size – but also to the prevalence of the now-defeated right-wing faction of the CPV – and higher dependency on foreign trade Vietnam has ceded more sovereignty than China to foreign powers and , trade partners in key economic policy areas, such as trade, industrial policy, and competitive neutrality.

3

Vietnam ranks 48 out of 157 countries on the human capital index (HCI), second in ASEAN behind Singapore. ...Vietnam's HCI is highest among middle-income countriesCoverage and learning outcomes are high and equitably achieved in primary schools... the performance of Vietnamese students exceeds that of many OECD countries.

(The World bank in Vietnam 2019)

- 4 These criteria might be partly different in the case of a more developed country. In particular, agricultural production could not pivot on simple commodity production.
- 5 This strategic option, more so than other ones undertaken in other sectors, might be regarded as a transitional one. However, historical experience so far has showed that it is bound to last a for a long period of time.
- 6 Some of the differences between the Chinese and the Vietnamese model are due to objective structural factors (i.e., size). Other ones are mainly attributable to subjective and autonomous policy choices on the part of each country's respective leaderships.
- 7 This is not to deny that the Vietnamese did try to pragmatically learn from China's experience, with an open mindset not differently from that of the Chinese themselves when they strived to learn, for instance, from the success of Singapore and other newly-industrialized Asian countries. However, it has to be taken into account that the Asian Newly Industrialized Country(NIC)s' “miracle” preceded China's reforms by at least one decade, while the Doi Moi was officially launched in 1986 (i.e., only eight years after 1978), but had been preceded by tentative and limited reforms since the early 1980s.

28 Laos

The least developed member of
the new class of SEFs

Summary

28.1. The most-bombed country in the world – 28.2. Laos as a market-socialist socioeconomic formation

28.1 The most-bombed country in the world

Laos is a small, landlocked, overwhelmingly rural country that has the dubious privilege of being the most bombed country since the commencement of humankind's journey on this planet.

After the Lao People's Revolutionary Party (LPRP) takeover, a collectivization and cooperativization drive in rural areas was launched by the LPRP. Agrarian reforms were less profound and conflictive than those that had been carried out in China and North Vietnam in the 1950s (due largely to the absolute prevalence of pre-capitalist SPREs in the Lao-tian countryside), but rice productivity suffered. The government rather swiftly realized that a change of course was necessary, and in 1986 embarked on the New Economic Mechanism (NEM) aimed at the establishment of the first foundations of the market socialist model, maintaining a strong association and collaboration with Vietnam (see Ducourtieux Laffort and Sacklokham 2005).

The country was judiciously open to international trade flows. The exchange rate was set to a realistic level, import barriers were replaced with tariffs, and private operators were allowed access to imports and credit. State-owned enterprises (SOEs) lost much of their subsidies and monopoly privileges, were granted more autonomy, and were encouraged to adopt a more market-oriented behavior.

Growth picked up and Laos became one of the fastest-developing countries of the world, even if – more so than Vietnam, due to its very backwardness – in a context of very high dependency on foreign grants and International loans, that finance most of the investment effort. Lao People's Democratic

Republic (PDR) was severely hit by the 1997 Asian financial crisis but subsequently managed to rein in inflation and to recover macroeconomic stability by the year 2000.

Land ownership belongs to the state, but since the mid-2000s a massive program of land allocation and titling program has been on the way. Like in China and Vietnam, in most cases, farmers are entitled to long-lasting land use rights, but they are not entitled to full fee simple ownership rights. The most recent Census of Agriculture was conducted in 2010/2011 and provided plenty of information on the country's agrarian structure. About 80% of the workforce is engaged in farming, with an average landholding of 1.62 hectares. There are no landless peasants and land distribution is rather egalitarian. A total of 93% of the farmed area is devoted to the production of Laos' main staple, sticky rice.¹

The degree of marketization of Laotian agriculture is extremely low. About 1/3 of farmers sell part of their output, and only 6% sell all of it. 60% of peasants are fully and solely engaged in subsistence agriculture.² Unlike Thailand and Vietnam, Laos People's Democratic Republic (PDR) is not a rice exporting country but manages to achieve an acceptable degree of food self-sufficiency (see FAO 2014; Nationsencyclopedia 2020).

Similar to *Doi Moi*, the NEM decentralized and liberalized the domestic economy, opening spaces to market forces and private entrepreneurship while maintaining and strengthening the role of State-owned enterprises (SOEs). Prices set by market forces were replaced by government-determined prices. Farmers were permitted to own land and sell crops on the open market. State firms were granted increased decision-making authority and lost most of their subsidies and pricing advantages. The government set the exchange rate close to real market levels, lifted trade barriers, replaced import barriers with tariffs, and gave private sector firms direct access to imports and credit.

Since the turn of the century, however, the role of cooperation with China has been particularly on the rise. China finances and assists the execution of major infrastructural projects in the framework of the Belt and Road Initiative (BRI), the largest being the US\$6 billion high-speed railway linking the Chinese-Lao border to Vientiane and then linking the Thai transport network. China has also invested in dams and rubber plants, and many Chinese entrepreneurs are active in the small but sprawling sector of trade and small-scale market-oriented productive activities.

Laos accessed the World Trade Organization (WTO) in 2013 and joined the Association of Southeast Asian Nations (ASEAN) in 2015, and accompanied these major commercial diplomacy achievements with the introduction of many market-oriented reforms, institutional changes, and fiscal concessions aimed at enhancing business and investment opportunities for domestic and foreign actors alike (World Bank 2020).

28.2 Laos as a market-socialist socioeconomic formation

With a schematic simplification, it could be said that Laos is to Vietnam what Vietnam is to China. It is much smaller, much less developed, and the modern and monetary-based component of its national economy is very tiny – the vast majority of the Lao population lives in the countryside and is mostly engaged in subsistence agriculture. Another similarity along this conceptual framework holds with respect to human development.

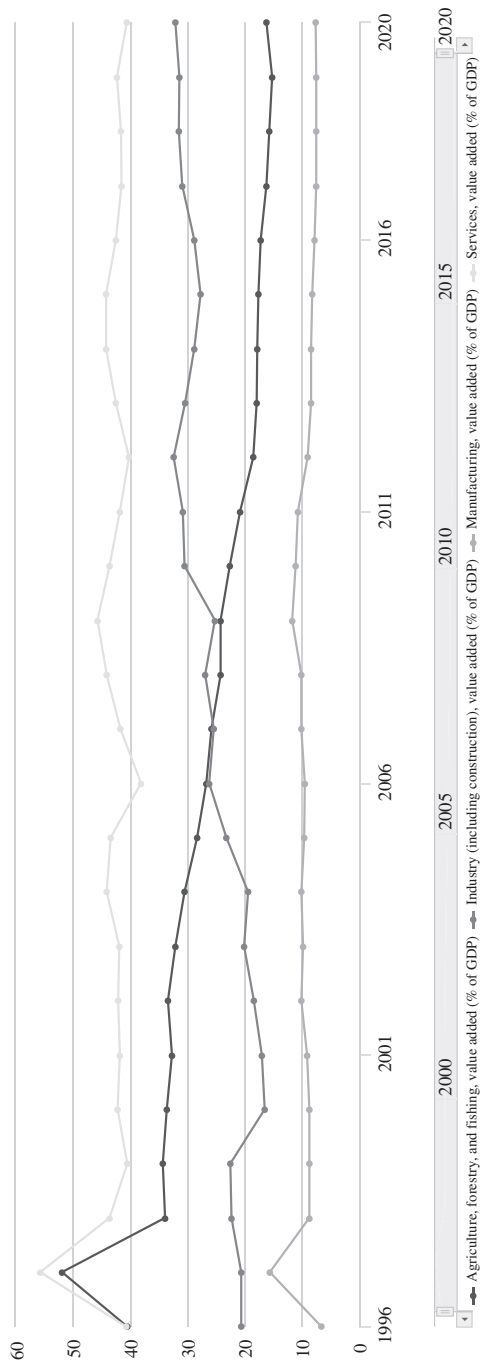
Laos' history in the XXth and XXIst centuries is closely intertwined with that of Vietnam. Like the CPV, the Lao People's Revolutionary Party (LPRP) originated from the Communist Party of Indochina founded by Ho Chi Minh in 1930, and – largely through the Pathet Lao popular front – always acted as a reliable ally of the former throughout the many decades of anti-colonial and anti-imperialist struggle. In 1975 the LPRP established a one-party socialist-oriented system that bears many similarities to those of Vietnam and China. Like the latter, Laos' institutional and political setting has proven itself to be very stable and sustainable over more than four decades.

Like Vietnam, Laos initially followed a Soviet-style development model, which it subsequently superseded launching a comprehensive program of market-oriented reforms (the New Economic Mechanism)³ in the mid-1980s. The outcome of this process has been a socioeconomic system that – notwithstanding the major above-mentioned structural differences, most of which⁴ stem from the fact that pre-capitalist SRPEs are much more prevalent in Laos – is in its essence very similar to those of Vietnam and China. Like the latter, Laos' institutional and political setting has proven itself to be very stable and sustainable over more than four decades. The results of this strategic stance in terms of economic growth,⁵ development of productive forces, and advances in the domains of poverty reduction and human development have also been broadly in line with those of Laos' northern and eastern neighbors (see Figures 28.1–28.6).

On the basis of these sketchy considerations, we deem it legitimate to state that Laos' present socioeconomic system:

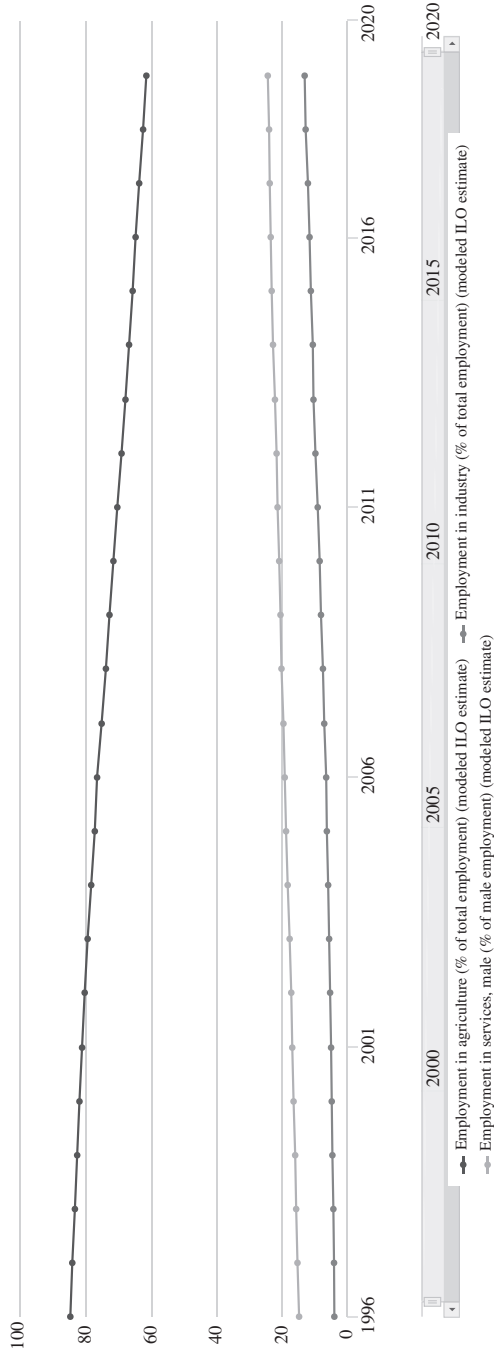
- i is a socialist-oriented market economy⁶ presenting substantial similarities to those of China and Vietnam.⁷
- ii is sufficiently endowed with the properties of stability, sustainability, and endurance to be considered an FES.

Therefore, Laos can also be regarded as belonging to the new class of socialist-oriented FES pursuing a market socialist development strategy.⁸



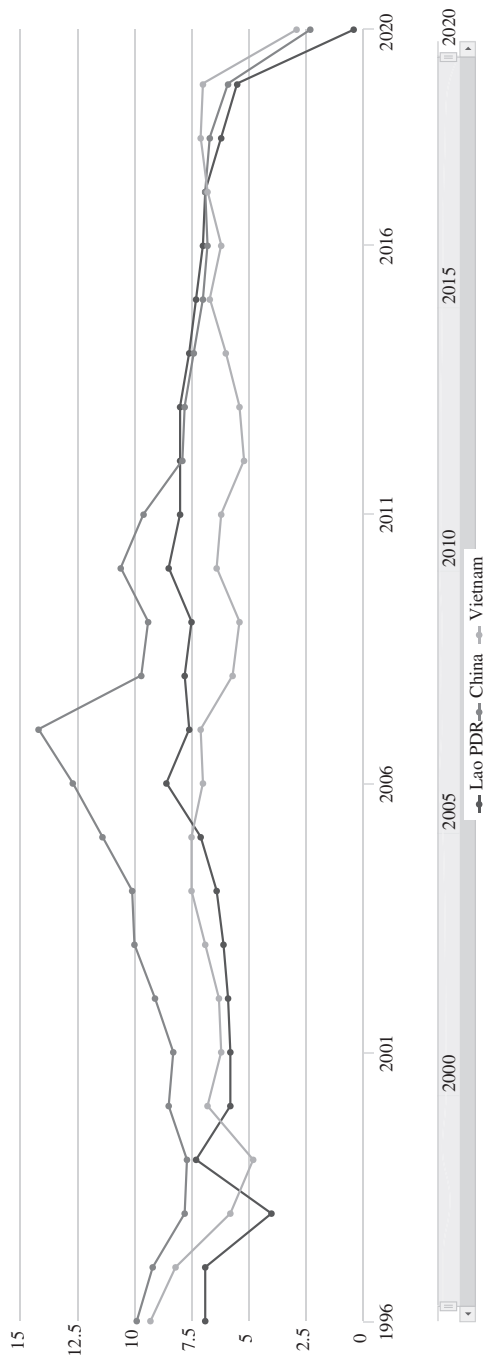
Country : Lao PDR
 Source: World Development Indicators
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Figure 28.1 Laos. Structural change (sectoral GDP shares).



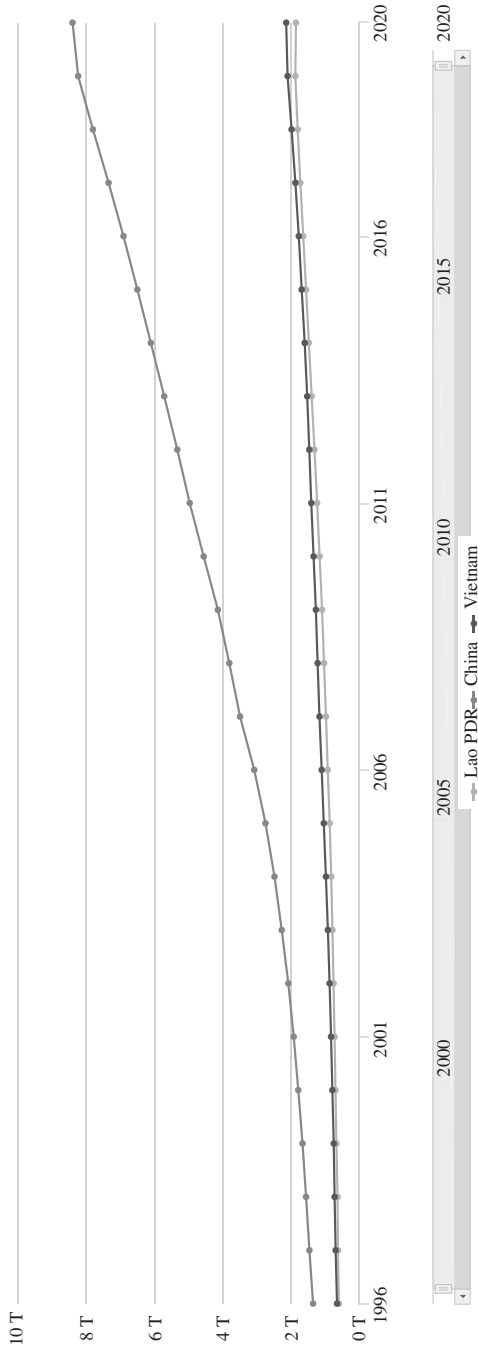
Country : Lao PDR
 Source: World Development Indicators
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Figure 28.2 Laos. Structural change (sectoral employment shares).



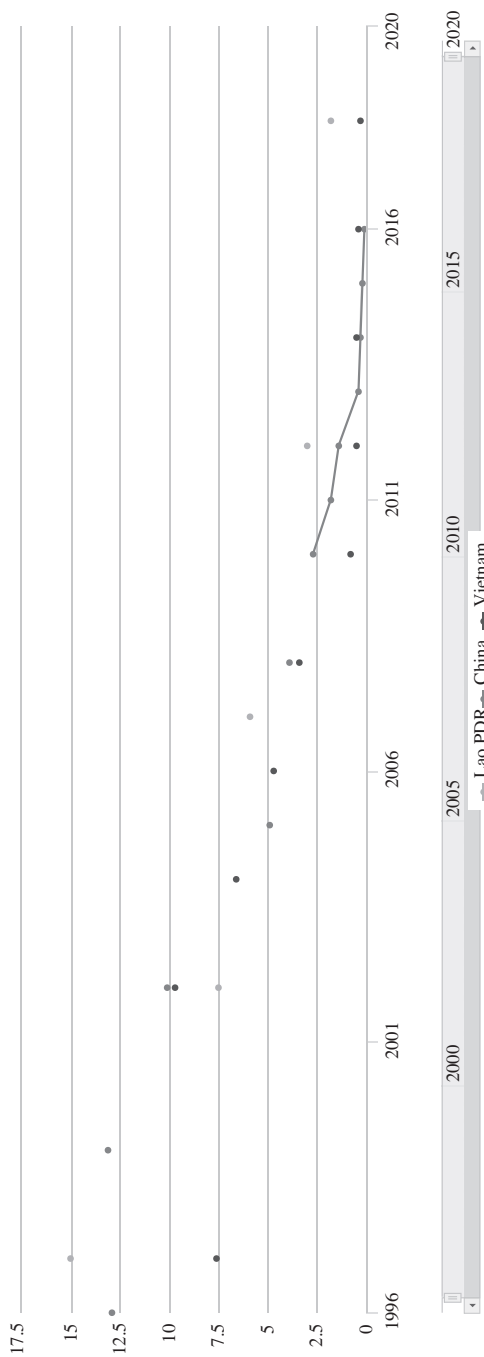
Series : GDP growth (annual %)
 Source : World Development Indicators
 Created on: 08/07/2021

Figure 28.3 Laos, China, Vietnam. GDP growth (annual %).



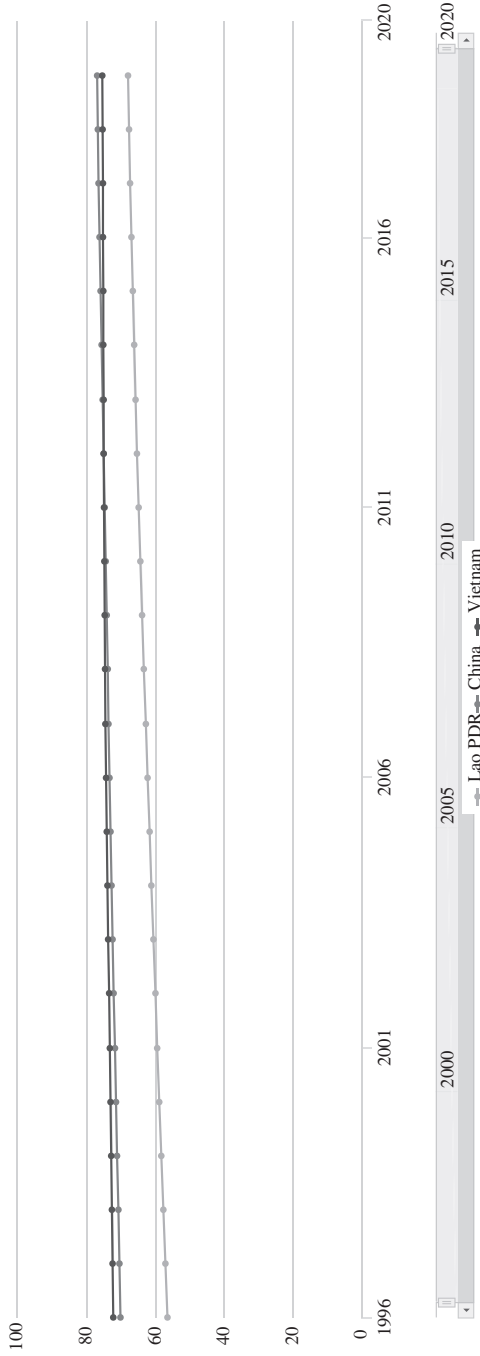
Series : GDP per capita (constant 2010 US\$)
Source: World Development Indicators
Created on: 08/07/2021

Figure 28.4 Laos, China, Vietnam. GDP per capita.



Series : Poverty gap at \$1.90 a day (2011 PPP) (%)
 Source: World Development Indicators
 Created on: 08/07/2021

Figure 28.5 Laos, China, Vietnam. Poverty reduction.



Series : Life expectancy at birth, total (years)
Source : World Development Indicators
Created on: 08/07/2021

Figure 28.6 Laos, China, Vietnam. Life expectancy.

Notes

- 1 Rural dwellers also raise animals (mainly chicken) and get some additional proteins from fishing, hunting and aquaculture. Most of these activities are carried out for self-consumption).
- 2 A process of marketization and modernization is unfolding in rural areas too. Therefore, the prevalence of subsistence agriculture is likely to have diminished during the 2010s.
- 3 The New Economic Mechanism was explicitly justified ideologically making explicit reference to Lenin's New Economic Policy in early USSR.
- 4 Another major structural difference is constituted by the fact that Laos is a landlocked country.
- 5 Lao PDR growth in the long run has broadly been on a par with that of Vietnam and moderately slower than that of China. Consistently with Laos' relative structural underdevelopment, its absolute degree of achievement of poverty and human development goals lags that of China and Vietnam. Somewhat surprisingly, however, Laos' per capita GDP is officially estimated by the WB at a level very close to that of Vietnam. This statistical oddity might be attributable to measurement difficulties stemming from the very high prevalence of informal and subsistence activities in both countries.
- 6 In the case of Laos, more than in those of China and Vietnam, the term market economy must be qualified as applying to the dominant component of the domestic economy. This is not in contradiction with the fact that most of the Lao population is prevalently engaged in subsistence agriculture and handicraft activities that take place outside market networks
- 7 Laos' socialist orientation has been strongly reaffirmed in the 2016 party Congress (see Vaenko 2016; Socialist Voice 2018; Yamada 2018; Rehbein 2019).
- 8 Several other countries are more or less socialist oriented, but lack one or more key properties that would be necessary to identify them as members of this specific group of FES (at least, for the time being). Cuba can legitimately be considered a socialist-oriented FES, but it has not consistently adopted a market socialist development strategy. The same token –with a big pinch of salt due to the notoriously weird character of its system and the extreme dearth of information that surrounds it – might apply also to North Korea. Other countries – such as Venezuela, Belarus, Cambodia, Nepal – are also trying to pursue at least partly market socialist-oriented paths, but their trajectories are not consistent, stable and sustainable enough to allow observers to regard them as full-fledged socialist-oriented FES.

29 Concluding remarks

Summary

29.1. Wrapping up a long journey – 29.2. Theoretical foundations – 29.3. Planning: potentialities and limitations – 29.4. Few Modes of Production (MPs), many Social and Economic Formations (SEFs), one Meta Mode of Production (MMP) – 29.5. Productive and non-productive macro-sectors – 29.6. Socialist-oriented developmental states – 29.7. First things first: rural reforms – 29.8. From the re-establishment of markets to market-compatible planning – 29.9. The Chinese way: institutional innovations and continuity commitments – 29.10. The “New Projectment Economy” as a higher stage of development of market socialism

29.1 Wrapping up a long journey

This book attempts to build a new conceptual framework to support our central argument: the end of the first socialist experiences in Europe and Central Asia was not the end of history, it did not bring back the process of human evolution to square zero. Conversely, more advanced processes of socialist-oriented development are presently unfolding in various countries, and constitute a promising example and a reason for hope for socialists and progressives all over the world.

Within the historical horizon of the present epoch, no alternative social engineering can go beyond the limits imposed by the MMP and the permanent operativeness of the law of value (LV). Capitalist relations of production and exchange are still dominant worldwide, although their preeminence is not unchallenged and is being increasingly eroded. Global systemic constraints are severe, but they do not rule out altogether the practicability of socialist-oriented development paths, as shown by the emergence of a new class of market-socialist FES since the penultimate decade of the XXth century.

Several peripheral countries exhibit at least some market socialist features. However, only three of them – China, Vietnam, and Laos – can be regarded so far as market socialist SEFs proper.¹ In fact, they have adopted and gradually upgraded a market socialist model that (while not exempt from multiple

shortcomings and contradictions) has proven to be internally consistent, sustainable, and extremely effective for developing productive forces. In our view, notwithstanding the major gaps between their respective degrees of economic development, and acknowledging that even in China the market socialist model is far from having reached a mature and accomplished stage, the systemic similarities between these three Asian countries outweigh the differences and thus justify the taxonomic option to classify them as belonging to the new class of FES.

In parts II and III we identify a few of these key common elements in China's and Vietnam's² structural systemic features that allow us to classify them as belonging to a new class of market-socialist SEFs. Our ultimate goal is to propose a comprehensive theoretical interpretation suitable to understand and analyze these experiences in a holistic, historically-rooted global framework axed on the dialectical interactions among different modes of production. As Vietnam is relatively less-known to the general public than China, in Part III we examine it in a rather thorough and integrated way, maintaining a comparative approach that constantly juxtaposes its experience with that of the People's Republic of China (PRC) and underlies their respective similarities and differences. Conversely, our discussion of China's reforms in Part II is more selective. To some extent, we took for granted that our readers already have a basic knowledge of China's market socialist trajectory since 1978, a matter on which a very vast and ever-growing body of literature is now available, including a recent book by one of us (see Gabriele 2020). Therefore, we focused on two relatively novel and less-researched topics, namely the role of rural and industrial NCMOEs and the qualitative leap in the country's planning and governance capabilities propitiated by recurrent recent rounds of industrial, financial, and ownership reforms, among which the establishment of State-owned Assets Supervision and Administration Commission (SASAC) in 2003 constituted a major milestone.

In this conclusive brief part/chapter we try to walk a step further, focusing again mainly on China – the most advanced among all market-socialist SEFs – arguing that it might now be entering a new and *superior*³ stage of market-socialist development. To the best of our knowledge, this perspective is quite novel and far from the mainstream view that still dominates the Western debate on China and, more generally, socialism. However, it has to be taken into account that the systemic changes we refer to are still very recent, some of them are just embryonic, and their degree of historical and systemic consolidation is still at best partial. Therefore, we warn our readers that the final interpretative hints we put forward here are to a large extent tentative and speculative in nature, and we are aware of this epistemic caveat.

29.2 Theoretical foundations

This book makes an initial and still embryonic attempt to carry out a re-visitation and reinterpretation of core categories of historical materialism such

as those of MP, FES, and LV. In turn, in our view, such a task is a necessary premise to redefine and rejuvenate Marxism itself and the very concept of socialism, according to the challenges posed by the XXIst century. In this endeavor, it is still inescapable (albeit not sufficient) to deepen the critique of the pretended *commonsensibility* of neoclassical economics pivoting around the “*homo economicus*” paradigm, as a way to discredit the existential threat constituted by the socialist alternative.

In part I, we develop an argument originating from apparently exotic disciplines, such as evolutionary biology and neuroscience. Especially since the turn of the century, these relatively new areas of study have provided previously unthinkable scientific findings, among which the most crucial from the point of view of social sciences are two:

- i the ontological centrality of the principle of cooperation in nature, and especially so in the biosphere;
- ii the complexity of the human mind, where unconscious processes largely based on value judgments and ethical beliefs and principles predominate. Such complexity irredeemably dooms any type of reductionist approach based on a kind of pseudo-psychological anthropology rooted in the debunked assumption of perfect rationality attributed to all economic agents.

The key findings of behavioral economics and neuroeconomics allow us to fully deconstruct the plausibility of *homo economicus* – the metaphysical and fictional character who, like Atlas, had sustained on his shoulders the entire edifice of neoclassical economics. Along with *homo economicus*, the traditional justifications for capitalism as the only reasonable way of organizing modern societies (with their double dismissal and demonization of socialism as contrary to human nature) are also duly placed where they belong, in the dustbin of history.

29.3 Planning: potentialities and limitations

Overcoming capitalism requires the creation of material and subjective conditions that enhance the natural and culture-related cooperative propensity of humankind, and to develop it into a science capable of rationally guiding the destiny of the species. Planning emerges as a counterpoint to irrationality and to the anarchy of production that – along with exploitation – characterizes capitalism. So far, nothing new.

In this respect, however, in this book, we convey a somewhat *conservative* message about the potentialities and limitations of socialist planning. The constraints stemming from the MMP cannot be fully overcome in the current historical epoch, although it is indeed possible to proceed gradually and cautiously towards freeing the society from the tyranny of the LV. In the very long term, planners’ degrees of freedom might expand even further, although at present we have no elements to gauge how far this process might

go. We see *conservatism* as a shield against the risk of succumbing to hubris and triumphalism, as it notoriously happened for instance to Fukuyama with his “*end of history*.”

We also hope that such *conservatism* can also help to counterbalance the apparent boldness of another of our core arguments. Market socialism development is still in its infancy, yet it is now over four decades old, and the whole world is very different from how it was in the late 1970s. Therefore, we maintain that in order to properly understand and analyze market socialism an overall re-conceptualization effort is required, to identify the so-called *laws of motion of socialist development* (see above, Ch 8). We do not pretend to have found and fully understood all *such laws of motion*. But we confidently posit that they do exist as abstract guiding principles and restrictions that inform and constrain any concrete attempt at socialist construction in our historical era.

We are also aware that the (relative) theoretical rigidity of our approach does not allow much leeway for idealistic or *wonkish* pindaric flights. Furthermore, it also clashes, to a certain extent, with one of the most illustrious traditions of progressive movements worldwide. This tradition revolves around the centrality of the category of freedom, and (without underestimating the relevance of many other schools of thought, from XIX century anarchism to the *New Left*) it is legitimately rooted in much of Marx’s work. However, the international working class movement is no longer in its infancy. We must therefore be careful to avoid falling into Promethean voluntaristic fallacies and stick to sobriety and pragmatism.

29.4 Few MPs, many SEFs, one MMP

In the framework of our discussion on the Mode of Production (MP) category, we opt for an interpretation that sees it as a pure, abstract logical structure, rather than – as it is the case of real-world SEFs – a concrete historical manifestation. As such, at a high level of abstraction, it can be somewhat paradoxically stated that each MP’s core essence is given and immutable. We also argue that, at a still higher level of abstraction and generalization, a conceptual and logical *meta-structure* can be identified, which acts as an insurmountable set of constraints limiting the range of possible varieties of different SEFs. This *meta-structure* has been around for a long time and is going to be holding sway for a very long and possibly unbound historical period in the future. We call it Meta-Mode of Production (MMP) (see above, Ch. 7).

Our approach posits three major propositions:

- 1 During most epochs, one MP tends to be globally dominant, but there are historical periods where a transition occurs from one to another dominant MP.
- 2 Two or more MPs coexist in all countries – although in some of them the national dominance of one MP is overwhelming, to the point of obscuring the presence of other ones. In each country, the MPs are unevenly advanced and sustainable, and are endowed with varying degrees

of strength and development potential. Their interrelationship evolves in a state of perennial flux, where long periods of relative calm and stability alternate with other ones, that are more turbulent and unsettled. During the former, the defining characteristics of *longue durée* and stability make it possible to identify in each country a specific and well-defined SEF. During the latter ones, it is often difficult to foresee which MP will eventually prevail at the national level. Evidently, it is even more difficult to forecast which MP is bound to prevail worldwide in the very long term, even if some key trends can be identified and analyzed.

- 3 Only some configurations of MPs can historically occur both at the national and at the international levels, due to the existence of a set of immanent and universal structural restrictions that we denominate MMP. The MMP constrains the degrees of freedom of all national attempts to pursue a development strategy consistent with the basic principles of any specific MP (including socialism), even if the latter is becoming progressively hegemonic on a global scale, thereby signaling a transition to a new globally dominant MP.

29.5 Productive and non-productive macro-sectors

We also tried to develop and to partly reinterpret some insights from Marx's "*Critique of the Gotha Program*" and Lenin's "*The State and the Revolution*", adapting them to contemporary socialist⁴ societies.

Three points are of particular importance:

- i Marx's observations on the need to set aside the so-called "*consumption funds*" as a part of the total social surplus;
- ii the relative⁵ persistence, under socialism, of a key regulation mechanism that was prevalent in the previous mode of production: *mercantile exchange*.
- iii the fact that two core macro-sectors operate in all modern monetary economies: the *productive macro-sector* and the *non-productive macro-sector*.

By definition, due to the operativeness of the LV, only the productive macro-sector (by definition) generates a surplus. The non-productive macro-sector (which includes all public services, including essential ones such as health and education), does not. The only way to maintain a sustainable socio-economic balance is to transfer part of the surplus produced by the productive macro-sector to the non-productive one.

Therefore, the core task of planning is a dual one:

- i to elaborate and execute policies aimed at the construction and enhancing of a powerful productive macro-sector, and
- ii to set up appropriate institutional mechanisms to engineer a smooth channeling of resources from the productive macro-sector to the non-productive macro-sector

The whole array of actions aimed at developing the productive macro-sector can be referred to as *industrial policies* (where the latter term is to be understood as covering, at least potentially, a much wider and ambitious range of interventions than those commonly conceived by mainstream economists, even progressive ones). Industrial policies may include various actions aimed at allocating resources (through administrative or price-related tools) to strategic sectors, such as infrastructure, capital goods, high-tech industries, R&D, and S&T activities. In doing so, planners can judiciously yet ambitiously exploit the paramount informational comparative advantage they enjoy vis-à-vis atomized private agents, in order to go beyond a passive automatic reaction to market signals in a quest for creating the conditions for the long-term maximization of the development of national productive forces.

Well-conceived and properly executed planning can lead to outcomes that are superior to those that would result from a simple *laissez faire* policy stance, both in developed and backward countries. In the latter, however, it is absolutely indispensable, because leaving the national economy at the mercy of the *spontaneous* unfolding of international market forces could only perpetuate and exacerbate the country's marginalization, peripheralization, and underdevelopment. A fortiori, this argument applies to socialist-oriented Southern countries, which cannot ultimately succeed unless they evolve into developmental FES⁶ able to prioritize the strengthening of the productive macro-sector.⁷

29.6 Socialist-oriented developmental states

The emergence of socialism in backward and largely pre-capitalist countries put on the agenda the urgent need to promote a rapid growth of the productive macro-sector, in order to make available a surplus large enough to sustain long-term economic development. However, the leaders could not ignore the political social and ethical imperative to urgently provide universal access to the most basic services, thereby fulfilling at least some of the promises that led the popular masses to support the revolutionary project.

This strategic challenge inevitably entailed complex and dramatic trade-offs. Actually, most of the first revolutionaries were not endowed with an adequate theoretical maturity to understand properly the objective nature of the constraints implied by the relationship between the development of the two macro-sectors. This deficiency, unfortunately, led to a series of major setbacks in the history of the international socialist and communist movement. Some, such as forced rural collectivization in the pre-World War II USSR and the Great Leap Forward in China, resulted in major human tragedies.

Other ones were not as dire, but they nevertheless remain significant, the most notable being the famous Cuban Paradox, i.e. the revolutionary island's persistent inability to achieve an acceptable degree of food self-sufficiency while it was building a first-rate public health system and an industrial niche of advanced biotechnology and exporting doctors worldwide.⁸

Over a century of historical experience and scientific analysis has shown that – since it is impossible to fully overcome the LV – socialist-oriented planning must ultimately be market-compatible. However, planning capabilities (that initially cannot but being extremely rustic) can evolve and mature to the point of gradually changing their relationship with market forces to their advantage, and to force the latter to be the servants, rather than the masters of the society's collective will and intellect.

In particular, the State can and should hold on to publicly owned capital, ever-increasing its value and transforming core industrial enterprises into internationally competitive national champions, sectoral leaders, and harbingers and facilitators of the march of the entire domestic economy towards the global technology frontier, and beyond. At present, among all socialist-oriented SEFs, the PRC is the one that has advanced most on this path.

29.7 First things first: rural reforms

Both in China and in Vietnam, the birth and development of the socialist market economy model have been predicated upon successive waves of institutional innovations.

The first of these reform cycles focused on the rural areas, where the vast majority of the population lived and a vast potential for productivity gains with relatively little additional capital investment of additional resources⁹ lay untapped.

In China, the re-birth (albeit in a form very different from that of the pre-revolutionary past) of the market economy in rural areas unfolded initially through the superseding of the communes, which led to major changes in SRPEs and created the institutional preconditions for a major productivity boost. A new type of simple commodity production came to the fore, and new NCMOEs emerged.

The State maintained a crucial asset (land ownership), while enacting a strategic and orderly retreat from micromanaging the rural economy, returning a considerable amount of power to local governments.

Initial rural reforms in Vietnam led to a similar configuration in the agricultural sector. However, due to various factors stemming only in part from the Government of Vietnam (GOV)'s ideological or strategic priorities, there was not a process of rural industrialization comparable to the TVE-led one in China, while the role of SOEs remained absolutely paramount.¹⁰

29.8 From the re-establishment of markets to market-compatible planning

Market-oriented reforms in socialist countries that previously followed the traditional Soviet-style model¹¹ must focus primarily on the productive macro-sector (see above, Chapter 8). The basic principles of the law of value must be restored, relative prices must be rationalized and the main indispensable markets must be reconstituted. Little can be done in terms of substantial systemic improvement until these necessary conditions are met.

Once the LV is allowed to act as the main regulating mechanism in non-monopoly sectors, planning priorities can shift to governing macroeconomic prices and strengthening of the national financial system, which must remain firmly state-controlled. In this endeavor, China's and Vietnam's experience have shown that the establishment of powerful investment and development banks and the creation of relatively autonomous yet regulated stock exchange markets are both effective and non mutually contradictory tools to accelerate a development-friendly financial deepening, diversification, and modernization.

Selective yet judicious industrial, technology, monetary, credit, and innovation policies should support the modernization of the productive macro-sector, earmarking resources towards fast-growing and technologically advanced areas, pushing gently yet firmly back the constraints imposed by the MMP while maintaining an ultimately market-compatible macroeconomic approach. China and Vietnam have gone a long way along this trajectory, in the past decades, fostering aggressive export and investment policies while maintaining competitive exchange rates and accumulating foreign exchange reserves, pushing growth rates beyond what could have been achieved in absence of proactive intervention, and enhancing their monetary and geopolitical sovereignty.

China has already gone another major step further, shifting more and more the pivot of its development strategy towards indigenous innovation. Since approximately the turn of the century, it has built up a vast national innovation system that is now the largest in the world and the second in terms of effectiveness and capability (see Gabriele 2020).

29.9 The Chinese way: institutional innovations and continuity commitments

China did not buy into the neoclassical narrative imposed on the periphery of the system by the International Monetary Fund (IMF) and the World Bank (BM). The Government of China (GOC), after several hesitant, possibly over-cautious and only partial reform attempts, embarked on a state-led, conglomerates-focused developmentalist path similar to those followed by Japan, Korea, and Taiwan a few decades earlier.

Yet, the People's Republic of China (PRC) did so with a distinctive socialist flavor, building upon the material, institutional, and social capital accumulation process created since the 1950s through over 30 years of rustic yet broadly effective central planning, that had created a vast, albeit backward state-owned industrial foundation.

Factors such as opening to market forces and to the outside world played a major and indispensable role, especially in the early stages of industrial reforms.

Actually, China's market socialist reform process, far from being predicated on a collapse of State power, was actually made possible by the refinement and enhancement of its governing capability.

After several intermediate stages not exempt from a considerable amount of uncertainty and policy oscillations, the fundamental stance of China's

industrial strategy increasingly characterized itself for doubling down on the principle that the State is firmly in command, respecting but not worshipping market forces and shaping them as much as possible to act as tools instrumental to smooth the overall modernization and rejuvenation of the national economy. The rational pursuit of economies of scale and scope and the absolute priority accorded to technological progress and innovation became the most central goals of industrial and R&D policies.

This approach departed markedly from the relatively hands-off one previously adopted in the agricultural sector, where the government promoted the emergence of a myriad of small-scale market-oriented and largely autonomous production units. There is a very ample consensus among all observers in attributing the major leap in agricultural productivity and production in the early 1980s to the *spontaneous* unleashing of market forces, i.e. to a rather *simple* economic mechanism. Conversely, State-owned enterprises (SOEs)' reform process involved a more complex legal, institutional and managerial rearrangement of industrial SRPEs, to be carried out in a framework where the dominant role of public ownership and the State's control on the *commanding heights* of the economy were to be reaffirmed in a renovated form. Such a major challenge (that had eluded Soviet and Eastern European reformers for many decades since the 1950s) could not be expected to be won *simply, easily, and automatically* thanks to the *magic of the markets*. It is therefore not surprising that the initial results of industrial reforms were modest, and that several subsequent attempts and experiments were required before the process could be confidently regarded as a systemic success.

A decisive step was constituted by the pragmatic acceptance of two basic facts:

- i State capabilities can and should be upgraded, but at any moment in time, they are finite. Therefore, they must be finely focused and concentrated on steering and managing only the largest and most strategic enterprises;
- ii The primary and most essential¹² role of public capital in the productive macro-sector is *self-valorization*.

With the benefit of insight, it might appear that the first point was simply commonsensical: as the Spanish say goes *quien mucho abarca poco aprieta* (he that too much embraceth, holds little).¹³ Actually, however, it required a lot of political courage to overcome an attitude that was so engrained in the tradition of the communist movement.

The second point was more subtle, deep, and ideologically delicate. We believe that the way we formulate it hereinabove is in fact scientifically and theoretically correct, and that our view is not very distinct from that presently prevailing inside the CPC itself. However, although some pioneering theoretical contributions had been coming to the fore since the 1950s, it appears that still in the 1990s and 2010s, the Party and the State as a whole were acting mostly pragmatically, behaving *as if* they had fully understood and internalized the issue.

The PRC began a risky path towards a thorough overhauling of public industry, under *the grasping the large and letting the small go* banner, and ended up opting for what amounted to a re-centralization of state capital in a transformed institutional framework, where the State scaled up its effective control on the largest and most strategic enterprises. The number of SOEs was progressively yet drastically reduced, but the remaining ones were being continuously strengthened and capitalized. SOEs were instructed to focus only on their core business discontinuing the *danwei* system.

The social costs of such a radical process of change were huge, mainly not only in terms of increasing insecurity and inequality but also because they were not firmly faced and tackled through targeted and focused policy interventions. Private enterprises were allowed to flourish and rapidly became prevalent in most sectors. Yet, the role of the State in the economy declined quantitatively but increased qualitatively. The public industry managed first to survive and then to become leaner but much stronger, enhancing its role as the core of China's economy. Two major milestones in this process of *striking back* on the part of the entrepreneurial State were the establishment of SASAC (possibly *the* most important institutional innovation since the beginning of economic reforms) and the overall process of SOE corporatization.

Industrial reforms constituted the most crucial and difficult example of a fundamental feature of the *Chinese way*: the enacting of cyclical institutional innovations that profoundly transformed the structure of SRPEs in all the sectors of the national economy, as well as the respective roles of the State and of other actors, such as the new types of NCMOEs and the POEs. Yet, change took place in a political, ideological and institutional framework characterized by the presence of robust *continuity commitments*, thereby avoiding the mistakes made by countries such as Brazil and Mexico that ended up stuck "*in the middle of the road*" (Evans 1993), but also the gradual withering of the developmentalist drive that eventually took much of the shine off the Asian capitalist tigers.

29.10 The "New Projectment Economy" as a higher stage of development of market socialism

Present-day PRC (more or less since the beginning of the 2010s, or since Xi is the leader) has *probably/possibly/tentatively*¹⁴ entered a new stage that we call *New Projectment Economy (NPE)*.

We suggest the approach of this book only as a starting point, and not in a mechanical way, which opens possibilities for us to understand some phenomena that occur in China today, notably in the field of economic planning. In today's China, we have identified a set of elements still embryonic elements that seem to usher in the emergence of a new and more advanced stage of market socialism. In honor of Rangel, we call this new stage (which shows evolving, multiple, promising signs, but which cannot yet be considered a consolidated reality) *New Projectment Economy*.

We chose the quasi-obsolete term *projectment* (rather than plan, project, or programming) to refer holistically to the *utilization of both plans and projects*

as tools to *steer the economy towards a rationally conceived development path*. The term and the concept of *Projectment* were originally proposed by the Brazilian economist Ignacio Rangel in his pioneering book *Elementos de Economia do Projtamento* (1959). Rangel was hoping that his ideas could inform socialist construction in what was at the time the most advanced and powerful socialist country in the world, the USSR, but in our view, their deep and universal validity make them particularly suitable to understand the essence of the present stage of development of China's market socialist economy.

Projectment refers more specifically to the ability to:

- i engineer “*quality leaps*” in this domain;
- ii by means of *ad hoc, focused, coordinated initiatives* that channel enormous results towards specific *paramount goals*, some of which are related to the development of productive forces, while other ones (that are becoming increasingly prevalent) are aimed at the direct solution of major social and environmental problems that are not amenable to be tackled via market mechanisms¹⁵;
- iii utilizing *large sums of capital* mediated by *state-owned banks* (among which, increasingly, *development banks*);
- iv and a *vast array of policy tools* such as plans, projects, industrial policies, regulations, and institutional changes.

Major examples of “*quality leaps*” are the Belt and Road Initiative (BRI), the Made in China 2025, the recently concluded anti-poverty plan, and the 14th Five-Year Plan:

In a break from a decades-long tradition, China's 14th Five-Year Plan (2021–25) did not set a specific GDP growth target – for the first time in the country's history of making up five-year plans – but instead stresses goals in other indicators, including unemployment rate, energy consumption and carbon dioxide emissions, in line with a mission to improve people's livelihood and quality of development.

(Global Times 2021)

It has to be clarified that nothing in i)–iv) is really new as such, taken alone. What is new is their *combination on an unprecedented scale*. The NPE can be regarded as a *sub-period* belonging to the second long-term development period of the PRC as a market-socialist SEF of a new type.¹⁶ It follows other sub-periods belonging to the same period (i.e., the initial one with the household farms and the TVEs, the second one with the Dual Track, etc.)¹⁷ and it is unfolding only in the PRC so far because China is the most advanced among all new-type SEFs.¹⁸ The NPE is logically a sub-set of the larger set inaugurated by the surge of new market socialist SEFs in China and other countries. It is not a new type of SEF and even less a new MP.

We tentatively identify the emergence of the NPE as the outcome of an incremental process during which China's State has been progressively

upgrading its capabilities to steer the economy towards a rational and “scientifically”¹⁹ formulated development path, utilizing ever-increasing abilities and tools in the areas of coordination, regulation, information gathering and processing, plan, and projects formulation and execution, and the like.

As a result of this process to some extent, quantity becomes quality, and it can be said that all these converging incremental changes have produced an economy that is still market socialist, but where planning is now stronger than the markets – even if it must remain market-compatible – while the market is weaker (with respect to the recent past).

In other words, the MMP constraints are of course still there, but policy-makers can be responsibly more ambitious as they enjoy more degrees of freedom, as the limitations stemming from the law of value are less stringent. Another step has been initiated in humankind’s quest of freeing itself from the chains of immanent market constraints and becoming more able to construct and shape rationally its own socioeconomic development. Yet, clearly, caution is always warranted and excessive hubris and triumphalism are to be avoided.

Notes

- 1 We remind the reader that, by definition, all FES must be endowed with three, mutually interrelated necessary properties, such as stability, resilience, and internal consistency.
- 2 In Chapter 28 we also summarily sketched some observations on Lao PDR, arguing that this country can also be regarded as a market-socialist SEF, even if its present degree of socioeconomic development is still very low.
- 3 The term *superior* is to be understood as context-specific and referring to a short-to medium-term comparative context, as relating to China’s degree of institutional development until approximately the turn of the century. In a broader, long-term historical perspective, we agree with CCP’s conservative (and, in our view, realistic) view, according to which China is still transitioning through a primary stage of socialism, and will probably not reach a mature and truly *superior* degree of socialist development for a long time.
- 4 On the qualified meaning to be attributed to the adjective *socialist* in this context, see above Box 1.1.
- 5 Under socialism mercantile exchange is no longer unbridled, as the role and influence of planning rise markedly with respect to capitalism.
- 6 On the definition of FES and its properties see above, Chapter 3. When revolutionary forces seize power in a specific peripheral country, they cannot effectively commit to a long-term socialist-oriented development strategy in the economic sphere unless they manage to achieve a certain degree of control and stability in the political, institutional, and military domains.
- 7 Historical experience shows that in poor countries major human development advances are achievable during the initial development stages even if the share of scarce national resources earmarked to the non-productive sector is relatively low. If the opposite is the case, a contradiction emerges between human and economic development, which tends to worsen over time and is not ultimately sustainable. There is one country in the world the has gone further than any other one: Cuba. In our view, the very fact that the Cuban leadership has finally opted all but officially for joining China, Vietnam and Laos on the market socialist path powerfully vindicates the correctness and universality of our thesis.

- 8 Cuba's leadership is now embarking on a comprehensive and bold reform program aimed at definitively overcoming this contradiction. The desired outcome appears to be to engineer a thorough and consistent transition to market socialism (see above Note 10 and Falcón 2021; Figueredo Reinaldo et al. 2021; Kunzmann 2021; Ministerio de Economía y Planificación 2021).
- 9 This is not to deny that both China and Vietnam kept earmarking a sizeable amount of public resources in agriculture, especially in areas such as infrastructure and technological upgrading, and that without these outlays the initial productivity growth upturn favored by the realignment of individual incentives could not have been sustained over time.
- 10 Subsequently, with the decline of TVEs and the emergence in both countries of individual and private industrial and services enterprises, the nonagricultural rural landscapes in China and Vietnam converged again towards a higher degree of similarity.
- 11 All presently-existing market socialist countries were formerly following the Soviet-style socialist model. No country so far has completed a successful, sustainable and resilient transition (directly) from capitalism to market socialism, to the point of turning itself into a market-socialist SEF. However, there is no logical reason not to believe that one or more countries will achieve this feat in the future.
- 12 Both capitalism and socialism operate under the constraints of the MMP. Under capitalism, self-valorization is the alpha and the omega of the whole production process. Under socialism, it is a necessary condition to foster the development of productive forces, which in turn is a necessary condition to improve people's well-being.
- 13 <https://www.linguee.com/spanish-english/translation/el+que+much+abarca+poco+aprieta.html>
- 14 This development - as opposed, for instance, to the transition from Soviet-style socialism to early market socialism in the 1980s - is a very recent one that be cannot firmly identified yet.
- 15 By definition, the development of productive forces in a market-socialist society must ultimately imply the generation of (exchange) value. Conversely, efforts to directly improve people's well-being facing directly evils such as poverty, inequality, and pollution ,can be theoretically regarded as optimization exercises that set an intrinsically non-value-based goal and try to achieve it while minimizing its value-measured cost. This major difference does not imply that the latter cannot, or should not, utilize market mechanisms, among other tools, to achieve their goals. In some cases, however, it is not obvious to determine if a plan/project belongs to the first or the second category, as two-way linkages and spillovers are common. For instance, China's policies to foster the production of electric vehicles (EVs) are aimed both to protect the environment and to build up a commanding international competitiveness position in a fledging market.
- 16 We refer to the 1949–1978 and the 1978–present long phases of China's development as *periods* (the so-called Maoist period and the market socialist period).
- 17 As in all historical processes, the identification of sub-periods is to a large extent conventional and ad hoc, according to the subjective's viewpoint of the researcher.
- 18 Vietnam is broadly advancing on a similar trajectory, but is less advanced.
- 19 We refer broadly to the maximum possible utilization of scientific knowledge in various domains in the formulation and execution of the plans/projects. We do not imply deterministically that only one development path is scientifically justified and therefore practicable.

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