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# **Comments on the 'China Model'**

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I have read with interest the three papers on the China model that you published in your last edition. Whilst I agree with a fair part of Zhu and Cheng's papers, I have significant disagreements with Pan's paper so I will address these first.

It seems to me that Pan's paper expresses an extreme form of conservative social thought. I find it quite surprising that an article like this is published by the Academy of Marxism of the Chinese Academy of Social Sciences. Pan's theoretical framework, the terms of his debate are on the one pole current Western liberal ideologies, and on the other an idealisation of Chinese feudal social relations. Concepts derived from Marxism are completely absent, even as ideological opponents to be argued against.

*“Humans are essentially the same; and so are the ways of organizing and managing human societies.”*

and later

*“the continuity of Chinese civilization is amazing; and amazingly its institutional setting—the backbone of Chinese civilization—is continuous up until today.”*

These positions are clearly counter to the basic tenets of historical materialism - his assertion that human society never changes, but are in the end contradictory. His intention is to establish that there is an invariant property to Chinese social relations that have persisted for thousands of year. He also argues that these social institutions are so distinctive of China that concepts which apply to other parts of the world - like classes and class consciousness - have no purchase on Chinese society. But this clashes with his assertion that “humans are essentially the same; and so are the ways of organizing and managing human societies.”

If that is the case then it follows that the organisation and management of Chinese society is essentially the same as that of all other societies. In that case what remains of his argument for Chinese particularism?

He argues that the basic unit of Chinese society is the family:

*“Instead of individuals with class backgrounds, the family is the basic social and economic unit. In rural China, family was and still is the basic economic unit; and in urban China, more than 99% of the registered firms are mini-scale family business.”*

Families exist all over the world, and the view that the family is the central social institution is not specifically Chinese but on the contrary is characteristic of conservative social thought across most of the world, one could cite similar views from Islamic or Catholic sources:

*Marriage and the family are the central social institutions that must be supported and strengthened, not undermined. (*

This emphasis on the family by conservative writers often goes along with a concern that the family is under pressure or being undermined by modern society, or more specifically, that the traditional form of family is being undermined by modern society. Pan does not seem worried in this respect. He remains confident that the family is still the basic economic unit of Chinese society, not only in the countryside but also in the cities.

But what does he mean by this?

In what sense is the family the basic economic unit?

If he views human reproduction as the basis of society, then he might have an arguable case, the family is the setting for much of the work of feeding and socialising children. But the industrialisation of society, and the universal schooling that it brings in its wake, means that an increasing portion of the reproduction of human animals as social beings is performed by the

school system not the family. As pre-school education and childminding become more prevalent this tendency towards the socialisation of upbringing becomes more pronounced. Basic skills of language and self care which were once taught in the family begin to be taught in Kindergartens. Pre-school education is already developed in China, and as it grows the role of the family will be progressively displaced in this area too. The control of fertility and falling family sizes mean that the amount of women's labour required to look after children declines - this is as marked in China as in many developed capitalist countries. In the process women cease to function primarily as economic producers within the home and become wage labourers.

But it is clear that when Pan says that the family is the basic unit of the economy he means more than childcare and the preparation of meals at home. He implies that other forms of production in China are predominantly carried out by households. But is this the case?

Historically, the peasant agriculture of societies at the feudal stage of development is largely dependent on family farms which provide families with the food to survive. In this, feudal agricultural institutions differed from other agricultural forms like slave plantations, modern capitalist agribusiness or the socialised agriculture of the USSR or China during the 1960s and 70s. So when Pan says that the family has always been the basis of economic production in the Chinese countryside he shows a selective amnesia for his county's recent history.

But what about the cities?

He says "in urban China, more than 99% of the registered firms are mini-scale family business". That may be true, but that does not indicate that 99% of the population make their living in mini-scale family businesses. Nor does it indicate that 99% of Chinese national income is generated in mini-scale family businesses.

In his presentation the majority of the urban population - wage earners, vanishes. For Pan the industrial working class does not exist. There is also an ambiguity about what he means by a

family business. A family business may initially use only the labour of family members, but as it becomes richer it will take on wage labourers. Once the number of these exceed the number of family members, the family move into the ranks of the petty capitalist class.

Pan pretends that in China there are no social classes and that indeed there have never been any social classes. It just happens that some people are rich and some people are poor. And it just happens that the polarisation between rich and poor is accelerating. But why are some people rich and others poor?

Marx provided an answer for this: the uneven ownership of productive resources, land or capital, enables the owners of these resources to appropriate the surplus labour time of those without such resources. As a result they become richer, whilst the exploited remain poor.

Pan's idea that there were neither classes nor class consciousness in Chinese society seems ludicrous in the light of 20th century Chinese history.

A well known Chinese Marxist made a detailed study of the classes existing in China in the 1920s (. On the basis of this analysis, and using the class consciousness of the exploited classes in China, the CPC was able to organise what was probably the biggest revolution in world history. The very existence of the PRC is a lasting monument to class antagonism and class warfare.

The official ideology of many class societies attempts to present the idea that there is a harmony of interest between rich and poor and that the state exists to serve the interests of the entire population. Pan takes this official ideology at face value:

*“ what has prevailed in traditional and modern China is Minben-ism, – the very existence of the government is for the welfare of ALL the people; if not, it should be overthrown .”*

As a non Chinese speaker I can not understand the nuances of a concept like Minbenism, but it looks very like the claims of American and classical republicanism. The American Republic claims to be government for the welfare of all the people. The most famous of American Republican Presidents said:

*“Any people anywhere, being inclined and having the power, have the right to rise up, and shake off the existing government, and form a new one that suits them better. This is a most valuable - a most sacred right - a right, which we hope and believe, is to liberate the world.”*

*(Abraham Lincoln)*

There is nothing specifically Chinese about the idea that government is for the welfare of all the people. The claim that the state acts for the welfare of the people in general is the common coin of republicanism. The latin phrase *res publica* from which the word republic derives is often translated into English as commonwealth, and represents a similar claim to act in the common interest of the whole people. The Roman Republic and later Imperium Romanum both claimed to act in the common interest.





Figure 1: The Ara Pacis or Altar of Augustan Peace built to celebrate the first Roman Emperor. It symbolically represented the claim that the Emperor was the source of common wealth and prosperity(. A goddess, sits amid a scene of fertility and prosperity with twins, perhaps symbolizing the mythical founders of Rome on her lap.

The Roman imperialism drew on metaphors of family life to create the idea that the emperor acted in the common interest as *pater patria*. This seems analogous to the ideology put forward by Pan in his diagram ---Ethics of Family Responsibility (A Spiritual Cross). It is difficult to know how to take a diagram like this in a scientific publication. Does Pan really believe in what the diagram shows?

Or is he just putting it forward as an example of the ideology of the old Chinese Empire. In which case it is not particularly Chinese, but could be replicated for patriarchal slave society of Rome. Even the 'heaven' sitting above the officials is the same.

*(Augustus) Caesar is destined to take his place among the councils of the gods (.*

Are we to believe that the emperors of China and Rome were gods?

Or are we to take a materialist approach and say that the idea of the gods and their councils is just a projection of raw class power into an imaginary supernatural world?

It is naive and uncritical to accept, at face value, these claims by republics and empires to act in the common interest. Does the government of the American Republic really act in the common interest, or does it act mainly in the interest of wealthy propertied classes?

The Roman and Chinese empires may have claimed to have served the *res-publica* or *minben* but a more critical approach would be to ask how was the common welfare and prosperity defined?

It was defined in a historically constrained manner by the economic mode of production that prevailed. In the Chinese and Roman empires, or in the early American Republic, common prosperity was seen as being quite compatible with the existence of slavery. In today's American Republic, common prosperity is seen as compatible with a system of wage slavery that generates huge disparities between the income of an average worker and those of the propertied classes. According to the US Inland Revenue, America's wealthiest 1 percent accounted for 21 percent of all income in 2005, while the bottom 50 percent earned just 12.8 percent of the total national income. Thus the average person in the top 1% earned 87 times as much as the average person in the bottom 50%. It is only within the definition of prosperity generated by capitalism that this level of inequality can be equated with "common wealth".

It is worth noting that according to the UN Development Programme database the Gini or income inequality coefficient for contemporary China (41.5) is even worse than that for the USA (40.8). In contrast, the most socially equal countries: Japan, Sweden and Denmark have Gini coefficients around 25.

I found that I had considerably more sympathy with the article by Zhu<sup>1</sup> which raises some genuinely profound points.

In recounting China's path to development Zhu writes:

*“After 1949, with short-term aid from the Soviet Union, Maoist socialism started its modernization of China by expropriating the property of high-consumption groups through violent revolution and employing their share of wealth as a capital base for new industrial investment. ”*

This is a very significant point. It was only in a country that had had a radical and thorough going agricultural revolution like China or Russia 30 years earlier, that the redirection of the former luxury consumption of the landlord class into productive investment was possible. India, where no such revolution had occurred, could only attain a much lower rate of economic growth after attaining national independence. In China today the portion of GNP directed to capital investment is huge approaching 50%.

This has significant implications for the sustainability of the so called 'China model'. Suppose we have a 'typical' firm in China. Let us suppose that the firm makes a 10% profit on turnover. Suppose half of the profit is consumed by the owner and the other half retained for internal investment. If the firm is state owned the share going to investment will be significantly larger.

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<sup>1</sup> A Way out of a Global Dead-End: a reading of When China Rules the World by Martin Jacques, Zhu Dongli.

Then even the private the firm supporting the unproductive consumption of the owner should be able to grow at 5% a year.

The capitalist sector of the economy can show sustained growth rates of this order for a few decades. As the typical firm grows, it takes on more staff, buys additional stocks of raw materials and purchases larger premises. Let us suppose that the number of workers it employs grows in line with its turnover at 5%. Now if something grows at 5% a year, it doubles in size roughly every 14 years. Suppose that in 1990 there were 200 million people employed in such Chinese firms. By 2004 it would have grown to 400 million. Clearly even in the most populous country in the world this kind of growth rate could not continue much longer. Such rapid growth in employment depends upon the existence of a surplus population drawn in from agriculture. Historically peasant populations have had the relatively high birthrate necessary for survival in the face of severe infant mortality. The first phases of modernisation in China, under the Communist government of Mao were accompanied by public health measures : the provision of 'barefoot doctors', inoculation campaigns, measures to restrict insect pests, provision of clean water supplies. These produced massive improvements in infant survival rates and increased life expectancies as shown in Table 1.

Table 1: Improvement in Chinese Life expectancy.

Life expectancy at birth	1955	1960	1970	1980	1990	2000	2010
year	40.8	44.6	59.6	65.3	67.1	69.7	73.0

This created an enormous surplus population that could potentially be drawn into industrial employment (see Table 2).

Table 2: The development of Chinese population by age group. Future years derived from United Nations Population Projection, 1998 Revision, Medium Variant (million). Note how from 2010 the number of people in the most economically active group 20-49 starts to fall.

	1950	1995	2010	2025
total	556.7	1,226.7	1,380.5	1,488.1
0-4	76.2	103.7	92.7	86.3
5 - 19	165.0	319.6	290.4	278.1
20 - 49	228.4	594.7	665.0	597.9
50 +	87.1	208.8	332.4	525.8

Under the Mao government the policy had been to use this surplus labour in comunally owned rural agro/industrial complexes: the so called 'Peoples Communes'. These were run on socialist rather than capitalist lines, with members being paid in 'work points' for labour performed, rather than money. Under subsequent governments the communes were dissolved and there was large scale migration to the cities and absorbtion of the surplus population into an expanding capitalist sectors. As people move into cites and become wage workers instead of peasants there are changes in the family structure. These changes seem to have been ignored by Pan.

The family is no longer a unit of production that for whom children are additional labour for the family. Industrial society demands that children go to school and be financially supported by their parents. After a generation or so working-class families end up being smaller, the population

growth slows down and migration to the cities becomes less significant. The demographic transition in China has been accelerated by the one-child family policy, but earlier capitalist countries went through an analogous demographic transition.

Migration to the towns will continue well into the middle of the century, but it should be noted that the degree of urbanisation of a country is just a proxy for its degree of proletarianisation. A portion of the rural population in China is employed in village enterprises as described for instance by Pan and Park (. In 2002 of the 489 million people economically active in rural areas 132 million worked in village enterprises. These enterprises are successors to the industrial parts of the communes and are still collectively owned.

In 2002 some 324 million Chinese workers, 50% of the workforce, were still farmers. By 2004 this percentage had dropped to 47%. If the shift from agriculture to industry continues at this rate, and economically peaks by 2025, then latent reserves of labour in China will be substantially exhausted in the next 20 years.

Now there is a deep relationship between the growth of the labour force of a country and the rate of profit. This was first brought out by Karl Marx in his discussion of the falling rate of profit in the third volume of Capital. There he showed that as the organic composition of capital  $c/v$  grows the rate of profit falls. He also raised the question of absolute overaccumulation of capital.

*“There would be absolute over-production of capital as soon as additional capital for purposes of capitalist production = 0. The purpose of capitalist production, however, is self-expansion of capital, i.e., appropriation of surplus-labour, production of surplus-value, of profit. As soon as capital would, therefore, have grown in such a ratio to the labouring population that neither the absolute working-time supplied by this population, nor the relative surplus working-time, could be expanded any further (this last would not be feasible at any rate in the case when the demand for labour*

*were so strong that there were a tendency for wages to rise); at a point, therefore, when the increased capital produced just as much, or even less, surplus-value than it did before its increase, there would be absolute over-production of capital; i.e., the increased capital  $C + \Delta C$  would produce no more, or even less, profit than capital  $C$  before its expansion by  $\Delta C$ . In both cases there would be a steep and sudden fall in the general rate of profit, but this time due to a change in the composition of capital not caused by the development of the productive forces, but rather by a rise in the money-value of the variable capital (because of increased wages) and the corresponding reduction in the proportion of surplus-labour to necessary labour.”*

(Marx and Fernbach, 1981, chapter 15)

If profit grows at the same proportionate rate as capital stock ( $\dot{K} = \dot{P}$ ), then the rate of profit will be stable or in equilibrium. Is there some particular rate of profit that will bring about this equilibrium?

Yes, since for equilibrium we have

$$\dot{K} = \dot{P} = \alpha r - g_{\tau} - d = g_{\pi} \quad (1)$$

Where  $\alpha$  is the share of profit invested,  $r$  is the rate of profit,  $g_{\tau}$  is the rate of growth of labour productivity due to technical change, and  $d$  is the depreciation rate of the capital stock, and  $g_{\pi}$  is the growth rate of the employed population. This equation implies that as the growth of the working population stabilises and population growth ceases, the equilibrium profit rate will approach zero. The equilibrium rate is given by:

$$\bar{r} = \frac{g_{\tau} + d + g_{\pi}}{\alpha} \quad (2)$$

For a derivation of this rate see (Cockshott et al., 2009).

What does an equilibrium rate of profit  $\bar{r}$  mean in this context?

- It is the rate of profit which is compatible with the current growth of technology and labour force and the current split in the usage of profit between productive and unproductive uses.
- The equilibrium rate itself will change if the growth of the labour force, the growth of technology or the share of unproductive expenditure changes. The important points are:
  - If population growth slows, then the equilibrium rate of profit will tend to fall
  - If more of profit is productively reinvested the equilibrium rate will fall and vice versa
  - If technology growth speeds up, the rate of profit will rise.
- It is the rate towards which the actual rate of profit will tend, such that if the actual rate is different than the equilibrium rate then the actual rate will tend towards the equilibrium

We can see this by looking at what has happened in Japan, a country whose industrial development somewhat preceded China. In Figure 2 we see that the equilibrium rate of profit derived from Marx's theory accurately predicts the actual rate of profit in Japan a few years ahead.



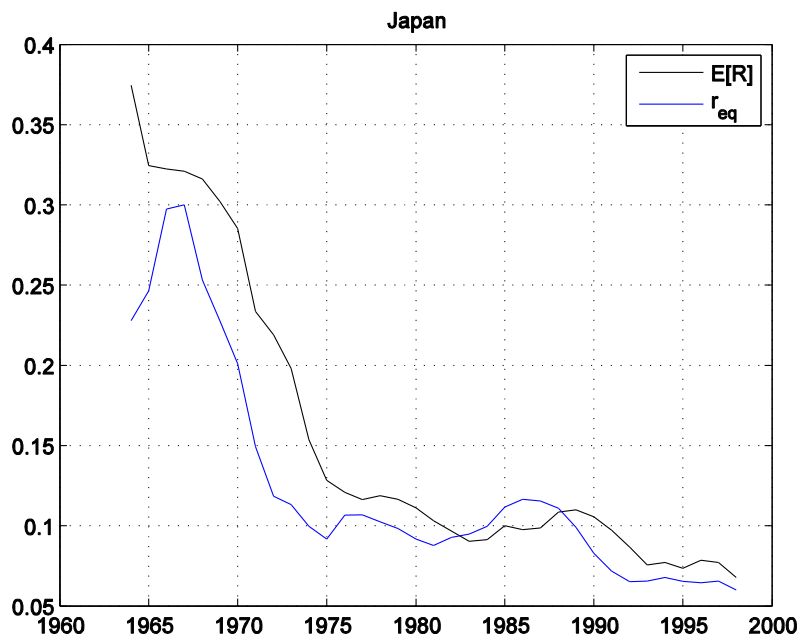


Figure 2: The trend of actual and equilibrium profit rates in Japan . Data for the calculation derived from Alan Heston, Robert Summers and Bettina Aten, Penn World Table Version 6.3, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, August 2009. Note that the equilibrium rate leads the actual rate acting as an attractor. Note also that both rates fall as the population stabilises.

It also shows that as the rate of birth fell, and the agricultural reserve army was used up, the equilibrium rate fell until it was just sufficient to compensate for the depreciation of the capital stock due to wear and tear and what Marx called 'moral depreciation', the devaluation of old capital stock caused by improvements in labour productivity.

Data on Chinese capital stock are harder to obtain, but I have in Figure 3 attempted to calculate a similar time series for China using the permanent inventory method to estimate capital

stock and data from the China Statistical yearbook. As with Japan there is a declining trend of the rate of profit, and as with Japan the Marxian equilibrium rate forecasts changes in the real rate, except in 2004 when a sudden fall in the wage share of national income occurred.

This indicates that in the coming decades the current Chinese model of an economy that combines both publicly owned and private capital will encounter the same sort of fall in profitability that Japan has already seen.

The end result has to be the type of steady state described by Zhu:

*“In the coming decades, we will reach a new “steady state,” the only way out of the global capitalist predicament. The only way of attaining the institutional arrangements that correspond to this “steady state” is global socialism.”*

Japan has arguably already reached this steady state with respect to capital accumulation, and within a couple of decades China will reach it too.

What this indicates is that capitalist profit is a historically transitory phenomenon made possible only by the relative shortage of capital relative to labour. Once capital can no longer be supplied with a growing labour force, as Marx predicted, no net capital accumulation is possible, and the rate of profit shrinks to that required merely to maintain the existing capital stock in a steady state.

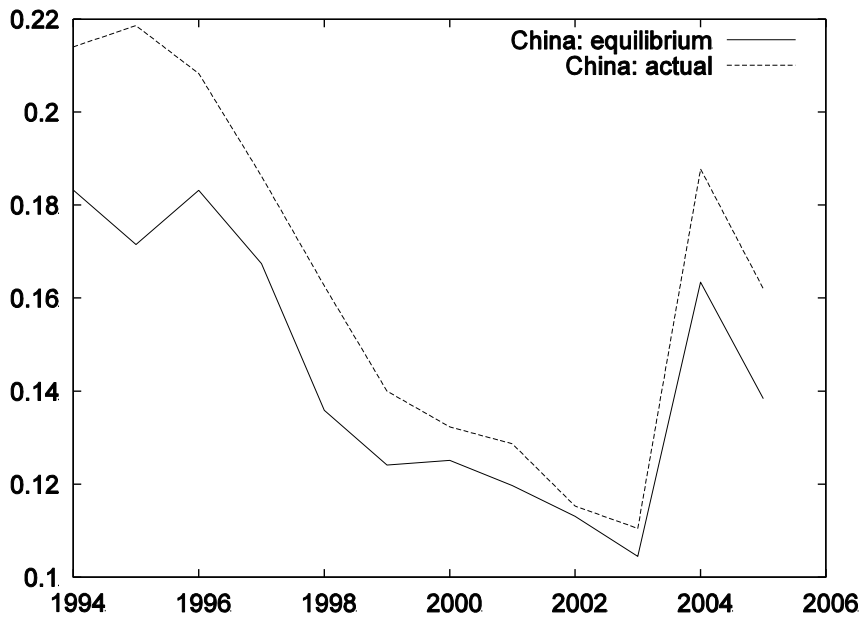


Figure 3: Trends in the rate of profit for China. We see a trend similar to that in Japan interrupted by a sharp rise in profit in 2004 brought about by an increase in the rate of surplus value. Data from the China Statistical yearbook, capital stock estimated using the permanent inventory method followed by the Penn World Table for consistency with Figure 2.

Since the 1980s the threat of jobs being exported to China has been held over European and American unions. In the years to come, as the labour supply in China becomes tighter Chinese labour unions will become more militant. The international weakness of the labour movement since the '80s has stemmed from a glut of labour power on the world market. China's stupendous capital accumulation is rapidly reversing the balance. Capital not labour will soon be abundant. The processes that led to the European social crisis of the 1970s will, half a century later start to be replicated across Asia. Wages will tend to rise as a share of national income. The rate of return

of capital will fall. The state, in response to the greater social power of the working class will introduce more social democratic measures.

A fall in profits relative to interest rates provokes a polarisation of capital into debtor and creditor firms. A proportion of firms is pushed towards formal insolvency. If enough do go insolvent, there is a big recession.

China is governed by a Communist Party. It is a Communist Party that allows large scale capitalist development, and one whose leading members are closely linked to capitalist business. But it is also a Communist Party that has delivered sustained increases in wages and employment. There has never been a recession in the years since they abandoned Maoism and turned to the market. A big recession like the 1930's in America would be political dynamite. To prevent it the Chinese central bank will be under pressure to hold down interest rates.

Japanese experience shows the ultimate limits of such a course. Firms whose debts would otherwise have led them to collapse, remain trading. Bad or irrecoverable debts have come to dominate the balance sheets of Japanese banks. The same will happen in China. The state will have to nationalise the private sector and reassert direct control of the economy. As the current cycle of global economic development, the cycle that started with the opening up of China, draws to a close, the capitalist social order will face economic and political crisis on a global scale. The issue of alternative ways of regulating the economy, alternatives forgotten since the end of the USSR will have to be faced. The existing China model will have to be discarded.

I thus agree with Zhu's conclusion:

*“This global socialism is premised on three things: firstly, the general crisis of global capitalism, which involves finance, the economy, society, politics, the environment and values; secondly, the complete decline of American hegemony; and thirdly, the*

*establishment of a world government that truly represents global interests. This global socialism will pursue planned (non-market-oriented) production for use, not profit.”*

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