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Historical Perspectives on Chinese Economics (1949–2011)

 中国社会科学出版社
CHINA SOCIAL SCIENCES PRESS

 Springer

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Published with financial support of the Innovation Program of the Chinese Academy of Social Sciences.

ISBN 978-981-15-8162-5 ISBN 978-981-15-8163-2 (eBook)
<https://doi.org/10.1007/978-981-15-8163-2>

Jointly published with China Social Sciences Press
The print edition is not for sale in China (Mainland). Customers from China (Mainland) please order the print book from: China Social Sciences Press.

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The registered company address is: 152 Beach Road, #21-01/04 Gateway East, Singapore 189721, Singapore

Preface I

Over 60 years have passed from the founding of the People's Republic of China in 1949 to the present. And this period can be roughly divided into two stages. One is the stage of establishing of socialist system and exploring socialist construction from 1949 to 1978, namely the stage before reform and opening up. The other is the stage of building socialism with Chinese characteristics from 1979 to the present, namely the stage of reform and opening up. Because the establishment of a new socioeconomic system liberated productivity, national economy has seen rapid recovery and development. When the stage of the recovery of national economy ended in China in 1952, its gross domestic product amounted to 67.9 billion RMB. In 2010, its gross domestic product rose to 39.8 trillion RMB, showing an increase of 92.7 times, calculated at constant price, and an average annual growth rate of 8.1%. During this period, the average annual growth rate was 6.1% from 1952 to 1978 and 9.9% from 1979 to 2010. The proportion of Chinese economy to the total of the world's economy rose from less than 1% before the founding of the People's Republic of China to 1.8% in 1978 and then to 9.5% in 2010. The international status of Chinese economy rises conspicuously. China has already become the second largest economy on the globe. In 2010, China's per capita GDP exceeded US\$4,000, calculated at the exchange rate of RMB to US dollar in 2009. China has become an above-middle power. Now China is comprehensively building a well-off society. Its goals include completing building a well-off society of higher level that benefits more than a billion population by 2020 and completing building a wealthy, powerful, democratic, civilized and harmonious socialist modernized country at the centennial anniversary of the founding of the People's Republic of China.

The study on economics in The People's Republic of China has been carried out with one piece of important progress after another achieved on the basis of the above practice in economic and social construction. The study on economics in The People's Republic of China can also be divided into two major stages, namely the ones before and after the reform and opening up. Before the reform and opening up, China practiced the traditional socialist economic system and traditional theory of socialist economy dominated in the area of economics. However, some scholars proposed a number of novel and original views and challenged the theory of socialist economy. For example, they contributed far-reaching and insightful views and opinions on the

questions of the relationship between planning and market, the role of the law of value, the separation of ownership and management right, the principle of material interests, and the production price. This indicated that there were theoretical innovations in the circle of economics in China before the reform and opening up. After the reform and opening up, the Chinese circle of economics truly welcomed the spring of thriving academic schools and theoretical innovations. Guided by Marxism and by the ideological line of the Communist Party of China of liberating the thought and seeking truth from facts, Chinese economists connected theory with practice, exploring bravely and innovating courageously, achieved a series of research results that contained rich theoretical value and practical meaning, and gradually formed the system of theories of socialist economy with Chinese characteristics. The important ones among these theories include the theories on socialist market economy, the primary stage of socialism, opening up to the outside world, socialist basic economic system, combination of distribution according to performance and distribution according to other factors of production, Chinese-styled economic growth, transforming economic development mode, and progressive reform. One important characteristic of economic research in this period was to fully absorb useful research results in modern economics and, particularly, scientific summarization of the general regularities of market economy and the experiences of developed countries on regulating and managing the operation of market economy. Many applied economics mushroomed and developed.

A prosperous time helps to produce masterpieces. This book aims to systematically sort out the progress and research results in the study of economics in China during over 60 years of the People's Republic of China. It presents the miraculous achievements that attract the world's attention, made during the economic construction and takeoff after its foundation, and the flourishing picture of the study of economics in China in which many academic schools thrive. Despite our hard work, there will be some inaccuracies and incompleteness in this book caused by our limited abilities. So we will be work on improving it if it is possible.

This book is a collective treatise. The whole book, designed by Zhang Zhuoyuan, contains 33 chapters divided into a general discussion and 5 other parts. Each chapter is composed independently by an author according to a uniform structure and style. Zhang Zhuoyuan reviewed and finalized the draft of the entire book. The authors of the chapters are as follows:

Zhang Zhuoyuan: General Discussion and Chaps. 1–3, 7, 8, 11, 13–18, and 28.

Wan Jun: Chaps. 4, 5, and 10.

Zhang Wenmin: Chaps. 6 and 23.

Zhang Lin: Chap. 9.

Chang Xiuzhe: Chap. 12.

Cheng Jinzhui: Chap. 19.

Chen Xiaowei: Chap. 20.

Gao Peiyong, Yang Zhiyong: Chap. 21.

Zhang Lei: Chap. 22.

Zheng Bingwen, Gao Qingbo, Yu Huan: Chap. 24.

Li Xiaoxi, He Kui, Wu Ming: Chap. 25.
Mao Tianqi: Chap. 26.
Wang Hongmiao, Zhang Ping: Chap. 27.
Hu Jiayong: Chap. 29.
Wu Li: Chap. 30.
Huang Fanzhang: Chap. 31.

The contents in *Sixty Years of Chinese Economics (1949–2009)* (Zhang Zhuoyuan ed., Beijing: China Social Sciences Press, 2009), written by the authors to this book, are fully absorbed into the book in the process of its composition. Four chapters in it are modified on the basis of related chapters in that book. At present, there are not many books that describe by specific topics the research results made in over 60 years in China. The chapters here are mainly arranged in a chronicle order so that it meets the requirements better as a treatise of intellectual history. Some chapters in this book are particularly devoted to discussing in a temporal order the First National Symposium on the Theories of Economics in 1959, the Second National Symposium on the Theories of Economics in 1979, the establishment of the theory on commodity economy in 1984, the Bashan Tourist Ship Conference in 1985, the Moganshan Conference in 1985, the Mid- and Long-Term Reform Planning Meeting in 1987, and the establishment of the theory of socialist market economy in 1992. This is also a feature of this book. Some chapters in the book are also particularly devoted to discussing the composition of textbooks on Sinicized Marxist political economy and the important progress in the study of Chinese economic history after the beginning of the twenty-first century.

I would like to extend my heartfelt thanks to the advocacy, support, and encouragement from Zhao Jianying, president and chief editor of the China Social Sciences Press, and Lu Xiaosheng, professor of editorship, and also the vigorous support and help from many collaborators over a long period of time in the writing and publishing of this book. I would also like to thank my assistant Dr. Cheng Jinzhui for the large amount of work in organizing, contacting and proofreading that he did for me.

Several years of hard work finally fructifies. And there's much to savor when I look back. In addition, I would like to take the chance here to welcome all my readers to offer me their suggestions.

Beijing, China

Zhuoyuan Zhang

Preface II: Six Areas of Major Progress in the Study of Economics During Over Sixty Years of the People's Republic of China

62 years have passed since the founding of the People's Republic of China from 1949 to 2011. Under the leadership of the Communist Party of China (CPC), the Chinese people overthrew the dark rule of the "Three Big Mountains" of imperialism, feudalism, and bureaucratic capitalism, founded the People's Republic of China in which the people became the master of the country, and gradually moved onto the broad road to socialism. After over 60 years of development, China's national social and economic landscape experienced tremendous changes. It is now recognized as the country that has achieved the fastest economic development in the whole world and that has created the "China Miracle". In 2010, China became the second largest economy in the world. And calculated at the current exchange rate, China's per capita GDP amounted to over US\$5,000 in 2011. China is now speeding up and pushing forward industrialization and urbanization and comprehensively building a well-off society. It is expected that, in about 40 years' future or by the centennial anniversary of its foundation, the country will basically realize modernization and become one of the moderately developed countries in the world.

In this great historical transformation, economics also sees unprecedented development and prosperity in China. On the one hand, The People's Republic of China carried out large-scale economic construction and accumulated large amounts of experiences in this respect, which provided rich soil and nutrition for the research work of economists. On the other hand, the Communist Party of China practiced the policies of respecting knowledge and talents and of "letting a hundred flowers blossom and a hundred schools of thought contend." This provided the broadest arena for Chinese economists to exert their talents. Driven by practical needs and encouraged by good environment, economics exhibits a flourishing scene in China in which many schools blossom in competition and, at the same time, it also serves the great practice of the country in the construction of socialist modernization.

In the following, the author summarizes the six areas of major progress in economics in China and, mainly, in theoretical economics during over 60 years from the foundation of the PRC based on his own research and observation and of his personal participation in the discussion on the hotspot issues in economics in over 50 years.

I. Under the guidance of the basic principles in Marxist economics, China endeavored to explore its own road to the construction of socialism. It established the theory of the primary stage of socialism in the process of reform and opening up, started and shaped the sole correct road to socialism with Chinese characteristics

The success of revolution in China and the foundation of the PRC were both achieved under the guidance of the Mao Zedong Thought, in which the fundamental principles in Marxism were combined with the specific practice in Chinese revolution. Similarly, the issues on how to take the road of socialist development and how to carry out socialist economic construction, which the nation encountered after the foundation of the PRC, could be successfully resolved only through exploring in a good way the combination of the fundamental principles in Marxist economics with the practical situation of the construction efforts in China. Both the leaders of the state and the Communist Party of China and the extensive community of workers on the theory of economics and on practical economic tasks are clearly aware of the above point and persist in following it.

In the process of socialist construction in China, some explorations succeeded and some failed. The practice in socialist construction in over 60 years stands as the test standard to success or failure. After earnestly summarizing the experiences in success and the lessons from failure, the Chinese people finally find a road to build socialism with Chinese characteristics that conform to both objective principles and actual situation in China and develop the theory of socialism with Chinese characteristics which includes a system of economic theories.

First, there were failures in exploration. These included the People's Commune Movement, the initiative of being "large in size and collective in nature," which started in 1958, and the initiative of "equalitarianism and indiscriminate transfer of resources" that negated commodity production and exchange at equal values, the criticism on putting profit in command and distribution according to performance and the campaign of cutting the tail of capitalism from 1958 to 1960 and during the period of 1966 to 1976, and also the repeated replacement of the central role of economic construction with class struggle during the first three decades after the foundation of the PRC.

But there were more successes in exploration. In 1956, Mao Zedong published *On Ten Major Relationships* as an important result of his exploration in the road of China's socialist construction. In 1959, Mao Zedong proposed that the law of value was a "great school" after he summarized the lessons from the mistake of "equalitarianism and indiscriminate transfer of resources." In the 1950s, Chen Yun, Sun Yefang, Gu Zhun, Yu Guangyuan, and Zhuo Jiong achieved far-reaching and insightful understandings on commodity production, law of value, and regulatory role of the market under socialist system. In the 1960s, the Chinese circle of economics held heated discussion and made an exploration into rate and proportion, economic calculation and effects, profit rate on funds, and production price. After the start of the reform and opening up, Deng Xiaoping proposed the guiding policies of taking economic construction as central task and implementing reform and opening up

and also some great conceptions including that China's socialism was still in the primary stage, that a socialist country could also have market economy, that the criterion of productivity should be the "Three Favorables" criteria of whether it was favorable to developing the productivity of socialist society, to enhancing the comprehensive national strength of the socialist country, and to improving the living standard of the people, that development was of overriding importance, and that China should follow a "Three Steps" development strategy. The third-generation central leading group of the Communist Party of China proposed that the goal of China's economic reform was to build socialist market economic system, that development was the primary task of the Party in governing and rejuvenating the nation, that taking public ownership as the dominant ownership and achieving the joint development of multiple ownership economies was the socialist basic economic system in China, and that China should concentrate forces and resources to comprehensively building a well-off society in the first 20 years of the twenty-first century. The CPC Central Committee with Hu Jintao as general secretary proposed the scientific outlook of development of people-orientedness, comprehensive coordination and sustainability and building a socialist harmonious society in China. During this period, China's circle of economics carried out one after another heated discussion and argumentation on the questions of development stages of socialism, relationship between planning and market, socialist commodity economy and market economy, economic system and radical transformation of growth mode, inflation, three issues of agriculture, the countryside and farmers, and rural migrant workers, income distribution relation, necessity and importance of developing individual and private economies, foreign investment utilization and investment in foreign countries, specific roads to industrialization and urbanization, coordinated and sustained development of economy, macroscopic economic regulation and choice of macroscopic economic policy, and relationship between reform, development, and stability. They proposed a series of valuable opinions and suggestions and provided theoretical demonstration and intellectual support to the scientific decision-making of the Community Party of China and the state. A series of innovation results on the Sinicization of Marxist economics were achieved through the successful explorations in the above, which contributed to the prosperity and development of economic sciences in China.

Then why did some explorations succeed while others failed? In the author's opinion, over 60 years of practice in socialist construction shows that the radical cause lies in whether an exploration starts with the national situation in China and meets the actual demand of China. And the most fundamental national situation in China after the founding of the People's Republic of China is that China's socialism is still in the primary stage, namely a stage of underdevelopment. Many failures in exploration in the past were resulted from the problem that people did not start with the fact that China was still in the primary stage of socialism and acted inconsistently with objective reality. In the end, they failed to achieve their goals because they wanted to expedite their mission. They hit hard against the wall of reality and had to turn back. However, all successes in exploration started with the fact that China was still in the primary stage of socialism and with the national situation in China. And

in such successes, people employed the basic laws in Marxist economics to resolve real problems with a down-to-earth attitude.

Here is one simplest example. From the foundation of the PRC to the end of 1976, China had the problem of rash advance regardless of current development stage in the area of ownership relations. There were repeated movements aiming at being “large in size and collective in nature” in the city and the countryside. Non-public ownership economies were seen as forces alien to socialism and rejected. Once these economies emerged, they were purged as remnants of capitalism. But in fact, China’s productivity development was far from reaching the stage of comprehensively realizing socialist public ownership system. Because Chinese economy was rather backward, many kinds of work in the city and the countryside were completed through manual labor. The multilevel nature of productivity development in China determined the diversity of ownership structure. Therefore, while developing public ownership economy, the Chinese economy also needed to allow the coexistence and development of the economies with various kinds of ownerships, including individual economy and private economy. Thus China could mobilize forces in various areas and get out of the conditions of poverty and backwardness as quickly as possible. Marx once said, “A social order never perishes before all the productive forces for which it is broadly sufficient have been developed, and new superior relations of production never replace older ones before the material conditions for their existence have matured within the womb of the old society. Mankind thus inevitably sets itself only such tasks as it can solve, since closer examination will always show that the task itself arises only when the material conditions for its solution are already present or at least in the process of formation.”¹ So after reform and opening up started in 1979, China first allowed and encouraged the development of non-public ownership economies, such as individual economy, private economy, and foreign-funded economy. At the Fifteenth National Congress of the Communist Party of China held in 1997, it was further determined that taking public ownership as the dominant one and achieving the joint development of multiple ownership economies would be the basic economic system for the primary stage of socialism. Non-public ownership economies such as individual economy and private economy were the organic components of socialist market economy. In this way, the obstructions to productivity, caused by the practices in disregard of proper development stage in ownership structure in certain period in the past, were gradually eliminated, which greatly liberated social productivity and powerfully promote the development of production and the improvement of the living standard of the people. By 2008, individual and private economies recruited 137 million people in employment. The reports published by the National Bureau of Statistics in China indicated that the percentage of the employed population who worked in urban non-public ownership organizations rose from 0.2% in 1978 to 75.7% in 2007. Since 1990s, individually- and private-operated enterprises in China showed a net average annual increase of 4.2 million new jobs, accounting for

¹Marx, Preface to A Contribution to the Critique of Political Economy (1857–58), p. 3 of 4. https://msuweb.montclair.edu/~furr/gned/marx_pref2contrib.pdf.

58.7% of the annually increased jobs in the city.² Non-public ownership enterprises, such as individually- and privately-operated enterprises as well as foreign-funded enterprises, have already become the main channel of job increase in China and has an important and irreplaceable role.

The theory on the primary stage of socialism was formed and won extensive common understanding. In this process, Deng Xiaoping played a crucial role. In April 1980, Deng Xiaoping said, “We should fully study the question of how to do socialist construction. Now we are summarizing the experiences in the thirty years of the foundation of our state. In summary, first, we should never depart from reality, go beyond proper stage and adopt some left-deviation measures. We will never succeed in building socialism in that way. In the past we suffered loss because of left-deviation. Second, no matter what you do, it must be favorable to developing productivity.”³ Guided by this thought, the Sixth Plenary Session of the Eleventh CPC Central Committee held in June 1981, proposed for the first time that “our socialist system is still in a primary stage.” In August 1987, Deng Xiaoping said again, “We need to expound what stage China’s socialism is in. Namely, it is in the primary stage and it is the primary stage of socialism. Socialism itself is the primary stage of communism. And China is in the primary stage of socialism, namely an underdeveloped stage. Everything needs to start with this reality and planning needs to be made on the basis of this reality.”⁴ In the famous South Tour Speech in 1992, Deng Xiaoping said, “Our socialism has just been built for several decades. It is still in the primary stage. There needs to be a very long historical stage for consolidating and developing socialist system. It needs the relentless efforts and struggle of several generations, a dozen of generations or even several dozens of generations. We should never treat the task lightly.”⁵

Chinese circle of economics made its own contribution in forming and disseminating the theory on the primary stage of socialism. In 1979, Su Shaozhi and Feng Lanrui published the first article that frankly admitted that China did not complete building socialism and that China “is still in a society of the socialism at an underdeveloped stage or a transitional stage of socialism.”⁶ Yu Guangyuan, a famous economist in China, wrote a treatise *On the Economy of the Primary Stage of Socialism*⁷ in the 1980s, which systematically discussed the theory on the primary stage of socialism and the economy in such a stage. In 1997, the expert demonstration committee organized by the Institute of Economics of the Chinese Academy of Social Sciences selected this book as one of the “Ten Works on Economics That Have Influenced the Economics Construction of The People’s Republic of China”. Yu Guangyuan recalled in 2008 that, “when I participated in the drafting of the *Resolution of the CPC Central Committee on Several Historical Issues of the Party from*

²See *Beijing Daily*, November 4, 2008.

³Deng (1994)

⁴Deng (1993b).

⁵Deng (1993d).

⁶Su and Feng (1979).

⁷Yu (1998).

the Foundation of the State in 1981, I advocated that the judgement that our country was still in the ‘primary stage of socialism’ be written into the document so that we could have deeper understanding of the wrong turns that we had taken. Some comrades disagreed to my view and there were arguments. However, the concept of the ‘primary stage of socialism’ was still written into the document in the end.”⁸

The establishment of the theory on the primary stage of socialism allow people to have an accurate understanding of the most basic national situation of China. And because of this, the Communist Party of China, starting from the basic principle in Marxism that people should first develop social productivity in socialism, eventually opened up a road of socialism with Chinese characteristics in reform and opening up. As a result, the Communist Party of China gives great vigor and vitality to socialism and Marxism on the land of China, brings more benefits to the people, and makes the Chinese nation catch up with the trend of the advancement of the time in big steps and welcome the brilliant prospects of its great rejuvenation. Therefore, it can be said that the theory on the primary stage of socialism is the most important and influential innovation result of the Sinicization of Marxism.

II. The relationship between planning and market was the No. 1 hotspot in the research and discussion of the circle of economics in China and its prominent result was the establishment of socialist market economy

The question of the relationship between planning and market under the socialist system is the question that has caused the most heated discussion and the largest controversy in the Chinese circle of economics and on which Chinese economists have published the largest number of articles and achieved the most prominent research results from the foundation of the PRC. It has been the first hotspot that the circle of economics has discussed for over 50 years after Xue Muqiao, an elder generation economist in China, published the article *Planned Economy and the Law of Value* on *People’s Daily* on October 28, 1956.

The following reasons can explain why it is known as the first hotspot:

- (1) After the foundation of the PRC, the first and second National Symposiums on the Theories of Economics were held, respectively, in 1959 and 1979. The theme of both meetings was the question of commodity production and the role of the law of value under socialist system. In essence, it was the question of the relationship between planning and market.
- (2) After the foundation of the PRC, different schools were formed among Chinese economists. These schools were first distinguished from each other according to their different views on commodity production and the law of value. For example, Sun Yefang belonged to the wide school of the law of value, Yu Guangyuan and Zhuo Jiong to the wide school of commodity production, Luo Gengmo to the narrow school of commodity and value, and so on.
- (3) After the beginning of the reform and opening up, Chinese economists have had the most and sharpest arguments on whether people support or oppose market

⁸Yu (2008).

orientation or marketization reform. It can be said that such debate has continued until the present.

- (4) The most prominent research result of the Chinese circle of economics since the founding of the People's Republic of China is the formation of the theory on socialist market economy. This theory is the main theoretical pillar of China's reform and opening up. It is also the main contribution of Chinese economists to the treasure house of Marxist economics.

The discussion of Chinese economists on the relationship between planning and market after the foundation of the PRC, including that on the question of commodity production and the law of value under socialist system, can be divided into the two major stages of before and after the reform and opening up.

The stage before the reform and opening up could be summarized as a period of exploration. It mainly lasted from 1956 to 1964. In this period, the Chinese circle of economics was very active. Many influential economists frequently challenged mainstream traditional theory of economics and proposed far-reaching and insightful views and positions. At the time, social environment often fell into the problem of taking class struggle as the guiding principle. Politics caused great disturbance and damage to academic research. Some economists were criticized and wronged out of no proper grounds. These seriously affected theoretical exploration and truthful views and insights were suppressed. Despite such a difficult situation, some economists still made the following contributions that could never be denied.

In 1956, Sun Yefang proposed the distinctive proposition that planning and statistical work should be established on the basis of the law of value.⁹

In 1957, Gu Zhun believed that it could be conceived that the law of value be allowed to spontaneously regulate the production and operation activities of enterprises in socialist economy. Namely, production could be regulated through the spontaneous rise and fall of price.¹⁰

In 1959, Yu Guangyuan believed that all products that became part of exchange were commodities, as long as the exchange needed to be made through comparing the socially necessary labor contained in the products and according to the principles of equal labor and equal labor exchange. The several kinds of exchange relations present in socialist economy were all commodity exchange relations.¹¹

In 1962, Zhuo Jiong, namely Yu Fengcun, proposed that commodity economy was determined by social division of work. As long as there was social division of work, there would be commodity economy. Commodity economy did not conflict with socialism. Rather, it could become a powerful instrument in building socialism.¹²

In 1963, Sun Yefang proposed that, of all kinds of economic laws and principles, the law of value was the primary one. The amount of profits was the most comprehensive indicator of the technological standard and the quality of operation and

⁹Sun (1956).

¹⁰Gu (1957).

¹¹Yu (1959).

¹²Yu (1962).

management of an enterprise. Average social profit rate on funds was the standard that each enterprise had to reach. Those that achieved profits higher than average social profit rate on funds are superior enterprises. Those that failed to reach the standard were inferior enterprises.¹³

It needs to be pointed out that leaders of the state and the Communist Party of China also proposed some views and policy ideas of positive meaning in this period. For example, Chen Yun proposed in 1956 that there needed to be market regulation in socialist economy as a supplementary factor.¹⁴ In 1959, Mao Zedong stated that the law of value “is a great school. Only through utilizing it can we teach our cadres in tens of millions and our people in hundreds of millions and can we build socialism and communism. Otherwise, nothing is possible.”¹⁵

But this good situation did not last long. In the period of 1966 to 1976, all explorations of the circle of economics on the relationship between planning and market in the past were said to be anti-Party, anti-socialist, and anti-Marxist big poisons and condemned unceasingly in speech and in writing. In addition, the left-deviated theories on economy developed. For example, when talking about socialist system at the beginning of 1975, Mao Zedong said, “All in all, China belongs to a socialist country. It was something like a capitalist country before liberation. Now we are still implementing eight-grade wage system, distribution according to performance, and exchange through money. These are not much different from the old society. The difference is that ownership system has been changed.” “Our country now implements commodity system. Wage system has inequality. There is the eight-grade wage system etc. This situation can only be limited under the dictatorship of the proletariat. So if Lin Biao and his men seized power, it would be easy for them to run capitalist system.”¹⁶ The book *Socialist Political Economics*, published in 1975 by the Shanghai People’s Publishing House, which was rather popular in the later stage of 1970s, formulated a series of views and policy positions more lopsided than traditional socialist economy theory. In summary, there was a great regression in the theories on economy.

After 1976, people started to take some actions and criticized the left-deviated theoretical system. Particularly, the circle of economics showed exceptionally active thinking, guided by the ideological line of the Communist Party of China that advocated liberating the thought and seeking truth from facts, after the reform and opening began in 1979. The study and discussion on the relationship between planning and market developed fervently and a large group of valuable research results emerged in this area. And the majority of the Chinese economists identified themselves with the establishment of the theory on socialist market economy.

¹³Sun (1998).

¹⁴Chen (1986).

¹⁵See Party Literature Research Office of the Central Committee of the Communist Party of China (2003).

¹⁶See *People’s Daily*, Feb. 22, 1975.

The establishment of the theory on socialist market economy was not completed at one go after the reform and opening up started. Rather, it was achieved gradually. Generally speaking, the first step was to advocate the introduction of market mechanism into economic activities. The second step was to establish the theory on socialist commodity economy. And the third step was to establish socialist market economy.

As the first step, people advocated introducing market mechanism into economic activities and respecting the role of the law of value at the beginning of the reform and opening up. The symbolic measures in these areas are as follows:

In December 1978, the Third Plenary Session of the Eleventh CPC Central Committee, which was of great historical meaning, started the new period of reform and opening up. The meeting negated the wrong theory and practice of “taking class struggle as the guiding principle” and made the historic decision of turning the center of the work of the state and the Communist Party of China to economic construction and implementing reform and opening up. It was pointed out in the communiqué of the meeting that “a serious weakness of the economic management system of our country at present is over-concentration of power. Such power should be boldly delegated to lower levels under good leadership so that local authorities and industrial and agricultural enterprises could have the right and power of operation and management with more freedom under the guidance of the centralized planning of the state.” “People should resolutely practice the principle of handling matters according to economic laws and respect the role of the law of value. They should pay more attention to combining ideological and political work with economic means and fully mobilize the production initiative of cadres and workers.” In order to vigorously restore and speed up developing agricultural production, the meeting suggested that the State Council made the decision that the state monopoly grain purchasing price be raised by 20% when summer grain crops started to be sold on the market in 1979. And the part of state-purchased grain that exceeded the quota in state monopoly purchase would be given another 50% price rise on the basis of the above. The purchasing prices of agricultural and sideline products, such as cotton, oil crops, sugar crops, livestock products, aquatic products, and forest products, would also be raised to certain extent correspondingly on the basis of specific situation.

From the end of 1970s to the beginning of 1980s, China implemented the measure of fixing farming output quota by household in the extensive regions of the countryside. Such measure respected the autonomy of the farmers in production and operation and also their role as independent commodity producer. State control was lifted on the prices of small commodities and part of agricultural and sideline products. The state also allowed the existence and development of individual economy. China utilized foreign investment and established special economic zones. The autonomy of enterprises in production and operation was also expanded, and so forth. These measures of reforming and opening up quickly made national economy active. The extensive community of cadres and the mass all personally experienced the miraculous action of market mechanism.

The circle of economics also acted quickly. Guided by the ideological line of the Communist Party of China that advocated liberating the thought and seeking

truth from facts, the Second National Symposium on the Theories of Economics was held in Wuxi, Jiangsu in April 1979. The theme is to discuss the role of the law of value under socialist system. Over 300 scholars took part in the symposium. The most prestigious economists Xue Muqiao and Sun Yefang attended this meeting and made speeches. The symposium received over 100 contributed papers and proposed many theoretical views with far-reaching influence, including that it was affirmed that socialist economy was commodity economy, that it was affirmed that market had a regulatory role in socialist economy,¹⁷ that the law of value played a regulatory role in socialist economy and competition was its inherent mechanism,¹⁸ and that enterprise was independent or relatively independent commodity producer and operator, and it was advocated that the autonomy of an enterprise be gradually expanded. In January 1980, Jiang Yiwei further proposed the famous enterprise standard theory.¹⁹ Reform needed to be made on the current irrational price system and management system to gradually narrow the “scissors difference” between the prices of industrial and agricultural products.²⁰

In summary, introducing market mechanism and competition mechanism in economic activities, expanding the regulatory role of market, and handling matters according to the law of value was the main tone of the Second National Symposium on the Theories of Economics in 1979.

As the second step, people established the theory of socialist commodity economy, which was regarded as the decisive move toward the theory of socialist market economy.

Early at the end of 1970s and at the beginning of 1980s, a group of scholars in China’s circle of economics wrote articles to advocate that socialist economy was also a kind of commodity economy and the law of value played a regulatory role in social economic activities. However, some economists took the opposite stand, and there was very intense argument. For example, in 1982, Yuan Mu and other four people who participated in the drafting the report of the Twelfth CPC National Congress wrote a letter to Hu Qiaomu who was in charge of the work about ideology in the party. The letter criticized the position that stressed the regulatory role of market and the belief that socialist economy was commodity economy, which took a dominant place in the circle of economic theories in China in the latest several years. It said, “Although there are commodity production and exchange in China, we could never summarize our economy as commodity economy. If we make such summarization, we are saying that the relation of common possession and joint labor among the people under socialism is the relationship of exchange of equivalents between commodities. We will affirm that what controls our economic activities is

¹⁷See Reference Room of the Institute of Economics of the Chinese Academy of Social Sciences et al. (1980).

¹⁸See Sun et al. (1979).

¹⁹See Jiang (1980).

²⁰See Reference Room of the Institute of Economics of the Chinese Academy of Social Sciences et al. (1979).

mainly the law of value rather than the basic economic principles and planned development principles of socialism. Thus we will definitely blur the boundary between socialist economy, which has planned development, and capitalist economy, which is in anarchy, and also the substantive difference between socialist economy and capitalist economy.”²¹ In August 1982, Hu Qiaomu approved and transmitted this letter. For about 1 year after that, many papers which criticized the idea that socialist economy was commodity economy emerged in the arena of theoretical discussion in China and the papers which advocated that socialist economy was also a kind of commodity economy were nowhere to be found. However, the voice of truth could never be suppressed. The practice in economic system reform totally broke the theoretical boxes made artificially in the above. After 1983, the theory of socialist commodity economy reappeared on the arena of theoretical discussion in China with stronger background in reality and more reasonable theoretical demonstration and attracted the attention of thousands. In October 1984, the Third Plenary Session of the Twelfth CPC Central Committee summarized the argument in the circles of economy and economic theories in China over many years. It affirmed in the form of a resolution of the party that China’s socialist economy was a planned commodity economy on the basis of public ownership. This brought the study and discussion of Chinese economists into a brand new stage.

As the third step, people established the theory of socialist market economy. After establishing the theory of socialist commodity economy, economists did not stop but continue their exploration. In the second half of 1980s, economists further proposed that China’s economic reform should be specifically defined as a market-oriented reform or a marketization reform. Its contents included that enterprise should become the main entity in market competition, that the goal of market reform should be to establish market price system and to establish and develop a market system that included both commodity market and factor market, that macroscopic economic management should transform from direct management to indirect management as main part, and that China should implement opening up to the outside world in an all-round way and participate in international market competition. In 1986, some articles believed that the main line in the target model of macroscopic economic management was that the state-controlled market, namely that the country mainly regulate supply and demand through economic means and market parameters and realize the “leading power” over the market, and market-led enterprise or that “the state regulates and controls market and market leads enterprise.”²² In 1987 and 1991, Wu Jinglian et al. specifically proposed, “Planned commodity economy system is in fact a market economic system with macroscopic management.” The goal of reform was to establish socialist market economic system. These scholars also made detailed discussion on the framework of this new system.²³

In the spring of 1992, Deng Xiaoping, the chief designer of China’s reform and opening up, further expounded his view on the question of the relationship between

²¹Peng et al. (2008).

²²Li (1986).

²³Wu Jinglian’s Research Group (1988), Wu and Liu (1991).

planning and market in his South Tour Speech. He said, “Whether there is more planning or market is not the essential distinction between socialism and capitalism. Planned economy is not equal to socialist economy. There is planning in capitalism. Market economy is not equal to capitalism. There is market in socialism. Planning and market are both economic means.” In September the same year, the report of the Fourteenth CPC National Congress determined that the objective model of China’s economic system reform was to establish a socialist market economic system so that market could play a fundamental role in resource allocation. This symbolized that the understanding of the theory of economic reform reached a brand new stage. After that, the theory of socialist market economy experienced increasing consolidation and development as the reform advanced and China’s experience in reform became richer and richer.

It needs to be pointed out that the establishment of the theory of socialist market economy was never an easy journey. After the political turmoil in 1989, some economists expressed their doubt or negation on market-oriented reform and advocated the turning from “market orientation” to “planning orientation.” The most extreme view was that “market economy means to abolish public ownership. It means to negate the leadership of the communist party, negate socialist system and engage in capitalism.” And “marketization” meant “liberalization” and “capitalist peaceful evolution.”²⁴ Because most economists adhered to “market-oriented” reform and also because Deng Xiaoping delivered several speeches in 1990 and 1991, in which he specifically pointed out that people should not consider that planned economy was socialism and market economy was capitalism and that both planning and market were economic means that could serve socialism, this theoretical debate soon quieted down.

As China’s economic reform deepened, the theory of socialist market economy also deepened. In 1993, the Third Plenary Session of the Fourteenth CPC Central Committee adopted the *Decision on Several Issues in Building Socialist Market Economic System* and determined the basic framework of the socialist market economic system. The Fifteenth CPC National Congress proposed the task of strategically adjusting the overall arrangement of national economy and required that people should run state-owned economy well in general. And it was specifically stated that non-public ownership economy, such as individual economy and private economy, were organic components of socialist market economy. The Sixteenth CPC National Congress proposed the task of building the state-owned property management system, in which central and local governments, respectively, performed the functions and duties of investor on behalf of the state and enjoyed the rights and interests of the owner so as to achieve the unification of right, obligation and responsibility and the combination of the management of property, personnel, and matters. The Third Plenary Session of the Sixteenth CPC Central Committee pointed out the task of improving socialist market economic system and proposed the ideas that shareholding system was the main form for realizing public ownership system and that modern property right system should be established in China. The Seventeenth

²⁴See Wu and Zhang (1999).

CPC National Congress proposed the tasks of speeding up building state-owned capital operation budget system, of improving the price formation mechanism for production factors and resources that reflected supply and demand relation on the market, resources scarcity and environmental damage costs, of building social insurance system with full coverage, and of deepening the reforms in government, fiscal matters and taxation, finance, and the countryside.

During the same period, economists made heated discussion on the issues in the theory of socialist market economy and published a large amount of papers and treatises so that the theory of socialist market economy gradually won public support. The Chinese circle of economics carried out in-depth research on the theories of modern enterprise system, corporate governance, foreign investment utilization, capital market, market price, public finance, financial innovation, social insurance, relationship between efficiency and fairness, market economy under the rule of law, combination between public ownership system and market economy, income distribution, the “Three issues of agriculture, the countryside and farmers,” and so on. Among them, some research results are foresighted.

Because of the theoretical innovation of the theory of socialist market economy and the powerful promotion of the Communist Party of China, China’s marketization reform deepened gradually. Important cases in this reform included the following: the reform of tax distribution system in 1994, the reforms of corporation system and shareholding system of state-owned enterprises since 1990s, the rapid development of individual and private economies after 1992, the reform of collective enterprises carried out in the end of the twentieth century, centering round clearly defining property right, the accession of China to the WTO in 2001, the reform of state-owned property management system since 2002, the transformation of the fiscal system into public finance and the requirement on gradually achieving the equalization of basic public service since 2003, the reform of the shareholder structure of listed companies, the successive entire-company listing on the stock market of China Construction Bank, Bank of China, Industrial and Commercial Bank of China, and Agricultural Bank of China, the reform of Renminbi exchange rate formation mechanism, and the reform of the tax systems for enterprise and personnel income taxes since 2005, the comprehensive reform in rural areas that started at the end of the twentieth century, and the construction of social insurance system with full coverage as its goal in the recent 2 years, and so on.

People should be clearly aware that China’s socialist market economic system is still rather incomplete until now, and there are many tasks that need to be completed in tackling and cracking difficulties in reform. The important ones of these tasks include at least the following: The separation of administration from state-owned enterprise and property management has not been achieved in a good way. The environment for the equal competition of various ownership economies has not been formed in a good way. State-owned property management system needs to be improved and completed. Reform has just started in monopolized industries in China. Administrative means have been used more often in macroscopic regulation. The relations in income distribution are far from being well-organized and rationalized. Social insurance system is rather weak. The preventive measures against systematic financial risks need to

be improved and completed urgently. The standard and quality of opening up to the outside world need to be improved. The legal system for market economy is far from being complete and so on. In the future, people need to strengthen reform and work hard to achieve building a complete socialist market economic system by 2020.

It can be expected that, as the efforts to tackle and crack difficulties in reform deepen and unfold and as socialist market economic system gradually become complete, the theory of socialist market economy will see constant enrichment and development. It will form a complete theoretical system, become one of the most important components in the theoretical system of socialism with Chinese characteristics, and contribute to the realization of the epochal development of the principles of Marxist economics.

The following several understandings can be obtained when people look back at the study and exploration of China's circle of economics on the relationship between planning and market and the reform of economic system since the foundation of the PRC:

First, the question of the relationship between planning and market is the kernel question in the theory of socialist economy. The radical defect in traditional theory of socialist economy lies in that advocating planning or market, either of which is in fact a means of economic regulation, is said to be the basic sign that draws the line between socialist and capitalist economic systems and that planning is taken as socialism while market as capitalism. Such understanding completely disagrees with the practices of economic development in various countries in the world. After the World War II, many developed capitalist countries also formulated various kinds of economic development plans to regulate the operation of macroscopic economy. Because of derogating and expelling the role of market, the countries that practiced traditional socialist planned economic system stifled the vitality and vigor of their economy so that they lost in the peaceful economic race. Reality makes more and more economists become aware that, only by resorting to the market, can a socialist country revive its economic activities completely fettered in mandatory plans. Only by bringing into play the fundamental role of the market in resources allocation can it improve its economic efficiency. Of course, market is not omnipotent. It is necessary to have a "visible hand," such as the macroscopic regulation of the government, to correct the defects of the market to ensure the healthy operation of the economy.

Second, the scientific nature of the socialist political economics relies to a large extent on whether people can scientifically expound the relationship between socialism and commodity economy and market economy so that socialism and market economy can adapt to and combine with each other. Thus, the construction of socialist economy with Chinese characteristics is to develop socialist market economy. Today, scientific and technological progress is picking up speed in the world and the trend of economic globalization is unstoppable. Only through rapidly developing socialist market economy can the Chinese people rejuvenate the nation and realize industrialization, urbanization, and modernization. China can effectively participate in international market competition, and the Chinese nation becomes a member of the world family of nations. Then people can prove the establishment and maturity of

the theory of socialist market economy with China's brilliant economic achievement and construct the great structure of socialist political economics.

Third, transition economics or transitional economics, as an important component of socialist political economics, takes discussing the transitional process from planning dominant economic system to socialist market economic system and its principles as its main content. China is a large country with 1.3 billion people. Up to the present, only the experiences and regularities of China's economic system transition have the most typical meaning. Revealing the regularities of China's economic system transition will add new chapters to modern economic science and in turn enrich and develop modern economic science.

Fourth, the theory of socialist market economy is a brand new theoretical system. This theory needs the practice in the development of socialist market economy to provide material and nutrition for it. It also needs economists to make arduous exploration and theoretical summarization. It needs these scholars to display their courage of upholding a theory and their spirit to surmount the peaks in science. The process of understanding the truth is complex and full of twists and turns. Sometimes, truth is in the hands of the few. There needs to be a process for the truth to be understood by the majority. To truly implement the "Two Principles" policy of letting a hundred flowers blossom and a hundred schools of thought contend in academic research in China is the heartfelt expectation of Chinese economists. And this is also the important guarantee to prevent the tragedies of killing the truth and suppressing the people who stood up for the truth from recurring.

III. Important breakthroughs are achieved in ownership system theory and distribution theory: Affirming public ownership system as the dominant part, joint development and equal competition of the economies of various ownership systems, and shareholding system as the main form to realize public ownership system and combining distribution according to performance and distribution according to production factors

Over 60 years since the foundation of the PRC, while exploring the worldly difficult question of the relationship between planning and market, the circle of economics in China carried out in-depth study and discussion on ownership system theory and distribution theory and achieved important breakthroughs and progress.

The study on ownership system theory can be divided into the following three points in discussion.

(I) About Ownership System Theory

1. The study on the issue of the socialist transformation of agriculture, handicraft industry and private capitalist industry and commerce in the 1950s.

From 1953 to 1956, China carried out large-scale socialist transformation on individual agriculture and handicraft industry and private capitalist industry and commerce, which were based on private ownership system of production means. The book *Socialist Transformation of the National Economy of China*, written jointly by Xue Muqiao, Su Xing, and Lin Zili and published by the People's Publishing House

in 1959, was a representative research result in this area. At the time, the circle of economics emphatically formulated that China's socialist transformation took the unique road of starting from the national situation in China, which mainly included guiding individual agriculture and handicraft to take the road of cooperative transformation and adopting the policy of peaceful redemption with private capitalist industry and commerce. In this way, great triumph was achieved within a short period of several years. After 1976, some economists and personages in other circles believed that there were some defects and mistakes in the socialist transformation in the 1950s. With respect to this situation, the *Resolution of the CPC Central Committee on Several Historical Issues of the Party since the Founding of the People's Republic of China*, adopted at the Sixteenth Plenary Session of the Eleventh CPC Central Committee held in June 1961, stated that "There are defects and deviations in this work. After the summer of 1955, the cooperative transformation of agriculture and the transformation of handicraft industry and individual commerce showed too rash requirements, too rough work, too fast change and too simplistic and monotonous form so that some problems were left unsolved over a long period of time. After the transformation of capitalist industry and commerce was basically completed in 1956, the use and handling of some of the former industrial and commercial workers was rather improper. But on the whole, it was indeed a great historic victory as such complex, difficult and profound social transformation was relatively smoothly completed in a large country with hundreds of millions of people, which promoted the development of agriculture and the entire national economy."

2. From the basic completion of socialist transformation in the 1950s to the time before the reform and opening up

From the basic completion of socialist transformation to the time before 1976, the mainstream view in the arena of economic discussion was still the doctrine of Stalin. Namely, it was believed that socialist public ownership was the only economic basis of a socialist society. Socialist public ownership included whole people ownership and collective ownership. Whole people ownership was the superior form while collective ownership was the inferior form. As social productivity developed, collective ownership should transform into whole people ownership and form all-round ownership of the whole people.

Some views of innovative value were proposed in this period.

(1). Sun Yefang proposed in 1961 that the right of ownership of production means could be separated from its rights of possession, use, and dominion. He believed that, under the ownership of the whole people, "the issue of operation and management right should take the place of ownership system and become the first of the three aspects in production relation studied in socialist political economics." "The central question in financial and economic management system is the right and obligation of enterprises as independent accounting unit and their relationship with the state,

namely the question of the operation and management right of enterprises.”²⁵ Su Shaozhi also held similar views.²⁶

(2). Luo Gengmo proposed in 1959 the distinctive view that there was “minor whole people ownership” in “major whole people ownership.” He believed that, “in socialist stage, the production means and products under the ownership of the whole people also contains the relation of local whole people ownership in certain scope and to certain extent. Namely there are relations of ‘minor whole people ownership’ in ‘major whole people ownership’.” “In the final analysis, such crossing relation between major and minor whole people ownerships was caused by the situation that the development standard of productivity was not high enough and the communist consciousness of the people was also not high enough. These two facts make it necessary for the state, which represents the whole people, to utilize proper material interests to promote its local economic organizations and the economic organizations of various departments as well as grassroots enterprises and institutions to work hard to manage production well. This is just like the fact that the state must properly utilize the principle of ‘distribution according to performance’ to drive the people to work hard.”²⁷

(3). In 1957, Luo Gengmo proposed the view that collective ownership was “public inside and private outside.” He said, “Although collective ownership economy was socialist economy, it was the public ownership of groups of people but not ownership of the whole people. I believe that it can even be said that such collective public ownership economy of groups of people is ‘public inside and private outside’. Namely, it is public ownership in the inside but it contains more ‘remnants of private ownership’ to the state than the enterprises and individuals in the whole people ownership economy to the state.”²⁸

3. 30 years after the start of the reform and opening up

After the reform and opening up started, there have been a series of important breakthroughs in the theory of ownership system in the circle of economics in China.

First, in the area of ownership structure, it was believed that, under the condition that China’s productivity development standard was still low and it was in the primary stage of socialism, people had to allow the existence and development of non-public ownership economies, such as individual economy and private economy. In 1997, the Fifteenth CPC National Congress further established the system that took public ownership as the dominant part and included the joint development of the economies of various ownership systems as the basic economic system of the current stage.

Early in 1979, China’s prestigious economist Xue Muqiao boldly made the important suggestion of developing various economic components and broadening the channels of employment in response to the actual situation that there were more than

²⁵Sun (1979).

²⁶See Su (1962).

²⁷Luo (1959).

²⁸Luo (1957).

20 million urban personnel waiting for employment nationwide at the time, which affected social stability. He specifically proposed that, “at present, there might be more benefit than harm to leave a bit of the tail of individual economy and capitalism.” “We could not eradicate capitalism for now. There is nothing to fear if there is a bit of it.”²⁹ He was the economist who advocated the development of various economic components the earliest after China started reform and opening up.

One conspicuous merit of China’s economic system reform is that, while people pushed forward reform in public ownership system, individual and private economies outside regular systems experienced rapid development. These sectors became new growth points in national economy and important channels for offering jobs to people. Thus China’s economy was quickly activated. By 2011, there were over nine million private enterprises in China and the number of privately or individually-owned businesses exceeded 36 million. The fixed assets investment of non-public ownership economy exceeded 50% of the national total. The non-public ownership economy accounted for over half of the GDP and contributed 60% of China’s export trade volume. It provided over 80% urban jobs and over 90% new jobs.³⁰

The practice in over 30 years of reform and opening up proved that permitting the development of non-public ownership economies, such as individual and private economies, affirming that non-public ownership economies, such as individual and private economies, were organic components of socialist market economy, and establishing socialist basic economic system greatly liberated social productivity and powerfully promoted the sustained and rapid development of Chinese economy. In 2007, the report of the Seventeenth CPC National Congress further proposed that people should adhere to and improve the basic economic system with public ownership system as the dominant part and joint development of the economies under various ownership systems. They should adhere to the equal protection of property rights and form a new situation in which the economies under various ownership systems could realize equal competition and mutual promotion. This pointed out the direction for further improving the structure of ownership system in the future.

Second, it was proposed that the form of realization of public ownership system could be diversified and it was believed that shareholding system was the effective form of realization for people to combine public ownership system, which included state ownership system, with market economy.

Early at the beginning of 1980s, some economists proposed that, as the reform advanced, public ownership system would not be limited to the two forms of whole people ownership and collective ownership. “At present, many forms emerged in socialist public ownership system.” “We should re-study the theory on socialist ownership system of production means on the basis of the changes in actual economic life rather than mechanically applying available theories on the complex situations in actual life.”³¹

²⁹See *Xue Muqiao’s Memoir*, Tianjin People’s Publishing House, 1996.

³⁰See *China Daily*, Dec. 3, 2011.

³¹He (1984).

Some economists also proposed the concept of the diversity of socialist ownership system. They pointed out that, in an underdeveloped socialist society, public ownership system was not “one size that fits all” or uniform in all cases. Rather, it was a complex structure with diversity. It was a system of possession relations in multiple levels and tiers, which took whole people ownership system as dominant one, consisted of collective ownership, joint ownership and other forms of public ownership system, and showed a scale of degrees of socialization from high to low. The complexity of such public ownership system matches the imbalance and multi-level of productivity. People should examine the combination, interlacing and mutual permeation of various possession relations in the movement of socialist commercial reproduction and then further analyze and reveal the very rich specific forms of socialist public ownership system.³²

From the middle of 1980s, China started to develop shareholding system economy in its socioeconomic life. This was a kind of mixed ownership economy. In this economy, large amounts of shareholding system economy controlled by public ownership components should be regarded as a form of public ownership. Economists did not have much controversy in this respect. At the end of 1980s and, particularly, in the 1990s, various kinds of shareholding cooperative system economies emerged in different places in China. It is generally believed that the economies under shareholding cooperative system possessed public ownership properties in different degrees. Among them, the shareholding cooperative system, which mainly contained the conjunction between capital and the labor of workers, was a new form of public ownership.

In 1987, the State Commission for Restructuring the Economic System entrusted the Chinese Academy of Social Sciences, the Party School of the CPC Central Committee, and the Peking University to study and propose the reports on mid-term reform planning (1988–1995). Almost all these reports made the suggestion on the transformation from the current contract system into shareholding system. It was pointed out that, because contract system did not radically change the congenital weaknesses in traditional property right system of state-owned enterprises, enterprise reform had to develop toward the direction of restructuring property right relations, namely of shareholding system.³³

The report of the Fifteenth CPC National Congress made important breakthrough in the search for the form of realization of public ownership system. The report proposed that the form of realization of public ownership system could and should be diversified. All operation modes and organization forms that reflected the principles of socialized production could be utilized with confidence. People should endeavor to search the form of realization of public ownership system that could greatly promote the development of productivity. Shareholding system was a capital organization form of modern enterprises that was favorable to the separation of the

³²Liu (1986).

³³See Department of Comprehensive Planning of the State Commission for Restructuring the Economic System (1988).

rights of ownership and operation and to improving the operation efficiency of enterprise and capital. Capitalism could make use of it; socialism could also make use of it. So people could not say in a general way that shareholding system belonged to public or private ownership. The key resided in which party had the controlling stake in hands. A company controlled by the state or the collective through shareholding possessed obvious public ownership nature. Such a situation was favorable to expand the scope of domination of public capital and strengthen the role of public ownership as the dominant part. This statement in the report of the Fifteenth CPC National Congress had important guiding meaning. After the conclusion of the Fifteenth CPC National Congress, some articles listed the new forms of realization of public ownership other than state-owned and collective ownerships since the reform and opening up: shareholding cooperative system, mass organization ownership, lease, entrusted operation, local mass organization ownership, company limited by share controlled by public ownership, and ownership systems of town, township, village, and villager's group.³⁴

In 2003, the *Decision of the Third Plenary Session of the Sixteenth CPC Central Committee* further proposed the assertion that shareholding system was the main form of realization of public ownership system. It was pointed out that people "should adapt to the trend of the constant development of economic marketization and further strengthen the vigor of public ownership economy. They should largely develop mixed ownership economy with the participation of state-owned capital, collective capital and non-public capital. They should realize the diversification of the main parties of investment and make shareholding system the main form of realization of public ownership system." Some economists believed that the diversification of the forms of realizations had been achieved in public ownership system and shareholding system became the main form of realization of public ownership system. This indicated that China found the correct approach to combine public ownership system with market economy and that the theory of socialist market economy had more complete and solid argumentation basis.

Finally, large- and medium-sized state-owned enterprises should take the road of corporation reform and shareholding system reform.

In the first 30 years after the foundation of the PRC, state-owned enterprises dominated nationwide except for the countryside after the socialist transformation was basically completed. Urban collective enterprises were in fact local state-owned enterprises. These state-owned enterprises were not market entities and corporate legal entities in the true sense that possessed independent economic interests. They were attachments to their superior competent administrative departments like beads on abacus. They produced and operated in accordance with the mandatory plans of the state and all or almost all their profits were submitted to superior authorities. The wages of their workers were subject to uniform provisions of their competent departments. These enterprises were operated with egalitarianism like feeding on a giant rice pot, and their workers were given life-long fixed positions like having an iron rice bowl that would never break. Both the enterprises and their workers were

³⁴Wei (1997).

treated indiscriminately regardless of the quantity and quality of their work. Such practice seriously confined the initiative and creativity of the enterprises and their workers. The enterprise showed little vigor and poor economic performance.

After China started implementing reform and opening up at the end of 1978, the reform of state-owned enterprises began with expanding the autonomy of enterprises. It was pointed out in the communiqué of the Third Plenary Session of the Eleventh CPC Central Committee that “one serious shortcoming of the economic management system of China at present is too much concentration of power. The power should be delegated to lower levels boldly under leadership so that local enterprises and industrial and agricultural enterprises have more operation management autonomy under the guidance of the centralized state plans.” Around this period, the circle of economics made theoretical demonstrations that state-owned enterprises should be independent commodity producers and operators and main entities of economic interests under socialist system. Jiang Yiwei proposed the famous “enterprise standard theory.”³⁵ Some economists proposed the theory of “separation of the two rights of ownership and management right” and the theory of “contract system.” As market-oriented reform deepened, people found that delegating power and transferring interests without restraining mechanisms might result in short-term action and drain of state-owned assets. Some economists wrote articles of the opinion that the contract system implemented during the period in the late 1980s and early 1990s could not solve the problems of mixing up the functions of government and enterprise. It could not allow different enterprises to compete equally and caused the short-term action of enterprises. These economists advocated that large- and medium-sized state-owned enterprises should establish modern enterprise system to replace contract system.³⁶ Some of them proposed to carry out the shareholding system transformation of large- and medium-sized state-owned enterprises.³⁷ In 1992, the Fourteenth CPC National Congress determined that the socialist market economic system should be the objective model of China’s economic system reform. In November 1993, the Third Plenary Session of the Fourteenth CPC Central Committee made the *Decision on Several Issues on Building Socialist Market Economic System*. It was specifically proposed that the direction of the reform of state-owned reform was to establish modern enterprise system. It was also pointed out that the characteristics of modern enterprise system included clearly-defined property rights, clearly-determined rights and obligations, separation of government function from enterprise management, and scientific management. From then on, China’s state-owned enterprise reform entered the state of system innovation. At the beginning of the twenty-first century, important progress was achieved in the reform of China’s state-owned enterprises. Large- and medium-sized state-owned enterprises initially established modern enterprise system, initially adapted themselves to market economy, and gradually improved their competitiveness. A large number of medium- and small-sized state-owned enterprises were opened and invigorated in various forms. State-owned economy

³⁵See Jiang (1980).

³⁶See Wu (1993).

³⁷See Li (1987).

continued to play a dominant role in national economy. State-owned and state-controlled enterprises became market entities with considerable competitiveness in socialist market economy.

Centering round the corporation reform and shareholding system reform of state-owned enterprises, Chinese economists made in-depth studies on the theories of shareholding system, modern company, corporate governance, state-owned assets management, agency by agreement, modern property right, mixed economy, monopoly and competition, and equal competition of market entity.³⁸ A series of innovation results in enterprise theory achieved in the study powerfully promoted the deepening of state-owned enterprise reform and the improvement of the governance standard of state-owned enterprises.

(II) About Distribution Theory

The distribution theory can also be discussed in the two parts respectively about the first 30 years after the founding of the People's Republic of China and the rest over 30 years.

1. Study and Discussion on the Issue of Distribution according to Performance in the 30 Years after the Founding of the People's Republic of China

The question of distribution according to performance is also a hotspot in the research and discussion of China's circle of economics. The first theme of the First National Symposium on the Theories of Economics in 1959 was the question of commodity production and the law of value under socialist system. Another theme was the question of distribution according to performance and piece rate wage. The then prevailing view affirmed distribution according to performance and piece rate wage, affirmed the role of the principle of material interests in socialist society, and corrected the influence of the article published by Zhang Chunqiao in 1958³⁹ that negated the principle of distribution according to performance in socialism. From that moment to the time before 1966, the circle of economics proposed some valuable views in their discussion.

First, Shen Zhiyuan proposed in 1962 the opinion that distribution according to performance possessed relative stability and that distribution according to performance and the principle of material interests did not contradict with "having politics in command." He pointed out that, in the historical stage of socialism, "the system of distribution according to performance will definitely experience a process of constant improvement, consolidation and development." "If people partially stress on having politics in command and overlook the material interests of the mass, the initiative of the mass will be affected.... To correctly implement the principle of 'distribution according to performance' and adhere to the socialist distribution system is in itself an important aspect of having politics in command. Otherwise, if people do not take the principle of 'distribution according to performance' as an important one and

³⁸See Zhang and Zheng (2008), Liu (2008), Lü and Jin (2008).

³⁹Zhang (1958).

take the material interests of the mass seriously, the principle of 'having politics in command' will end up in nothing."⁴⁰

Second, Wang Xuewen proposed the view that partial private ownership of labor determined the necessity to implement distribution according to performance. He said, "in socialist whole people ownership system, there are factors of partial individual ownership of labor, namely the labor whose object is in product. The existence of such ownership is determined by the development standard of labor productivity, the Three Major Differences, namely the differences between workers and farmers, between the city and the countryside, and between physical and mental labor, left from the old society, and the existence of the remnants of capitalist rights. Now that there are such factors of partial individual ownership of labor, the society needs to exchange the labor owned individually with consumer goods owned by the whole people so as to admit such ownership owned individually."⁴¹

Third, Gu Zhun et al. proposed the view that labor remuneration was connected with the operating results of an enterprise. Gu Zhun believed, "Establish very close connection between the material reward of workers with the degree of occurrence of profit and loss of an enterprise" and "practice economic calculation system. And then it is possible to regulate the reward of workers through utilizing price and wage rate."⁴² In 1962, Shi Xiulin proposed that "bonuses should be accrued and paid on the basis of the comprehensive operating effect of an enterprise."⁴³

Fourth, Li Yun proposed that piece rate wage was a good form of distribution according to performance. He said, "Compared with time rate wage, piece rate wage has the characteristic that it represents the principle of distribution according to performance in a direct, simple and clear way so that the mass can understand it." "Piece rate wage can represent the principle of equal pay for equal work the best." "The principle of distribution according to performance means that distribution needs to be based on the result of labor, so no one can blame that piece rate wage shows too much distribution according to performance."⁴⁴

Fifth, Wu Jiawei proposed that people needed to thoroughly implement the principle of material interests in order to practice the principle of distribution according to performance. He said, "It is one of the basic characteristics of the principle of distribution according to performance that workers care about the development of social production from the perspective of material interests. The role of the principle of distribution according to performance in socialist economy directly determined the principle of material interests." "The better and the more sufficient this principle is employed, the larger and the more conspicuous the superiority of socialist society is actualized. In order to create conditions to eliminate the principle of material interests at the advanced stage of communism, people must fully utilize and vigorously

⁴⁰Shen (1962).

⁴¹Wang (1959).

⁴²Gu (1957).

⁴³Shi (1962).

⁴⁴Li (1959).