

[US] Bernard Moss**Contact Information**

Address:

Telephone:

Fax:

Mobile:

Email Address:

Homepage:

Modern European and French historian specialising in the history of socialism and labour movements. Author of a history of the French labour movement, on the rise and decline of French Communism, on Marx and Engels in the revolutions of 1848 and more recently two critical histories of the European Union, monetary union and the rise of neo-liberalism in the member-states. Conference paper on China will draw on a comparison with the advanced welfare states in Europe that fell before neo-liberalism.

Publications:

Editor and author, *The Single European Currency in National Perspective: A Community in Crisis?*, Macmillan Press, 2000.

Editor and author, *Monetary Union in Crisis: The European Union as Neo-Liberal Construction*, Palgrave, 2005.

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China as a Welfare State: A Critique

[US] Bernard Moss

Socialism with Chinese characteristics is a chain of contradictions that have proved elusive to conventional analysis whether Western or Chinese. China presents the paradox of a country led by a Marxist-Leninist party with a potentially dominant public sector but economic and social life that is run for the most part on competitive free market principles—what the Chinese officially call a socialist market economy (SME).

A Marxist might talk about the contradiction in China between a socialist superstructure and a mixed social market base that creates conflicts between increasingly avaricious and self-serving entrepreneurs and much poorer workers and peasants and dilemmas for intellectuals torn between loyalty to the state and country and an attraction to Western liberal ideas, mentality and style of life.

The Marxist formula of base determines superstructure does little to capture and contextualise the complexities of contemporary China or to predict and anticipate its future. Most Westerners, marvelling at the advanced development of productive forces under market conditions, view the socialist superstructure, the rule of a Marxist-Leninist party, as a fetter on further development, causing corruption, stagnation and breakdown. The socialist state, they think, will soon be overthrown by workers demanding more social rights, businessmen more personal luxuries and power and intellectuals the human rights accorded by liberal democracies.

Will Hutton's *The State We're In*, the most influential book on China published in Britain in recent years, despite its naïve idealist interpretation of history presents a powerful case for this revolutionary view. The one-party Chinese state, he says, cannot last because it violates the liberal principles of the 18th century Enlightenment, which demand the recognition of both human and social rights, bill of rights, representative democracy, private ownership and social security. China and every other great state in the world are doomed, he says, unless they adopt the Western social democratic model drawn in the book along Scandinavian lines.

Many Chinese writers—in the press, party and scholarly bodies—seem to share this liberal social democratic perspective from a more evolutionary viewpoint. During the liberalisation period of Deng Xiaoping many turned to social democracy, specifically in its Scandinavian form, as the model for China to follow. Under Jiang Zemin the party gave European social democrats, both the German social democrats and the neo-liberal Tony Blair, privileged status in its fraternal exchanges.

The Bureau of Compilation and Translation, the leading scholarly body attached to the Central Committee, has led the way in the social democratic interpretation of the Chinese system. Bureau scholars describe the SME as effectuating a trade-off between efficiency and equity, also presumably between profitability and social equality. The turn of the party under President Hu toward greater income and social security for workers and peasants has been interpreted widely in the Chinese media in terms of moving the needle of the trade-off away from efficiency to equity and justice as though GDP should suffer.

This paper argues that the social democratic and neo-liberal interpretation of the SME and efficiency-equity trade-off is unhistorical and wrong. It fails to capture the complexities, ambiguities and contradictions of contemporary China and to locate it in national and world history, which is dominated by a capitalist and imperialist system in crisis.

Like Premier Wu, party scholars talk of the SME as a stable unchanging market system without contradictions and direction, a harmonious system hanging in an equally timeless unchangeable world. Of course all this is utopian. The SME is creating material classes with conflicting interests and life styles that cannot be harmonised by Confucianism or social ethics but will eventually have to be resolved in struggle. China exists in a world that is not peaceful and unchanging, but is pregnant with crisis and conflict—depression and domestic and international class struggle. The real world is not the imagined one of neo-liberalism and social democracy.

The average Western businessman Mr Smith, who comes to exploit cheap labour in China, sees a society that is busy and eager making money, materially improving its lot at a faster rate than anybody else in human history. The leaps are not only quantitative but also qualitative as Chinese firms borrow from the best of the West and go beyond—notably in road and dam building, urban planning and architecture. He encounters people who are cheerful about the present, optimistic about the future and loyal to their system and country.

Among export producers outside the state sector, he sees firms that are fiercely competing for foreign contracts at prices that yield the lowest possible rates of return, thus guaranteeing him undreamt of riches in trading profit. Everywhere are signs of Western chains and companies, MacDonal's, Wal Mart, Carrefour, Hilton Hotels and manufacturing firms. Most large cities have stores selling clothes from the top Western fashion houses. Mr Smith sees young people in smart Western clothes dining out, women reading the latest edition of Chinese Vogue, and businessmen selling property to make their millions.

He meets local officials who are eager to contract out public utilities like water and electricity to more technologically advanced Western multinationals. In conferences with government officials he finds friends who say they want to open up markets like real estate, banking and foreign exchange further to Western investment. He encounters officials who are well versed by university training in Western managerial and financial techniques under girded by solid indoctrination in neo-classical supply and demand microeconomics.

After all, the Chinese people lead the world along with the Americans in their optimism and faith in the free market. Mr Smith can only conclude that China is a capitalist paradise whose arrival is only being blocked by some dinosaur party leaders interfering with the economy and society.

But Mr Smith has reason to doubt that what you see in China, the capitalist paradise, is what you get. The promise of the official from the finance ministry that the real estate market will be opened to Western investors is countermanded off and on by a ruling from the state council. Basic and heavy industry, banks and most public utilities, which produce most of the national income, are closed to private investors. Without exercising it the government has a blocking interest in the exporting joint ventures that provide forty per cent of GDP.

Under president Hu there are worrying signs that the government is taking away rights away from owners and giving them to workers and peasants. Tax rates have been equalised for foreign and domestic firms. New labour laws give workers rights of unionisation, collective bargaining and consultation as well to payment of back and minimum wages, unemployment insurance and pensions. Starting with Wal Mart last year, the official labour federation is organising branches in most foreign owned firms along with local Communist units.

Outside the right to strike, which is recognised in practice if not in law, China today has the most progressive labour laws in the world. Employers fear that their application will mean a 10-20 per cent rise in wage costs. A reported one fifth of all employers in Guangdong are thinking of relocating elsewhere in China or South East Asia. Wages have been rising rapidly anyway as workers strike and demand higher wages to pay for sharply higher food costs—currently running at 8 per cent annually.

The government is using increased tax revenue to provide for education, medical care, and pensions for the low paid in cities and villages. Last year the government found 31,000 illegal land seizures, taking action against those local officials who profited from them. Typically, the government is on the look out for cases of illegal pollution and land seizure where it can take up its role of white knight saving the people from corrupt local officials.

The party has been recharged with the promotion and training of cadres, who are now assessed according to their moral integrity and political culture along with their administrative adroitness and connections. President Hu has moved the centre of gravity of party leadership away from the Shanghai Jiang clique with its ties to big business and the coast towards party activists who have served as officials in the poorer interior and Western provinces. A mass purge has disciplined and punished thousands of members guilty of corruption, including the Shanghei party chief.

Mr Smith cares mostly about money, but the people back home also judge China in terms of the human rights recognised under liberal democracy, rights of free speech, press, free elections and association. Along with the privatisation of collective property and freeing

up of markets from government control the liberalisation pursued by Deng also raised hopes for a conversion to Western-style liberal democracy.

This is one of the illusions that led to the mass student demonstrations that were crushed in Tiananmen square in 1989—delusional because contrary to rule by a non-capitalist Marxist party as well as Chinese collective—Imperial, Confusion, and familial—traditions. Since then the party has made clear that political liberalisation will only be pursued within the limits of a one-party socialist state with a programme for the separation of party from government, the rule of law, and the creation of a consultative democracy.

The separation of party and government has always been a feature of Chinese socialism. The party came to power in 1949 in coalition with non-socialist parties and social groups like the national bourgeoisie. Criticism and self-criticism in the face of changing realities was a well-developed practice in Mao's party. The elected Chinese People's Political Consultative Committee, which includes a small contingent of entrepreneurs and is forty per cent non-Communist, passes on legislation before the National People's Congress. Not all ministers and staff are Communists. Indeed, party and government leaders come from very different backgrounds. While nearly all are university trained today, party leaders come from those who have made a career as party activists while the latter come from the ranks of professional administrators.

The rule of law means a society in which the law is clear and predictable, so applied in a fair non-discriminatory manner by independent judges. Contrary to liberal theorists, the rule of law is fully compatible with a government led by a Marxist party consulting with the people. The ruling party provides the stability, swiftness and certainty that are missing from volatile, fragmented and litigious Western democracies, but are necessary for the rule of law. The counter-weight to arbitrariness that comes from multi-party competition in the West arises from the continuing forms of consultation that occur in China.

Consultation, discussion and debate take myriad forms in today's China, starting from the practice of training, criticism and self-criticism in the party, to elections and deliberations of consultative committees, people's congresses, government coalition partners and administrative departments with competing clientele. An increasing number of party and governmental elected positions are being contested. There are also more than 200,000 non-governmental campaigning organisations, open internet and telephone lines to government and public hearings on its decisions, a freedom of information and accountability act that is potentially more liberal than that in Britain, and the circulation of critical ideas in the media and internet.

In this consultative democracy that allows for the public expression of competing interests and ideas with a political authority that is fragmented among ministerial departments and national, regional and local governments the Communist Party does not constantly prejudge the debate and intervene but acts primarily as the final arbiter.

Advised by a Stanford University political scientist, the Chinese have introduced a system of deliberative polling whereby governmental experts pose feasible choices to randomly selected individuals. This type of popular consultation, which brings expert knowledge to bear on people's choices but which could be abused in a dictatorship, may be superior to Western multi-party elections where people often vote on the basis of personality or demagogic promises without knowing what is possible and in their best interest.

The Chinese today are a free-spirited people. Mr Smith could tell you that they are not sparing in their criticism of government. According to official polls they are most concerned today about the inability of low-income groups to access education, health and old-age pensions. It is the poor and wealthy who fear most the consequences of growing social inequality. Few, however, are concerned about the denial of human rights as understood in the West.

The difference of China from the West where the outcome of debate and conflict is left to an anarchic, unpredictable and ideologically uninformed struggle of groups and individuals is that the leaders of the Chinese Communist Party set the limits and rules of the game and arbitrate the outcomes so as to ensure the continuing growth of productive forces and guard against a capitalist and imperialist take-over. They are backed up in their rule by strong ideological and organisational links with the People's Liberation Army, which recruits cadre from the pro-Communist peasant population, who are then given a fairly orthodox Marxist education.

The turn toward working people that has occurred under President Hu has been accompanied by a strengthening and deepening of Marxist education in the party through special training schools, scholarly institutes and international exchanges like this one. Marxism is no longer taught as the doctrine of one leader but as a confrontation with a tradition stretching from Marx, Engels, Lenin and Mao to Chinese leaders since 1978.

Marx gave us the basic analytic categories for a scientific understanding of society and history, but he never worked out the future and often went down blind alleys and contradicted himself. Aside from abolishing class exploitation he said very little about the form socialism would take after the revolution. He said almost nothing about socialism in a backward country because he always assumed it would feed back to the most advanced countries, an assumption that proved wrong.

Lenin and Mao were great practitioners of Marxism and class struggle, but they sometimes got it very wrong. The Cultural Revolution, which arose out of real contradictions between the party and the people and amongst the people, resulted in great destruction of life and social organisation. Its errors had to be corrected. Under Deng they were over-corrected as he continued to press against the resistance of the traditionalists for the abandonment of China's collective institutions through the privatisation and marketisation of land, industry and social security. Party rule was nearly lost when almost half the leadership including the

general secretary Zhao Ziyang hesitated before putting down calls for Western liberal democracy issuing from the 1989 Tiananmen protesters.

Since 1989 the party decides the limits of acceptable speech and conduct according to whether they intend to or pose an actual danger to the regime. Non-governmental campaigns on behalf of migrant workers, women, homosexuals or the environment are permitted so long as they are not motivated by malicious intent or associated with outside foreign forces. Internet communication creates a new source of information for the public and feedback for the government, but it is closely monitored and censored by a large army of public servants. Those who cross the line are severely dealt with. The fear of public sanction, operating in an uncertain grey area, plays a major disciplining role in Chinese society.

When Deng officialised the doctrine of what works, black cat white, cat, whoever catches mice, he was throwing out the Marxist baby with the bathwater of the Cultural Revolution. His pragmatic doctrine dissociated Marxism from political practice and popular consciousness, laying China open to the neo-liberal, individualist and competitive, theories that are so influential in universities today.

The application of theory to practice, incorporating the lessons of history, should help show the way, anticipate the future. Instead of showing the way, party scholars have taken on the job of rationalising and justifying what the party decides to do on pragmatic grounds, which is sometimes right and sometimes wrong. Who has been able to grasp contemporary China with all its complexities, ambiguities and contradictions, who has anticipated the crisis now besetting the capitalist world, who has ventured to predict the path to the socialist future?

To strive for a harmonious society and world is fine, but the ideology of social ethics and cooperation is not enough. Do China and the capitalist world possess the material basis for 100 years of seamless prosperity and growth? The future of China and the world is not purely one of peace and tranquillity, but is also class against class, socialist and independent states against imperialism. It is also both nationally and internationally a move to a higher stage of socialism.

The equation of China with the capitalist welfare state and belief in an efficiency-equity trade-off are unhistorical and wrong. Faults in historical analysis are not unique to China, but the primary sources of Western and Chinese mistakes are different. For a Marxist, scholarship must always combine theory and empirical research with political practice.

Western Marxist scholars have been able to draw upon a rich historiography and their own empirical research, but have lacked the guide of a consequential political practice. Chinese scholars may have confronted great political change in their lives, but have lacked the time, instruction and resources to tap into historiography and undertake their own primary research. Let us hope that organisations like WAPE help us fertilise each other, with political

practice and experience on the one hand, and theory, historiography and empirical research on the other.

Using the Marxian concepts of class struggle and the wage profits squeeze historians and economists in the West have learned much about the nature of capitalist growth and crises that is not drawn out in Marx's *Capital*. Their work can help show why the welfare state was not socialist like China and why the efficiency-equity trade-off is a nonsense.

Industrial capitalism must be understood as a system that grows and breaks down as a function of class struggle in approximate periodic cycles—the famous five, ten and long 30 year cycles. The growth that occurred in Europe after WWII—based on catch-up mass production with the US—produced a strengthened labour movement, which demanded and obtained higher wages, greater rights and social security along with state welfare institutions that consolidated its gains. The welfare state did not arise from the mind of the Enlightenment, as Will Hutton believes, but was the cumulative result of class struggle in an expanding capitalist economy.

The accumulation of workers' power in the 1970s produced a wage-price spiral and squeeze on profits that led to the capitalist search for an alternative breaking the back of labour. Whether crises produce revolutionary political change or a return to liberalism is highly contingent upon class structure, international relations and the ideological tradition of the national labour movement.

Labour, Socialist and Communist parties in Britain, France, and to some extent Italy proposed more nationalisation and planning as the way out of the profit squeeze. They lacked however necessary revolutionary determination and foresight. International institutions like the European Community and powerful capitalist nations like the US limited national freedom of action and the middle classes still believing in endless prosperity and social mobility and untouched by unemployment feared a radical leap to socialism. Though the French Socialists nationalised the commanding heights of the economy, it was a formal act, which was quickly reversed under external pressure. Capitalists still retained managerial and political control and ideological hegemony under French socialism.

The capitalist way out of the profit-squeezing wage-price spiral was monetarism, high interest rates and a tight money policy that caused massive unemployment and broke the back of labour. Pro-capitalist governments like Thatcher were neo-liberal because they did not dare challenge the minimum wage and benefit norms established under the welfare state, but stopped the forward march of labour through privatisations, the end to state aid, de-regulation, the removal of tariffs and commercialisation of public services. The European Community and US, Thatcher and Germans disseminated these policies across the face of Western Europe.

Neo-liberal forces—found also in social democracy—helped shift the economic system from one dependent upon technical improvement and higher wages for growth to one seeking greater efficiency and cash flow at the expense of growth. Greater profitability was found by

down-sizing, de-skilling, just in time production, outsourcing to smaller sub-contractors and areas of cheaper labour—that is to efficiency measures that weakened the strength and return to domestic labour.

At the same time domestic manufacturing was sacrificed for the sake of foreign investment and trade, business and financial services, and speculation in land and new financial instruments like derivatives. So great was the shift that it is proper to talk about a change from industrial to financial capitalism. The periodic five and ten year downturns of industrial capitalism disappeared because workers' wages no longer rose with profitability. Instead the capitalist system was beset with frequent and sudden booms and busts in the speculative currency, land and financial markets all over the capitalist world.

Governments staunched the bloodletting with bailouts, tax reductions and extensions of credit, which by encouraging further speculation only delayed the reckoning for a more awful future. The crisis arising from the dot.com financial crash of 2000 was delayed in years by tax reductions for the rich and war-spending in the US, the increase of public health spending in Britain and the vast accumulation of mortgage, personal and public debt and trade deficits. It looks to be the deepest and most protracted one since the 1930s with no solution in sight.

Where does efficiency and equity stand in this economic history? Nowhere really because they are not economic categories like wages, profits, productivity and growth. Peoples and nations do not seek efficiency; they seek wealth creation and growth through technical innovation and higher productivity. There are periods under capitalism that are particularly inequitable when wages lag behind technical improvements, higher productivity and growth, but they are usually followed by ones in which the strengthened labour movement pushes wages so high that they begin to squeeze profits. Capital then calls quits, administers painful deflationary measures and provokes crisis. With labour weakened it can then resume investment based on greater efficiency, frozen wages, and the replacement of domestic manufacturing with foreign relocation and trade and speculation in land and financial instruments.

This capitalist cycle of growth and crisis revolving around class struggle leaves no room for the efficiency-equity trade-off. Nations and peoples do not seek efficiency; they want technical progress, higher productivity and growth. There is a stage in the cycle when wages lag behind profitability, productivity and overall growth but that is usually followed by one in which wages, productivity, profitability and growth can advance together until wages take up too much of the newly created wealth. It is only since the turn to financial capitalism and neo-liberalism that we have seen the emphasis on cost efficiency, which has meant frozen wages, industrial contraction, lower productivity and overall growth.

There is no trade-off of efficiency and equity. Efficiency is a neo-classical concept assuming all knowing maximises and competitive markets that assure a high rate of labour

exploitation with no necessary additional productivity or growth. It can only be obtained at the cost of equity, working and living standards and growth. It is not what China wants.

China is very different from both the welfare and neo-liberal capitalist state. The nature of the system is not up for grabs as in a capitalist liberal democracy but is guaranteed by the combination of a mixed social market economy and a democracy led by a Marxist dictatorship of workers and peasants. Although all property is theoretically owned by the state, and most directly the dominant state sector, it is managed for the most part by private individuals or companies on competitive market principles that assure greater efficiency rather than raise productivity, production and growth. Though state owned firms also run on market principles, the government has exercised some social control over them by deciding the proportion of profits going to reinvestment, dividends and special social and environmental funds.

Labour in the SME is bought and sold in the market place, subject to minimum wage and hours legislation and now to laws on labour contracts, collective bargaining and consultation. The state also possesses macro-economic regulatory powers over foreign exchange, interest rates, and bank reserves as well as emergency price controls. These macro-economic powers are greater than those in any capitalist state. China thus has the state capacity to deal with economic crises and emergencies with a breadth, swiftness, and decisiveness that are missing in liberal nations.