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Reform

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Communism, Capitalism, and Democracy in China

In recent decades, China's Communist Party has increasingly adopted capitalist models for its economy, and its economy has boomed. Will the surprising success of capitalism in China eventually lead to democracy?

Following World War I, China entered a long period of civil war. Fighting on one side were the communists. Led by Mao Zedong, they supported adapting the economic ideas of Karl Marx to China's mainly rural peasant society. On the other side were the nationalists led by Chiang Kai-shek. He favored a capitalist economic system. When the Japanese invaded China in World War II, Mao and Chiang agreed to an uneasy truce. (Mao and Chiang are family names. Unlike Western names, Chinese family names come before given names.)

After the defeat of Japan, the Chinese civil war resumed. Mao's experienced peasant fighters finally defeated the nationalist forces under Chiang, who fled with them to the large island of Taiwan. On October 1, 1949, Mao declared victory for the Communist Revolution and proclaimed the People's Republic of China.

Mao Zedong and Communism

Mao Zedong concentrated all political power in the Chinese Communist Party. He set up a regime similar to that established by Vladimir Lenin in the Soviet Union, following the Russian Communist Revolution.

Under Mao, China's Communist Party ruled as a "democratic dictatorship" in the name of the workers, peasants, and small merchants. Communist Party leaders decided China's laws and policies. They also chose government officials and nominated those who ran unopposed for seats in China's legislature, the National People's Congress.

Mao wanted to eliminate capitalism and its emphasis on property rights, profits, and

free-market competition. He followed the ideas of Karl Marx, who envisioned a communist society where all would equally share in prosperity.

Most Chinese were peasants, poor farmers who worked on land owned by wealthy landlords. Mao confiscated these lands and executed thousands of landlords who resisted. During the 1950s, Mao formed "collective farms," each worked by over 100 families. The income of the families was in theory equal. But since the peasants worked for the collective rather than on their own farms, there was little incentive to work hard. Farm production fell under this system.

In the cities, Mao began to put factories and other businesses under state (government) ownership. The state set production goals, wages, and prices. Most city workers became employees of these state-owned enterprises. The state guaranteed workers a job along with benefits like health care for life. Chinese workers called this the "iron rice bowl." But again workers had little incentive to be efficient, productive, or even care about the amount or quality of their work. Consequently, industrial production declined.

By the late 1950s, Mao had banned free markets in rural China, where peasants used to sell farm products from little household plots. In the cities, the state owned and operated most factories and other businesses. Only a few remnants of private enterprise, what communists called the "rattail of capitalism," still existed in China.

Dissatisfied with the progress of the economy toward a fully Marxist system, Mao turned to a more intensive approach he called the Great Leap Forward. In 1958, Mao abolished household farm plots and reorganized collective farms into "communes," each with about 5,000 families. The government sent young people from the cities to the communes to learn farm skills. The communes not only operated huge farms but also factories, trade networks, banks, schools, and militias. People lived in dormitories and ate meals in common mess halls.

The Great Leap Forward ended in disaster in 1961. Crop and industrial production plummeted and a famine resulted, causing millions of deaths. (Estimates of the number of deaths have ranged from 2 million to 50 million.) Finally, the worsening situation forced the government to reduce the size of the communes, restore family farm plots, and put into place work bonuses and other incentives.

Five years later, Mao decided that too many were betraying the Communist Revolution by leading China back down the road to capitalism. He launched the Cultural Revolution. This mass movement attacked anyone who failed to support Mao's ideas about creating an ideal communist society.

Mao unleashed millions of young people, called Red Guards, to enforce communist revolutionary purity. Carrying the *Little Red Book* of Mao's sayings, they zealously denounced anyone suspected of "capitalist leanings." (Red is the traditional color of revolutionary communism.)

For nearly 10 years, a reign of terror gripped China. The Red Guards assaulted, tortured, persecuted, and forced millions from their jobs. With so many people's lives disrupted, the economy suffered severe declines in food and industrial production.

The Cultural Revolution ended when Mao died in 1976. China's economy was again in crisis. But even more troubling to Mao's successors, many Chinese had lost faith in the Communist Party.

Deng Xiaoping and Capitalism

The death of Mao set off a power struggle within the Communist Party. Reformers wanted to change the party. Hardliners sought to continue on Mao's path to communism. While this struggle in Beijing was going on, however, people in many parts of the country were taking matters into their own hands.

Even before Mao died, peasants were abandoning collective farming and producing food on their own to sell at rural free markets. Throughout China, many became peddlers, bike repairers, shoemakers, and other private entrepreneurs, working for a profit. Private moneylenders offered loans to these budding capitalists to finance their businesses. Wherever private enterprises emerged, they seemed to flourish.

None of this activity was legal. But local officials usually ignored the lawbreakers. The Beijing government judged local officials on how well they ran their towns and cities. These officials discovered that privately owned businesses reduced unemployment, cut prices, provided better consumer goods and services, increased tax revenues, and tamped down social unrest.

Thus, local officials were motivated, with an occasional bribe thrown in, to bend or even break government regulations and laws. Sometimes they even registered a private enterprise as a collective or state-owned business. Thus, a private entrepreneur seemingly (but not literally) wore a "red hat." There were an estimated half-million "red hat" capitalists, including even Communist Party officials, operating private enterprises in China by the mid-1980s.

The success of this grass-roots capitalism persuaded reform-minded leaders, anxious to restore confidence in the Communist Party, to adopt capitalist methods to stimulate economic growth. Deng Xiaoping, a veteran Communist Party leader, headed this economic reform effort after he emerged as the main leader of China in 1978.

Deng broke up the communes and permitted families to lease, but not own, farmland. The families had to sell a set amount of their farm production to the state at a fixed price. The rest they could sell on the free market for whatever price they could get. In addition, rural industries, owned collectively by a village, sold their products on the free market as well.

Deng's reforms also legalized private enterprises owned by individuals, partners, and

shareholders. Stock markets opened. Deng scaled back the government's setting of prices and wages in favor of supply and demand on the free market. Because of all these reforms in the 1980s, the "red hats" began to come off, and increasing numbers of Chinese became "red capitalists."

Deng faced big problems in reforming the state owned enterprises (SOEs). These were industries and other businesses owned and operated by the government. They ranged from small silk factories to huge steel mills. The reform of SOEs went much slower than in other parts of the economy. Early reforms gave more independence to managers over wages, prices, and production methods. But the SOEs had to compete with private enterprises.

Supposedly, if an SOE could not make a profit, it would have to go out of business. But this would mean mass layoffs and ending the "iron rice bowl." While private entrepreneurs and worker shareholders bought out some SOEs, the government still keeps many of them operating even though they continue to lose money.

In another radical break with the past, Deng created Special Economic Zones. Located in the east-coast provinces of China, these zones attracted foreign investment by offering low-cost labor and tax breaks. Foreigners invested in manufacturing exports such as clothing, shoes, and toys. The economic boom drew huge numbers of migrant workers from all parts of China, seeking jobs and higher wages.

Results of Capitalist Reforms

When Deng Xiaoping died in 1997, Jiang Zemin replaced him and continued Deng's capitalist reforms. He introduced amendments to China's Constitution that declared private enterprise a "major component" of the "socialist market economy." Under Jiang, the Communist Party also began to recruit Chinese capitalists as members.

By 2006, private enterprises accounted for half of China's economic output (Gross Domestic Product or GDP) and two-thirds of industrial production. Private enterprises, owned by Chinese and foreign capitalists, continue to multiply and fuel China's rapid GDP growth rate, which more than doubled the U.S.'s growth rate in 2007.

China is struggling, however, with many economic growth pains. The greatest improvements in Chinese income and standard of living have occurred mainly in the eastern coastal provinces and cities where Deng Xiaoping established the Special Economic Zones. In the rural western provinces, millions lost their lifetime jobs because of the breakup of the communes, the lack of investment in these provinces, and the closing down of some state-owned enterprises. Masses of workers have migrated to eastern cities.

Outside the booming city Shenzhen near Hong Kong, foreign and Chinese investors built hundreds of flimsy "three-in-one" factories, containing assembly lines, warehouses, and worker dormitories. Accidents and fires are frequent. Competition among these

businesses is fierce, often causing managers to cut costs by any means, even cheating workers out of overtime pay and disregarding worker and consumer safety.

Despite government anti-corruption campaigns, factory owners often bribe local government officials and police to ignore building, labor, and pollution-law violations. "Here it is not the government but the bosses who control everything," remarked one female worker.

Families work most farms today and sell what they produce on the free market. But they still cannot own the land they farm. Farmer protests have gotten increasingly violent over real estate and other developers bribing local officials to force farmers off the land for more profitable enterprises.

Clearly, China has become a more prosperous nation by unleashing private enterprises that are more efficient and productive than state-run businesses and farms. But the new economic wealth is uneven among the Chinese people. Private entrepreneurs, investors, city workers, and the families of Communist Party officials have benefitted the most from the emerging capitalist economy. An estimated 1 percent of Chinese households control over 60 percent of China's wealth. Some wonder if Marxism with its goal of economic equality is finished in China.

China and Democracy

Some democratic reforms have taken place in China since the death of Mao Zedong in 1976, but the Chinese Communist Party still holds a monopoly on political power. Decisions are made by a few elite leaders chosen from the Communist Party.

Even so, significant political reforms have occurred at the local levels of government. Election reform laws now require the number of people running for local government councils to exceed the number of seats available. In addition, over 50 percent of the voters must vote for a candidate for him or her to win a seat. Political campaigning, primary elections, and absentee ballots are becoming more common. The Communist Party has apparently introduced these local democratic election reforms mainly to improve its trust among the people, eliminate corrupt local officials, and deter social unrest.

People have more freedom today to discuss public matters openly and even criticize the government, but only up to a point. The government comes down hard on individuals and groups that even appear to threaten Communist Party rule or social stability.

Major Characteristics of Communist and Democratic Systems

COMMUNIST Marxist Economy

1. Farms, industries, and other enterprises owned in common by the people and operated by the government.
2. Government economic plans set production goals, wages, and prices.
3. Goods and services to be shared equally by all.

Leninist Government

1. Communist Party alone rules as a "democratic dictatorship."
2. Only those chosen by the party run unopposed in elections for government offices.
3. Persons in power dictate laws and how courts will rule.
4. No guarantee of civil or political rights; dissent against the party and government suppressed.

DEMOCRATIC Capitalist Economy

1. Farms, industries, and other enterprises mainly owned and operated by private entrepreneurs and shareholders seeking profits.
2. Production, wages, and prices set by free market supply and demand.
3. Goods and services distributed according to one's ability to pay.

Democratic Government

1. Multiple political parties compete in fair elections to rule.
2. Competitive elections for offices at all levels of government.
3. Elected leaders must obey the laws and court decisions ("rule of law").
4. Individuals guaranteed civil and political rights, including dissent against the government.

The army opened fire on pro-democracy demonstrations in Tiananmen Square in 1989. Since that time, the government has acted quickly to smother attempts to establish independent student organizations and labor unions. China has even outlawed the Falun Gong, a seemingly harmless group that conducts physical exercises based on Buddhist spiritual practices. The government calls the group a cult that threatens public order.

The Chinese have wide access to newspapers, TV, and even talk radio. But certain topics are off limits. One dissenter was arrested recently for "endangering the state" when he tried to organize a "We Want Human Rights, Not the Olympics" petition. The government censors books, videos, and newspapers. It also blocks Internet sites and closes down blogs and chat rooms if they discuss topics such as "democracy" and "famine in China."

Public demonstrations, some of them violent, have been increasing in recent years. Unemployed factory workers, farmers pushed off the land, and people fed up with corrupt officials have taken to the streets since they have few other ways to voice their grievances to the government.

Particularly disturbing to the government have been riots and uprisings by ethnic groups seeking independence. In the months leading up to the 2008 Summer Olympics in Beijing, the government harshly suppressed protests in Tibet, which China annexed by military force in 1951.

China today may be trying to define democracy on its own terms: "democracy with Chinese characteristics," in the words of an official document. For example, the Communist Party stresses group rights like health care over Western-style individual rights such as freedom of speech.

China's current top leader, Hu Jintao, has spoken about "greater participation" by the people. But party leaders have not given much serious discussion to expanding local competitive elections to China's provinces, let alone to the national level. "They want democracy to belong to the party, not to belong to the people," said an anonymous retired party official.

Will the surprising development of capitalism in China lead to democracy? Political scientists had long assumed that as capitalism improved the wealth of a society, an expanding middle class would demand democratic rights. But some scholars have recently challenged this assumption as nations like Russia and China have adopted capitalism without democracy.

A number of recent surveys indicate that after 30 years of capitalist reforms in China, private entrepreneurs are much more interested in running their enterprises and making money than demanding democracy. As long as the Communist Party continues the program of free market reforms and keeps the country stable, China's new capitalist middle class seems to be content to go along with the current regime, at least for now.

As new economic opportunities arise, more Chinese may finally begin to enjoy the prosperity that Mao Zedong could never achieve. Some experts estimate that by 2025 China will have the world's largest middle class. A wealthier and more confident China may yet evolve to become a democracy.

For Discussion and Writing

1. Why do you think Mao Zedong failed to achieve his Marxist communist goals of economic equality and prosperity?
2. Why did Deng Xioping launch a program of capitalist reforms?
3. Do you think China will ever become a democracy? Why or why not?

For Further Reading

Denoon, David B. H., ed. *China, Contemporary Political, Economic, and International Affairs*. New York: New York University Press, 2007.

Tsai, Kellee S. *Capitalism without Democracy, The Private Sector in Contemporary China*. Ithaca, N.Y.: Cornell University Press, 2007.

A C T I V I T Y

Capitalism and Democracy in China

Students in small groups should first review the chart titled "Major Characteristics of Communist and Democratic Systems." The students should use these characteristics and the information from the article to discuss where to place today's China on the two scales below. Each group should then list evidence to defend its placement of China on the two scales.

Marxist Economy 0 1 2 3 4 5 6 7 8 9 10 Capitalist Economy

Leninist Government 0 1 2 3 4 5 6 7 8 9 10 Democratic Government

Lesson from the Bill of Rights Institute

<http://www.crf-usa.org/bill-of-rights-in-action/bria-24-1-a-communism-capitalism-and-democracy-in-china>