

## **Chapter Four: China's Socialist Market Economy**

Abstract: The concern of this study is to present the major Chinese-language arguments concerning the philosophical foundations of China's socialist market economy. Why undertake such a study? The sophisticated debates in China over the socialist market economy remain significantly misunderstood outside China, precisely because there is a noticeable dearth of engagement with such scholarship. My motivation is that one must begin with big ears and eyes and a small mouth, seeking to understand first in order to understand. Only then can one engage productively in debate. Thus, my presentation is primarily expository, providing contextual explanations where necessary and keeping my assessments to a minimum. The structure is as follows: it begins with the need to de-link a 'market economy' from a capitalist system, as also a 'planned economy' from a socialist system. The second section concerns contradiction analysis (Mao Zedong), which enables the identification of the primary contradiction in the context of socialism. Here we find a shift from the focus on ownership of the means of production to the liberation of productive forces, as well as the crucial move that distinguishes between an overall socio-economic system and specific institutional forms such as planned and market economies. The third section deploys another feature of contradiction analysis, in terms of universality and particularity. It asks what is common about a market economy and how the particular features of a socio-economic system determine the nature of a market economy. The final section deals with more recent arguments concerning the dialectical transcendence or sublation of planned and market economies in the Chinese model, since planning has by no means been abandoned. Throughout this study, Marxist philosophy is the framework, since this is how Chinese researchers approach the question.

When one engages seriously with Chinese Marxist philosophy on China's socialist market economy, one soon notices a distinct disjunction: in China, key issues in the debate have largely been settled some time ago, while outside China significant misunderstanding remains. A major reason for this ignorance is that non-Chinese researchers remain disconcertingly uninformed concerning Chinese-language scholarship. Thus, the purpose of this study is to present the major developments and achievements of this Chinese-language scholarship. My focus is expository, providing contextual explanations material where necessary, but keeping my own assessment to a minimum. And given that the idiom of Chinese scholarship is different to that familiar to English readers, most of whom have been saturated with the Western liberal tradition, the exposition requires a process of 'translation' from one idiom to another. Throughout, the underlying motivation is that one cannot engage in serious debate without the preliminary step of seeking understanding and thus trust with interlocutors. To use a metaphor: one begins with open eyes and ears, while keeping one's mouth shut; only after gaining understanding can one open one's mouth in a considered and constructive manner.

The study is structured as follows: it begins with the need to de-link a market economy from a capitalist system, and so also a planned economy from a socialist system. This entails an engagement with Deng Xiaoping, plus a historical survey – beginning with Marx – on market economies throughout human history. Second, I delve into Chinese scholarship and its deployment of Mao Zedong's contradiction analysis. Here the concern is to identify the primary contradiction in the context of the construction of socialism; or, rather, the manifestation of the contradiction between the forces and relations of production. For Chinese researchers, this manifestation is in terms of the overall socio-economic system and its specific components, or what may be called institutional forms, which include planned and market economies. Given that the primary purpose of socialism is to liberate the forces of production, the question now concerns what institutional form

enables such a liberation. Initially, a planned economy was able to liberate productive forces, but later and in light of its unfolding contradictions a market institutional form becomes necessary – although planning does not disappear. The third section concerns the dialectic of universality and particularity, in which a market economy has universal or common features but its nature is determined by the particular socio-economic system of which it is a component. In this way, the third section also seeks to answer the question as to whether the market economy in the context of socialism is indeed socialist, an answer that also entails a return to Marx and Engels. The final section deals with more recent developments concerning the dialectical sublation or transformation of both market and planned economies. Obviously, planning has not been abandoned, but it has been transformed to a qualitatively new level – as has the socialist market economy. By now it should be obvious that the framework is resolutely Marxist – or more specifically Marxist philosophy – for this is the approach that Chinese scholars use and have developed further in light of China's specific conditions.

### **De-linking: Planning and the Market**

The first step, to which all of the Chinese scholars devote more or less space, involves de-linking a market economy from capitalism, and a planned economy from socialism. While this task may seem to be relatively easy and able to be dealt with quickly, it requires some more attention. The reason: it remains remarkably persistent in our own day, not least because of the initially exasperated – due to the viability of socialism when it was written – slogan of Count Ludwig von Mises (1932, 142): 'the alternative is still either Socialism or a market economy'. As one of the godfathers of a now defunct neoliberalism, von Mises's deceptive slogan has become a commonplace all the way from neoliberal true believers to hard-line communists: socialism inescapably entails a planned economy, while a market economy is by definition capitalist.

In this light, I begin with Deng Xiaoping and his circle, since the narrative of his steady efforts, against some opposition, to lay the groundwork and set the agenda for a socialist market economy raises a number of important questions for the discussion that follows.<sup>1</sup> Second, I deal with the historical question concerning different market economies in human history.

*Development of Deng Xiaoping's thought on the Socialist Market Economy*

In 1979, Deng Xiaoping observed:

It is wrong to maintain that a market economy exists only in capitalist society and that there is only 'capitalist' market economy. Why can't we develop a market economy under socialism? Developing a market economy does not mean practising capitalism ... We cannot say that market economy exists only under capitalism. Market economy was in its embryonic stages as early as feudalist society. We can surely develop it under socialism (Deng 1979a, 236; 1979b, 239).

This is the basic de-linking move, to which Deng would return on a number of occasions over the next dozen years, depending on the audience and the need to remind doubters and dogmatists that it was not the beginning of the 'capitalist road', and certainly not a 'heresy [*yiduan*]' (Deng 1984b, 91; 1984a, 97–98; Yang Z. 2010, 11–12). Instead, as nearly all the Chinese scholars I have consulted make clear, the whole approach relies on the Marxist basis of liberating thought and seeking truth from facts. At the same time, there was a distinct development in Deng's thought and in the related resolutions of the Central Committee and CPC National Congress. Here I follow the account of Yang Zhiping (2010, 11–13),<sup>2</sup> who identifies three stages: the breakthrough, in which socialism can also engage in a market economy

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1 Given the nature of the socialist system in China, leaders are also thinkers (unlike 'Western' countries) and so their work is often the topic of scholarship. The observations on Deng Xiaoping Thought are concentrated in this section.

2 Close attention to the development of Deng Xiaoping's thought may also be found in Gao and Zheng (1996).

(1979-1982); the transition, in which planning and the market are combined (1982-1989); and the establishment of a socialist market economy (1989-1993).

Initially, a market economy was seen as to have an 'auxiliary role [*fuzhu zuoyong*]' and function 'as a supplement [*weifu*]' – as early resolutions put it – to the planned economy, to which priority (*weizhu*) would still be given (Deng 1979a, 236; 1979b, 239). Next came an effort to find a balance or symbiosis between planning and market, particularly in light of the evident contradictions arising in the planned economy, which had begun to stifle economic performance (Deng 1982b, 16; 1982a, 26–27; 1985c, 148; 1985d, 151). While earlier resolutions moved somewhat cautiously (CPC Central Committee 1984), the means of production moved more swiftly.<sup>3</sup> Increasing market functions led to further theoretical reflection. Thus, in 1985 Deng Xiaoping observed in response to questions, 'There is no fundamental contradiction between socialism and a market economy', and a little over a year later, he observed that 'we should no longer say' that – in an echo of his comment in 1979 – 'a planned economy is primary [*weizhu*]' (Deng 1985c, 148; 1985d, 151; 1987a, 203; 1987b, 203). Note the shift: it was no longer a case of an overall planned economy warily shaping the direction of a market or commodity economy, but the fact that there was no fundamental contradiction (*genben maodun*) between them, that a market economy did not necessarily violate the principles of socialism. To provide the theoretical justification for this position, Deng deployed two positions: first, one should see a market economy or a planned economy as a 'method [*fangfa*]'; second, this method has the primary purpose of 'liberating the forces of production [*jiefang shengchanli*]'. We will return to both points later, but the whole argument would lead to the 13<sup>th</sup> National Congress of the CPC of 1987 adopting a distinct combination of planned and market economies in terms of an 'internal unity [*neizai tongyi*]' (Zhao 1987, 7; Yang Z. 2010, 12).

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<sup>3</sup> For example, see the slightly later study, which has been translated into English, of the first 20 years of development in Zhejiang province (Li et al. 2002a; 2002b).

Even so, this breakthrough in 1987 still spoke of the 'state regulating the market and the market guiding enterprises' (Zhao 1987, 7), so there was still some way to go. The third stage culminated in the report of the CPC's 14<sup>th</sup> National Congress in 1992 and of the Third Plenary Session of the 14<sup>th</sup> Central Committee of the Party, in November 1993. The latter stated: 'The socialist market economic institutional form is integrated with the basic socialist system. The establishment of a socialist market economic institutional form is to make the market play a fundamental role in the allocation of resources under the state's macro-control' (CPC Central Committee 1993, 2; Yang Z. 2010, 13).<sup>4</sup> The lead-up to this decision required on Deng's part both reiteration of earlier statements on de-linking and some further development: planning happens under capitalism as well; both planning and market economies should be seen as economic 'means' (*shouduan*); and they function to serve (*fuwu*) a larger system (Deng 1990b, 363–64; 1990a, 351; 1991b, 367; 1991a, 354). As to how it so serves, Deng specifies that the essence of socialism is the 'liberation and development of the productive forces, elimination of exploitation and polarization, and the ultimate achievement of prosperity for all' (Deng 1992b, 373; 1992a, 361; Y. Liu 2002, 17).

Let us summarise the main points that have arisen: 1) de-linking itself; 2) description of a market as a 'method [*fangfa*]' and then a 'means [*shouduan*]' that is distinguished from and determined by the larger socio-economic system; 3) this means 'serves [*fuwu*]' the larger system; 4) the essence of socialism is to liberate the productive forces. It should be noted that the first and second points had already arisen in the context of Eastern European 'market socialism': thus, de-linking was a common assumption from the time of Oskar Lange's proposals (1936; 1937), and the market was widely understood as a neutral tool or economic mechanism that could be used by different socio-economic systems. The third and fourth items begin to indicate precisely what such differences might be, with the concept of serving a larger system indicating that a market economy is a component or

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<sup>4</sup> The full text may also be found at: <http://www.china.com.cn/chinese/archive/131747.htm>.

institutional form of such a socio-economic system, as well as the proposal that socialism's major concern is with liberating the forces of production. I will return to these points in greater detail in the next section, for now I turn to the historical point.

### *Market Economies in History*

This point was already foreshadowed in the text I quoted earlier, from 1979, where Deng Xiaoping (Deng 1979a, 236; 1979b, 239) observed that a 'market economy was in its embryonic stages as early as feudal society'. Further, on a number of occasions he offered the comparative point that a planned economy is also part of capitalism, the more so during times of economic difficulties. While most Chinese scholars make similar observations, neither they nor Deng were the first in the Marxist tradition to deploy historical arguments in relation to market economies.

The first was actually Marx, in the third volume of *Capital* (1894b, 583–99; 1894a, 588–605), where he examines the market economy of ancient Rome. His concern is to trace the effects of 'usurer's capital'. Found in the 'most diverse economic formations of society', in Rome a portion of this capital led to commodities, money, trade, borrowing, surplus and profit. In other words, we have some of the core components of a 'market economy'. But is it a capitalist market economy? Not at all. It is a slave economy, for its primary purpose was to find, transport and buy the labour of others as slaves. The whole market economy of ancient Rome (and indeed ancient Greece) was geared for and subordinated to this purpose. Marx subsequently outlines the way some of these components worked: usury, interest, surplus, money, labour and so on, were arranged quite differently and functioned in ways that are far from a capitalist market economy.<sup>5</sup> Or, if they do at times seem similar, they function in 'altered conditions', without a capitalist framework (Marx

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<sup>5</sup> Or, as Kula (1976, 17) points out: 'in the pre-capitalist economy, market phenomena are governed by completely different laws in many cases, and ... these phenomena have an altogether different effect on the remaining sectors of the economy'.

1894b, 587, 590; 1894a, 592, 595). Marx moves on to outline how some elements of feudal markets worked, and then how the different constellation of a capitalist mode of production overturned and reconfigured many of these earlier features (especially usury). For Marx at least, market economies are not all the same and do not function in exactly the same way. They may have some components in common, and to a casual observer such market economies may appear to be similar, but it is both the arrangement of the parts in relation to each other and the overall purpose or function of the market economy in question that indicates significant differences between them.

We may add to Marx's initial thoughts that it was precisely a slave market economy that was a major component of the Ancient mode of production of both Greece and Rome (Boer and Petterson 2017), or that the ancient Persians of the first millennium BCE developed a military market economy by deploying the relatively recent invention of coinage (Boer 2015), or that the European feudal market economy was primarily focused on the estate's own production and well-being (Kula 1976). I mean not local peasant produce markets, but state-wide and even empire-wide socio-economic systems of which market economies formed an important component. As Chinese scholars routinely point out, market economies have existed throughout human history and constitute one the great creations by human societies (Yang J. 2009, 174). But they also point out that these market economies are by no means capitalist in nature, since they are shaped by the socio-economic system of which they are a component: to assert otherwise is – as Deng Xiaoping made clear – to become dogmatic, or to fall into what is now known as 'economics imperialism', in which the assumptions of a capitalist market economy (and its economic theory) are de-historicised, de-socialised, universalised and superimposed on any historical market economy, thereby skewing analysis (Milonakis and Fine 2009; Fine and Milonakis 2009).

## Contradiction Analysis

In many respects, the preceding material on de-linking provides the necessary background for the main philosophical arguments, in which all recognise the basis established by Deng Xiaoping, but also see the need to develop the argument further. A key move is to deploy a distinctly Chinese Marxist approach: contradiction analysis. Here we move back to Mao Zedong's lectures (1937b; 1937a) on dialectical materialism, held during the immensely creative period in Yan'an after the Long March. A section of the lectures would later, with revisions, appear as 'On Contradiction' (Mao 1937c), to be followed by 'On Correctly Handling Contradictions Among the People' (Mao 1957). It is beyond my remit to delve into the detail and influence of these texts, save to pick up the following: first, the need to identify the primary contradiction in any situation, which is the key to dealing with secondary contradictions; second, the main contradiction during the construction of socialism is between the forces and relations of production; third, the nature of contradictions under socialism is qualitatively different from that of capitalism, since they are non-antagonistic contradictions (*feidui kangxing de maodun*); fourth, in order to ensure that they remain non-antagonistic, they need to be managed and resolved.

### *From Ownership to Liberating the Forces of Production*

To see how this approach is deployed in relation to the socialist market economy, I begin with the influential work of Huang Nansen (1994), who points out that while Mao was correct on his main points, he made one crucial mistake, concerning the manifestation of the main contradiction between the forces and relations of production. Mao reasoned that since the contradiction was manifested in a capitalist system between the socialised nature of production and the private ownership of the means of production, a socialist system would seek to solve this contradiction by ensuring the social or public ownership of the means of production. Thus, both the process of

production and the means of production would become socialised. So we find that Mao and those around him rapidly and even artificially raised the levels of public ownership, hoping to solve the inherent contradiction they had inherited. However, this approach – argues Huang – is ultimately non-dialectical on two counts: there would seem to be an absence of contradictions after this one is solved; and it risks ignoring the point already made astutely by Stalin (Stalin 1952b; 1952a) and affirmed by Mao himself, that under socialism the contradiction between forces and relations of production would continue, albeit in a distinctly different manner.

Let me emphasise this point for moment: the resolute focus on ownership of the means of production was far too one-sided, for it relegated to second place, if not not ignoring altogether, the forces of production. Mao and those around him were certainly not the only ones who pressed heavily on public ownership. It has become a staple for many in the communist movement, and even today in the midst of bourgeois states the nationalisation of a bank or a rail network is regarded as 'socialist'. A one-sided reading of Marx and Engels in the manifesto assists with such an assumption, where centralisation, nationalisation and the abolition of bourgeois private property are seen to be the core project for communism immediately after a successful proletarian revolution. But is this really the case? Perhaps we need to remind ourselves of texts such as the following: 'The proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralise all instruments of production in the hands of the State, i.e., of the proletariat organised as the ruling class; and *to increase the total of productive forces [Produktionskräfte] as rapidly as possible*' (Marx and Engels 1848a, 481; 1848b, 504).

What happens when the forces of production are returned to the dialectic? This was a key feature of Deng Xiaoping's emphasis: again and again, he insisted that the main project of socialism in his era is to liberate the forces of production, rather than settle for 'poor socialism'. Only by

liberating productive forces, which also required a significant liberation of thought, would it be possible to eliminate exploitation and attain prosperity for all, or what he would come to call a *xiaokang* society – one that is moderately well-off, healthy, peaceful and secure.<sup>6</sup> All of the Chinese authors I have consulted emphasise this feature of Deng's approach, with a couple (Peng 1994, 11; Z. Liu 1998, 10) observing that it is central to the Marxist method itself, in which the productive forces are the ultimate determinant of social relations – also in the process of socialist construction.

### *Primary Contradiction*

On this basis, Huang Nansen reassesses the primary contradiction between the forces and relations of production. Instead of seeing it – as Mao did – in the form of productive forces and the ownership of such forces, Huang proposes that it is actually manifested in terms of the forces of production and the economic institutional form (*tizhi*). To non-Chinese readers, this may seem to be an unfamiliar way of formulating the question, so let me explain. The argument deploys specific technical terminology: the term for the overall or basic system is *zhidu* (制度), while that used for the specific institutional form is *tizhi* (体制). However, if one casts a cursory glance at a Chinese dictionary, one finds both terms translated as system, although *tizhi* is also a structure, setup or way of organisation. By contrast, the usage in Huang and others is quite specific, so I have translated *zhidu* as the overall or basic system, while I have used a term from 'Régulation Theory' (Boyer and Saillard 2002) to translate *tizhi*: an 'institutional form' is a specific building block or component of a larger system, and is it one among others.<sup>7</sup>

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6 References to this position occur throughout Deng Xiaoping's many texts from the early 1980s onwards.

7 The terms had already begun to emerge when Deng Xiaoping reflected on the 'Decision by the CPC Central Committee on Reform of the Economic Institutional Form' (CPC Central Committee 1984; Deng 1984b, 91; 1985c, 148–49). However, the most explicit example comes from his famous 'Southern Tour': 'After the basic socialist system [*shehuizhuyi jiben zhidu*] has been established, it is necessary to fundamentally change the economic institutional form [*jingji tizhi*] that has hampered the development of the productive forces and to establish a vigorous socialist economic institutional form [*tizhi*] that will promote their development' (Deng 1992b, 370; 1992a, 358).

For example, a socialist system includes the following institutional forms: the political (democratic centralism and the multi-national state); the legal (with socialist rule of law); and – of specific relevance here – both planned and market economies. Further, another sense in the semantic field of *tizhi* is a way or mode of organisation. Thus, the institutional form of a market economy organises in a particular way the means and relations of production, so as to allocate resources and distribute products by means of the law of value, price signals, and competition. However, a planned economy organises the forces and relations of production in a somewhat different way, by means of regulation, long-term calculation of means and ends, dealing with challenges, and setting perimeters for what can and cannot be done. How these two institutional forms work together in a socialist system continues to be the focus of considerable Chinese research, to which I return later. To reiterate the key point here: an institutional form (*tizhi*) is a component of and shaped by the whole system (*zhidu*). Thus, to identify a market economy institutional form with a capitalist system is a category mistake, as it is to identify a planned economy institutional form with a socialist system. Instead, the logic is that if the system is capitalist, then we have a capitalist market economy; but if it is socialist, then the market economy will be shaped by that overall system.

To return Huang Nansen's identification of the primary contradiction's manifestation: he argues that it appears between the overall system (*zhidu*) and the institutional form (*tizhi*), which in a socialist context must enable the liberation of the forces of production. If an institutional form enables such a liberation, then the contradiction is resolved for a time. But if the institutional form hobbles the liberation of productive forces (as happened after a while with the planned economy), then it is necessary to deploy another institutional form. At this point, a socialist market economy comes into play.

## Is It Socialist? Universality and Particularity

A further feature of contradiction analysis concerns the relation between universality (*pubianxing*) and particularity (*teshuxing*), or commonality (*gongxing*) and individuality (*gexing*). In this light, the institutional form of a market economy is a universal or common reality, while its integration within a socio-economic system evinces the particularity of each type of market economy. But it raises the question as to what is socialist about both the overall socialist system and the particular form that a market economy takes within the system. It also entails an analysis of whether and how the universal institutional form of the market economy is shaped and determined by the particular system.

### *Universality and Particularity*

A number of earlier works broach the question of universality and particularity (Huang 1994; Peng 1994; Zhang and Zhuang 1994; Yang X. 1994), although to understand how the dialectic works, we need some further discussion of technical terminology. As we have seen, a market economy is an institutional form (*tizhi*), a component of a larger and overall socio-economic system (*zhidu*). Now it is precisely the institutional form that becomes the universal term, found in quite a number of human societies throughout history. The socio-economic system becomes the particular or individual term, for each is distinguished from the other by specific features.

Further, many describe both market and planned economies as 'methods [*fangfa*]', 'means [*shouduan*]' and more technically as 'mechanisms [*jizhi*]' – all of which already appear in the important report from the CPC's 13<sup>th</sup> congress (Zhao 1987). However, their usage tends towards seeing a market economy as a neutral tool or piece of machinery. At this level, it is easy to see how it can be seen as a universal feature, a tool that is found in many societies and economic systems. This approach was not new, for – as mentioned earlier – it was already the majority position in the

Eastern European experiments with market economies, where they spoke of an 'economic mechanism' (Kornai 1957; Szamuely 1982; 1984; Kozma 1989). The gain was that it enabled them to de-link a market economy from capitalism, and this also appears to be the reason for earlier Chinese deployment of such terms. The negative side was that risked seeing market economies under different systems as identical with one another, with no distinguishing features. The logical outcome of this line of thought is that the only difference between capitalism and socialism is the political structure and perhaps the cultural tradition.

Chinese arguments explicitly recognise this problem, for to emphasise that a market economy is merely a method, means, or mechanism is to fall too heavily on the universal or common side of the dialectic. This is where the relations between institutional form (*tizhi*) and overall system (*zhidu*) come into play.

Thus, both planning and market are seen as institutional forms, with the former often designated as a 'regulatory institutional form [*tiaokong tizhi*]' and the latter as a 'market economy institutional form [*shichang jingji tizhi*]'.<sup>8</sup> As for the system itself, it is variously described as a 'basic social system [*shehui jiben zhidu*]', a 'basic socialist system [*shehuizhuyi jiben zhidu*]', and a 'basic socialist economic system [*shehuizhuyi jiben shichang zhidu*]' (Peng 1994, 13). Should one have any lingering doubts, the consistent usage of 'basic', or 'foundational [*jiben*]' indicates precisely how the system functions. As to how they relate to one another, Huang Nansen (1994, 4) observes: 'a market economy can become the commonality [*gongxing*] of the capitalist economic institutional form [*tizhi*] and the socialist economic institutional form [*tizhi*], and capitalism and socialism are their individualities [*gexing*]'. Or in more detail from Peng Lixun (1994, 13): 'A socialist market economy is the organic combination of the market economy

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<sup>8</sup> To make matters even more interesting, both are also regarded as forms of regulation. Not only do we have a 'regulatory institutional form [*tiaokong tizhi*]', but also a 'market regulation mechanism [*shichang tiaojie jizhi*]'. Integrating their types of regulation into the overall system becomes even more complicated.

and the basic socialist system [*shehuizhuyi jiben zhidu*]. Further, the 'difference between it and the capitalist market economy is not the generality of the market economy, but the particularity of combining it with the basic socialist system'. Thus, to confuse an overall system with an institutional form is a category mistake, now in terms of universality and particularity.<sup>9</sup>

The outcome of this detailed terminology and the necessity of a dialectical relation between common institutional forms and particular systems is that the nature of the institutional form in question is shaped by that system. Not merely shaped, for this way of putting it suggests that a market economy is in some way an independent entity – 'the market' as the neoclassical ideologues like to suggest. Huang Nansen (1994, 5) answers: 'There is no market economy institutional form that is independent of the basic economic system of society'. One cannot have the institutional form of the market economy separate from the system of which it forms a part. But how is this institutional form determined by the system with which it is integrated? One may begin by asking how a market economy can 'serve [*fuwu*]' either capitalism or socialism, or indeed any other system as a whole, but this is only the first step.

#### *What Makes It Socialist?*

The more elaborate answer addresses directly how system as a whole shapes the nature of a market economy. Let us begin with the 'three benefits', mentioned by many, that can be used to judge any institutional form: 'whether it is conducive to the development of the productive forces of a socialist society, to the enhancement of the comprehensive national strength of a socialist country, and to the improvement of people's living standards' (Deng 1992b, 372; Yang X. 1994, 6).<sup>10</sup> The first point picks up the core feature of socialism noted earlier: it should seek to liberate the productive forces. Not

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<sup>9</sup> It follows that to confuse a market economy with a capitalist system entails a confusion between commonality and particularity.

<sup>10</sup> My translation.

for the sake of such liberation in and of itself, but for the sake of socio-economic well-being – the core human right in the Chinese Marxist tradition (Sun 2014; Wan 2017). As Jin Zhen (1999, 41) puts it: 'Poverty is not socialism'. The second arises from the long Chinese experience of humiliation and semi-colonisation by Western powers, as well as the experiences of constructing socialism in different parts of the world, where international blockades, outright military aggression and the external sponsoring of internal destabilisation and plots were (and indeed continue) to be common. In this context, comprehensive national strength – specifically of an economic nature – is a must. The third, concerning the improvement of people's lives in all respects, is now expressed in terms of the people's desire for *meihao shenghuo*, a beautiful and good life (Xi 2017, 2). These three systemic benefits relate not merely to the institutional form of a socialist market economy, but also to other components of the whole system.

Another way of indicating how a market economy may 'serve society [*gongtongti fuwu*]' appears in Huang Nansen's contribution.<sup>11</sup> He identifies five features of the foundational socialist system to which a market economy must contribute: 1) the system contains a multiplicity of components, but public ownership remains the core economic driver; 2) while both state owned and private enterprises must be viable, their main purpose is not profit at all costs, but social benefit and meeting the needs of all people; 3) it deploys the old socialist principle of from each according to ability and to each according to work, limiting exploitation and wealth polarisation, and seeking common prosperity; 4) the guide for action (to parse Engels) always remains Marxism; 5) the primary value should always be socialist collectivism (*shehuizhuyi de jitizhuyi*) rather than individualism.

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<sup>11</sup> All of the other Chinese scholars used in this study offer very similar proposals. For example, Gao and Zheng (1996, 3–4) propose, now in terms of a contrast: 'A capitalist market economy is based on private ownership, which will inevitably bring about polarisation. A socialist market economy must adhere to the primacy of public ownership, and so to the road of common prosperity. These two basic characteristics of socialism cannot be lost in a socialist market economy'.

Public ownership as the basis, social benefit, seeking common prosperity, socialist collectivism, and Marxism as the guide – a concrete example drawn from today can illustrate: the social responsibility reports (*shehui zeren baogao*) (Feng and Zhang 2019). Each enterprise, whether state-owned or private, must produce annual reports of this type. They are primarily the responsibility of the local Communist Party branch in the enterprise – any enterprise, Chinese or foreign, with three or more party members must have a branch. While it is the task of governing board to ensure economic viability, the social responsibility reports focus on social benefit, poverty alleviation, environmental improvement, education, guidance and improvement of public opinion, core socialist values,<sup>12</sup> party building, and contribution to socialism with Chinese characteristics. These are not secondary to profit-making, seeking to show a compassionate face for the enterprise in question; instead they are central to the enterprise's activities in serving the common good (*gongtongti fuwu*).

A final comment: if, after reading this section, a reader still has in mind government 'interference' in an independent 'market', then this is a mistake. Such an assumption arises from a saturation in – I was tempted to write 'brainwashing' by – a capitalist system and the influence of its ideologues who maintain that 'the market' is in some way an independent entity, with its own way of functioning, in which a government more or less 'intervenes'. Why a mistake? A Chinese Marxist approach does not assume this framework. To quote Huang Nansen (1994, 5) once again: 'There is no market economy institutional form that is independent of the basic economic system of society'.

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<sup>12</sup> As part of party rebuilding under Xi Jinping, as well as society as large, the core socialist values continue to be promoted assiduously at all levels. They appear in adjectival form: prosperous and strong (*fuqiang*); democratic (*minzhu*); civilised (*wenming*); harmonious (*hexie*); free (*ziyou*); equal (*pingdeng*); just (*gongzheng*); rule of law (*fazhi*); love of country (*aiguo*); dedicated (*jingye*); honest and trustworthy (*chengxin*); friendly (*youshan*).

*A Basis in Marx and Engels*

Another way of broaching the question of socialist identity is to ask how it arises from the work of Marx and Engels.<sup>13</sup> Earlier material assumed that one could not find the basis of a socialist market economy in their works, but that it was the outcome of using Marxism as a guide for action and seeking truth from facts in the actual construction of socialism (Deng 1984b, 91; 1984a, 97–98; 1988a, 260; 1988c, 255). Thus, Marx and Engels could not have had access to vital empirical data in order to seek truth from facts (Huang 1994, 1; Peng 1994, 15; Gao and Zheng 1996, 1).<sup>14</sup> My earlier resort to Marx's historical point concerning the quite different market economy of ancient Rome may now be seen as an effort to address this concern from another angle.

Others have also made the effort, with two tendencies: a search for Marxist methodological underpinnings; and more detailed examinations of the founders' texts to identify substantive features. As for the former, we have already encountered the emphasis on forces of production as the ultimately determining factor of social relations, specifically in terms of the need to liberate productive forces rather than an imbalanced concern with ownership (Peng 1994, 11; Z. Liu 1998, 10). More recently is a return to Marx's 'Theses on Feuerbach' as the basis of both Mao Zedong's 'On Practice' (1937d) and his slogan, 'seek truth from facts', which became a cornerstone of Deng Xiaoping's approach (Han 2000). In a Chinese Marxist framework, this entails the obvious point that the Marxist method must be combined with the actual

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13 Without falling into one of the three traps of book worship (*ben ben zhuyi*), seeing Marxism as out-of-date (*wanquan guoshi lun*), or vulgar imminent practicality (*yongsu shiyong lun*) (Li et al. 2002b, 65).

14 As Marx (1875, 22) points out, such questions can be answered 'only scientifically [*nur wissenschaftlich*]' from evidence and experience, while Engels (1890, 447) observes: 'So-called "socialist society" is not, in my view, to be regarded as something that remains crystallised for all time [*allemaal fertiges Ding*], but rather being in process of constant change and transformation [*in fortwährender Veränderung und Umbildung*] like all other social conditions'.

historical, cultural and socio-economic conditions in China to make any sense.<sup>15</sup>

More detailed efforts began to appear later, with a focus on the content of human nature, practice and history. Since I have already mentioned practice, let me focus on human nature. The starting point is the well-known text from the manifesto: 'In place of the old bourgeois society, with its classes and class antagonisms, we shall have an association, in which the free development of each is the condition for the free development of all' (Marx and Engels 1848a, 482; 1848b, 506). Other texts, from *The German Ideology* to *Capital* also appear in a similar vein, but they are connected with the three stages of human development outlined briefly in the *Grundrisse* (Marx 1858b, 90–91; 1858a, 95). The first entails limited human productivity and human dependence, while the second is one of relative independence, in which there is the social exchange of matter, universal relations, requirements and capacities. For these Chinese scholars, the first is pre-capitalist and the second not so much capitalist, but one of a market economy (as an institutional form). This stage creates, as Marx observes, the conditions for the third: 'free individuality, based on the universal development of the individuals and the subordination of their communal, social productivity, which is their social possession'. For these scholars, the final stage is the same as that envisaged in the manifesto, namely, communism, with its all-round development of individuals (Zhang X. 2009, 137–38; Yang Z. 2010, 13).<sup>16</sup> This particular example (there are others into which I cannot delve here) reveals a development in some areas of Chinese scholarship. Let me put it this way: since the common institutional form of a market economy is not necessarily capitalist, but is shaped by the larger socio-economic system of which it is a component, it becomes possible to

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<sup>15</sup> A point suggested in Marx's reflections concerning earlier modes of production in which a particular form of production 'determines the position and importance of all the others', like a 'general light tingeing all other colours and modifying them in their specific quality' (Marx 1858b, 41; 1858a, 43).

<sup>16</sup> It is worth noting here that the German '*die universelle Entwicklung der Individuen*' becomes in the Chinese translation '*geren quanmian fazhan*', the comprehensive or 'all-round development of individuals' (Makesi 1858, 104).

examine the texts of Marx and Engels in relation to a market economy in order to identify how it works. This approach is neither undertaken naively nor in a way to justify veering onto the capitalist road, but rather to identify both the benefits and shortcomings of a market economy. The ideal, of course, is to draw on its its benefits within a socialist system, while being wary and preventing its dangers. That this is an arduous task, requiring constant diligence and adjustment, goes without saying.

### **Dialectical Transcendence: Beyond Planning and Market Economies**

Thus far, most references to Chinese scholarship have come from the 1990s, when the debate was strongest and there was a need to examine the Marxist philosophical underpinnings of the socialist market economy. However, this material comes from two or more decades ago, and while it reflects the reality that most of the core issues were settled in the 1990s (albeit still largely unknown outside China), there have been subsequent developments in light of the significant progress of the Reform and Opening Up. The most significant is a further elaboration of the dialectical argument, now in terms of the sublation or transcendence of the distinction between planning and market economies. I distinguish three steps: the earlier temporal narrative; the effort achieve a balance; and transcendence itself.

#### *From Temporal Narratives to Managing the Contradiction*

As for the temporal narrative, very few Chinese researchers assume that a planned economy as such has been superseded during the Reform and Opening Up – even though this is a common assumption outside China. Instead, they indicate that the singular focus on the planned economy has passed, with a move to the combination of both planning and market.<sup>17</sup> In more detail: while a largely planned economy immediately after a successful

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<sup>17</sup> For example, Yang (2009, 170–71) offers a longer narrative: 1) 1848-1917, from the Communist Manifesto to the Russian Revolution; 2) 1917 to 1978, from utopia to science, with the singular planned economy as the initial liberation of productive forces; 3) 1978 to the present, with the combination of planning and the market as modern socialism.

communist revolution is a necessity – with its nationalisations, collectivisation, and crushing or transformation of the former bourgeois-landlord owners of the means of production – it leads after a few decades to new contradictions that stifle economic efficiency and improvement. From the perspective of liberating the forces of production, there is no case in socialist countries where the old form of the planned economy failed to give their economies a boost and develop productive forces. But only for a while. At this point, a new arrangement of institutional forms is needed and a market economy begins to be introduced (as was tentatively attempted in some parts of Eastern Europe (Boer In press)).

Through the whole process of the Reform and Opening Up, planning has clearly not been abandoned. But how planned and market economies might work together within an overall system is the concern of much of the material I have studied. The effort arises from both the Chinese Marxist approach to contradictions (in terms of the unity of contradictions and their non-antagonistic interaction) and the move to designating both as institutional forms within a socialist system. Apart from earlier positions that allotted planning the primary role, later proposals include an organic combination and complementary interaction of planning in terms of macro-control and a market economy's micro-management, with both seen as methods of economic management (Jin 1999, 8). Thus, 'the market is the foundation and national macro-control is the guide' (Peng 1994, 14; Yang X. 1994, 6), both of which – to gloss Deng Xiaoping (1992b, 378) – must have 'hard hands'.

Let me provide an example of a more extended effort to achieve a balance, from Yang Jinhai (2009) in an article published in English. Assuming Mao's contradiction analysis, specifically in terms of the unity of contradictions – captured by the phrase, 'what is contradictory is also complementary [*xiangfan xiangcheng*]' – Yang proposes a contradiction between justice (or equality) and efficiency, which must be managed to avoid

antagonism. Justice appears in terms of a planned economy, public ownership, equal distribution of resources and fair recompense according to work (the definition of socialism already developed in the Soviet Union in the 1930s (Stalin 1936b; 1936a)); efficiency is a feature of a market economy, with its logistical capabilities and fostering of innovation. The challenge is to ensure that justice and efficiency function in a both-and manner, rather than – as in the Western European tradition – as an either-or option. Under a capitalist system, the contradiction is seen as either a market economy or a planned economy, either bourgeois private ownership of the means of production or public ownership (Mises 1932, 142). Opting for the former, the market economy under capitalism is like a ‘wild horse without reins’, producing crises, social polarisation and injustice, without being able to address the burning question of justice. By contrast, in a socialist system it has become both the efficiency of the market economy and the justice of the planned economy with its public ownership. They are, Yang suggests (2009, 175), like ‘the two wheels of a cart and the two wings of a bird’, which function in terms of the unity of contradictions. Too much of the market economy leads to a lack of equity and potential conflict; too much of public ownership and a planned economy stifles efficiency and weighs heavily on the people. Historically, one can see that earlier the emphasis was far too much on equality, but it was an equality of poverty. In the middle period of the Reform and Opening Up, efficiency was paramount, but it led to income disparity, widespread corruption, protests, flouting of the rule of law, lack of trust and potential conflict.<sup>18</sup> Yang points out at the time of writing (2009) that the urgent problem was to focus on justice and equality – an emphasis that is even greater a decade later, with a noticeable decline in corruption, protests, and the Gini-coefficient, as the rule of law is being enforced, and with a concomitant concern with poverty alleviation, prosperity for all and ecological civilisation. Yang concludes that ensuring the non-antagonistic

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<sup>18</sup> For an astute and empirically based study showing how such problems were not endemic and can be solved through deepening the Reform and Opening Up, see Lo Chi (2007).

relation between the contradiction of justice and efficiency needs constant work, but that China has certainly not abandoned public ownership in light of developing a socialist market economy (see also Zhou N. 2017, 29).

### *Dialectical Transcendence*

Nonetheless, seeking a balance between two institutional forms in tension with one another is only a half-way house, mirroring the middle stage of the development of Deng Xiaoping's thought (see above). More significant are some recent works arguing that China's overall system is in the process of achieving a dialectical sublation (*yangqi*) or transcendence (*chaoyue*) of planned and market economies, or more broadly of the traditional socialist economic model and that of capitalism. As a way of dealing with this proposal, I begin by asking what features of a market economy are seen as appropriate. Again and again one encounters the point that nearly all aspects of a market economy need to be developed. For example, Yang Xiaojie (1994, 6) observes that the general laws of the market economy include 'a method and means of allocating social resources, such as the law of value and the relationship between supply and demand, price signals, and the role of competition mechanisms in resource allocation'. A more detailed list appears in Gao and Zheng (1996, 4): market resource allocation plays a fundamental role; economic activities should follow the law of value; these activities should adapt to changes in supply and demand; price leverage and competition will enable efficient connections between resource allocation and benefits, as well as putting pressure on enterprises for the sake of innovation; economic signals should coordinate production and demand; and 'hard budget constraints' and even 'survival of the fittest' should not be avoided.

Noticeably, these proposals appear relatively early in the debate. Chinese scholars had studied the Eastern European experiments in great detail (Y. Wang 1995, 51; Yu 2011) and noted that the latter had not been

willing to deploy fully the market realities of hard budget constraints (entry, exit and bankruptcy), price signals, and – most importantly – the law of value (*jiazhi guilü*). The conclusion, from early on, was that if a market economy in a modern context is to function properly, it should include these features as well.<sup>19</sup> As Zhang and Zhuang (1994, 5) point out, a Chinese approach should ‘give full play to the role of the law of value in optimising the allocation of resources and regulating the circulation of commodities’, since the ‘objective necessity of following the law of value is the internal premise’ of a market institutional form. Without the law of value, a market economy would become ‘a tree without roots and water without a source’.<sup>20</sup>

Clearly, the law of value is not restricted to analysing capitalist market economies, but is applied and developed as a central feature of a socialist market economy (Yang Y. 2001; Zhang G. 2010; Huo 2011). Simply put, without the law of value, you cannot have a market economy. As to its specific function, two approaches appear in the critical literature. The first and majority position is that the law of value applies only to the institutional form, to the component, of a market economy. It does not apply to the basic socialist system as a whole, let alone to other components such as culture, politics and law, which are determined by the ‘three benefits’ (see above) that constitute the domain of planning. By contrast, the minority position entails an effort to reinterpret both the law of value and Marx’s theory of labour in a socialist context: on the one hand, the category of labour must be expanded to include a much wider variety, from rural to urban, and from manager to employee; on the other hand, the surplus value of a socialist market economy is not focused on profit at all costs, but directed at innovating the conditions

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19 This was by means a sudden innovation, for by the late 1950s Mao Zedong has also begun speaking of the necessity of the ‘law of value [*jiazhi fazhe*]’ and the ‘necessity for exchange at equal value [*dengjia jiaohuan*]’ during the construction of socialism (Mao 1959b, 10; see also 1959a; Zhu 2013, 102). By the mid-1980s, Deng Xiaoping also began referring to the necessity of the law of value (Deng 1985a, 130; 1985b, 134; 1988b, 262; 1988d, 257).

20 In fact, the decision to enable the law of value had already been made in 1984 the ‘Decision by the CPC Central Committee on Reform of the Economic Institutional Form’ (1984), which was highly praised by Deng Xiaoping.

of production, as well as education, medical improvements, poverty alleviation, and other public welfare programs. In other words, this 'social value' is focused on the cause of socialist construction and the common prosperity of all (Li et al. 2002b, 65–74). This is a minority position, but the implication is that the 'three benefits' are not merely the responsibility of planning, but may also be found in the socialist market economy itself.

Both approaches, however, indicate that the Chinese approach entails the full deployment of a market economy – a 'going all the way'. Thus, in 2013 Xi Jinping was instrumental in revising a position that had been standard since 1992: the market economy in the socialist system was no longer to play a 'basic role [*jichuxing zuoyong*]' but a 'decisive role [*juedingxing zuoyong*]' in allocating resources (CPC Central Committee 2013, 1). However, going all the way with a socialist market economy is only one side of the picture. It is, after all an 'institutional form [*tizhi*]' in the 'basic economic system [*jiben jingji zhidu*]', as the text of the 2013 decision clarifies. The other side also entails going all the way with a planned economy. This is not a return to old-style planned economies that sought to ban any market activity, but a qualitative transformation of planning itself. Thus, planning works with and through a market economy – since both are forms of economic management – to prevent the polarisation, chaos, economic disruption, and the pattern of boom and bust typical of capitalist market economies. Positively, it works to ensure the well-being of all, strengthening the country and making it secure and harmonious, achieving a moderately well-off society, to which may be added the complete removal of absolute poverty, ecological civilisation, and promoting core socialist values – summed up the phrase, 'people-centred development [*yi renmin wei zhongxin de fazhan*]' (Zhou and Wang 2019, 41). In this light, planning has undergone a qualitative transformation, deploying all of the sophisticated technologies available (now including artificial intelligence), setting both long-term plans and being flexible enough to deal with specific challenges (Heilman and Melton 2013).

Now we can begin to understand how the full deployment of planning and market is increasingly seen in terms of dialectical transcendence. As Zhou and Wang (2019, 41) put it, 'China's practice has proved that the combination of a market economy and socialism is a new form of exploring socialist practice, which overcomes the dual disadvantages of a traditional planned economy and a capitalist market economy, and which realises the twofold transcendence [*shuangchong chaoyue*] of a traditional planned economy and a capitalist market economy'. What does this mean? Simply put, it means going all the way through with a market economy in all respects, and it also means giving full play to the planned economy, so as to – in Hegelian terminology – realise their mutual *Aufhebung*. Only in this way can their roles be coordinated and unified. Zhang Xuekui (2009, 139) elaborates on the Chinese model as a 'new form of socialist practice', for the 'combination of a market economy and socialism overcomes the dual disadvantages of a traditional planned economy and a capitalist market economy'. At the same time, it also 'makes good use of the dual advantages' of the institutional forms of planned and market economies, so as to achieve 'organic unity in equity and efficiency, market regulation and government regulation, private economy and public economy, distribution according to work and distribution according to production factors, and so on'. In short, it is the 'dual sublation [*yangqi*] and transcendence [*chaoyue*] of a traditional planned economy and a capitalist market economy'.<sup>21</sup> Transcendence (*chaoyue*) has a longer background in Chinese thought, but *yangqi* is the translation of Hegel's *Aufhebung*, the leap to another dialectical level that overcomes the problems and blockades of the two previous terms. Or, in Chinese parlance, it is to develop what is useful and healthy and discard what is not.

Lest we dismiss such formulations as mere wordplay, there is indeed substance to this approach. Think of China's extraordinary development in

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<sup>21</sup> These proposals go beyond earlier suggestions of the 'negation [*fouxing*]' and 'sublation [*yangqi*]' of only capitalism (Liu Z. 1998, 9).

the last forty years, the move from being one of the poorest countries in the world to one of its most prosperous, lifting 800 million people out of poverty (7 out of 10 in the world), a rate of innovation that leaves everyone else behind, global technological leadership in more and more areas, the 'Chinese speed' of ecological civilisation, the growth of cultural confidence on the global stage – all of which may be captured not in terms of finally 'catching up' but a dialectical leap into the future. Some simple statistics indicate what is at stake: at the time of Liberation, 97 percent of the population lived in poverty and life expectancy at 35, while 70 years later only 2 percent are in poverty (and this is unacceptable) and life expectancy is 77.

One more example, with a return to the old opposition of public and private ownership. While the general assumption in Chinese works remains that public ownership is connected with state-owned and collective enterprises, and that private ownership is associated with the tens of millions of non-state enterprises, one can also find the development of a breakdown or 'dying away' (alluding to Engels) of the distinction as it has been known so far. Thus, the fabled state-owned enterprises – the backbone of the economy – are undergoing an accelerated process of eradicating old inefficiencies by learning from the market practices of 'private' enterprises and even entering into partnerships with those enterprises. The emerging outcome is that the SEOs have become hubs of innovation, winning contracts throughout the world with their superior technology, efficiency and lower costs. At the same time, the multiplying of 'private' enterprises – now as a major feature of 'targeted poverty reduction' (Wang F. 2019) – may be seen as a 'people-based economy', in which the vast majority common people – rural and urban workers in their many different forms – involved in the socialist project are the owners (Li et al. 2002b, 40–42). Further, all enterprises, whether 'private' or 'public' – Chinese and foreign, village or local government-owned enterprises, new economic organisations, start-ups and so on – with three or more CPC members must establish a local branch, elect a secretary and engage in party building. The larger the company, the larger the party

membership. For example, the world's leading online retailer, Alibaba, has more than 7,000 CPC members, with significant party building as part of its core mandate. On the one hand, these party organisations do not interfere with management decisions, but, on the other hand, they ensure that the company adheres to 'social responsibility' principles (see above). In this light, the old distinction between 'public' and 'private' enterprises is beginning to die away.

## Conclusion and Implications

I have attempted to provide an exposition of the main philosophical developments of Chinese Marxist scholarship in order to understand China's socialist market economy. This has entailed moving from Deng Xiaoping's initial forays, through the hard work of the 1990s with its focus on liberating the forces of the production and the primary contradiction between overall socio-economic system (*zhidu*) and institutional form (*tizhi*), to the beginnings of a dialectical sublation of both planning and market. Throughout much of the material, Mao Zedong's contradiction analysis framed the form of the arguments, a reality that counters the idea entertained in some quarters that Deng Xiaoping departed from or even 'betrayed' Mao. We have also encountered the need to avoid some category mistakes: between a system and an institutional form, and between universal and particular – both with relevance to the tendency among some to confuse a market economy with capitalism and a planned economy with socialism. I would like to add another category mistake: seeking to analyse China's socialist system and its institutional forms by assuming that it is a capitalist system and thus using methods – including Marxist – for the analysis of capitalism.

As already mentioned, my concern has been expository, with explanatory observations and a 'translation' of idioms where needed. The overriding purpose has been to seek understanding (big ears and eyes) through patient attention to what Chinese scholars actually argue. Ignoring

or dismissing it leads to profound misunderstandings;<sup>22</sup> understanding it enables one to gain trust and engage in productive and constructive debate. Given the focus of this study, I have avoided assessments of the material, although my mode of presentation should indicate such sensibilities.

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22 Among others, these include 'capitalist socialism', bureaucratic capitalism', 'capitalism (or neoliberalism) with Chinese characteristics', or the catch-all 'state capitalism'. These misunderstandings are the concern of another study (Boer and Yan Forthcoming). When one has read enough of such material, one soon notices a distinct approach: they begin with a brief mention of official government positions, which are quickly dismissed as mere 'rhetoric'; they suggest they are dealing with 'actual' conditions, and then perhaps cite newspaper articles or an occasional scholar with a Chinese name to give the piece some 'credibility', but who typically lives outside China, writes in English, and is anti-communist or claims to be a 'Maoist'. Obviously, this is a rather shoddy way to undertake scholarly research, indicated by both the method – if it can be called that – and the conclusions reached.

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