Confucianism and the Recent Chinese Economic Reform*

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The Chinese economic reform since 1978 represents a necessary step in the development process of an economic system that is truly Chinese. This Chinese system is a synergy of socialism and capitalism, and is consistent with the dominant principle of Confucianism, i.e., the Doctrine of the Golden Mean. Because the market experiment is in harmony with the middle path, it will continue into the indefinite future though perhaps slowly and intermittently. However, since Confucianists prefer equality to inequality and most Chinese are Confucianists by nature or culture, the socialist foundation will also be continued in the midst of many capitalistic reforms.

I. Introduction

The recent economic reform in the People’s Republic of China has been of interest to all of the Three Worlds on earth. To the First World of the Western industrial nations like the U.S., the success of the reform could mean the addition of a vastly-expanded market as well as the rise of a potentially very powerful competitor. To the Second World of the communist bloc, the success could provide an incentive to alter its economic structures and

* This paper was presented at the Fourth World Congress of Social Economics, Toronto, Ontario, Canada, August 1986 and the author wishes to express appreciation to Dr. John F. Trinor for his suggestions of ideas and corrections on English writing, and for Ms. Maxine Pianka and and Ms. Robyn Tucker for preparing the paper on the word processor. Appreciation also is extended to Dr. Daniel R. Knighton for technical assistance.
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perhaps ideologies. And to the Third World of the less developed countries like India, the successful reform could serve as a practical example to be followed. The important question at this point seems to be whether the reform will continue after its leader, Deng Xiaoping, passes from the scene. Although Deng (p. 47, p. 55) himself reiterates that the decision to reform the Chinese economic structure will not be changed in the future, doubts have been expressed by a number of observers. Mandle (p. 10), for example, on the basis of the relation between the economic and the political decentralization, suggests that another cultural revolution may soon be in the making. It is the purpose of this paper to shed some light on the continuity issue of this Chinese reform of the 1980's.

The main theme of this paper is that though perhaps slowly and intermittently, the Chinese market experiment is likely to continue into the indefinite future. This will be the case because the reform is believed to represent a necessary step in the natural development process of an economic system that is truly Chinese. This Chinese system will be neither Marxian socialism, nor Smithian capitalism, but will be something in between and better, which can be called the Confucian synergism. Thus, the reform has become necessary because the Chinese economic system since 1950's has been too much of a socialist extreme. Since it is not the extremes but the golden mean that is truly valued in the Chinese tradition, the reform symbolizes an alignment from the far left to somewhere closer to the middle of the road — the principle of the golden mean or the Tao of Chung Yung in the Chinese expression.¹

This paper is divided into five sections. After the introduction, section II will highlight the economic problems caused by adopting those policies that were designed primarily to achieve socialist economic goals. These problems create a need for capitalist market experiments as complements to socialist development, which will be explained in section III. Section IV addresses the continuity issue in conjunction with the guiding principles of the new Chinese economic system. The final section will contain a

¹ For an original discussion of the Tao of Chung Yung, see The Doctrine of the Mean in Legge, 1, pp. 382-416; for a modern interpretation of it, please refer to Sun.
brief remark on the possible contribution of Confucianism in today's world of ideological conflicts between socialism and capitalism.

II. Problems with the Socialist Extreme

Since the Chinese Communist Revolution in 1949, the predominantly socialistic goals of economic equality, stability, and independence became the major goals of the Chinese economy. In the meantime, the predominantly socialistic means of moral incentives, public ownership, central planning, and protectionism were adopted. Thus, to achieve the goal of economic equality, the egalitarian distribution principle was applied; moral incentives were emphasized; public ownership enforced; and collective communal living encouraged. To promote economic stability, central planning was initiated, which was believed also to further the egalitarian goal, because income and price fluctuations can unintentionally change the pattern of income distribution. In order to facilitate economic independence, protectionist trade policies were adopted. Moreover, economic independence was believed to ensure greater domestic socio-economic stability and to further the central planning process.

These socialistic economic goals are all legitimate ones for any economic system. However, when they are excessively pursued, other important economic goals are likely to be neglected. Furthermore, due to the existence of certain complementary relationships of various goals, the pursued socialistic goals themselves may prove to be too costly to maintain, if not incapable of achieving. Consequently, a number of major economic problems became apparent in the mid to late 1970's.

The problem associated with the overemphasis on the egalitarian goal is the lack of driving force for engaging in productive activities more intensively and extensively. "We ignored the development of the productive force for a long time in the past," was remarked by Deng (p. 16). Thus, although moral

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2 A Chinese economist, Ma Ding, for example, states, "For a long period of time in the past, ..., Chinese economists took a one-sided approach to different economic theories" (Ma, p. 17).
incentives were strongly encouraged, they alone were not enough to motivate the majority of people. When profits are taken by communes, enterprises, and governments, and losses are covered collectively by these same organizations, it is difficult for an average farmer or worker to work diligently, to avoid wastes, and to innovate. Indeed, enterprises are said "to eat from the big pot of the government and workers from the big pot of the enterprise" (Huan, p. 15). Additionally, public ownership of property deters the desire for accumulation of private capital, which further discourages productive activities. Since rewards to labor are not directly related to effort and performance, both productivity and morale are low. Allocative efficiency and X-efficiency consequently both suffer even though China is proud of its achievement as one of the most, if not the most, egalitarian countries in the world.3

In addition to the problem of incentive, there is the related problem of rigid central planning. Chinese economists and political leaders generally are very much convinced of the instability of a free market economy. They see central planning as a means to promote not only equality but also stability. However, excessive planning, when accompanied by the egalitarian distributive criterion, tends to increase the need for more centralization and planning. As Huan points out,

The consequences of over centralization are: the more centralized, the more rigid (the economy); the more rigid the economy, the lazier the people; the lazier the people, the poorer they are; and the poorer the people are, the greater the need for centralization, forming a vicious circle (p. 15).

Thus, although central planning is designed primarily to promote economic stability as well as equality, it causes inefficiency and gives rise to irrational price determination for many goods and services. In a relatively short period of time where there is no significant structural change, economic growth, and shift in consumer demand, planning measures such as price control, commodity rationing and subsidies are not necessity bad devices to

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3 According to Li (p. 22), the Gini coefficient for the Chinese rural families was 0.264 in 1984; and for urban families, it was 0.168.
promote economic stability and equality. This is especially the case when markets are not well-developed and commercial spirit and entrepreneurship are lacking because of low esteem placed on them by traditional values. In the long run, however, these non-market rationing devices often fail to reflect either the scarcity of resources or the wants of the majority of the consumer. As a result, some prices become too low, others too high; some wants are easily satisfied, others are not; and some resources are wasted, others are under-utilized (Cheng). Additionally, overemphasis on economic stability tends to slow down the economic growth process, which intensifies the problem of basic want satisfaction and defeats the original purpose of central planning.

In addition to the problems associated with the excessive pursuit of equality and stability, there are problems due to the pursuit of economic independence. Unlike the goals of equality and stability that are largely economic in nature, the goal of autarky is closely related to nationalism and political independence. Nevertheless, the pursuit of this latter goal when combined with the two former goals results in economic stagnation. In the first place, autarky prevents the realization of comparative advantages.

Then, excessive centralization and the lack of local and enterprise autonomy blur the distinction between government officers and business managers. This fact, together with the lack of opportunity for personal initiative and material rewards, greatly discourages the rise of entrepreneurs needed for growth. Furthermore, the absence of adequate domestic and foreign competition among enterprises greatly reduces the possibility of adopting advanced technology and modern managerial skills that are crucial in the development process. No doubt Deng remarks clearly in his well-known essay, *Build Socialism with Chinese Characteristics*, “China's past backwardness was due to its closed-door policy” (p. 38).

In short, the Chinese Communist Revolution creates a socialist bias toward economic equality, stability, and independence. This bias in turn causes the problems of economic inefficiency, stagnation, technological and managerial backwardness.
III. Capitalist Complements to Socialist Development

The understanding and seeking the solutions of the above and related economic problems had culminated in the making of a decision by the Central Committee of the Chinese Communist party in October 1984 to fundamentally reform the economic structure (Hereinafter referred to as the *October 1984 Decision*) (Beijing Review). This decision not only outlines the achievements and problems of the past but also provides a blueprint for overall future development. The basic characteristic of the reform is to put more emphasis on those predominantly capitalistic goals of economic efficiency, growth, and gains from trade, without giving up the socialistic goals of economic equality, stability and independence. The capitalistic goals are to be achieved mainly by capitalistic means of material incentive, market mechanism, private ownership, and foreign trade. This more balanced approach represents an initial step toward a truly Confucian economic system, which in essence is a synergy of socialism and capitalism. Instead of being occupied with the competitive and substitutive relationship between socialism and capitalism, their cooperative and complementary relationship are emphasized in this new economic synergism, which can then solve the basic economic problems better than each of the two individual systems working alone.

One of the essential teachings of Confucianism is that the extremity of any kind should not be advocated. The following conversation between Confucius and his student, Tsze Kung, illustrates this point:

Tsze Kung asked which of the two, Shih or Shang, was the superior. The Master said, “Shih goes beyond the due mean, and Shang does not come up to it.” “Then,” said Tsze Kung, “the superiority is with Shih, I suppose.” The Master said, “To go beyond is as wrong as to fall short” (Legge, 1, p. 242, italics mine).

This golden mean position also explains why Confucius praises Emperor Shun so highly. He said, “There was Shun: — He indeed was greatly wise!... He took hold of their two extremes, determined the mean, and employed it in his government of the people” (Legge, 1, p. 388). In fact, according to *The Li Ki*, the Minister of
Education is charged with the task of guarding against all kinds of excesses. (Muller, p. 230).

The basic rationale for the due mean position of Confucianism rests upon the understanding that since opposites exist as a matter of nature, insistence upon one extreme position easily destroys the complementary or mutually beneficial relationship from its opposite position. That is to say, opposites are not meant to be pitted against each other but to be reconciled for the benefit of both. The choice should not be between diametrically opposed positions, but to what extent and under what conditions one position may be emphasized more than the other. Thus, the need for capitalist experiments stand from the need for counterbalancing the socialist extreme practiced in the Chinese economy since the 1949 revolution. Because the market experiment represents a movement toward the mean and toward the realization of the complementarity between socialism and capitalism, the economic reform is in tune with the essence of Confucianism. More specifically, according to Confucianism, the excessive pursuit of socialist economic goals (i.e., equality, stability, and independence) clearly goes beyond the due mean. The socialist benefits are likely to be obtained at the expense of the achievement of capitalist goals (i.e., efficiency, growth, and gains from trade). Without giving up the socialist goals, the economic reform that promotes the capitalist goals was therefore designed to realize the complementary relationship between socialism and capitalism. Furthermore, socialist means (moral incentive, central planning, public ownership, and protectionism) are seen to be complementary to the capitalist means (material incentive, free market, private ownership, and free trade). Confucianists would thus support the major goals and policy measures of the recent Chinese economic reform. In what follows, discussion will be centered on the major aspects of the reform. They include: 1) the goal of economic growth; 2) the use of material incentives; 3) the experiment of free markets; 4) the allowance of private property; and 5) the promotion of foreign trade. In each case, evidences of Confucian supports for the current policy goal and means will be noted.

To accelerate economic growth is the dominant force behind the recent economic reform. "We want to quadruple China's GNP by the end of the century," says Deng (p. 40). Also, in the
October 1984 Decision, it reads that "Only be firmly and systematically making progress on the reform...can the entire national economy be better and faster developed" (Beijing Review, p. 3).\textsuperscript{4} In terms of the words the Chinese use, they want to release the massive power of social productivity to increase common prosperity.

As will be pointed out later, Confucius and his followers, when they have to make a choice, will seem clearly to prefer stability to growth and poverty to inequality. However, they never ignore the value of economic growth or the process of getting wealthier. They see the advantages of being rich and discuss the ways of increasing national wealth. The following quotations can exemplify Confucius' support for the pursuit of wealth:

When a country is well-governed, poverty and a mean condition are things to be ashamed of (Legge, 1, p. 212).

If the search for riches is sure to be successful, though I should become a groom with whip in hand to get them, I will do so (Legge, 1, p. 198).

To be poor without murmuring is difficult. To be rich without being proud is easy (Legge, 1, p. 279).

In accelerating economic growth, the reform adopts the capitalist means of material incentive to complement the socialist means of moral incentive. The October 1984 Decision reads,

From now on necessary measures will be adopted to better link the wages and bonus of the workers with the increase of economic efficiency of the enterprise. In the enterprise, the difference between the wages of various trades and jobs will be widened, so as to apply fully the principle of rewarding the diligent and good and punishing the lazy and bad and of giving more pay for more work and less pay for less work... (Beijing Review, p. 12, some translation mine).

The Decision also proclaims that common prosperity is definitely

\textsuperscript{4} The reader may occasionally find that some wording used in this paper is different from that of the cited available materials in English. This is due to the translation done by the author directly from the original Chinese sources.
not equal to complete equality, nor simultaneous prosperity. Also, in order to distribute income according to work, it will be necessary to allow those more productive workers to become rich first. Their examples will then create a material incentive effect, a sort of Demonstration Effect, for the majority of people to follow. In fact, Deng had advocated earlier the use of material incentive when he said,

People of real ability should be especially promoted in wage and rank. On the other hand, some people could be transferred to other work with a wage cut if, year after year, they fail to produce anything useful (p. 9).

Deng’s position in this respect seems clearly to have the support of Confucianists. Confucius himself was in favor of material incentives and income distribution according to work when he said, “... By making their rations in accordance with their labor: — this is the way to encourage the classes of artisans” (Legge, 1, p. 411).

In addition to material incentives, the recent reform encourages the rise of free markets as a means of accelerating economic growth. The rigidity of central planning requires the flexibility of the market mechanism as a complement to allocate resources efficiently and equitably. At the same time, to encourage material incentives and to implement the principle of income distribution according to work also require experiments with free markets. The degree of income differentials is likely to be more objectively determined in the market place than by the central planning board. Consequently, when interviewed by a management team of *Time* magazine, Deng made the following remarks:

There exists no fundamental conflict between socialism and the market economy. The issue is what method to be used to further develop social productivity. In the past we had always used the planned economy. But for many years practical evidence has proved that in some sense, merely using the planned economy can restrict the development of productivity. Through combining the planned economy with the market economy, productivity can further be released and economic development accelerated (People’s Daily, Dec. 18, 1985, p. 2, translation mine).
Similarly, in an appeal to remove the preconception of antinomy between socialism and commodity economy, Lin Tzeli stated clearly in the following fashion:

If there is division of labor, there cannot be without exchange. The more developed the division of labor, the more frequent is the exchange. During the exchange, how can various producers' differential qualities of labor (including the level of technology and management, etc.) be measured and compared? Obviously, the natural measure of labor, namely, time, cannot be relied upon. If there is no measurement, no comparison, and no consideration of the differential quality of labor, the positive character of the producer will be stifled; productivity development deterred; and social stagnation formed. The problem becomes more apparent when considering that the different physical means of production of the various producers will affect the efficiency of labor. Therefore, only be making the products of labor as commodities, being exchanged through the market, can labor obtain social valuation (People's Daily, 1984, p. 5, translation mine).

The words of "socialism" and "capitalism" were unknown in Confucius' day. However, both the ancient and modern Confucianists realize the importance of the market and its complementary relationship with government planning and regulation. It is said in the commentary of *I-Ching*, or *the Book of Change*, that

He (the ancient emperor) caused markets to be held at midday, thus bringing together all the people, and assembling in one place all their wares. They made their exchanges and retired, everyone having got what he wanted (1969, p. 383).

A modern Confucianist, Chiang, expresses the complementarity as follows:

It is true that economic freedom is restricted by national planning, but the restriction of the freedom of a few minorities would nevertheless safeguard the freedom of the majority. We are convinced that if freedom is interpreted as *laissez faire*, it is destroyed; and that if planning is expounded as control, it is also demolished.... There is no conflict between planning and freedom (p. 255, translation mine).
Another capitalist means to accelerate economic growth during the recent economic reform is the allowance of limited private ownership of capital resources as a complement to public ownership. Farmers are allowed to own tractors and to inherit the leases of public land. Urban dwellers are permitted to operate private enterprises with hired workers. Although the official position of the Chinese government did not endorse private property per se, the following quotation from the October 1984 Decision appears clearly supportive of limited private ownership:

At the same time, on the basis of voluntarism and mutual interest, the relationship among the state, the collective, the individual economy should be widely developed so as to generate various forms of cooperative management and economic unions. Some small-sized state-owned enterprises can be leased to or contracted for holding management responsibility by the collective or the individual labor. Adherence to the simultaneous development of many economic forms and management styles is our long run goal and is demanded by the progress of socialism (Beijing Review, p. 13).

Also, Chinese economists have recently expressed the desirability of private ownership and have indicated that the success of the economic reform may be determined by ownership reform rather than by price reform (Central Daily News, p. 6).

Confucianists in general are supportive of limited private ownership. Mencius was aware of the advantages of owning property when he says:

The way of the people is this: — If they have a certain amount of property, they will have consistency; if they do not have property, they will have no consistency (Legge, 2, pp. 239-240).

In fact, the well-field system of land distribution, which was favored by Confucianists, is a system of public ownership in theory, but it works like private ownership in practice. The land was leased from the government to the individual who could hand it down to his progeny because the latter would also qualify for a share of the government-leased land.

In addition to the use of material incentives, the market
mechanism, and limited private property ownership, the last capitalistic means of the recent reform is to promote foreign trade. International trade is now seen as a complementary measure to stimulate domestic trade as well as a means to absorb modern technology and management system and to attract foreign capital. Concerning the modernization of China, Deng says:

While invigorating the domestic economy, we have also formulated a policy of opening to the outside world. Reviewing our history, we have concluded that one of the most important reasons for China's long years of stagnation and backwardness was its policy of closing the country to outside contact (p. 51).

Confucianists support foreign trade for at least three basic reasons: 1) the division and specialization of labor require domestic as well as international trade; 2) foreign trade promotes international understanding and cooperation; and 3) there are obvious economic advantages of foreign trade. Mencius first speaks clearly about the division of labor:

Great men have their proper business, and little men have their proper business. Moreover, in the case of any single individual, whatever articles he can require are ready to his hand, being produced by the various handicraftsmen —; if he must first make them for his own use, this way of doing would keep all the people running about upon the roads. Hence, there is the saying, "Some labor with their minds, and some labor with their bodies,... (Legge, 2, p. 249).

Then he points out the need for exchange as follows:

If you do not have an intercommunication of the productions of labor, and an interchange of men's services, so that one from this overplus may supply the deficiency of another, then husbandmen will have a superfluity of grain, and women will have a superfluity of cloth. If you have such an interchange, carpenters and carriage-wrights may all get their food from you (Legge, 2, pp. 269-270).

Confucius himself advocates the use of foreign technicians. "By encouraging all classes of artisans to come in, goods will be sufficient. By kindly treatment of foreigners, they will all arrive from
different directions," says Confucius (Legge, I, p. 409). Duty-free trade was also supported. "Travellers were examined at the different passes, but no duties were levied from them" (Muller, 27, 1966, p. 227). Also, foreign aid was seen as a way to promote international peace and cooperation (Muller, 27, 1966, p. 264). Finally, it was Hsuntze who seems most clearly to express the economic advantages of free trade. He says,

There should be a circulation of valuables and grain without restrictions or hindrance, enabling foodstuffs to be freely transported, and all within the four seas to be like one family....On the north sea there are swift horses and great dogs; if this policy (of free trade) were carried out, then China could obtain, raise, and use them. On the south sea there are fine feathers, ivory, rhinoceros hides, copper, cinnabar, and cornelian; then China could get them, and be enriched thereby. On the eastern sea there is purple, coarse linen, fish, and salt; then China could get them and wear and eat them. On the western sea there are felt rugs, furs, dyed yak-tails; then China could get them and use them (Dubs, pp. 132-133).

It is clear, then, without giving up the socialist economic goals and means, the recent Chinese economic reform has adopted a number of policy measures that are basically capitalistic in nature. Furthermore, the capitalistic economic goals and means are considered to be complementary to socialist economic development. In this sense, the economic reform represents a return to the golden mean, which is the Confucian synergism of socialism and capitalism.

A modern Confucianist, Sun, clearly supports this return when he says,

In short, this is my opinion. Through the use of foreign capitalism, Chinese socialism can be established. In this way, the two economic forces that push humanity forward can be reconciled and complemented so as to promote the future civilization of the world (p. 112).

IV. The Continuity of the Reform

Although the relative weightes or the precise degree of mixture
between socialism and capitalism in the Confucian synergism cannot be logically determined, it seems very clear that economic reform in the direction of capitalism will be continued long after the passing of Deng Xiaoping. This is the case for at least two basic reasons. First, the reform is consistent with the Chinese character of flexibility and ability to compromise, which is in turn compatible with the principle of the golden mean. Second, the reform is also consistent with an overriding characteristic of Confucianism, the preference for peace and order.\textsuperscript{5} The first reason simply concludes that socialism is good, but capitalism is not bad either. The second reason establishes a more precise relationship between socialism and capitalism. Socialism will be the foundation and capitalism the superstructure of the Chinese economic system.

Thus, the reform will continue, first of all, because the flexible Chinese character recognizes the existence of opposites and the necessity of compromise so as to make the opposites complementary to each other. A Chinese economist describes the nature of the Chinese economic system in this way:

In the years ahead there will be a relatively long period of time in which the centralized economic system and the decentralized economic system will coexist, for both have their respective advantages and disadvantages. It is hoped that a new economic system will be set up which keeps the advantages of the both and avoids the disadvantages of each (Huan, p. 19).

A Western observer also sees that nature when he remarks:

Anyone who understands the economic reforms to mean that the Chinese leaders have concluded that capitalism works is quite correct. The error is to assume that they necessarily proceed to what might seem the natural corollary — that socialism (or Marxism) does not (Delfs, p. 91).

Since the opposite systems of socialism and capitalism are considered as complementary, the reform will certainly be carried on even though a Chinese planner, Wang (p. 5), admits that “the reform is an experiment, and there is no firm-and-fast chart to

\textsuperscript{5} This Chinese preference for peace and order was observed by Russell (p. 241).
follow." Wang's statement is supported by Deng when the latter says that, "What we are doing is a significant experiment" (China Daily, Nov. 12, 1985, p. 1), and that "we shall accumulate experience and try new solutions as new problems arise" (p. 51). This flexibility of viewing the economic reform without preoccupation with a particular economic system is consistent with the realism and the synergistic nature of the Confucian philosophy. Confucius says, "The gentleman, in the world, does not set his mind either for anything, or against anything; what is right he will follow" (Legge, 1, p. 168). He further clarifies his golden mean position by claiming that "I am different from these people. I have no course for which I am predetermined, and no course against which I am predetermined" (Legge, 1, p. 337). It is this traditional Chinese attitude of not exclusively Favoring a particular course of action that in part guarantees the continuity of the recent economic reform.

In addition to the Chinese character of flexibility and ability to compromise, their preference for social order and universal peace also will ensure the continuity of the recent economic reform. The I-Ching states (1967, p. 64): "The gentleman ... establishes order in the world; he equalizes the extremes that are the source of social discontent and thereby creates just and equitable conditions". Bertrand Russell (p. 241) further concludes, after a long stay in China, that the pacific temper is one of "the ethical qualities in which China is supreme," and that this quality makes China "seeks to settle disputes on grounds of justice rather than by force."

Preference for peace and order on a social scale can, nevertheless, unduly restrict individual freedom. However, in abiding the principle of the golden mean, which emphasizes the complementary nature of the opposite extremes, the individual is also given a high degree of freedom within the limit of social order. In this way, the freedom of the majority of individuals can actually be enhanced by the virtue of social order. This is very much like a traffic light system, which sets up a certain flow order, that increases the flow of traffic for most individual drivers. Individual freedom within the bounds of social order, therefore, implies that in their complementary or synergistic relationship, socialism, which emphasizes the social or collective allocation of resources, is the foundation (limits) of capitalism, which prefers to allocate
resources individually. Furthermore, just as a good traffic control system will allow a flow of free traffic, a good social order will allow a greater degree of individual freedom, and a well-established socialist economy is conducive to the development of a capitalist economy. It is true that the development of the capitalist economy (superstructure) is conditioned upon the development of the socialist economy (foundation); it is also true that the growth of capitalism will necessitate the growth of socialism. For this reason, even an economist in the neoclassical tradition seems to be convinced lately of the necessity of socialistic goals and means in the preservation of capitalism. Kaldor in his recollections concludes:

If the mainly private-enterprise market economy is to survive..., the world needs more planning and more regulation in the matter of income distribution as well as in the field of international or inter-regional trade, and not less (p. 26, italics mine).

At any rate, in the Confucian synergism, socialism is the foundation and capitalism is the superstructure of the economic order.

It is in this orderly relationship that further assures the continuity of the recent Chinese economic reform because in the long run a foundation without a superstructure is both meaningless and useless. In what follows, the aforementioned characteristics of the recent Chinese economic reform will be recapitulated in the light of the Confucian synergism, and they will be discussed as the guiding principles of the new economic order of China. This discussion has at least two purposes: 1) to further clarify the socialism-capitalism relation in the Confucian synergism — thereby supporting the continuity of the reform; and 2) to explain that these principles are consistent with one of the most basic tenets of Confucianism, that is, the individual is free only within the limits set by the necessity of maintaining social order. Since social order is the foundation and individual freedom is the superstructure, like in the case of driving with traffic control, the adherence to this Confucian principle of freedom within order is meant to increase, rather than to decrease, the freedom of the majority of individuals.⁶

⁶ Russell (p. 251) has made this remark: "Individualism has perished in the West, but in China it survives"
The major aspects of the recent Chinese economic reform which can be identified as the guiding principles of the new economic order of China include: 1) free markets are to be well-developed under the guidance of central plans; 2) economic growth and efficiency are to be pursued within the limits set by the need for economic stability and equality; 3) material incentives are to be encouraged under the condition that moral incentives are not to be neglected; 4) private ownership is to be permitted within the limit set by concern for social welfare promoted by public ownership; and 5) foreign trade is to be furthered within the limits set by the need for domestic economic independence.

Although central planning and the market mechanism are considered to be complementary devices for allocating resources and coordinating economic decision, in the new economic order of China, central planning will be the foundation and the market mechanism the superstructure for allocation and coordination. It is true that after an edifice is completed, there is no point in arguing which part of it, the foundation or the superstructure, is more important. Yet, it is not meaningless to realize that the size of the superstructure is limited by the foundation underneath it. In other words, the free market mechanism based on individual economic freedom will be permitted to function only within the bounds set by the collective economic necessity represented by overall centralized economic plans. Government planning and regulation thus represent a foundation of the Chinese economic system on the basis of which a superstructure is built with individual initiative and free enterprise.

With respect to the practical aspect of this first guiding principle of the new Chinese economic order, it will mean that the important economic issues are to be resolved at the state or collectivity level, and minor ones settled locally or individually. "We should continue to implement this principle: control over major issues but flexibility on minor ones," remarks Zhao (p. 13). As far as wage reform is concerned, "Reasonable disparities should be allowed in the wages of workers and other employees of government departments, enterprises and institutions, but the gap should not be too wide" (p. 10). The same principle of freedom within order is also applied to the price reform. Prices of major commodities will be controlled and occasionally adjusted, but those of small items are allowed to fluctuate. Zhao summarizes the
pricing policy in this manner:

It is completely normal for the prices of some products to fluctuate within a certain margin along with changes in production costs and the relationship between supply and demand (pp. 11-12, italics mine).

And Cheng (p. 15) puts it succinctly, "We must allow price fluctuation, within certain bounds, according to supply and demand" (italics mine).

It should be noted that this guiding principle of free markets within the order of central planning is consistent with the political economy of Confucianism. Liang Chi-Chao says (p. 87), "My own plan of governing today's China depends upon seven-tenths of interventionism and three-tenths of laissez faire" (translation mine).7

Closely related with this principle of free markets within the order of central plans is the relationship between competition and cooperation. In the new economic order of China, cooperation will be the foundation and competition the superstructure of the economic relations among various economic units. That is to say, competition among enterprises and individuals is encouraged only to the extent that cooperation among them is not weakened. In the October 1984 Decision, it reads:

The first relationship among socialist enterprises is a mutually coordinating and mutually supporting relationship. But such a relationship does not exclude competition. For a long time, people often think that competition is a particular phenomenon of capitalism. Actually, as long as there is commodity production, there must be competition. It is only that under different social systems, the purpose, the nature, the extent, and the means of competition will vary. Competition among the socialist enterprises is not the same as that of the survival of the fittest under capitalist conditions. On the basis of public ownership

7 It should be noted, however, that even though Confucianists believe in the necessity of government intervention and regulation, the power of the government is by no means absolute. Revolution is justified if the intervention and regulation prove to be detrimental to the welfare of the majority of the people, or to be in the opposite direction of the will of the people. Please refer to Hsu (p. 157).
and under the control of state planning and laws, and for the purpose of serving socialist modernization, our enterprises are put to the test of direct judgment by consumers in the market... (Chiang, p. 10).

Competition in a cooperative manner is consistent with Confucianism in this regard. In the discussion of the rules of proper conduct, Hsuntze remarks as follows:

When there is competition, there will be chaos; when there is chaos, then there will be poverty. The ancient kings disliked such chaos, hence they established the rules of proper conduct and social justice to set limits to this disorder (Dubis, p. 213).

The second guiding principle of the new Chinese economic order is that economic growth and efficiency will be freely pursued within the limits set by the need for economic stability and equality. In other words, stability and equality are the foundations of general economic welfare while growth and efficiency comprise the superstructure. Income and wealth of the individual economic units will be encouraged to grow, but paternalism and redistribution policies will continue to be emphasized. The following statement that was partially quoted earlier clearly expresses this point:

In the future,... wage differentials are to be widened and income brackets to be opened so as to reward the diligent and the good while punish the lazy and the bad. This is the way to fully implement the principle of more pay for more work and less pay for less work.... At the same time, we must actively...assist those not yet become better off (Beijing Review, p. 12).

Already, family income differentials in the agricultural sector have been widened and a progressive income tax is being drafted (Li, p. 22; Huan, p. 19). This principle of promoting growth and efficiency without neglecting equality is very much consistent with the Confucian view. Confucius says, "The gentleman honours the talented and virtuous, and accept all. He praises the good, and has sympathy for the incompetent" (Legge, 1, p. 340). In fact, on equity grounds, Confucius was very much disgusted with Chiu who collected imposts for the very rich. He says, "He is no disciple of mine. My little children, beat the drum
and assail him” (Legge, 1, pp. 242-243). The following statement further expresses his belief that equality is the foundation of social well-being:

I have heard that rulers of states and heads of families are not troubled by sparse population, but by inequality; not troubled by poverty, but by instability. For when there is equality, there is no poverty; when there is harmony, there will be no scarcity of people; and when there is stability, there will be no downfall (Legge, 1, p. 308, italics mine).

In the new economic order, not only efficiency and growth should not be attained at the expense of the poor, but also they should not be promoted at the expense of economic stability. Huan (p. 19) expresses this latter point emphatically: “Too fast a growth is likely to result in the loss of control at the macro-economic level, and therefore must be constricted.” Zhao (p. 12) also warns of “blindly pursuing a high rate of development and vying with one another to this end.” In fact, it was reported that the State Council intentionally slowed down the runaway industrial growth in the first half of 1985 (China Daily, Nov. 11, 1985, p. 1). This second guiding principle of promoting growth with stability in mind is likewise in tune with the teachings of Confucius. He says, “Do not try to be fast; do not look at small advantages. Desire to be fast prevents goals from being reached. Looking at small advantages prevents great things from being accomplished” (Legge, 1, p. 270).

The third guiding principle of the new Chinese economic order is that material incentives will be freely encouraged within the limits set by the need for moral incentives. Unlike capitalism, which is based primarily on material incentives for economic activities, and unlike socialism, which appeals almost solely to moral incentives, in the Confucian economic order, the moral incentive is the foundation and the material incentive is the superstructure of productive activities. Material incentives are important for the provision of private goods so that private wants are satisfied. Private goods, however, need to be complemented with public goods so that public wants can be satisfied also. Moral incentives are needed for the provision of public goods. The following statement by Zhao expresses the need for both kinds of incentives:
It is wrong to overlook the stimulus people's material consumption can give to production and thus fail to strive to meet the needs of normally rising consumption. It is likewise wrong to blindly seek a high level of consumption... (p. 14).

Additionally, moral incentives are needed to facilitate income and wealth redistribution, to accept government planning and regulation, and to make self-interest to be of less interference to the public interest. Zhao speaks of the latter as follows:

In carrying out reform, we must adhere to the principle of combining the interests of the state, the collective and the individual.... Benefiting their own units or even particular individuals at the expense of the state is totally wrong and must be firmly checked (pp. 13-14).

In fact, it was reported that by placing a greater importance on the moral incentive than on the material incentive, the productivity and profits of the Capital Iron and Steel Complex are found to be much higher than those of the companies relying upon either one of the two incentives alone (China Daily, Nov. 8, 1985, p. 4).

Confucius and his followers clearly prefer moral incentives to material incentives as a driving force for economic activities. They nevertheless recognize the importance of material incentives. This is especially the case for the ordinary person in contrast to the gentleman, Chun-tze. Confucius says, “The mind of the gentleman is conversant with righteousness; the mind of the ordinary man is conversant with gain” (Legge, 1, p. 170). Alternatively he says, “The gentleman thinks of virtue; the ordinary man thinks of material comfort” (Legge, 1, p. 168). However, he warns that “he who acts with a constant view to his own advantage will be much murmured against” (Legge, 1, p. 169), and that

Riches and honours are what men desire. If it cannot be obtained in the proper way, they should not be held. Poverty and meanness are what men dislike. If it cannot be obtained in the proper way, they should not be avoided (Legge, 1, p. 166).

Therefore, Confucius is clearly in support of an economic system that adopts moral incentives as the foundation and material in-
centives as the superstructure of productive activities.

The material incentive can be both an effect and a cause of private ownership of property while the moral incentive, of public ownership of property. At the same time, central plans are more likely to be carried out under public ownership than under private ownership; and the free market mechanism is likely to function more effectively under private ownership than public ownership. The guiding principles presented thus far can therefore be referred to in deriving the fourth principle of the new Chinese economic order. That is, private ownership of the means of production will be allowed within the limits set by the concern for economic equality and stability that can be prompted by public ownership. In other words, public property is the foundation and private property the superstructure of a system of ownership for managing productive resources. This implies that public ownership is mainly concerned with the equality aspect of resource ownership while private ownership, with the efficient aspect of it. As mentioned earlier economic equality is the foundation and economic efficiency is the superstructure of general economic welfare. Therefore, when the amount of public property is increased in the process of economic growth, so does the possibility of accumulating a greater amount of private property by individuals.

As noted earlier, although the Chinese government has not officially endorsed a system of private property as a part of the recent economic reform, it appears clearly that private ownership has been gradually allowed to grow on the ground of public ownership. Cooperatives, a popular form of ownership, can be considered as a form of private or semi-socialist ownership in contrast to purely-socialist collective ownership; and cooperatives have been growing fast. In fact, The China Daily (Jan. 20, 1986, p. 4) has urged that the distinction between cooperatives and collectives be clearly drawn and has encouraged government leaders to promote the development of cooperatives even though collectives may still be the dominant form of ownership in the future. The cooperative form of ownership has always been preferred by most of Confucianists. A modern Confucianist, Sun (p. 112), states this point clearly in his plan for economic development of China:
At any rate, the industry of China must be developed.... And yet the end of material civilization is not for private benefits, but for public benefits. Its most direct path is not through competition, but through cooperation.

The last guiding principle of the new Chinese economic order is that foreign trade is to be promoted within the limits set by the need for domestic economic independence. In other words, domestic trade is the foundation and foreign trade is the superstructure of a sound commodity economy. In order to increase foreign trade, it is necessary to increase the values of domestic trade, which is really a process of economic growth. That is to say free foreign trade alone is certainly conducive to the development of the domestic economy. However, due to the socialist goal of economic self-sufficiency, the Chinese economy will be dependent upon exports or imports only to the extent that they do not endanger stability and equality in the domestic economy. Therefore, similar to the relationship between central planning and the free market mechanism, for free foreign trade to be well-developed, various forms of protective measures and government regulations are necessary. The Chinese Foreign Trade Minister expresses this point clearly when he says,

We are steadfast in carrying out the central government's open-door trade policy. But in the process of opening up, regulations should be strengthened. Otherwise, disorder will arise to cause damages to the nation. Thus, strengthening government regulation is not "contraction," it is a necessary measure to smoothly carry out the policy of opening foreign trade and of invigorating the domestic economy (People's Daily, Nov. 13, 1985, p. 3, translation mine).

On the basis of their preference for order and stability, Confucianists are supportive of free foreign trade with an appropriate degree of protection. Hsuntze says, "At the customs houses..., he (the king or the government) inspects travellers but does not levy duties" (Dubs, p. 132). That no duties are levied exemplifies the free trade position while the inspection of travellers implies the need for protectionism.

It should be clear at this point that the five guiding principles of the new Chinese economic system just discussed have "synergiz-
ed' both the socialist and the capitalist goals and means. Since Confucianism is really a system of synergy, and since most Chinese are basically Confucianists, the recent economic reform in the direction of a limited capitalism will thus be continued into the distant future.

V. Concluding Remarks

The economic principles of Confucianism upon which the new Chinese economic system is based are not necessarily theoretically neat and logically consistent principles, but they are practical and realistic ones. Their realism is based on the fact that no matter how lofty human ideals are, in reality this is a world of unequals and opposites. Some people, for example, will be collecting garbage, and others will be managing multinationals. To assume that various individual economic units are equals and homogeneous, and, on the basis of this assumption, to conclude that competition among them is beneficial for all is not only an illusion but also a justification for economic "murders without seeing blood." Confucius, therefore, emphasizes the complementary and cooperative, rather than substitutional and competitive relations among unequal individuals. On the surface, for example, his five duties of universal obligation (between sovereign and minister, father and son, husband and wife, elder brother and younger brother, and between friends) appear to promote aristocracy and caste structure, but in reality, they are meant to instill moral and ethical duties and love into daily human relationships so that economic relationships can also be more human. This recognition of unequals makes the issues of morals and ethics as an integral part of the science of economics because individuals are no longer assumed to be isolated competitive entities. This is really the overriding character of the economics of Confucianism.

In today's world, not only economic competition, but also military competition is very keen. To view different parts of the

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8 If a more equitable distribution of family income can be considered as an indication of a more human society, then, this statement can be supported by an empirical evidence that both China and Taiwan have had a much lower Gini coefficient than, for instance, that of the U.S.
whole as essentially complementary and cooperative, rather than substitutional and competitive, is crucial not only for the worldwide solution of the basic economic problems but also for the survival of the human race as well. Hsu (p. 21) is right when he says, "If China has anything to contribute to the world, Confucianism will be a part, not a small part indeed, of this contribution." This Chinese contribution in essence is that from the Confucian viewpoint, despite the apparent conflict between socialism and capitalism, the truth lies on neither side but in a synergy of the two, which is what is called the Confucian synergism in this paper. Perhaps this is one of the basic reasons behind the selection of Deng (pp. 26-27) as Time's Man of the Year 1985 for his potential in changing the course of human history.

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