

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

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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.² 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

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).

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.

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

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).

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 can 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

different directions," says Confucius (Legge, 1, 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 weightings or the precise degree of mixture

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 "seek 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

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

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 (Dubs, 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

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-

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-

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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