

# Combining Marxism and China's practices for the development of a socialist political economy with Chinese characteristics

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## Abstract

**Purpose** – The socialist construction with Chinese characteristics must be based on history and reality. According to the requirements of liberation and development of productivity, efforts must be made to reform and improve the production relations, as well as continually consolidate the socialist system with Chinese characteristics. The purpose of this paper is to prove the necessity and superiority of a socialist system through China's modernization achievements.

**Design/methodology/approach** – Marxist political economics is a critical legacy from classical economics. Its core question is also social production and distribution, which is epitomized in the labor theory of value and the theory of surplus value.

**Findings** – Regarding the significant principles that must be followed, these speeches summarized the logical system and prominent features of the socialist political system in the new normal from several significant and interrelated aspects such as basic methods, core propositions, main tasks and fundamental goals.

**Originality/value** – The socialist system with Chinese characteristics will gradually appear through further research and prove its superiority. How can a socialist system with Chinese characteristics innovate and develop? Does the system have a future? Is there any historical necessity for the socialist system to replace the capitalist system in human history? These are the questions that need urgent answers and in-depth exploration.

**Keywords** Political economy, Socialism with Chinese characteristics

**Paper type** Research paper

Developing China's economy according to the principles of Marxist political economy and enriching modern Marxist political economics in China's Socialist economic practice are the bases for developing a socialist political economy with Chinese characteristics.

## 1. Political economy and China's development

Political economy studies the operating laws of economic institutions, including Marxist political economy which focuses on the origin, development and death of production mode (the capitalist mode of production in a narrow sense and various historical social production modes in a broader sense). By using a historical perspective and the methodology of historical and dialectical materialism, it also explores the operating laws of production relations in the contradictory movement between productivity and production relations. The aim is to keep creating and improving institutional conditions to liberate and develop social productivity. Therefore, the study of political economy, especially the Marxist political economy, is necessary as long as the social relations of production and its contradictory movement with productivity exist.

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"Economy" in ancient Greek means household or manor management. The word "economy" in *Oeconomicus* or *Economics* by Xenophon refers to manor management. In 1615, the merchant scholar Antoine de Montchretien first put forward the concept of a "political economy" in *Économie politique – Au Roi et à la Reine-mère du Roi*, in which the "economy" was expanded from household management to national administration and later gradually became a theme in British classical economics. The category of political economy was used as a theoretical theme in both *Elements of Political Economy* by James Mill and *On the Principles of Political Economy and Taxation* by David Ricardo. According to definitions by classical economists like John Stuart Mill, political economy studies the nature, production and distribution law of wealth, and the factors related to production and distribution such as institution, society, moral and human nature. Based on this definition, *The Wealth of Nations* by the classical economist Adam Smith is the epitome of the study of political economy, causing Adam Smith to represent classical economics. *The Principles of Economics* by Marshall was published in 1890, in which "political economy" was "economics." In contemporary western economics, the "economics" and "political economy" were the main study area. The category of political economy, used at times, is limited to two cases: one is the "new political economy," which investigates political behaviors by using the methods of neoclassical economics such as election; and the other is "international political economy," which studies the mutual relation between politics and economy (Liu, 2015). The *New Palgrave Dictionary of Economics* considers that in the twentieth century, "economics" and "political economy" have become essentially synonymous, but their emphases are different and their connotations have changed. "Political economics" is no longer the mainstream principle of the economic theory of the bourgeoisie.

Such change is found on the basis of ideological and economic history. Political economics focuses on social production relations, where the basic proposition is the nature of the social production and distribution relations. Therefore, value theory and the relative distribution issue have become the core. Classical economics as represented by Adam Smith actually changes to political economics. Its fundamentals lie in value theory and relative income theory, attempting to reveal the historical rationality, superiority and inevitability of the capitalist mode of production through this research. During the initial period of classical political economy studies, the capitalist mode of production, as the emerging mode opposed to the feudalistic mode of production, was not recognized by the public. The bourgeoisie, the representative of the mode, did not gain a stable or dominant position. The productivity basis, which the Capitalist production mode relied, had not been established (as the industrial revolution came after the bourgeois revolution) and the historical advantages of the capitalist system in liberating and developing productivity had not fully shown. Therefore, it required bourgeois scholars including philosophers, lawyers, sociologists, politicians, historians and economists to argue and analyze the same proposition: the necessity and rationality of the capitalist system.

Consequently, areas such as justice, fairness, liberty, human nature, human rights, contract and value became the shared focus of capitalist humanities and social sciences at that time. How did the economists prove the necessity and rationality of the capitalist mode of production? The first step was to prove its equality and fairness, where the economic relationship is reflected in the underlying market principle of exchange of equal value. Therefore, value production and relative distribution theories served as critical topics of bourgeois economics at that time. From the labor theory of value in classical economics to the cost-of-production theory of value (or Adding-up Theory) proposed by Jean-Baptiste Say in 1840 and then systematized by John Stuart Mill, to the utility theory of value in 1870 after the marginalist revolution, the dominance of the value theories was continuously developing in the ideological history of the bourgeois economy. However, the fundamental purposes were to prove the rationality, necessity and superiority of the capitalist system by developing and improving the value theory. At the end of the nineteenth century, the equilibrium price theory

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(partial equilibrium) in neoclassical economics represented by Marshall replaced other value theories. Correspondingly, political economy became known as economics, of which the fundamental problem no longer focused on the classical economics' value theory, the theory of value production and distribution, in demonstrating the rationality and necessity of the capitalist system. Economics, with equilibrium price theory as its core, explored how to maximize profit with the same capital by using a capitalist system as well as how to utilize capitalism. Equilibrium price is the optimum of profit maximization (extremum) of capital, thereby finding the equilibrium position for the extremum (i.e. how to maximize the profit or utility) became the fundamental problem of economics. Fundamental causes of price theory replacing value theory appears as the core proposition. First, with regard to methodology, bourgeois scholars, without Marxist historical materialism, are unable to research the rule of paradoxical movement of production relations based on productivity development tendency. While denying feudalism and asserting the historical trend of capitalism replacing feudalism, capitalist scholars, based on the requirements of advanced productivity of capitalist class, prove the rationality and necessity of capitalism. However, they do not acknowledge the historical limitations and inevitable death of the capitalist system on the basis of the fundamental trend of productivity development. Therefore, as the contradiction between the capitalist system and productivity development gradually appears, it is impossible for them to continue to scientifically or deeply analyze the objective movement law of the capitalist production relation. Second, at the end of the nineteenth century, with material conditions (large machine industries) for the capitalist system, it would inevitably replace feudalism. The bourgeoisie, as the ruling class, did not need to prove the rationality and necessity of the capitalist system. Instead, they needed to analyze how to use this system to maximize the profits of capital. The bourgeoisie did not need to show why capitalism was needed but how to utilize capitalism. They also did not need to examine what kind of defects the production modes have, what kind of constraints are imposed on the development of productivity, and what kind of historical changes are needed. The bourgeoisie believed that the capitalist system was fundamentally perfect and should continue perpetually. Therefore, "political economics" that studies the paradoxical movement of production relations, value production and distribution nature made way for "economics," which fundamentally focuses on issues such as equilibrium price, extremum position and conditions involved. Classical economics evolved from tradition into orthodox economics[1].

Marxist economic theory actually refers to political economics. The subtitle of Marx's representative work *Das Kapital* is the "A Critique of Political Economy," indicating a study into capitalist production relations. As stated in the preface, "In this work I have to examine the capitalist mode of production, and the conditions of production and exchange corresponding to that mode" (Marx and Engels, 2012a), "and it is the ultimate aim of this work, to lay bare the economic law of motion of modern society" (Marx and Engels, 2012b).

In the French edition of *Das Kapital*, the capitalist mode of production, as the object of study, is further clarified as the "capitalist system" to avoid mixing nature and society modes of production. Meanwhile, "it is a peculiar mode of production, specifically defined by historical development; that it, like any other definite mode of production, is conditioned upon a certain stage of social productivity and upon the historically developed form of the forces of production" (Marx and Engels, 1974). In a broad sense, the political economy, studying the movement of production relations in all human societies, includes the movement law of production mode in primitive society, slave society, feudal society, capitalist society and communist society[2].

Marxist political economics is a critical legacy from classical economics. Its core question is also social production and distribution, which is epitomized in the labor theory of value and the theory of surplus value. The Marxist labor theory of value scientifically proves the fundamental contradiction between labor and capital and indicates that labor is the only

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source of value, laying a foundation of theory and morality for the theory of surplus value. The theory of surplus value by Marx analyzes how capital takes possession of labor free of charge. With historical materialism methods, it proves the historical necessity of the capitalist system's birth, development, death and replacement by communism – a new system that represents the development demands of new productivity. Criticizing the capitalist system, this theory predicts the production modes featured in historical logic and theoretical logic in the future ideal society.

Both the bourgeois political economy in the rising period of history and the Marxist political economy representing the fundamental interests of the proletariat take the social production relations and their movements as the object of research and defend their class's interests and social production mode. This is the fundamental attribute and characteristic of political economy. The socialist construction with Chinese characteristics must be based on history and reality. According to the requirements of liberation and development of productivity, efforts must be made to reform and improve the production relations, as well as continually consolidate the socialist system with Chinese characteristics. The aim is to prove the necessity and superiority of a socialist system through China's modernization achievements. Especially during the period of reform and development, the Chinese socialist system is undergoing continuous reforms and improvements, and its productivity base is still falling behind. The material basis, on which the socialist system surpasses the capitalist productivity, is still being built. The socialist system with Chinese characteristics will gradually appear through further research and prove its superiority. How can a socialist system with Chinese characteristics innovate and develop? Does the system have a future? Is there any historical necessity for the socialist system to replace the capitalist system in human history? These are the questions that require us to make significant efforts in both theory and practice. The study of these propositions constitutes the fundamental questions that contemporary Chinese Marxist political economics, especially a socialist political economy with Chinese characteristics, must answer. Therefore, China's development practice needs a socialist political economy with Chinese characteristics (Liu, 2015).

## **2. Political economy and China's self-confidence in development**

The report of the 18th National Congress of the Communist Party of China stressed that China must build up confidence in its route, theory and system, which reflects a lack of self-confidence. China was once confident in its cultural tradition, which was based on the cultural self-confidence of a strong agricultural feudal empire. As the only uninterrupted civilization among the three ancient civilizations of humankind, the Chinese civilization, originating from the Yellow River civilization, has been continuous. At the beginning of the nineteenth century, the capitalist commercial revolution had taken place and the industrial revolution started in the West. However, China's economic scale (GDP) was still ranked first in the world, reaching over 32 percent. The Chinese civilization was more glorious than the European Mediterranean civilization during the long history of agricultural civilization[3]. However, after the Western capitalist revolution, the Chinese traditional civilization was defeated by Western modern industrial civilization with the First Opium War (1840) as the turning point. This was the beginning of China's modern history of humiliation characterized by enduring impoverishment and debility as well as foreign invasions. Its history of humiliation caused a sense of cultural inferiority, including the lack of confidence in theories.

Economics emerged in China as a subject at the beginning of twentieth century. It was borrowed from the West, because advanced economic theories cannot develop locally under backward economic conditions, especially in semi-feudal and semi-colonial societies. In order to eliminate backwardness, the advanced systems and paths taken by Western civilizations were then followed by the Chinese. The economic theories originating from the

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Western capitalist industrial civilization were introduced into China as a science. Yan Fu translated Adam Smith's *The Wealth of Nations*, which marked the point when Western classical economics began to enter China. Chen Qixiu, Guo Dali and Wang Ya'nian translated Karl Marx's *Das Kapital*, which began the dissemination of Marxist economics in China. However, Western capitalist orthodox economics still dominated. Around the 1920s, some famous Chinese universities successively established Departments of Economics. However, their curriculum systems were essentially a copy of the economic system of Western universities. The concepts of learning were also inherited from traditional Western economics. This continued to the beginning of the 1950s after the establishment of the PRC.

From 1952, the curriculums for economics in China's universities replaced the traditional Western capitalist economics with the Soviet Union's academic system. Most of the colleges and universities canceled Western economics courses and fired their corresponding except for few universities such as Peking University and Wuhan University. They were replaced by the Marxist economic theory that had changed and was interpreted by the Soviet Union. On this basis, the economics teaching system was constructed. Such replacement also reflected the lack of confidence in theory, which is attributed to theoretical dependence based on backwards economic development.

For the twentieth century, economics has successively followed Western bourgeois economics and Marxist economics in China. At first, it followed the academic traditions of the orthodox economics of the Western bourgeoisie and constructed the discipline on this foundation. It then followed the Marxist economics based on the Stalinist model. This reflects the lack of the awareness and confidence in economic theories. Mao Zedong, in the practice of leading socialist construction, made significant efforts to explore socialist routes, institutions and thoughts, and theories featuring Chinese characteristics. He also reflected on the development and construction of political economy and related teaching programs. However, the long-neglected and lagging economy did not make the theoretical reflection on political economy successful and persuasive[4].

China's confidence in economics is originated from the significant success of reforms and opening up. These practices posed challenges to economic theories and raised historical claims. Political economics has made considerable progress in China in the course of responding to these challenges and claims, which has fed back to China's practice significantly. The unprecedented achievements of China's economic development have supported China's confidence in the continuous development of a socialist political economy with Chinese characteristics. The continually emerging contradictions and problems of the socialist cause construction lead to historical demands for economics, thereby promoting its continuous development. Solving this series of contradictions and problems has become the fundamental criterion for testing the socialist political and economic development with Chinese characteristics. As Deng Xiaoping stated at the "Decision of the Economic System Reform" on the Third Plenary Session of the 12th Central Committee, "The first draft of political economy is a combination of Marxist basic principles with socialist practice with Chinese characteristics" (Xiaoping, 1993). The historical practice of China's socialist economic development creates essential conditions for enriching and developing a modern Marxist political economy, and bringing new demands for the development of a Marxist political economy in China. Since the 18th CPC National Congress, the Party Central Committee, with Xi Jinping as its General Secretary, emphasized the application and development of the Marxist political economy in China. It also stressed on the use of political economics to summarize and direct socialist reforms with Chinese characteristics. In July 2014, Xi Jinping, at the panel discussion on economic conditions, stressed that the party committees and governments at all levels must learn how to make good use of political economics, consciously understand and better follow the laws of economic development. The aim is to improve the ability to promote reform and opening up, socioeconomic

advancement, and development quality and efficiency. While chairing the 28th among the members of the Political Bureau of CPC in November 2015, the General Secretary Xi Jinping stressed again that China must, on the basis of national realities, reveal new characteristics and laws, upgrade and summarize regular achievements in China's economic development and keep exploring the frontier of Marxist political economics. At the Central Economic Working Conference in December 2015, he emphasized the insistence on the major principles of a socialist political economy with Chinese characteristics. This series of speeches related to political economy by Xi Jinping forms a continually deepening logical system through the following successive propositions: learning and using political economics, systematic economic theories and insistence on the major principles of the socialist political economy. It has shown the confidence in China's reform and opening up and constructing the theory system. Particularly, regarding the significant principles that must be followed, these speeches summarized the logical system and prominent features of the socialist political system in the new normal from several significant and interrelated aspects such as basic methods, core propositions, main tasks and fundamental goals[5].

### **3. The history conception and methodology of socialist political economy with Chinese characteristics under the new normal: the basic principle of liberating and developing productivity**

- (1) Adhering to liberating and developing productivity is the requirement for the historical conception and basic method of Marxist historical materialism and dialectical materialism, and the Party's fundamental requirements in the primary stages of socialism. It is also the basic approach and principle of developing and applying the socialist political economy with Chinese characteristics. Political economics studies the movement law of social production relations, which can only be revealed in the contradiction between productivity and production relations. The movement law of production relations derives from the historical requirements on the productivity growth and its changes. First, the functions of socialist political economy with Chinese characteristics are to learn about the evolution and movement features of production relations by analyzing the historical paradoxical movement of productivity and the production relations, as well as to keep adjusting and improving the production relations, and liberating and developing productivity based on the historical requirements of productivity growth. Otherwise, the socialist political economy with Chinese characteristics will have neither scientific methods and correct value orientation, nor the necessity of existence and development. Second, the historical inevitability and superiority of socialism with Chinese characteristics can only be proved by emancipating and developing China's productivity and surpassing the modern capitalist economic development level. Otherwise, the socialist system with Chinese characteristics will have neither sufficient historical basis nor confidence in route, theory, institution and culture. Third, the essence of the socialist system with Chinese characteristics lies in liberating and developing productivity. This is determined by the basic national realities and major paradoxical movement in the primary stage of socialism, which requires us to focus on economic construction and adhere to the general layout and scientific outlook on development during the stage. The paradoxical movement laws between production relations and productivity, and social development laws in the primary stage must be fully understood; otherwise, China will deviate from the realities and the socialist essential requirements.
- (2) Persisting in the principles of liberating and developing productivity is the key to correctly understand the reform and practice, the basic motivation for reform and the fundamental standard of assessing reform. There is no doubt that reform is an

important part of the practice of socialism with Chinese characteristics and the significant impetus for socialist cause. Therefore, the experience summary of reform practice undoubtedly forms an important content for the socialist political economy with Chinese characteristics. Guiding the reform in China, as the basic mission of the political economy, raises history requirements for itself. We must adhere to emancipating and developing productivity in order to correctly understand the reform. First, the reform, whose aim is to reform production relations and innovate institutions, can be only motivated by productivity liberation and development. Otherwise, the reforms will deviate from the essence and basis of socialism. China must not blindly reform by divorcing from the requirements of productivity development in the primary stage but it must dare to reform in the face of the system drawbacks and policy loopholes that restrict and hinder productivity development. Second, according to the requirements of productivity development, the reform must be interpreted as the changes in production relations and the eliminations of institutional defects that constrain and hinder its development. Otherwise, it will be hard to grasp the essence and mission of the reform. The essence of reform cannot be simplified into marketization under the privatization described in the “Washington Consensus,” and the essence of production relations cannot be ignored. The necessity of a basic economic system and economic operating reform cannot be neglected. The Chinese socialist system is characterized by the domination of public ownership with other types of ownership developing simultaneously and the market-oriented resource allocation, which is also the objective requirement for liberating and developing productivity. Third, liberating and developing productivity should be taken as the basic criterion for testing and assessing reform achievements. The progress of reform cannot be made at the cost of reducing productivity. This is the demand of China’s backward productivity for making development, and the important experience that differentiates China’s reform from that of other countries. The performance of reform cannot be assessed by subjectivism, Western mainstream values or conservative doctrines. It should be assessed by the basic standard of liberating and developing productivity. All the reforms and improvements of production relations should take productivity liberation and development as a fundamental feature. This is the basic viewpoint of Marxist historical materialism and gives China confidence in its economic reform and development.

Over the past 30 years of reform and opening up, China’s total GDP has increased. From 1978 to 2015, it has increased 29 times to around RMB 67.7 trillion (over \$11 trillion), and its global total has raised from 1.8 to around 14 percent. Such a growth rate is equivalent to that of the USA from 6.29 to about 60 percent. China’s economy has climbed from the 10th place to the second place (2010). Per capita GDP has undergone three phases: poverty line at the beginning of the reform and opening up (1978), subsistence level (1998) and middle income (2010). The per capita GDP was about RMB 50,000 (about \$8,000) in 2015. The growth rate is equivalent to that of the USA from 1.8 to about 14 percent. (During the same period, the US population grew by about 42.7 percent from 220 to 314m. China’s population increased from over 900m to around 1.37bn, an increase of about 41.2 percent). Most of the transitional countries including developing countries in Latin America and the former planned economy countries have promoted transitions in line with the “Washington Consensus,” which, however, caused lower growth rate and higher instability compared with that before the 1970s. Most of these countries even experienced severe economic recession (Yifu, 2012).

Meanwhile, China’s rapid economic growth was accompanied by changes in quality. On the one hand, the economic structure has been improved, with the proportion of agricultural labor decreasing from 70.5 (72 percent for low income countries) to about 30 percent

(the average level of middle-income countries), the proportion of production value declining from over 28 to about 9 percent; and the employment proportion of second industry growing from 17.4 to about 30 percent. Hoffmann rate has also seen profound changes, and it is estimated that the new industrialization will be achieved in 2020. The proportion of tertiary industry employment has grown from 12.1 to over 35 percent, and its production value has exceeded the second industry with a proportion from 23 to above 50 percent. These changes in structure also indicate the quality improvement of structures in the course of rapid economic growth since the reform and opening up. On the other hand, the quality improvement can only be explained by efficiency promotion, which can only be achieved by innovative functions including technological innovation and institutional innovation. Fundamentally, innovation can only be explained with reforms. Despite many contradictions and deficiencies, the reform and opening up have indeed liberated and promoted productivity growth (Liu and Zhang, 2013).

#### **4. The core propositions of the socialist political economy with Chinese characteristics under the new normal: adhering to the direction of socialist market economic reform**

The vital mission of socialist political economics with Chinese characteristics is to guide socialist economic reform with Chinese characteristics. The ideological and theoretical vitality of political economics lies in summarizing the reform experience and forming a systematic theory:

- (1) The essence of socialist economic reform with Chinese characteristics is the socialist public ownership and market economic mechanisms. This is the fundamental feature of China's socialist market economy reform and the breakthrough of traditional Marxist economic theories and reform practice. This is also an essential proposition that the socialist political economy with Chinese characteristics needs to study, summarize and develop, which is unprecedented. First, the public ownership and market economic mechanism is negated by two traditions. One tradition is that of Western orthodox economics, which says that only capitalist private ownership can establish the market economic mechanism. Classical economics, modern western orthodox economics, the debate between Lange and Mises at the beginning of the 20th century, Washington Consensus and post-Washington Consensus all follow this tradition by first negating the possibility of combining socialist public ownership with market economy mechanisms, then doubting the efficiency of socialist resource allocation, and finally saying no to socialism. The other tradition is Marxist theory. From the perspective of Marx, market mechanism can only be combined with capitalist private ownership. It can neither be integrated with non-capitalist private ownership nor the public ownership of any forms. Therefore, in the communist society assumed by Marx, the means of production is jointly possessed by the whole society, and private ownership of all types has been eliminated. Correspondingly, social connections and social reproduction among people no longer require indirect transactions and are coordinated by direct social unification plans instead. In the works of classical Marxist writers, whether concerning the theoretical logic of political economy or the orientation of historical values, markets, commodities, prices and transactions cannot and should not exist in an ideal communist society featured by common possession. Therefore, the theories and practice that aim at combining public ownership and market mechanism are the negation of western orthodox economics and the breakthrough of the traditional Marxist theories. Second, it is the theory and practice breakthrough of institutional transition in planned economy countries. After the theory and practice of Stalin



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centrally planned economy established its dominance, corresponding countries have carried out multiple reforms in the 1950s in response to the defects. From the social ownership reform by workers' autonomy in Yugoslavia, to Kosygin's reform and Liberman's market socialism in the Soviet Union, and from Lange's simulated market mechanism to the Włodzimierz Brus's and Ota Sik's decentralized reform mode, all of these attempted to introduce market competition mechanisms without changes in the structure and form of the public ownership of the socialist means of production, and thereby gain the resource allocation efficiency of market competition and fair system under the public ownership system. However, they did not achieve success in both theory and practice. Therefore, after the 1980s, to enhance market competition efficiency, they abandoned public ownership and applied the mixed ownership that gives dominance to the market economy mechanism (Liu and Fang, 2016). China's economic reform has always been combining the primary public-owned system with market economic mechanism playing a decisive role in resource allocation. It was a significant breakthrough for the economic transitions in the past. Third, the challenge facing socialist economic reform with Chinese characteristics is how to balance public ownership and market mechanism. On the one hand, market mechanism has basic requirements for ownership of means of production. Namely, the ownership without some essential features and natures can hardly meet the requirements. Market exchange mechanism is essentially a historical movement form of the ownership of means of production. On the other hand, how can the structure and the fulfilling way for the reform of ownership of social production of means guarantee the dominance of public ownership and simultaneously adapt to the basic demands of the market mechanism? This involves how to keep the fundamental nature of public ownership while meeting the necessary requirements from the market economic mechanism.

- (2) The primary task of economic operational mechanism reform plays a decisive role in resource allocation. The key to fulfilling the task is to properly handle the relationship between the government and the market from the economic structure level. First, we must be aware that the market's decisive role in resource allocation is the primary task of deepening economic system reform. On the one hand, efforts must be made to promote the process of marketization from goods to factors, from the real economy to finance, and from building the market system to improving the market orders. On the other hand, it is necessary to transform government function and improve government intervention so as to address the social development issues market failure. Second, China must be aware that the market's decisive role in resource allocation comes from the historical experience of the reform and opening up in the past several decades. At the beginning of the reform and opening up, China was challenged by the failures of establishing the market economic mechanism under the socialist public ownership at the theoretical and practical level. With the deepening of the reform, China first broke the opposition between socialism and market economy, and proposed that market regulation is necessary for the socialist economy. Moreover, the 12th CPC National Congress formally put forward the planned economy as the primary form with market regulation as a supplement, which broke through their fundamental opposition. The 13th CPC National Congress recognized that planning economy and market forces are both applicable in China's society and socialist economy should be a combination of planned economy and market regulation, which further overcame the limitation of "main-supplement theory" and proposed the integration of planned economy and market regulation. The 14th CPC National Congress further specified the reform goal of establishing a

relatively perfect socialist market economic system. Moreover, the decision of comprehensively deepening the economic system reform, raised at the fifth plenary session of the 18th Central Committee and the 18th CPC National Congress, put forward that the key to the economic system reform is to handle the relationship between the government and the market, and let the market play a decisive role in resource allocation. The focus of the reform is to deepen and improve the market mechanism so as to address the problems such as the incomplete market system, irregular market regulations, extensive government intervention and government function deficiency. The aim is to solve the problems caused by market failure and government failure at the same time.

The essential feature of China's economic reform and transformation is to promote the transition of the socialist market economy with Chinese characteristics in the combination of ownership reforms with market mechanisms, not to separate the ownership and market mechanisms, but to push forward the reform through the combination of essential systems and operating mechanisms. Concerning the ownership reform, the Chinese government recognized individual economy for the first time at the 12th CPC National Congress and admitted that the private economy was a necessary and beneficial supplement to the socialist public ownership economy at the 13th CPC National Congress. It set out the goals of the reform of the socialist market economy system at the 14th CPC National Congress. The 15th CPC National Congress recognized the public ownership economy as the primary economic system combined with diversified forms of ownership economy in the primary stage. Since the 16th CPC National Congress of the People's Republic of China, the "two unwavering" has repeatedly been emphasized, and the reform of the mixed ownership system was emphasized after the 18th CPC National Congress. As a result, socialist ownership structure featured by the organic unity of public ownership economy as the mainstay and economy with different types of ownership has constantly been improved. Based on this, the socialist market economy mechanism with Chinese characteristics has gradually formed.

- (3) The difficulty in the reform of the socialist market economy is to improve the market economic order and its quality. The market economic orders include the internal competition orders and the external environmental orders. Internal competition order mainly contains two aspects. One is the enterprise ownership system, and the other is the market price system. The former is the subject order of market competition, which determines who the competitors are. The latter is the transaction order in the market competition, which is about how to compete. External environmental orders also mainly cover two aspects. One is the legal order of the market competition, and the other is the moral order. The former involves legal system construction and legality spirit promotion. A market economy must be ruled by laws, whose fundamental competition orders need a law system to safeguard. The effectiveness and authority of the legal system are based on the spirit of legality. Moreover, its effectiveness depends on the sufficiency of the rule of law, the respect and awareness by the public, and especially the legal restraint on the public power and constraint on the legislator's power. The latter is about the understanding of market competition from a moral and spiritual level, which involves transforming traditional morality with loyalty as its core to contemporary moral order with integrity as its core. It also involves the combination of national traditional and the contemporary global cultural, and avoids falling into the trap of anarchy with morality. Therefore, this is of significant meaning.

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## 5. The primary task of a socialist political economy with Chinese characteristics under the new normal: how to mobilize all powers

In actuality, the problem that political economy addresses is to resolve various contradictions occurring in the course of socioeconomic development, and to research how to manage the conflicts at the lowest cost so as to overcome the obstacles of productivity development and liberation. This is the core of politics. As Mao Zedong said, the aim of politics is to have more supporters and fewer opponents. The socialist political economy with Chinese characteristics explores how to support socialism, and how to increase the power to liberate and develop productivity while reducing resistance. It is fundamental to mobilize all powers:

- (1) The unification of motivation and restriction is both an underlying issue of arising enthusiasm and a unique transition problem faced by our country. Essentially, reform is the institutional reform of rights, liabilities and benefits. The primary principle of the institutional reform is the integration of three elements. This is one of the significant problems that the socialist political economy with Chinese characteristics needs to focus on. Especially for the managers of state-owned enterprises, the rights, liabilities and benefits must be coordinated in nature and degree. Endowed with leadership powers, the managers must assume corresponding risk responsibilities stipulated by the institution while exercising leadership. Otherwise, the managers do not have the prerogative to maintain leadership. At the same time, after assuming the corresponding responsibilities, the leaders must be rewarded with benefits. If not, it is a negation of their talents, and is the separation of right, responsibility, and benefit, because this will lead to the evasion of responsibilities by those with power, and inability to obtain deserved benefits for the leaders who have assumed responsibilities. Consequently, it will cause inefficiency and disorder. The rights without responsibility restriction will lead to disorder and assuming responsibilities without benefits will lead to inefficiency. This mainly applies to corporate governance structure.
- (2) Giving full play to the initiative of both the central and local authorities is one of the specific problems for a socialist political economy with Chinese characteristics. China is a vast country with noticeable regional differences. Therefore, even during the early days of New China, China's economic system was different from the Soviet Union's planned economic system that China had copied. The Soviet Union's planned economic system used vertical management by the central departments directly. The local governments at all levels did not have much independence on right, responsibility and economic benefit, and centralization was clear. China, however, combined vertical centralized management with local administrations at all levels. While the central departments manage vertically, local governments can also be independent economically. This is favorable for mobilizing the initiative of both the central and local authorities. It, however, can also lead to power struggles between the central and local authorities. For a long time, the aim of economic restructuring and policy evolution was to ease this contradiction. This largely involves a governmental governance structure.
- (3) Efforts must be made to remove the obstacles of reform. One of the goals of mobilizing all powers should include removing various obstacles. This is the Chinese experience in the socialist political economy with Chinese characteristics that need to be and can be summed up, and the Chinese wisdom that is provided to enrich contemporary Chinese Marxist political economics. Analysis from the perspective of the socialist political economy with Chinese characteristics is

needed in many aspects, including the coordination of the relations among reform, development and stability, the handling of the relationship between incremental reforms and stock adjustments, the balance between the feasibility and the necessity for reform, the unification of development priorities and the overall situation, and the convergence of short-term goals and long-term policies. Reforms and development since 1978 have provided a practical basis for summarizing the experience of the socialist political economy with Chinese characteristics. These are both critical experiences in the practice of reform and development, and essential parts of the system of the socialist political economy with Chinese characteristics.

Concerning the relation between government reform and enterprise reform, the focus of the reform was switched from enterprise reform to government function transformation. In enterprise reform, the emphasis was gradually shifted from the relation of distribution (such as decentralization and interest concessions, replacement of profits by taxes and contracting systems) to enterprise ownerships (such as stock systems and other modern enterprise systems). Regarding the relationship between reform and development of state-owned enterprises and the development of township enterprises, the latter, in incremental reforms, promoted the reform of state-owned enterprises. In price reform, the dual pricing system has gradually changed into the entire price system. Concerning the relationship between different regions, the establishment of special administrative zones has played a role in leading other regions all over China. These experiences all derive from China's reform and development, which also provides Chinese wisdom for the further development of the Marxist political economy of contemporary China.

- (4) Shared prosperity is the fundamental interest principle for mobilizing initiative. Becoming prosperous first through certain people and regions is the objective requirement of China's economic development and fundamental national condition. Realizing prosperity for all is an essential demand of socialism with Chinese characteristics and an important principle of a socialist political economy with Chinese characteristics. To realize the abovementioned, it is necessary to adhere to and improve the primary socialist distribution system on the basis of the underlying system of the Chinese socialist market economy. On the basis of the principle of socialist distribution according to work, China must coordinate all relations and apply the incentive mechanisms based on contributions, factors and total factor productivity. With respect to the initial distribution among the government, enterprises and laborers, the distribution structure among regions, urban and rural areas, and industries, and the income gap between urban and rural residents, China must coordinate its system, mechanism and policy, and unify efficiency and fairness, and more effectively reflect the concept of "sharing" on the basis of promoting development. In actuality, sharing the achievements of reform and development is not only a manifestation of the principles of socialist fairness and justice but also an essential assurance for improving efficiency. Otherwise, it will be neither fair nor efficient.

## **6. The primary targets of a socialist political economy with Chinese characteristics under the new normal: avoiding the middle-income trap**

The fundamental purpose of upholding and applying socialist political economics with Chinese characteristics is to promote socioeconomic development. Under the historical conditions and at this stage of the new normal economy, it is essential to use the scientific

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analysis methods of the socialist political economics with Chinese characteristics to explore how China's economy can avoid the middle-income trap:

- (1) The middle-income trap is an objective historical phenomenon in the economic development. On the one hand, the middle-income trap was universal in developing countries after the Second World War. Only 15 of the 116 developing countries have avoided the middle-income trap after the Second World War. Many countries in Latin America, East Asia, West Asia and North Africa failed because of various factors. On the other hand, the background of the middle-income trap is the fundamental change in the conditions of supply and demand after economic development when entering the middle-income stage. As costs on the supply side increase sharply while the demand is sluggish, no country can avoid the middle-income trap if it does not veer from the traditional development pattern. From the supply side, the total costs of the national economy will have an overall increase. If the development mode does not evolve from previous models of relying on the low-cost factor motivated by its input to the mode of promoting growth by increasing the factor efficiency and total factor productivity, it is likely to cause severe stagnation due to unsustainable long-term growth and short-term imbalance. In terms of the demands in the course of middle-income development, if human capital accumulation is ignored and lags behind physical capital expansion for a long term, investment growth will not be achieved because of weak innovation ability, lack of investment opportunity and the room for industrial upgrading even if there is plenty of capital and savings. With regard to consumer demands, if the rationality of income distribution is neglected in development, the income gap will grow significantly and the average propensity to consume will decrease, thus leading to relative even absolute weaker consumer demands compared to that under economic expansion. If China does not fundamentally improve the level of innovation and social equality, it will inevitably lead to long-term recession and crisis. In politics, copying Western democratization and promising high welfare for voters without considering the history and reality will cause anti-driving mechanism, high financial deficit, and political and economic deadlock.
- (2) The underlying reason for the middle-income trap is a deviation from the development concept, especially insufficient innovation in technology and institution. It is also caused by slowed transformation of development models, development imbalance and discordance between equality and efficiency. First, the inadequate transformation of development mode is caused by poor technological innovation and difficulties in upgrading of an industrial structure due to the lack of competitiveness. The second reason is the slowed economic system innovation, imbalance between government and market, inefficient market competitiveness, incomplete orders, injustice, more government intervention, market failure that equate to lack of governance and lack of motivation guarantee for fair competition. The third reason is a legal system: lack of protection for private rights in the market economy competition as well as insufficient constraint and specification on the public power of the government. This will cause rent allocation fundamentally from the principle of market efficiency as resources are allocated according to seeking intensity without efficiency and fairness.
- (3) For China's socialist construction, the key to avoiding the middle-income trap is to strive to change the mode of development, and to transform the economic development from mainly relying on the volume of factor to efficiency promotion. Therefore, China must implement new concepts in the course of development: innovation,

coordination, environmental awareness, openness and sharing. Implementing new development concepts is the overall strategy for understanding the new form, adapting to the new form, guiding the new form, overcoming development difficulties, avoiding the middle-income trap and achieving an all-round well-off society. The effective implementation of the overall strategy needs institutional conditions created by comprehensively deepening reform. First, efforts must be made to comprehensively deepen the reform of the economic system and handle the relationship between the government and the market in order to guarantee the market's decisive role in the resource allocation and the government's leading role in macro-control, market failure field, and achieving long-term social development goals. Second, we must comprehensively promote the rule of law, and boost the construction of socialist democracy and rule of law with Chinese characteristics so as to form a governance pattern with the country, society and government under the rule of law and to gradually improve the democracy and legal system with Chinese characteristics. Deepening economic reform needs and can only rely on the Party's strong leadership, whose goal is to establish a complete socialist market economic system while achieving the goal of building a well-off society in an all-round way. Promoting the rule of law also needs and can only rely on the Party's strong leadership, whose goal is to establish strong legislation by 2020 while continually promoting the construction of a socialist country under the rule of law. Therefore, comprehensively strengthening the Party's internal discipline has become the logical starting point for China's modernization process at this stage.

The five major development concepts under the new normal proposed by the Party Central Committee with Comrade Xi Jinping as the General Secretary are the keys to avoiding the middle-income trap and maintaining the sustainable development of China's social productivity, and significantly contribute to the economic theory development of political economy practices. Furthermore, a four-pronged comprehensive strategy is the primary institutional guarantee for the implementation of new development concepts and the systematic improvement of the practical experience of China's development. China's socialist economic development needs the guidance of a socialist political economy with Chinese characteristics, while its socialist economic practices also further develop contemporary Chinese Marxist political economics.

#### Notes

1. Marx took this as the transformation from the classical economics to vulgar economics.
2. Dividing social production modes into five types is a significant contribution made by Marx and also the most lucid analysis of human history. Lewis H. Morgan, a western scholar, classifies society of different periods into Savagery, Barbarism and Civilization in his work "Ancient Society." Chinese ideologists divide it into three periods: ancient times, medieval times and recent times. However, both these classifications are rough and inaccurate.
3. According to statistical data, before the sixteenth century, there were about 300 significant technological inventions affecting human life, 175 of which were made by Chinese (Zhongquan, 2013). According to statistics from historian Madison, in 1820, China's GDP accounted for 32.9 percent of the global total, Western European countries made up 23.6 percent, and the USA and Japan, respectively, accounted for 1.8 and 3 percent (Maddison, 2003, p. 261).
4. Mao Zedong drew lessons from China's socialist economic construction and wrote famous works such as *On the Ten Major Relationships*. He also studied Soviet political economics textbooks and took reading notes. Generally, these were more critical rather than constructive and stressed social relations reform by divorcing from the objective demands of productivity development.
5. *People's Daily*, July 9, 2014: 1. November 25, 2015: 1. December 22, 2015: 1.

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