

Is it Possible to Establish “A Socialist Market Economy” in China?

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No Alternatives to Capitalism?

- Chubias: “They are stealing absolutely everything and it is impossible to stop them. But let them steal and take their property. They will then become owners and decent administrators of their property.”
- Mrs. Thatcher: **TINA** (There is no alternative)
- Deng and Jiang’s reply to Mrs.Thatcher
- V.Pareto wrote two books on Socialism
- Braudel anticipates “socialist market economy”? (the Chinese edition story)

Braudel on “Capitalism”

- “I have only use the word *capitalism* five or six times so far, and even then I could have avoided it. ... Personally, after a long struggle, I gave up trying to get rid of this troublesome intruder. *Capitalism* ... has been pursued relentlessly by historians and lexicologists. ... But it was probably Louis Blanc, in his polemic with Bastiat, who gave it its new meaning when in 1850 he wrote: ‘What I call “capitalism” [and he used quotation marks] that is to say the appropriation of capital by some to the exclusion of others.’ But the word still occurred only rarely. Proudhon occasionally uses it, correctly: ‘Land is still the fortress of capitalism’, he writes ... And he defines it very well: ‘Economic and social regime in which capital, the source of income, does not generally belong to those who make it work through their labour.’ Six years later however, in 1867, the word was still unknown to Marx.”

-- Fernand Braudel, *Civilization and Capitalism 15th-18th Century, The Wheels of Commerce* vol.2, p.231, 237.

Braudel on Anti-Market Capitalism

- Braudel makes a crucial distinction between “market economy” and “capitalism.” According to him, “there are two types of exchange: one is down-to-earth, is based on competition, and is almost transparent; the other, a higher form, is sophisticated and domineering. Neither the same mechanisms nor the same agents govern these two types of activity, and the capitalist sphere is located in the higher form.”[1] Braudel considers the market town as the typical case of the first type of exchange, and the monopoly of long distance trade and financial speculation as the model of the second type, i.e., “capitalism,” which is essentially “anti-market.”

-- [1] Fernand Braudel, “Afterthoughts on Material Civilization and Capitalism”, p.62, The Johns Hopkins University Press, 1977.

Two Basic Meanings of “Socialism”

1. Socialism as a challenge to the “naturalness” of private property(1848 Webster Dictionary, the modern version of Roman Agrarian Law)
2. Socialism as effort to bring about “Economic and social democracy”, extending the existing political democracy

James Meade
PPE, Oxford
(1907-1995)



$$\frac{K_s}{K}$$

$$\frac{K_s - D}{K}$$

$$\frac{K_s}{K} = 42\%$$

$$\frac{K_s - D}{K} = -14\%$$

K is the value of the total real property of the community

K_s is the part of this total which is directly managed by the State

D is the value of the national debt owed by the State and other public authorities to the private sector of the economy

In the United Kingdom in 1959

K=50,000 Million, K_s=21,000 million, D=28,000 Million

Meade's Labour-Capital Partnership

economic democracy

In Meade's design, *outside shareholders own Capital Share Certificates and inside workers own Labor Share Certificates.* The operational mechanism of the program is roughly as follows:

“the Labour-Capital Partnership, whereby the workers and those who provide risk capital jointly manage the concern as partners. The capitalists own Capital Shares in the business, which are comparable to Ordinary Shares in a Capitalist Company. The worker partners own Labour Shares in the partnership; these Labour Shares are entitled to the same rate of dividend as the Capital Shares, but they are attached to each individual worker partner and are cancelled when he or she leaves the partnership. If any part of the partnership's income is not distributed in dividends but is used to develop the business, new Capital Shares, equal in value to their sacrificed dividends, are issued to all existing holders of Labour as well as of Capital Shares. These partnership arrangements greatly reduce the areas of conflict of interest between workers and capitalists, since any decision which will improve the situation of one group by raising the rate of dividend on its shares will automatically raise the rate of dividend on the shares of the other group (Meade 1993, 85-86).”

Meade's "Social Dividend"

UK's "baby bond"

The second feature of Meade's program of "liberal socialism" is "social dividend:" every citizen is paid a tax-free Social Dividend according to the citizen's age and family status but without any other conditions. Two basic reasons for instituting social dividend are: (1) promotion of equality by providing everyone with same basic unconditional income; (2) the reduction of risks by providing some part of income that is unaffected by variations required by flexibility in labor market.

Alaska Constitution Article IX, Section 15

Section 15. Alaska Permanent Fund.

At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law

[Effective February 21, 1977].

ALASKA LAW Article 01. ALASKA PERMANENT FUND.

Sec. 37.13.140. Income.

Net income of the fund includes income of the earnings reserve account established under AS 37.13.145 . Net income of the fund shall be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. Income available for distribution equals 21 percent of the net income of the fund for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the fund for the fiscal year just ended plus the balance in the earnings reserve account described in AS 37.13.145.

Sec. 37.13.145. Disposition of income.

(a) The earnings reserve account is established as a separate account in the fund. Income from the fund shall be deposited by the corporation into the account as soon as it is received. Money in the account shall be invested in investments authorized under AS 37.13.120.

(b) At the end of each fiscal year, the corporation shall transfer from the earnings reserve account to **the dividend fund** established under AS 43.23.045, **50 percent of the income** available for distribution under AS 37.13.140.

(c) After the transfer under (b) of this section, the corporation shall transfer from the earnings reserve account to the principal of the fund **an amount sufficient to offset the effect of inflation on principal of the fund** during that fiscal year. However, none of the amount transferred shall be applied to increase the value of that portion of the principal attributed to the settlement of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District) on July 1, 2004.

The dividend formula

Add the Fund's Statutory Net Income* from the current plus the previous four fiscal years. This five-year average allows for a “smoothing” effect against year-to-year realized earnings volatility.

Multiply by 21%. This provides an average of the five years of earnings.

Divide in half. This amount goes towards dividends. From the half remaining, money is transferred to inflation proof Fund [principal](#). After these two uses, any residual realized earnings stay invested in the Fund's [earnings reserve account](#) , where they are available for the Legislature to spend.

Subtract prior year obligations, designated state expenses and the costs of operating the Department of Revenue Permanent Fund Dividend Division.

Divide by the number of eligible applicants. This figure equals the amount of each PFD!

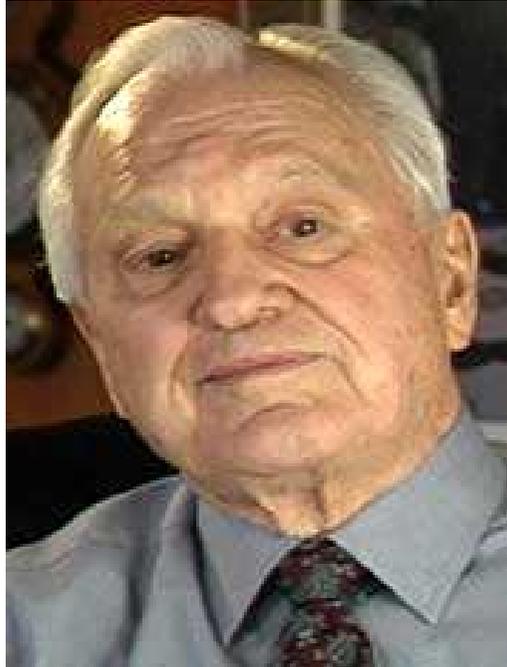
*Statutory Net Income = realized earnings excluding income from the North Slope royalty case, State v. Amerada Hess, et al. Statutory Net Income / realized earnings can be found in the "Notes to Financials Statements" section of each [annual report](#).)

JAY HAMMOND ~ 1922-2005, A father of the Fund

Jay Hammond was Governor of Alaska from 1974 to 1982. His support was instrumental in encouraging the Legislature and the people of Alaska to pass a constitutional amendment creating the Permanent Fund in 1976. While in office, he also signed into law the bill creating the Alaska Permanent Fund Corporation, to ensure the Fund was managed independent of political pressures.



Governor Jay Hammond signs the bill creating the Alaska Permanent Fund Corporation in 1980.



Walter J. Hickel was governor of Alaska from 1966 - 1968 and again in 1990 - 1994. He served as U.S. Secretary of the Interior from 1969 - 1970.

Timeline of Alaska Permanent Fund

- 1977** Fund receives its first deposit of dedicated oil revenues totaling \$734,000. At first the Fund is invested entirely in bonds.
- 1980** The Alaska Legislature adds \$900 million in surplus oil revenues to the Permanent Fund by **special appropriation**. The Legislature also places a list of allowed investments into state law.
- 1981** The Alaska Legislature approves **a second special appropriation** of surplus oil revenues to the Permanent Fund for \$1.8 billion. The Fund makes its first investment in the stock market, and later that year, in private equity real estate.
- 1982** The first Permanent Fund dividend check of \$1,000 is distributed.
- 1984** Permanent Fund assets reach **\$5 billion**.
- 1986** The Alaska Legislature approves the Fund's **third special appropriation**. This \$1.26 billion addition to Fund principal is transferred from undistributed Fund income.
- 1989** Permanent Fund assets reach **\$10 billion**.
- 1990** After the Legislature expands the statutory investment list, the Permanent Fund begins to invest in stock and bond markets outside the United States.
- 1993** Permanent Fund assets reach **\$15 billion**.
- 1998** Fund assets reach **\$25 billion**.
- 2005** The Legislature makes a significant change in how Permanent Fund investments are determined by removing the allowed investment list from state law. From now on Trustees will make investment decisions under the guidelines of the prudent investor rule. **Fund assets reach \$30 billion**.

Fund Market Value

unaudited, as of April 6, 2007

US Bonds	\$9,204,800,000
Non-US Bonds	\$1,151,700,000
US Stocks	\$11,167,500,000
Non-US Stocks	\$5,112,000,000
Global Stocks	\$5,822,500,000
Real Estate	\$3,695,900,000
Alternative	\$1,796,700,000
Alaska CDs	\$159,500,000
TOTAL	\$38,110,600,000

Historical Summary of Dividend Applications and Payments State of Alaska

Dividend Year	State Population	Applications Received	Applicants Paid	Dividend Amount	Amount Disbursed
2005	662,604	627,205	594,028	\$845.76	\$502,405,121
2004	656,435	625,072	598,378	\$919.84	\$550,412,019
2003	648,243	619,446	595,567	\$1,107.56	\$659,626,186
2002	640,841	621,258	589,378	\$1,540.76	\$908,090,047
2001	632,389	608,504	586,187	\$1,850.28	\$1,084,610,082
2000	625,504	607,823	583,040	\$1,963.86	\$1,145,008,934
1999	622,000	589,778	572,790	\$1,769.84	\$1,013,746,653
1998	617,082	581,837	565,256	\$1,540.88	\$870,991,665
1997	609,655	573,089	554,733	\$1,296.54	\$719,233,523
1996	605,212	564,411	546,040	\$1,130.68	\$617,396,507
1995	601,581	563,052	541,851	\$990.30	\$536,595,045
1994	600,622	557,874	534,608	\$983.90	\$526,000,811

Historical Summary of Dividend Applications and Payments (continued)

Dividend Year	State Population	Applications Received	Applicants Paid	Dividend Amount	Amount Disbursed
1993	596,906	549,095	527,952	\$949.46	\$501,269,305
1992	586,722	542,285	522,639	\$915.84	\$478,653,701
1991	569,054	533,710	512,098	\$931.34	\$476,937,351
1990	553,171	531,515	497,608	\$952.63	\$474,036,309
1989	538,900	524,294	507,551	\$873.16	\$443,173,231
1988	535,000	532,241	518,152	\$826.93	\$428,475,433
1987	541,300	535,590	529,482	\$708.19	\$374,973,857
1986	550,700	540,216	532,299	\$556.26	\$296,096,641
1985	543,900	525,148	518,476	\$404.00	\$209,464,304
1984	524,000	490,414	481,346	\$331.29	\$159,465,116
1983	499,100	465,569	457,207	\$386.15	\$176,550,483
1982	464,300	484,344	469,740	\$1,000.00	\$469,740,000
Total		13,384,770	12,936,406	\$24,775.45	\$13,622,952,333

Source :

Dividend statistics were obtained from the Permanent Fund Dividend Division's Application and Payment Status report as of January 2006. Population statistics were obtained from the Alaska Department of Labor.

The Chinese People's Permanent Trust Fund

(preliminary proposal)

In 2005, 166 central government-owned enterprises in non-financial sectors produced RMB 600 billion profits. Taking 50% of the profit, i.e., RMB300 billion to form the Chinese People's Permanent Trust Fund (CPPTF), and investing this 300 billion in bond and stock market. If the Fund can produce 10% earnings annually, it will be 30 billion yuan. (The other 300 billion can be made available for these enterprises)

Taking 50% of this 30 billion earnings, 15 billion, to distribute to all the people in China, each person can get 10 yuan. The remaining 15 billion, which equals 1% of central government's budget in 2004, can be used for social and economic program upon the approval by the People's Congress.

The first year's 10 yuan for each person is a very small amount; however, if in the 2nd, 3rd, and 4th, etc. each year there will be 200-300 billion profits available for the CPPTF, the principal of the Fund can reach 1000 billion in a couple of years. Suppose that from the 2nd to 5th year, each year there is 300 billion yuan added to the Fund, then by the end of the 5th year, the principal of the Fund will be 1,500 billion. Even a 5% annual rate can produce 75 billion earnings. The 50% of 75 billion, 37.5 billion can be distributed to the Chinese people as social dividend. As time goes by, the principal of the Fund will continue to accumulate, and the earnings grow.

If the profits of central government-owned financial institutions and the income from public land auction are added to the Fund, the social dividend to the people will be substantial in 10 years (it will become significant to people in the countryside).

“Suppose that there is a kind of income that constantly tends to increase, without any exertion or sacrifice on the part of the owners: those owners constituting a class in the community, whom the natural course of things progressively enriches, consistently with complete passiveness on their own part. In such a case it would be no violation of the principles on which private property is grounded, if the state should appropriate this increase of wealth, or part of it, as it arises. This would not properly be taking anything from anybody; it would merely be applying an accession of wealth, created by circumstances, to the benefit of society, instead of allowing it to become an unearned appendage to the riches of a particular class.”

-- John Stuart Mill, *Principles of Political Economy*

Henry George

- Socialization of Land Rent (Reclaim any land value increase not due to landlord's efforts)
- 1886 Liberal Party split over the Irish Home Rule, larger number of landowners defected
- Lloyd George 1909 "People's Budget" introduced land value tax (LVT), against hoarding land in anticipation of future higher value
- China's current regulation: 2006.9.5
- Beijing Developers hoarded over 50% of the land they leased from the government

John Dewey on Henry George

“it would require less than the fingers of the two hands to enumerate those who, from Plato down, ranked with Henry George among the world’s social philosophers”.

Joseph Stiglitz's “Henry George Theorem”

“In a simple spatial economy, where the spatial concentration of economic activity is due to a pure local public good and where population size is optimal, aggregate land rents equal expenditure on the pure public good. This result has been dubbed the Henry George Theorem (HGT), since a confiscatory tax on land rents is not only efficient, it is also the “single tax” necessary to finance the pure public good”



Dr. Sun Yat-sen (1866-1925)

Winston Churchill(1909):

“Roads are made, streets are made, railway service are improved, electric lights turn nights into day...To not one of those improvements does the land monopolist contribute and yet by every one of them the value of his land is enhanced. He renders no service to the community...he contributes nothing even to the process from which his own enrichment is derived”

----www.cooperativeindividualism.org

Division of Public Land Leasing Revenue

- In 1984, the leasing of public land was legalized**
- In May 1989, 40% of public land leasing revenue goes to the central gov't, 60% to local gov't**
- In July 1989, local can first retain 20% of the revenue, the remaining 80% is divided into 40% to the central and 60% to local – th central government's share decreases to 32%**
- In 1992, the central gov't share goes down to 5%**
- In 1994, after the fiscal reform, all revenue from public land leasing goes to local government**

Revenue from Land Leasing: Selected Cities, China

City	Period	Revenue Raised
Shanghai	1992-2004	More than RMB 100 billion, used for capital spending
Shenzhen	Throughout 1990s	Approximately 80% of total local government revenues
Beijing	1995-96	RMB6.9 billion (approximately 60% of local capital spending)
Chengdu	2002-2003	RMB 4.7 billion (approximately 45% of local capital spending)
Hangzhou	2002	RMB 6 billion (more than 20% of total government revenues)
Guangdong Province	1992	RMB 9.4 billion (45% of total revenue of provincial government and municipalities)

Source: George E. Peterson, "Land Leasing And Land Sale As An Infrastructure-Financing Option", World Bank Policy Research Working Paper 4043, Nov. 2006

Proudhon's Argumentative Strategy

- The point of Proudhon is that, if private property in land implies indefinite control of the owner, then it is incompatible with population change. Therefore, private property in land, understood as a universal right applying to everyone, cannot exist. In other words, if private landownership implies indefinite control on the part of the owner, it cannot adjust to population change, therefore private landownership cannot be a universal right for everyone; if private landownership adjusts to population change, it cannot be private property in the sense of owners' indefinite control. *It is remarkable that today's land ownership in China testifies this insight of Proudhon.*
- Drawing on H.L.A. Hart's distinction between "special rights" and "general rights", Jeremy Waldron makes a distinction between "general-right-based arguments for private property" and "special-right-based argument for private property". As he points out, Proudhon is successful in arguing against "general-right-based arguments for private property". See Waldron, "The Right to Private Property", p.324, Oxford, 1988.
- The "Proudhon strategy" can be summarized in his own words: "Every argument which has been invented in behalf of property, whatever it may be, always and of necessity leads to equality; that is to the negation of property" (Proudhon, p.66)