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THE DISCOURSE OF WORKERS DEMOCRACY IN CHINA AS A TERRAIN OF
IDEOLOGICAL STRUGGLE IN THE MOMENT OF TRANSITION FROM STATE
SOCIALISM

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It is a great honor for me to be able to dedicate this dissertation to my parents Richard and Patricia Philion.

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Abstract

In this dissertation, I aim to provide a better understanding of certain aspects of the reforms in the political economy of China since Deng Xiaoping reoriented the Chinese political economy in the direction of increased reliance on market based competition. Towards that end, I argue that a particular phenomenon of Chinese restructuring, namely the discourse of workers democracy that Chinese workers, enterprise administrators, intellectuals, and state bureaucrats engage and alter according to varying agendas, has undergone significant changes from the early Maoist period to the present day of state enterprise restructuring and expanded market involvement in the Chinese economy. Further, the appropriation of this discourse of workers democracy in the moment of Chinese transition from state socialism has been shaped and constrained by the systemic limits of that transition. I theorize the Chinese transition from state socialism and then look at the discourse of workers democracy as part of China's transition from state socialism. Based on field interviews with Chinese workers in small- and medium-sized state owned enterprises facing privatization, I find that workers in contemporary China retain fundamental beliefs that contributed to the core logic of Chinese state socialism. Their reinterpretation of workers democracy today is deployed, however, as part of an effort to deal with a problem that they never faced under state socialism, namely, the threat of unemployment. Research findings from the field indicate that the transition from state socialism remains both uncertain and a matter of considerable ideological contestation.

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Chapter 1

Introduction: Dissertation Research Questions, Theoretical Issues, and Chapters Summary

In this dissertation, I aim to provide a better understanding of certain aspects of the reforms in the political economy of China since Deng Xiaoping reoriented the Chinese political economy in the direction of increased reliance on market based competition. Towards that end, I argue that a particular phenomenon of Chinese restructuring, namely the discourse of workers democracy that Chinese workers, enterprise administrators, intellectuals, and state bureaucrats engage and alter according to varying agendas, has undergone significant changes from the early Maoist period to the present day of state enterprise restructuring and expanded market involvement in the Chinese economy. Further, the appropriation of this discourse of workers democracy in the moment of Chinese transition from state socialism has been shaped and constrained by the systemic limits of that transition. In the next two sections I will introduce briefly how I theorize the Chinese transition from state socialism and then introduce how I look at the discourse of workers democracy as part of China's transition from state socialism. I finish this introductory chapter with a short summary of this dissertation's chapters.

Theorizing China's Transition from State Socialism

Chinese economic restructuring has taken on a form that has been unsystematic, careful, piecemeal, and even opportunistic. China's efforts in this regard stand out as distinctly different from (and far more successful) than its northern neighbor Russia (Burawoy 1996). Most notably, China has refused to accept wholeheartedly the Washington Consensus shock therapy program for 'reforming' state socialist economies. Instead, China has retained a much higher level of state involvement in the direction of capital flows within China such that the State Owned Enterprises [SOEs] that contributed to the heart of state socialist value production continue to do just that. Even when it appeared at times to some that China was on the verge of handing over the economy to a new capitalist class (Lo 1996), this feature of Chinese political economy has (to date at least) remained in tact (See chapter 3 below; Lo 1999; 2001; 2002).

The response of Chinese workers to privatization in this sector is critical and my study focuses on them. Because of the continued and central importance of the State Owned Enterprises as the base of state power in China, this dissertation focuses on how Chinese economic restructuring has impacted Chinese SOE workers. I proceed with a special emphasis on small and medium sized enterprises, where the greatest degree of SOE restructuring has transpired. By focusing on the SOE sector in China, in no

sense should it be taken that I deny the importance of the expansion of the role of private capitalist investors in the Chinese political economy. However, taking the political economy of Chinese transition as a systemic phenomenon, it remains an empirical fact that competitive markets do not rule the economic heart of Chinese value production (Hassard et al. 2002). And it is widely agreed by China watchers that until such a sea change is actualized a Chinese transition to capitalism remains tenuous. I would add that it is ill advised to conceptualize the price of a Chinese transition to capitalism without taking into account the dynamics of capitalist development (i.e. intensified international capitalist competition, the impact of financial crises on production relations, constraints that global trade treaties place on protectionist developmental strategies, etc.)¹.

My inquiry is based on the argument that Chinese economic restructuring is problematic with reference to what the literature refers to as "transition questions." I look at current theories of transition from "socialism" to "capitalism." While there are distinct problems associated with each of these types of theories, all of them are flawed by insufficient attention to the specific process of contestation and class-based compulsion that is required for the transition to capitalism, and, individual strengths aside, all fail to take seriously the contingent character of outcomes. I make the argument that not

¹ And I argue in chapters 2 and 3 that this is a prominent weakness of the transition literature.

taking for granted that capitalism is a determined endpoint of transition enables us to have a clearer grasp of both the changes and the price that China's working class will have to pay as a consequence of capitalist transition. That is to say, while capitalism is one of the possible results of the transition process, it is not the only one. My contention, in a nutshell, is that those who assume that capitalism is the predestined (and/or already actualized, be it in a 'straight out' or 'mixed' capitalist) outcome of Chinese transition neglect the extent to which the battle over *whether* capitalist relations of production will systematically dominate the Chinese political economy has yet to be completed. Here plainly, attention to the efforts of Chinese workers to resist, and the consequences of this resistance, will be critical. Accordingly, in addition to a clear understanding of the beliefs, attitudes and rhetoric employed by workers, enterprise administrators, Party cadres, and even intellectuals, we need an appreciation of the constraints imposed on their action by existing conditions, both local and global.

The analysis provided in this dissertation leads to the conclusion that the Chinese future is problematic. What remains to be seen is how the playing out of the Chinese transition from state socialism will impact the level of struggle in the Chinese SOE and throughout the Chinese working class in general. This invariably remains a matter of whether or not Chinese workers are compelled to accept the logic of capitalist production as a system of class

relations in China's future, or encounter a stagnant but non-market type of coercive class relations that dominate the Chinese political economy, or, reject both such outcomes as the path of transition from Chinese state socialism and battle for a new path that supersedes state socialist and capitalist relations of production. As we have seen in the Russian transition case, workers and managers alike can simply pursue strategies to survive instead of submitting their productive activities to the will of capitalist investors – an option hardly available to most workers and managers in capitalist countries². In this analysis, capitalism not only cannot be assumed to have arrived in China, but whether or not its future arrival is desirable for China's workers remains a matter of ideological struggle.

I argue that clarity on this matter is not merely abstractly theoretical but directly practical as well. If Chinese workers base their struggles against the coercive relations of transition from state socialism on a misunderstanding of the prerequisites of capitalist transition, it is not unreasonable to expect that they will also make impractical decisions about alternatives to capitalism as a goal of struggle in the period of transition. It is

² Simon Clarke's work on Russia's transition from state socialism, which we will engage in chapter 2 extensively, reveals how this is so, even in companies that have undergone the most 'aggressive' privatization. Managers scramble to find ways to maintain companies that long ago went bankrupt instead of declaring bankruptcy. Workers retain ties to bankrupt companies for the sake of minimal social security benefits and/or work in informal sectors opting to get by instead of working for privately owned companies that entirely dismiss as unreasonable their traditionally held view that companies have a social obligation to provide decent wages and benefits to workers. In his review of polling data, Clarke finds that Russian workers, even while hoping for more 'markets' and capitalist investment, reject the terms of capitalist investment that dominant (foreign) capitals insist on to 'develop' Russia (Clarke 1993a; 1998). See also Burawoy (2001).

hoped that my account makes a contribution to the literature on transition from state socialism that clarifies the price of capitalist transition for China and the need to consider alternatives to capitalism in the moment of Chinese transition.

Workers Democracy in China as a Contested Discourse: A Historical and Case Study Analysis

At the empirical level, my research found a little developed but critical feature of the process involved in SOE reforms: the persistence of a discourse of workers democracy that has been contested ideologically in the moment of Chinese transition from state socialism. By a discourse of workers democracy I refer to a frequently employed set of spoken or written concepts that broadly have as their reference the notion that workers should be directly involved and exercising one degree or another of control in the management of the SOEs. While the concept of 'democratic management' (*minzhu guanli*) featured most prominently in this discourse, concepts as varied as 'enterprise transparency', 'elections of managers', 'shopfloor management committees', 'workers representative congresses (WRC)', 'direct production control',

'shareholder control,' and 'elimination of worker-cadre division of labor,' have comprised part of this discourse of workers democracy in Maoist and post-Maoist China. Initially framed during the Maoist period, this discourse can be shown to be highly flexible, and over the years of reform has been appropriated by various actors for various purposes. I trace these changes across the period of this study. Importantly, its persistence also suggests that the idea is a deeply rooted feature of Chinese socialism. I take special interest in how this discourse develops, which actors are most prominent in its formation and alteration, and, finally how it is shaped and constrained by the social relations of coercion that characterize China's political economy in the past two decades of transition from state socialism.

Reform addresses the problem of transforming the social relations of production; something I argue cannot and should not be taken for granted in the moment of transition. Conceptualizing ideology as the set of deeply held beliefs, not necessarily coherent, or articulated, or false or distorted, but that "inspire concrete attitudes and provide orientations for action," (Bottomore 1983), in this context it is critical to consider worker's views regarding the changing social relations of SOE production. We can then also raise the question of how a discourse of workers' democracy, one that is employed by different Chinese social actors in contradictory ways, is engaged as a part of the transition from Chinese state socialism, at times enthusiastically at times

perfunctorily. Likewise, how has workers democracy developed as a phenomenon of ideological contestation in China in response to the process of state socialist transition – sometimes promoting certain kinds of change but always with unintended consequences, including the potential to reproduce or supersede existing coercive social relations of production?

This dissertation addresses itself specifically to the process through which a discourse such as workers democracy, which has its origin in the moment of anti-capitalist revolution in China, has been appropriated by different social agents from 1949 to present for multiple and contested ends. In this sense, the discourse of workers democracy became, to borrow from Gramsci's conceptualization of ideology, "[a] terrain on which men move, acquire consciousness of their position, struggle, etc (Gramsci 1971, 377). That is, while workers democracy in China emerged as a transformative concept in the context of anti-capitalist revolution, it became an idea over which considerable struggles over interpretations would occur. The net effect is that workers democracy remains to date an idea, as this dissertation will attempt to show, that critically informs SOE workers' consciousness in the moment of transition from state socialism.

Chapters Summary

After setting out the theoretical parameters of my inquiry (Chapter 2) and key features of the history of economic restructuring in Post-Mao China (Chapter 3), I trace and analyze how a discourse of workers democracy has been a dominant theme across different periods of China's transition, from the early Maoist period to the present stage of attempted integration into globalized circuits of capitalist competition. I trace how in each period particular social agents used the discourse to promote different interests and different agendas. In the process, they produced different often contradictory, ironic, and unintended consequences.

In this dissertation, the approach to the problem of ideology in China's state socialist transition, with a focus on workers democracy, begins with an analysis of state socialist transition to capitalism as a *systemic* transition. The set of social class relations that characterize state socialism are distinct from those of capitalism and are based on relations of coercion that are not dominated by market dependency in the case of the class of direct producers or accumulators (Wood 1994). The question at the start is, then, given what is known about the way capitalism operates as a system, what are the conditions for Chinese transition to capitalism. Relatedly, in later chapters we will ask, given these conditional prerequisites, what have been the limits of the possible for the idea of workers democracy as a part of Chinese

transition, be they seen from the vantage of China's ruling class or China's direct producers?

The second chapter examines current transition theories with an eye toward establishing the limits capitalism places on the transition from state socialism in general. Chapter 3 provides a sketch of the Chinese state [socialist] in transition with special emphasis on the nature and degree of capitalist penetration in the political economy. With that as a basis for conceptualizing the transition from Chinese state socialism that has taken place since 1978, I proceed in Chapter 4, to an examination of the development and alteration of workers democracy as an ideology of Chinese state socialism in transition.

I start by analyzing the limits of workers democracy as an ideology of state socialism during the Maoist period, from 1949 to roughly 1978. I separate this period into two distinct stages: the period from 1949 to the start of the Cultural Revolution and the period from the start of the Cultural Revolution to the end of the Maoist period of Chinese state socialism, roughly 1978. During the first period, workers democracy made headway as a discourse within the CCP, especially in debates around democratic management (*minzhu guanli*). *Minzhu guanli* was rooted in the revolutionary period, especially in Yanan, with the Maoist thrust on guerilla activity and decentralized modes of decision making needed to adapt to and survive

rapidly changing challenges in the heat of rural revolution. In addition, throughout the Maoist decade there existed tension between China and the Soviet Union that provided an opening for challenges to the type of hierarchical work relations that existed in the Soviet enterprise. However, there were battles drawn around the lines of 'red' and 'expert' factions that demarcated the fate of *minzhu guanli* in the decade following the CCP's revolutionary victory. The red faction of the CCP expressed either reservations or outright hostility to the practice of *minzhu guanli* for fear that the policy was a part of a rearguard effort to undermine Maoist cadre dominance of the SOE. Of special concern was the role of the Workers Representative Congress (WRC) as a tool to neutralize Maoist cadres in the SOEs. The concept of *minzhu guanli* dissipated by the early 1960s and would not be revived until the 1980s.

Nonetheless, the notion of workers democracy did not disappear during the Cultural Revolution. Indeed, the Maoists believed they were developing the institutional basis for a much deeper form of workers democracy in China, by encouraging workers in factories to challenge cadre privileges and abuses of authority. Despite varying success stories in both periods, the forms of workers democracy in the Maoist period of state socialism met with mixed and often contradictory results at best explained by the shifts in both understandings and organization of SOE social relations at

various levels of the Maoist Chinese political economy. In any event, we will also see in later chapters that despite the often contradictory understandings of workers democracy in the Chinese SOE, it would inform a part of the SOE workers', cadres, and state bureaucrats' consciousness in following period when many of the Maoist economic policies would be overhauled.

In chapter 5, I examine the revival of *minzhu guanli* as part of the Dengist program's first decade of Chinese restructuring (1978 to mid-1989). This revival was due to the desire, shared by the reformist cadres aligned with Deng and the workers, to remove older enterprise cadres who had won their rank in the SOE through ideological correctness during the Cultural Revolution. It is arguable that in no other period of Chinese revolutionary history did cadres and workers share such common interests, especially that of greater productivity. To the extent that *minzhu guanli* was a tool for recognizing that goal, Dengist cadres won greater political stability and, thanks to new wage policies, workers could secure increased wages and 'iron rice bowl' benefits.

The new (or revised) policies of *minzhu guanli* shared similarities with the earlier attempts at such goals in the first decade of Chinese state socialism. However, these policies differed in one significant fashion; more and more openly, they called for the simultaneous expansion of market-based competition in the economy as a condition and stimulus of workers

democracy in the SOE. The ideology was promoted explicitly to reproduce a system of production that did not depend on market-based competition. The idea of market-based competition as the basis for workers democracy never held sway during the Maoist period, even during the times that the Maoists were displaced temporarily by the 'experts' in leadership battles. What I find in this chapter is that, as a discourse of economic restructuring, workers democracy appears to have been quite favorably received by workers, managers, and state bureaucrats alike. This is the case despite what appear to be often contentious interpretations of workers democracy in the era of state socialist reforms.

In chapter 6, I analyze the continued, and in some senses advanced, deployment of the discourse of workers democracy from post-Tiananmen China to present. This redeployment took place in conjunction with a much greater commitment on the part of the CCP to opening SOEs to market-based competition and capitalist investment in the economy. It also complemented a policy of reducing greatly the amount of state support to small-and medium-sized SOEs, which were slated for varying forms of privatization. The renewed endorsement of the discourse of workers democracy included forms that in certain cases resembled the kind of worker takeovers that were known to have occurred at the heights of the Cultural Revolution. Indeed, workers democracy becomes, once again, a discourse that opposing factions

within the CCP can support as a means to resolve class-based conflicts that arise in the SOE sector during the moment of privatization. Field-based interviews reveal that, although workers often are very critical of how the policy is implemented--given the present conditions of production that they face in the moment of SOE restructuring--the ideology nonetheless continues to inform their consciousnesses.

In chapter 7, I rely on a concurrent field-based set of interviews in late November 2000 with leaders of workers' protests against fraudulent forms of SOE privatization in Zhengzhou, the capital city of Henan Province. In this chapter, I analyze the role of workers democracy as discourse that is part of the vocabulary engaged by SOE workers while they contest SOE privatization. Of interest in this chapter is how workers who were protesting the privatization of SOEs reinterpreted workers democracy as the basis for legitimizing their ability to retain their jobs and to take back control of their enterprise property. On the one hand, it appears that workers democracy as an ideology informs the significance workers assign their protests of SOE privatization. In this sense workers' leaders, whom I interviewed in the aftermath of collectively based protests against fraudulent privatizations, reflected the changing the way the ideological meaning of workers' democracy in the period of Chinese transition from state socialism. While in the past Chinese SOE workers used the concept to fight for one or another

type of control or benefit within state socialism, they surely never imagined a day when the concept would be (let alone *need* to be [!]) deployed to protect state workers' perceived guaranteed right to a job.

At the same time, when looking at the cases more closely, it becomes apparent that the discourse remains a vital part of the vocabulary for enterprise administrators, private entrepreneurs vying to capture state assets, and state bureaucrats who continue to employ it in the moment of battle with resistant SOE workers. While these elites attempt to create a new ideology of workers democracy designed to rationalize the role of capitalist markets in Chinese transition, they run up against an important barrier, namely the persistent belief on the part of Chinese workers that workers democracy should protect workers from the vagaries of capitalist markets. This ideological struggle (and often enough impasse) only renders China's struggle to submit its political economy to the will of capitalist markets in an age of intense global competition and secular crisis of accumulation even more tenuous and uncertain.

However, the failures of the struggles in the Zhengzhou cases also show a pattern that explains why China's failure to complete a transition to capitalism has not resulted in greater amounts of internal political crisis. Since China has not submitted the heart of its political economy to the imperatives of capitalism, the Chinese state continues to be able to rely on a

case-by-case carrot and stick approach to dealing with protests. This approach has the effect of minimally assuaging the expectations of certain sectors of China's SOE workers and wearing down the remainder. Whether it will remain this way or if the Chinese state will decide to impose the imperatives of capitalist competition on China's SOEs remains an open question. Thereby, we argue, the outcome of the struggle over whether or not China's political economy will be subjected to the forces of capitalist competition remains likewise open ended and still on the agenda of ideological struggle.

Chapter 2.

Theorizing the Transition from State Socialism

Introduction

The focus of this dissertation is how the discourse of 'workers democracy' is entered into the reform process in China. It is frequently taken for granted in the literature on Chinese workers democracy policies that, under the right conditions, prospects for workers' democracy can be enhanced by compelling state socialist economies to submit to the norms of capitalist competition. We argue in later chapters that this presumption is a mistaken one based on a misunderstanding of both state socialist transition and capitalist markets.

Before we move onto that section of the dissertation, in this chapter we will first clarify the issues at stake in the theorization of state socialist transition in China and lay out problems that appear in the theoretical literature on state socialist transition in general. I begin by briefly summarizing the four main theoretical positions on the nature of transition from state socialism in the social science literature and then argue that these conceptual models share flaws that limit their capacity to contribute to a coherent theorization of transition from state socialism and then argue that the literature on Chinese transition takes for granted a proposition that remains empirically in question, namely that China is either already capitalist or en route to becoming capitalist. Following Simon

Clarke (1992; 1993b), I argue that if we do not presume a capitalist outcome we can reach a clearer grasp of the price, the problems and the limits of capitalist transition in contemporary China. I argue that this matter is not merely academic; rather, it continues to be relevant to the question of the choices facing the working class movement in China at the present moment.

Generic Research Models of Transition from State Socialism

The literature on the transition from state-socialism, with regard to those that have occurred worldwide and are ongoing, can be categorized in terms of four general theoretical approaches. For liberal free marketers, located primarily in Economics (Friedman 1984; Michaely 1991; Sachs 1991; 1993; Sachs and Pistor 1997), the argument centers on how to remove state-collectivist barriers to the operation of free markets to cement transition to capitalism. Eliminating these barriers would result in increased foreign currency reserves, enterprise productivity, employment opportunities, political freedom, and national economic development, i.e. capitalism's full fruition.

The *market-socialist school* (Brus 1972; 1973; Brus and Laski 1989 ; Nove 1983; 1991; Ollman and Schweikart 1998; Roemer 1994; Selden 1993; Stark and Bruszt, 1998) rejects the liberals' idealized vision of bringing unfettered capitalist markets as the recipe for transition from state socialism. They devise theoretical and policy models to mold the best of socialist economic justice mechanisms with

the competitive and productive dynamic of capitalist markets to create a market-socialism that is 'feasible'.

Many of the ideas found in market socialist literature appear in the volumes of work done on 'market transition theory', which has become the focus of much debate from the late 1980's to present (Cao and Nee 2000; Nee 1996; Nee et al. 1989; Walder 1994; 1996; Xie and Hannum 1996; Zhou 2000). The latter has largely dropped the former's interest in the question of socialist development and asked how institutions can be developed in state socialist economies that maximize the gains from the transition to capitalism from state socialism.

The *corporatist* (Dickson 2001; Li, H. 2001; Ost 1989; Unger and Chan 1996) approach often has overlapped with the market socialist orientation.

Corporatists devise research methodologies that emphasize how major social institutions can be restructured in countries transitioning from state-socialism in order to create an economy with a strong corporatist orientation along the lines of the Western European or East Asian Newly Industrializing Economies (NICs).

The Marxist *state-capitalist* theorists critically analyze the transitions as a cadre-turned-capitalist class orchestrated procession from state socialism toward a capitalism that will subject the working class to capitalist exploitation combined with the stripping of their social wage benefits (Burawoy and Krotov 1993; Cliff 1974; Djilas 1957; Harris 1978; Hinton 1990; Kotz and Weir 1997a; 1997b; Meszaros 1995; Resnick and Wolff 2002; Smith 1993; 1997). This is most

often explained as a product of cadres' ambitions to use their politically privileged positions from 'state capitalism' to become capitalists under a new regime of unfettered capitalist markets.

Weaknesses in the Dominant Approaches to Theorizing State Socialist Transition

The liberal free market approach has not only tended to overlook the new exploitative forms of domination that characterize transition to capitalism, but it fails to acknowledge that sustaining a competitive market system requires considerable institution building, not generally possible in the transition period¹. Moreover, it is taken for granted that capitalism can be smoothly incorporated into state-socialist political economies, with little empirical evidence for support this claim. The market socialism approach often neglects the way market integration actually has required the progressive dismantling of protections from the vagaries of capitalist markets to the point that the 'socialist' element of market-socialism becomes progressively atrophied (Greenfield and Leong 1997). The corporatists have not carefully taken account of the limits that global economic liberalization, in response to intensified competition and overproduction among leading capitalist firms, has placed on the capacity of economies in transition from state-socialism to construct a corporatist type of capitalism along the lines

¹ As I mention in a later section, some liberal free marketeers actually do promote a concern for the problems faced by labor in transitions from state socialism. They argue (and this finds itself in the market socialist and corporatist literature to varying extents) that free markets will provide workers with the necessary political freedoms to organize collectively. Their concern for workers' fates in transitions from state socialism then are part of an ideological posture that associates workers' weakness with state-socialist forms of intervention in the economy that prevent workers from organizing autonomously.

of the much heralded East Asian NICs or Japan². Finally, the Marxist approach, with its focus on state-capitalist betrayal, has often overlooked how cadres' intentions to hand over administration of the economy to autonomous investors have often *not* managed to create that outcome. This has led to criticisms from classical Marxists (Clarke 1993b; Mandel 1969; Ticktin, 1973) that many Marxists, along with many mainstream social theorists, have mistakenly associated the state socialist model with 'state capitalism'. They counter that the social relations of value production in Soviet style economies were (and even after the political overthrow of Communist Parties continue to be) in fact based on relations of domination that had little to do with commodification of labor as the basis for surplus accumulation.

The four approaches share two other weaknesses that render them inadequate as models for comprehending the significance of trends in transitions from state-socialism. First, they lack careful examination of the specific process of class-based compulsion that is required for the realization of transition to capitalism. Instead these approaches focus on the presence of an *x*, *y*, or *z* 'variable' as an indicator of the existence of capitalism (or 'capitalist markets'), be it considered fully in motion or 'coexisting' with another social system of production and distribution.

² Unger and Chan do acknowledge that the likelihood of a western European type of corporatism, one based on stronger protections of labor rights in production and comprehensive social benefits is low. However, they overlook the real limits that globalization places on countries trying to mimic the East Asian NIC model of 'weak' corporatism as well, which Cumings argues is an especially perilous aspiration in the aftermath of the East Asian Financial Crisis that began in 1998 (Cumings 1998).

One alternative would be to theorize capitalism as a system of social relations, which is only in motion when struggles have taken place such that the capitalist production relations dominate producers' activities in the heart of an economy (Carchedi 1987; Clarke 1993b). This alternative does not begin with an *a priori* assumption that capitalism has been or will necessarily be the end result of transition from state-socialism, whether in a pure unfettered or a 'mixed' form. Instead, the focus is on what specific type of social relations of production dominates national economies in transition from state socialism and how attempts to integrate these economies into global capitalist circuits of production and exchange impact those social relations. Unless it can be empirically demonstrated that capitalism as a system of social relations of domination has indeed taken root in the heart of a national economy, it is wrong to either assume capitalism as an end goal of transition from state socialism or as already in existence, be it full or in some mixed variant, partially pregnant as it were.

Secondly, the literature often overlooks how the type of compulsion necessary for transition to capitalism is conditioned (and differentiated) by geographical and temporal context (Harvey 2000; Smith 1991). The compulsory class relations of domination that form the basis of a capitalist economy are shaped by constraints on capitalist accumulation nationally and internationally (Clarke 2001). Thus, what was required for, say, early post-war Taiwan to subject its workforce to the whip of economic compulsion in order to create the

conditions for capitalist development and what it needed for China to do the same in the present era is quite different.

My argument is that the whip of economic compulsion has not been established in China in a systemic manner (to date) because of the mismatch between local class relations of production in the heart of the Chinese political economy – to be discussed in the chapters which follow -- and the type of compulsory relations of production needed for capitalism to take root in an era of intensified international competition between dominant capitals, an intensification due to a global secular crisis of overproduction and declining rates of profits (Brenner 1998; 2002). Furthermore, and to the point of the dissertation, the ambiguous role of the discourse of *workers democracy* in the moment of Chinese state socialist transition can be greatly (although not fully) explained by this mismatch. Before I examine the political economy of Chinese state socialist transition (in the next chapter), I review and critique theorizations of Chinese state socialist transition.

*The Mainstream Institutional Approach to Theorizing Chinese Transition*³

Victor Nee's (1996; Nee et al 1989) institutionalist 'market transition theory' has had a major influence on much of the social science literature on

³ I will take the market-transition theory as the main focus of my discussion of mainstream approaches to the transition issue. [Other mainstream approaches (statism, civil society...) I don't discuss here because they basically accept the premises market-transition theory regarding China's transition and its capitalist direction, which is the focus of our concern here.]

Chinese transition. Borrowing from Szelenyi's (1979) earlier groundbreaking analysis of state socialism in Hungary, Nee holds that, contra the (failed) shock therapy model in Russia, institutionalists should focus on the *gradual* transformation of institutions as critical to the completion of the transition to 'markets':

The transition from one institutional form to another entails remaking the fundamental rules that shape economies, from formal regulations and laws to informal conversions and norms. The shift to markets – well underway but far from complete in China – involves changing structures of opportunity...Whereas opportunities for advancement were previously centered solely on decisions made by the redistributive bureaucracy and within the economy controlled by it, markets open up alternative avenues for mobility through emergent entrepreneurship and labor markets...Under conditions of expanding markets, economic actors strive to institute new rules of competition and cooperation that enable entrepreneurs and producers to capture a greater proportion of the economic surplus, previously transferred to the state by administrative fiat. Political actors contribute to instituting change in the formal rules of the game insofar as gains in productivity increase revenues to the state. Such action at the margins is cumulative and gradually results in transformation of the institutional environment (Nee 1996, 910).

Institutionalist methodology has been appropriated by much of mainstream China-related social science, spawning extensive research projects on the changing makeup of political institutions from 'redistributive based' to 'market embedded' (Shirk 1985; 1993; 1994), labor markets (Bian 1994; Solinger 1995), industrial organization (Walder 1994) enterprise structure (Byrd and Lin 1990; Qian 1996; Qian and Xu 1993), and resource allocation (Lardy 1998). However, unlike the historical political-economy approach of institutionalism's founder Polanyi (1944), institutionalists rely more on traditional statistical

studies, which attempt to measure empirically the extent to which social action occurs in the market-dominated versus redistributive economy.

The guiding thesis underlying the market transition thesis is that as long as the necessary institutional transformations transpire incrementally, markets will be able to develop smoothly and become the dominant mechanism through which social activity takes place during the transition from state-socialisms.

These theories emphasize a 'hybrid' form of China's political economy:

Reports of local accommodations that combine redistribution and markets underscore the importance of hybrid institutional forms in the transition from state socialism in China. Hybrid corporatist forms proliferate in mixed economies to capture the gains from trade under conditions of widespread institutional uncertainty (Nee 1996, 912).

Like market socialists (Bowles and Stone 1991; Brus 1972; 1989; Nove 1983; Roemer 1994), institutionalists see competitive markets as a necessary corrective to the bottlenecks of state socialist economic stagnation, which would release pent up entrepreneurial ambitions and liberate workers from politically imposed barriers to labor market opportunities. At the same time they would enable the state to more efficiently utilize (increased) revenues to soften the impact of markets' side-effects (such as unemployment and regional inequalities), and to invest in R&D to sustain industries primed and able to compete in international markets. In a nutshell, this conceptualization has progressed from taking the unit of analysis to be 'market socialism', to 'hybrid economies,' to, finally, in the words of Stark and Bruszt (2001, 1131), "taking the diversity of capitalisms as an

object of study and comparing [post-socialist] *capitalisms* vis-a -vis each other”.

The transition from state socialism is either invariably moving toward capitalism or has already become capitalist, a sentiment expressed succinctly by Ivan Szelenyi (2001, 1126): “Except for Cuba and North Korea, the world is capitalist, and therefore, we argue, neoclassical sociology must engage an agenda of “comparative capitalisms.”

Nee offers his market transition theory as an alternative to the statist approach (Ronas Tas 1994; Solinger 1993; Walder 1995; 1998), which emphasizes the role of the state apparatus’ key role in molding and controlling markets in the period of transition from state socialism. Civil Society theorists (Gold 1990; Gold, Guthrie, and Wank 2002) counter both of these approaches with one that emphasizes the role of ‘civil society’s incremental development of (defined broadly as almost any kind of non-governmental form of activity that encourages autonomous action on the part of citizens in social and political activity) in laying the basis for the gradual transformation of a society to market based social organization. However, though the difference between these various conceptual orientations might appear significant, they all work from a largely similar assumption that Chinese capitalism is either an accomplished fact or definitely in the making.

Solinger (1993), in her work on statist legacies and market reforms in China’s transition from socialism, states from the outset:

(We seek) to demonstrate that (Chinese) capitalism, when it emerges, will be distinctive. (We do) so by documenting the specific content and kind of capitalistic measures undertaken in China's urban economic reforms of the 1980's and by explicating concerns that lay behind them (3).

The common thread across mainstream approaches argues that Chinese capitalist development has arrived or that capitalism is a part of a 'mixed economy' that will become fully capitalist in a matter of time by virtue of the expanding role of markets in Chinese society. Both are problematic proposals sociologically speaking. If China is capitalist, by what standard is that definition assigned? Is it the presence of markets, profits, foreign investment, 'civil society' and the like that makes China 'capitalist' or 'part-capitalist'? Is it merely a matter of tweaking with institutions? What is it about capitalist development as a systemic process that limits the possible ways in which that can occur? The underlying premise of much of the mainstream approach is that capitalism is desirable in China by virtue of what authors believe capitalism should look like as a result of transition from state socialism. Thus, the literature often provides detailed portrayals of how x, y, or z conditions need to be fulfilled for China to become a capitalism that 'works'. They tend to leave out or underemphasize how the social relations of China's political economy combine with the pressure of intensified international conditions of capitalist competition to strongly militate against their prescriptions for moving China toward an 'ideal' type of capitalist development.

The starting point for inquiry into the question of transition should be, rather, how capitalism actually operates as a systemic set of social relations of production, domestically and internationally. Then only can social science know what needs to transpire in order for the norms of capitalist markets, as they actually exist at the moment, to dominate production and exchange in the moment of Chinese transition. This is also the starting point for assessing the role and effectiveness of ideologies designed to legitimize the relations of coercion that dominate production systematically in the moment of Chinese transition from state socialism.

Marxist Challenges to the Mainstream

The presumption of Chinese capitalist development as a hybrid (market and socialist) economic formation came under serious criticism from Richard Smith (1993) in the early 1990's. Engaging a classical Marxist methodology, Smith argued that attempts to create a market-based hybrid market socialism could not be accomplished without overall structures of class power and property being seriously upset to the point of necessitating a political revolution (ibid, 57). Smith asserted that economic restructuring did not result in state enterprises acting like capitalist firms in China. To the contrary, the Party bureaucracy throughout the 1980's and early 1990's retained its patterns of

support for uncompetitive state sector companies despite the rapidly expanding and dynamic export oriented private sector:

This attempt to reform the bureaucratic economy was hopelessly contradictory,...doomed from the outset, because, *pace* the theorists of market reform, it was precisely the 'ownership system,' and more specifically the system of bureaucratic property and surplus extraction, that determined the fundamental constraints on managerial freedom in the day-to-day operation of their (state owned) firms...

This is because the real power to 'direct the pace and pattern of development' ...remained lodged outside and above the level of the firm – in the hands of the party-bureaucracy. These real structures of property and surplus extraction – class relations of exploitation, power, and domination – which were historically formed and which, so far, have been left intact by the reforms, that limit market reform within the system – and not the other way around as market reform theorists supposed (59).

Smith's trenchant criticisms of the optimism surrounding research on market socialism led him to be very skeptical of claims that capitalism was coming to China any time soon. However, by 1997 Smith had apparently changed his mind and concluded that China was 'capitalist':

[F]ar from bringing an end to China's economic problems, the transition to capitalism is simply creating as many, and perhaps more, problems than it solves. This is because the forces unleashed by capitalist development – competition, specialization, production for exchange, economic individualism, privatization, consumerism – have the effect of worsening many social, economic, and environmental conditions for the Chinese even as, and indeed largely because, capitalist development is provisioning higher levels of consumption, though certainly not all Chinese. The transition to capitalism is installing an entirely new economic logic...Capitalism is replacing the irrationalities, waste, and inefficiencies of the bureaucratic system with the irrationalities, waste, and inefficiencies of the capitalist system (Smith 1997, 13).

The shift made in this article appears a bit sudden, given that only four years earlier Smith was asserting that China's system of production had not become subordinated to capitalist imperatives. Smith provides a careful overview of the many associated ills of capitalist markets that can be found in China, including growing unemployment, inequality, pilfering of state assets, privatization campaigns, commodification of culture, and the like. However, if this is the Marxist standard for capitalist development, how does it differ from the neo-liberal and market socialist ones that Smith rejects? Nowhere does Smith spell out what was different in 1997 from 1993. Is it the case that wherever we see the exploitation of workers or the flow of dollars in markets that we see capitalism? If so, Smith's theory of capitalist development does not diverge significantly from mainstream China related social science, which, whether in its market socialist, market transition, or statist apparel, sees sprouts of capitalism emerging wherever there are persons engaging in market exchanges. However, isn't there much more than that involved in a transition to capitalism?

This is a particularly troublesome way of approaching the issue because it leaves us with little in the way of conceptual tools to explain the process by which capitalist development has been realized in China, if indeed it has. Smith attempts to fill this gap in his 1993 and 1997 articles, with an article on China's 'gangster capitalism' (Holstrom and Smith 2000). This concept certainly captures the extent to which Chinese state corruption has combined with the logic of for-

profit markets, although it is not necessarily an alternative to the mainstream.

For instance, this critique sees its neo-liberal complement in the substantial work of He Qinglian (He 2000, 71-72):

Although the total size of the elite that now controls a stock of 'all-encompassing capital' is not large, it enjoys commanding power over political, economic, and cultural life. Most of its members made their fortunes not through technological innovation or industrial enterprise, but by reproducing and exploiting monolithic positions of power to accumulate personal wealth...In the early 80's and early nineties, malversation was mainly an individual affair..

By 1995, corruption had developed to an organized stage...Often the leaders of social organizations were those most heavily implicated in cases of corruption,'...By about 1998 corruption in China had developed further, from an organizational to an institutional or systemic stage...[it] has permeated the bulk of party and state apparatus...has become an established arrangement within institutions, as official posts are traded as counters in the redistribution of political, economic, and cultural power.

These narratives of corruption are well known, with renditions of this story now commonly published both inside and outside China (Weil 1996).

Nonetheless, it is unwise to argue that, given this phenomenon, China's mode of surplus extraction and appropriation, at the present or in the future, will

definitely operate along the lines of capitalist competition in any systemic sense.

Indeed, He's comments on the way the 'Party capitalists' accumulate their new wealth, and, more important, what they do with their newly plundered fortunes, point in quite another direction. Similarly, Smith could be asked who are these 'gangster capitalists' and how can gangsters act as capitalists in the first place?

The very notion appears to violate the central tenet of social science's two earliest

theorizers of capitalist transition--Weber and Marx, namely the historically distinct method of appropriation and distribution of surpluses that characterizes modern capitalism based on the buying and selling of 'free' wage labor in markets. 'Free' wage labor is, of course, coerced through economic mechanisms, which is what makes capitalism a unique system of surplus extraction and appropriation. The argument that capitalism is dominated by gangsterism, therefore, is wrought with inadequate concepts of what constitutes capitalism, not to mention capitalist transition.

Raymond Lau on the Political Economy of Chinese transition

The work of Raymond Lau (1997; 1999a; 1999b; 2001) on the political economy of privatization in China has provided perhaps the most careful Marxist analysis of the attempts to reorganize the flows surplus extraction and appropriation in 1990's China. Lau has carefully documented how, since Deng's Southern Tour in 1992, the Party reacted to the stagnation and skyrocketing debt in the SOE sector by encouraging various privatization measures designed to step up the role of private sector investment in the national economy. As in my account, Lau focuses on the SOE sector of the economy. He offers that one key mechanism has been the transformation of small and medium sized SOEs into

joint-stock holding corporations whose equity can be bought by private investors. The 15th Congress in 1997 only further promoted this trend as a resolution to the problem of SOE debt and corruption. Lau (1999b, 72) notes that the past two decades have created a new stratum of Chinese private property holders who possess enough in the way of registered capital to buy a near majority or a majority equity in small-and medium- sized-SOEs. He then asks the empirical question critical to the completion of Chinese transition to capitalism:

Has transfer of legal ownership been accompanied by transfer of the rights of utilization, returns, and disposal, as well as by changes in relations of production between owner/management and labor? For corporatized large and medium sized SOEs, since state equity still comprises the overwhelming majority, the various property rights of ownership remain in the hands of state organs (ibid, 60).

State leaders such as Zhu Rongji placed their hopes on aggressively attracting investment in the small/medium sized-SOEs in order to place greater pressure SOE managers to direct profits into profitable routes of production instead of making wealth through 'illegitimately' abusing their cadre status. Revival of productivity in the SOE- shareholding corporations, in turn, would legitimize managerial authority, reorganize production rules, redirect profits to private investors, and, most critically, reduce layoffs:

However, the important point is what happens if and when private parties hold controlling stakes. As to the relations of production, in recent years, all SOEs, including corporatized ones, have been rigorously shedding surplus labor and cutting welfare benefits. But again, the relevant point is whether or not such practices become solely or mainly determined by the profit motive once private equity hold controlling

stakes. In both cases, the case of privatized small SOEs illustrates what is in store [for larger ones] (ibid).

Lau's analysis of SOE corporatization⁴ is very helpful in gaining a clearer understanding of the process through which the state is attempting to shake off its control and responsibility for small- and medium-sized enterprises and redirect the flows of SOE assets into the coffers of cadres turned market players. He adeptly provides statistical figures on the amount to which private equity has already been injected into the SOE sector and elucidates how cadres within and outside the enterprise manipulate the process of SOE corporatization. Furthermore, Lau argues that private capital in China already possesses the capacity to buy up state equity, one more apparent sign of the movement toward capitalist relations of production in China (ibid, 72-73).

However, if this development remains primarily restricted to small- and medium-sized SOEs⁵, what of the large sized enterprises, which account for the bulk of state tax revenue and constitute the section of the Chinese economy that remains most committed to a non-capitalist logic of production (Lo 2001, 706)? What will have to occur for the transformation of this sector such that its productive priorities are subordinated to competitive capitalist markets? This is

⁴ That is, SOE's becoming joint-stock holding corporations.

⁵ Lau's article and our own research indicate that, even in 'corporatized' small and medium sized SOEs accumulation has in many cases hardly made the transition to capitalist techniques of surplus accumulation and investment.

a question that has gone largely underaddressed in the literature and is an important focus of this dissertation.

Simon Clarke on the Russian Transition

One important body of empirically based work departs from the general trend to take capitalist transition for granted in the transition from state socialism. Simon Clarke's voluminous work on 1990's Russia stands out because it brings to the fore such questions when analyzing the direction and impact of the transition from state socialism. Clarke (1993b, 8) argues that, despite the fall of the Soviet Union, we cannot just take for granted that the existence of elements associated with capitalism (e.g., profit making, markets, increasing gaps between rich and poor, etc.) necessarily indicate the existence of a transition to capitalist development in post-Soviet Russia. Clarke makes this argument despite the overthrow of the Communist Party that set in motion a series of rapid programmatic moves to liberalize and put Russia's national economy on a 'path' to capitalism. Instead, his in-depth case studies uncovered a different reality, namely, enterprises in the heart of the Post-Soviet economy continued not to be subordinate to the imperatives of capitalism.

Central to Clarke's methodology is clarity about what the dominant class relations of production were in enterprises that pumped out the greatest amount of value in the Soviet-era economy and the subsequent post-Soviet one. He

rejects as empirically baseless notions of the national economy being 'capitalist' in both periods because money did (and continues to) not function as a regulator of value production or reproduction (ibid, 11). The Party guided by current geopolitical priorities was the main determinant of how production in the Soviet-era enterprise was organized, not concepts such as productivity or efficiency in competitive markets (Ticktin 1973; 1992). Allocations to Soviet-era enterprises were primarily a product not of levels of efficiency, current profit levels, or potentials for future returns as much as the politically based relationship between enterprise managers and ministries. Markets of labor were virtually non-existent, despite the mobility that huge labor surpluses enabled Russian workers to experience. Movement from enterprise to enterprise for workers had little in common with their capitalist counterparts due to the very minimal role that money (i.e., the Soviet Ruble) played in the Soviet economy at any level (Ticktin 1992).

At the level of post-Perestroika political administration and even that of enterprise directorship there exists a strong determination to restructure national and enterprise class relations according to competitive capitalist standards. Clarke, nonetheless, asserts that as late as 2000 this project has yet to be realized (Clarke 2003). Clarke's subsequent research on the Russian transition, carried out during the aggressively neo-liberal Yeltsin years, reveals that by the mid-1990's the Russian government *was* able to push through a series of legislative

acts that empowered enterprise directors to slash budgets, departments, and personnel. However, none of these new powers would dramatically transform the Russian enterprise in the heart of the national economy, into one that was subordinated to the demands of capital.

What is most theoretically penetrating about Clarke's findings is that he shows this non-transformation to be the case even though numerous national surveys of Russian opinion find, across class, a widespread welcoming of markets in the early post-Perestroika years (Clarke 1993a). This would appear to refute his thesis on the Russian transition. Yet, he demonstrates quite conclusively that it takes much more than ideological embrace of markets to construct capitalism from non-capitalist production relations.⁶ Russians, Clarke argues, were not 'mised' about capitalist markets in their excitement upon the fall of the Soviet Union. They did, however, have certain expectations of capitalist markets as the *condition* for their submission to their national realization. Preconditions included the investment of capital in Russia such that jobs would be available to workers in its economic industrial center and the continuation of basic social security nets for the disenfranchised. Suffice it to say, despite the Harvard Boys hoopla in the early Yeltsin years, foreign capital (the largest source of capital for post-Perestroika Russia) had no interest in investment in the manufacturing heart of the Russian economy (Andor and

⁶ For the view that the transition to capitalist markets was forced on the Soviet populace by elite cadres who stood to benefit from the sell off of state assets, see Kotz and Weir (1997).

Summers, 1998). Capitalist investment *was* located in the primary sector and somewhat in the service sector, that is, markets where money could be quickly put in and withdrawn in the form of profit. More critically, capitalist penetration of industry, construction, transport, and communications remained comparably minimal, even by the late 1990's (Clarke and Kabalina 2000). Correlatively, investors held no great regard for the social security safety nets provided to workers and explicitly called for their disassembling as part of the (failed) program of 'shock therapy.'

Clarke argues that transition to capitalism has remained, then, a far from accomplished reality in the commanding heights of Russia's political-economy. Managers of companies have indeed engaged in massive plundering of state assets, laid off large segments of the labor force, reorganized the upward direction of surpluses to their own coffers, and so forth (Kotz and Weir 1997a; 1997b). In the process, although the power that Russian workers could command vis `a vis managers plainly and substantially declined, managers in 'privatized' companies nevertheless continued to work hard to maintain a loyal, albeit hollowed out, labor collective. This has been particularly the case for Russian managers of 'privatized' companies that failed. Instead of acting as capitalists would under a restructuring regimen and selling their companies as bankrupt entities, directors and managers resort to traditional non-market alternatives, such as currying favorable relationships with ministerial

bureaucrats (but now ones frequently aligned with one or another mafia faction), to salvage failed companies (Clarke 1998, 105-107). In the worst case scenarios of outright failure, directors hang onto a shell of the former company and await another day when capital becomes available. Any non-market survival strategy is pursued, short of declaring bankruptcy and leaving markets to decide the fate of the enterprise.

That is to say, to date, in the commanding heights of the political economy, Russian managers and workers are not *compelled* to exchange in capitalist markets, at the price demanded by capital, to reproduce themselves. Directors and managers retain no benefit from throwing themselves open to capitalist competition because such decisions would jeopardize their position of authority within enterprises. Nor must enterprise leaders shut down their enterprises or face bankruptcy; rather they stubbornly retain political relationships to reproduce companies that capitalist markets would have liquidated long ago. Workers (in sectors where the value pumped into the economy is greatest) continue to rely on informal networks, barter relationships, and the state to reproduce their (meager) role as direct producers. This they do in lieu of accepting the market-based alternative of mass unemployment in an economy that is stripped of its most valuable assets and with them the historical notion of the Russian worker as a citizen in a country that is *not* a third world entity (Clarke 1993a, 634-635). Finally, and critically, the state likewise does not enforce

the will of capital (here seen most characteristically, and baldly, in the form of international financial institutions [IFIs) and their austerity programs) for fear of upsetting its source of political power. Such a state of affairs, at the levels of enterprise and national political economy, conforms little to the logic of capital despite the presence of the grossest forms of inequality, exploitation, raw commodification and the like (ibid, 643-644). And when talking about transitions to capitalism, that logic and the social relations of power that underlie it, as they actually exist in the moment, are what must be implemented *systematically* in the heart of a national political economy before a society in transition to capitalism.

Theoretical Implications of the Russian Case for China's Transition from State Socialism

Clarke's research stresses that there is nothing certain about the transition to capitalism from state-socialism. In this section I summarize and then consider the implications of Clarke's research on the Russian transition for the study of Chinese transition. Clarke stresses that 1) the transition calls for a certain price and 2) whether that price will be paid remains an open empirical question. Theorizations of state socialism frequently presume a transition to capitalism based on a faulty understanding of both capitalism and capitalist transition. Taking for granted that capitalism already exists in the moment of Chinese

transition would, therefore, leaves little basis on which to theorize with any certainty about what capitalism would look like in China.

At first glance, the Russian and Chinese cases appear quite far apart. In the literature, repeated stress is placed on China's 'gradual' approach to economic restructuring in contrast with Russia's shock therapy that began with attempts to privatize the largest (state-owned) enterprises. However, some noteworthy similarities too often are neglected in the literature. Both retain the legacy of a non-capitalist social system of production and accumulation based on redistributive 'moral economies' in the sectors that contribute most heavily to state revenues. Both have been under considerable pressure from multinational corporations (MNC's) and IFI's to reorganize their national political economies in ways that would submit state enterprises to great risk of elimination in intensely competitive international markets. Both have encountered resistance to such demands in all sectors of society due to considerations of social-economic and (correlated) political survival. Finally, in both cases, political leaders have had to *curtail* plans to submit the bulk of their national economies to the demands of capitalist investors when the price of integration into capitalist circuits of production has exacted too heavy a political price.

Why should the transition to the compulsory rule of capital bring with it a price that is so weighted with the potential for conflict in economies such as Russia or China? And just what are the systemic dynamics that fuel it? In

Russia's case it was clear, almost from the beginning, that, promises of support for the development of 'Russian democracy' in the FSU from the advanced capitalist economies notwithstanding, foreign capitalists and creditors had little interest in coming through with injections of capital into the heart of Russia's economy.⁷ On the other hand, far more capitalist investment in China's economy has occurred since restructuring was initiated in the late 1970's. Nonetheless, China's rulers have encountered, particularly in the aftermath of the Asian Financial Crisis (AFC), a whole series of conditions from international trade organizations such as GATT and WTO that must be met *before* they are able to win access to world markets and investment in the heart of its political economy⁸. As a result, these conditions, most prominently the restructuring of the dominant national manufacturing and credit institutions in subordination to world capitalist competition, entirely natural to the logic of capital, have made transition to capitalism, more volatile, precarious, and far from actualized.

Theorizing Capital and the Problem of Capitalist Transition and State Socialist Restructuring

⁷ Andor and Sumner (1998, 43) quote Jeffrey Sachs, "In 1992, the West promised \$24 billion of assistance and delivered only a few billion. In 1993...\$28 billions...delivered only \$4 billion. I thought that each sign of instability in Russia would prompt recognition that we ought to be doing more, but it hasn't happened that way.

⁸ One need only recall the appeal to the US congress that Bill Clinton made urging approval of China's membership in the WTO, in which he declared that only China, not the US, will be making major concessions in tariff arrangements upon winning Chinese entry into the WTO. Han Deqiang's (2000) *Collision* lays out sector by sector the price to be paid for WTO entry by Chinese state enterprises as tariffs are lowered and foreign companies come to dominate domestic markets.

Capital seeks markets to invest in for the purpose of expanding value, which can only occur when capital is able to circulate in the realm of production as value. It takes much more than simply the best wishes of political leaders to impose the logic of capital on an economy that is subordinated to priorities other than the expansion of value (Meszaros 1995, 70-71). The problem of attracting capital, especially (but not only) from the vantage of the working class in state-socialist societies, is that in order for capital to invest in markets (including crucially labor markets), it must find locations in which profits can be maximized beyond current average levels of profit. In order for this task to be accomplished, pricing, financing, investment, and wages, all must be determined by their 'natural' price in competitive markets, to borrow from Adam Smith's lexicon. To do this, money must play the dominant regulatory role in social production at the systemic level (Harvey 1982). The process that needs to take place to realize this cannot occur outside the current calculus of social relations that motivate capitalist investment in the economy, as it exists in the moment of transition⁹.

Global Capitalist Restructuring and the Transition From State Socialism

⁹ That is, it is pointless to talk about what the 'best kind of capitalism would be for China's workers. They don't have the luxury of picking and choosing between, say, Japanese, Indonesian, or Swedish capitalism. The calculus of power that underlies capitalist investment, while flexible, is not that much so. This is an important reality that is frequently missing from much of the liberal literature on reforms that can be won for workers if the right kind of transition to capitalism is made.

The transition from state socialism is characterized by a struggle over the price to be paid for the subordination of production, at the level of national political economy, to the rule of capitalist markets. There is no reason to take for granted that that price will be accepted by state-socialist (or post-state-socialist transitional) direct producers or appropriating class — intentions aside--as long as other non-capitalist alternatives exist that serve to reproduce their respective non-market based roles (i.e. state-‘mafia’ financial networks of credit, remnants of social welfare subsidy programs, informal labor markets, bartering, and other social network survival schemes, etc.). In the heart of a political economy, other modes of accumulation might be available whose primary coercive mechanism is not the price gauge. In the event, should the latter threaten the viability of the ruling class, there is every good reason to expect that it will *not* carry out the requisite struggle against the direct producers to satisfy the groundwork conditions for the subordination of a transitional national economy to the capitalist social relations of production.

The argument here is that a struggle, whose outcome and temporal limits are not a given, must take place with the direct producers where the engine of value production operates, before capital, as a system of production relations, dominates and acts as capital in a national political economy. Among other scenarios, stagnation or negative growth rates combined with modes of coercion other than commodification dominating production and exchange can just as

easily be the result of transition. Or growth can occur without capital enforced as the signifier of value in the heart of the political economy in transition from state socialism, with a final outcome that remains far from determined among a number of outcomes. None of these necessarily call for value pumped from the direct producers in the commanding heights of the Chinese economy to be determined by the will of capital.

As noted, Clarke's work indicates that capital does not circulate as the dominant determinant of value in the heart of Russia's post-Soviet political economy precisely because the struggle necessary to compel Russia's producers, be they direct producers or managers and directors, to submit the constraints of capitalist production has not occurred. Instead, the Russian state has vacillated at every turn in its 'reform' of the credit system, the government's role in maintaining subsistence levels of the Russian working class, and its alliance with mafia elements as the primary accumulators of surplus in Russia's economy (Clarke 1993a, 643-644; Clarke 1998, 16-17; Clarke et al. 1996, 12-13). That is to say, the Russian state has not carried out the transformation from a political economy based on a self-reliant core of heavy industrial producers that served as the basis for a national development project to an economy whose industrial base would be deracinated and heavily reliant on foreign capital, and that offered third world style employment conditions (Burawoy 1996, 1109). The subsequent stagnation (directly related to a lack of capital investment in the core value

producing sectors) and socially regressive character of Russian transition from state socialism is then a reflection of the limits of the prior Soviet developmental model's capacity to transition to capitalism. It also reveals clearly the veritable limits of the capitalist alternative to state socialism given the price it compels. It is interesting that, in almost every Eastern European case of transition from state socialism this trend plays out, but nowhere as strikingly as in the Russian case. As I will argue in chapter three this appears to be occurring in the Chinese case, even though it is by far the most successful of all of the economies transitioning from state-socialism.

The reason for this similarity can be found in what Meszaros (1995, 145) calls 'capital's absolute's limits,' whereby 'the margin of displacing the (capitalist) system's contradictions becomes ever narrower' in the current period of intensified international competition between capitals commonly known as 'globalization'. Attempted transitions to capitalism from the state socialist productivity crisis are (from the vantage of what is required to actualize that transition) profoundly threatened by the 'structural mismatch' of capital and social development, whereby entire regions of the world economy are left out of the investment loop until local markets are sufficiently (as defined, again, by the prevailing market conditions in which dominant capitals currently invest) suitable for production and exchange based on existing principles of capitalist competition (Tabb 2001; 2002). The social relations of production and exchange

that underlie this age of globally extended capitalist penetration explicitly intensify the class contradictions inherent in the transition from state socialism, because the capacity to utilize non-market mechanisms to control the impact of correlated and requisite economic restructuring must decline in proportion to the amount of capital injected in the period of transition¹⁰.

The transition to capitalism from state socialism becomes, then, both an uncertain and volatile process (Burawoy and Verdery 1999), contingent upon the capacity of state leaders to carry out the agenda of globally dominant capitals at the expense of its nominal, although nonetheless real, commitment to national social development. Intensified international competition among capitals only heightens the difficulties and conflicts brought forth by efforts to attract capitalist investment in the heart of economies transitioning from state socialism:

[I]t is...through...understanding...[the] uneven geographical developments that we can more fully appreciate the intense contradictions that now exist within capitalist trajectories of globalization...It renders whole populations selectively vulnerable to the violence of downsizing, unemployment, collapse of services, degradation in living standards, and loss of resources and environmental qualities. It puts existing political and legal institutions as well as whole cultural configurations and ways of life at risk and it does so at a variety of spatial scales. It does this at the same time as it concentrates wealth and power and further political-economic opportunities in a few selective locations and within a few restricted strata of the population (Harvey 2000, 81).

The transition to capitalism is determined by both spatial and temporal contexts, which explains why, even in a case like China, its success in attracting

¹⁰ This is not a hard and fast law, but it is a *trend* which shows itself in every case of state-socialist transition.

capital notwithstanding, a transition to capitalism is far from certain. The transition of a national political economy to capitalism requires, as Marx and Weber classically described, the submission of 'free-wage' laborers to the compulsion of the economic whip (Marx 1978 [1847], 478-479; Weber 1978 927-930; 1992 [1927], 277; See also Smith 1993 [1776], 63-68). However, how that price is set, i.e. the extent to which *non-market* mechanisms of social security protections of local markets, national development projects, and so forth are required to be removed as the price for capitalist production and reproduction, is determined both by struggles in value producing enterprises over the social relations of production and by spatial and temporal location during attempts to reorganize a national economy that is subordinated to global capitalist markets. This is why restructuring in Taiwan or Korea in the 1950's could successfully lead to capitalism and China, trying to pursue what looks like a very similar 'path' has not yet, as I will try to explain, been able to systematically subordinate relations of production to the norms of capitalist markets in the SOEs which are the heart of the Chinese political economy. In the chapters that follow, I turn to an examination of the worker's responses to efforts to reform the SOEs given the structural constraints of transition.

The Significance of not Assuming that Transitions From State-socialism are Capitalist

With the fall of the Soviet Union and the almost simultaneous emergence of a focus on globalization, the omniscience of capitalist relations seemed to many all but settled. This notion takes for granted that capital will actually circulate in every nation as value by virtue of the seemingly 'new' flexibility and reach of global circuits of capitalist trade. Is increased global capitalist trade alone sufficient to bring capitalist production relations to state socialism? Or, is it more correct to say that globalization, when considered as a product of capitalist production relations, is constrained by the very social form that moves it, namely capital?

Marx's famous theorem that 'the biggest barrier to production is capital' retains a relevance to the problem of transition from state socialism that many in the social sciences have overlooked (Marx 1967 [1894], 250). For capital does not simply invest in production for the purpose of satisfying the need for investment. Capital's goal, in the face of ever intensified competition and declining average rates of profit, is to satisfy its need to maximize rates of returns on investment. Why invest in the heart of Russian industry when the markets in, say, South Korea for that investment are much more determined by market conditions *alone* and the possibility for profits (realized in the form of domestic demand) is so much greater?

Rather simplistic understandings of globalization focus on the ability of capitalists to exploit cheap labor in the poorer regions of the world economy.

However, if this were the case, capital would flock to every part of the globe where cheap labor exists to replace current over-investment in the more advanced capitalist economies, end of story. In fact, capital flows remain greatest in the direction of developed capitalist economies and much of the globalization project has involved restructuring the conditions of production and exchange in those economies such that 'barriers' to free trade (i.e. pensions, unemployment insurance, national job creation policies, etc.) would be whittled away (Sayer and Walker 1992).

If the dominant view of globalization as the search for cheap labor alone were valid, given their vast reserves of cheap labor, state-socialist economies in transition could reasonably expect to attract investment into their economies from capital, sufficient to develop in a capitalist manner. However, as Harvey suggests above, globalization is really little more than the perennial attempt of capital to expand its capacity to create and dominate new markets; it is a *selective* process of picking and choosing from expanding locations of investment by virtue of where rates of return are highest in a given production sector. Furthermore, it involves the development of techniques (just in time lean production, etc.) that minimize the amount of capital expended on labor in order to maximize returns on foreign and domestic investments.

These are not new trends as concerns capitalist investments overseas. However, two temporally specific conditions of investment in the current

'globalization' epoch exacerbate the volatility of the foreign investment when it occurs in societies in transition from state-socialism. For one, the option of protecting markets against incursions from overseas investors before local producers are ready for competition is less available to state managers of developing economies than in previous generations. Secondly, although it does have the potential to raise standards of living for certain (skilled) workers, 'lean' production techniques in state of the art factories, especially in sectors that call for longer term capital investments, foreign investment also often displaces greater numbers of 'older' workers in deracinated state enterprises. The exacerbated unemployment issue only deepens as foreign producers compete against and bankrupt local private manufacturers. Thus, the options available to state socialist managers who attempt to compel enterprises in the commanding heights of the economy to submit to market forces are filled with political risk. It's a risk that is invariably related to the contradiction between the stated goal of *national* development (through capital controls designed to channel set amounts of profits into local producers and state financial institutions) and the very conditions of globalization that undercut those ideological rationales for transitional economic restructuring. This explains much of the vacillation in economic policy in state-socialist transitions. State policies in the heart of the value producing national economy simply do not change enough, under the current conditions of capitalist investment as they play out in the international

markets, to win the confidence of leading global capitalist investors such that capital systemically flows in as value and exercises dominant influence on the direction of profit at all levels of production and exchange. The end result is continued ideological struggle in state socialist economies in transition such as China over the very issue much of social science takes for granted: whether China will become capitalist as a result of its current transition from state socialism.

Chapter 3

China's Post-Mao Political Economy in Transition

The Limits of 1980's Economic Restructuring

In this chapter I offer an overview of Chinese political economy from the post-Maoist period. Of especial importance is an account of the character of capitalist investment in China and the consequences as regards the SOEs. In the chapters that follow I focus more narrowly on the responses of workers in SOEs to these changes and, in particular, how the discourse of worker's democracy was interpreted and deployed by the various actors in Chinese SOEs.

Clearly capital has made much more headway into the national economy in China than in its neighbor Russia. This contributes, understandably, to the widespread belief that capitalism has arrived or is certain to manifest itself in China. Furthermore, China's transition from state socialism has proceeded in a fashion that diverges noticeably from the Russian shock therapy model and with transparently more dynamic results. For nearly a decade during the earliest stages of the Chinese transition, exposure to market competition and capitalist investment was limited to peripheral areas of the national economy, focused on the rural sector where producers experienced the earliest release from the state's

direct involvement in and control of production and surplus distribution (Selden 1988; Nee 1996).¹

China began (much more gradual) market-oriented transformations in the SOE sector by the mid 1980's. Many commentators took note of what seemed to be dramatically altered relations of urban industrial surplus production and extraction (Howard 1991; Howard and Howard 1995; Sabin 1994; Solinger 1995). The large-scale SOEs appeared to pale compared with the rapid growth of small urban collectives, which were freed of many of the restrictions on hiring and firing enforced by ministerial control of production-investment decisions. Collective sector enterprises grew in number and output swiftly, in part because a good number of them were actually private companies whose 'collective' status secured a license to operate in private markets (Sabin 1994). Concurrent development of foreign export zones only created greater room for industrial production for profit. The absorption of large numbers of laborers into sectors that primarily produced for export and demonstrated the most glaring features of exploitative relations associated with Dickens' novels added to the impression

¹ Selden shows clearly how the different patterns of agricultural production organization in China and the Soviet Union shaped the outcomes of rural restructuring efforts in both countries. In Russia, the attempt to impose market norms of exchange on Russian agricultural producers was much more difficult since they had long ago been incorporated into a mechanized and collectively based large-scale model of production. Long accustomed to working a standard work day with wages and social security benefits at roughly the level of industrial workers, they were resistant to new policies that demanded their giving up social security benefit guarantees and taking on the risks associated with independent rural market exchange. In contrast, Chinese rural producers were historically less tied to the centrally organized social security based benefits and patterns of work assigned to the industrial proletariat under Chinese state socialism. Thus, Selden argues, from 1949 onward Chinese rural producers, regardless of the period, retained patterns of work for exchange in local markets, which made it much easier for *rural producers* to make the adjustment called forth when markets were granted a larger role in agriculture from 1978 onward.

that Chinese capitalism was in full force (Chan 2001; Howard 1991). Just as palpable were dramatic changes in the thrust of the social security system. Growing numbers of urban workers no longer enjoyed access to the traditional iron rice-bowl social welfare benefits that came with a job in the state sector (Chan and Chow 1992; Phillion 1998; Wong 1996).

All of these phenomena also were seen increasingly as contributing to the demise of the SOE sector. This leading sector of China's economy and source of Chinese political power was subjected to policies that ostensibly aimed to model management styles along those in the emergent rural Township and Village Enterprises (TVE), urban collective, and private enterprises, including most significantly the contract management system (*chengbaozhi*). However exposure to market competition was not the primary mechanism deployed to stimulate SOE production throughout the 1980's. Although motivations for increasing SOE investment in production and profits were introduced, SOEs continued to follow the traditional extensive pattern of operation:

Instead of seeking to maximize profits, managers sought to maximize enterprise wealth by maximizing inputs including raw materials and means of production, labor, wages, and state-supplied capital – with little concern for efficiency (productivity) or demand (the market). Instead of plowing surpluses back into production, to increase their competitive edge, they systematically sought to divert profits toward consumption (especially to build housing..etc.) even when this threatened the financial health of the enterprise and/or caused it to fall into debt (Smith 1993, 65-66).

The labor process in the SOE, contrary to hopes and expectations and despite new policies, underwent little in the way of systematic revamping. Piece wages were introduced; however, the apportioning of earnings continued to be dictated by traditional Chinese socialist SOE mores, as Walder (1991, 476)) reported in a review of changes in changing labor relations in China's SOEs:

By what criteria are salary rises and large money bonuses to be distributed? Initially, Chinese managers attempted to use the methods of the Mao era: laborious collective work group evaluations whose results could be manipulated by factory leaders... Managers (thereupon) adopted different strategies after this experience and for the rest of the decade sought to keep differences in bonuses to a minimum and keep them and pay raises liked only loosely to individual and group performance. Instead, they sought to win the cooperation of labor by bringing about steady increases in compensation and benefits. Workers came to expect such increases... SOE directors and managers benefited from redrawn regulations that

gave them greater authority over the labor collective (Warner 1987). Party cadres within² and outside enterprises benefited by skimming considerably from the dual price track for industrial inputs, and workers saw augmented wages and social welfare benefits in line with productivity gains. Instead of experiencing rationalization in the Chinese SOE sector, rentier behavior further took hold in China at all levels, and with it the expanded reproduction of urban SOE investment.

The limits of this accumulation strategy came to the surface in the late 1980's, despite demonstrably rapid rates of growth in the national economy during the first decade of economic restructuring, which had been spurred on by

² Within the enterprise cadres would encompass directors, upper level management, and Party and enterprise representatives.

a combination of inflows of private capital in the rural and light industrial sectors plus government subsidies to state producers.³ The contractual responsibility system did indeed stimulate production in China's rural areas (Selden 1999). However, by the mid-1980's, when the central government began to decrease its purchases (and subsidies⁴) of agricultural products, agricultural production dramatically declined as farmers transferred investment energies into non-agricultural activities. By 1988 non-agricultural production accounted for some 53 percent of rural output total value, up from 31% in 1980 (Hartford 1990, 56-57). Increasing shares of that percentage were geared toward export manufacturing orders. Labor surpluses grew exponentially when large population movements of former peasants migrated to cities in search of wages in coastal export-oriented companies (Singh 1995, 437).

Foreign currency revenues were employed to maintain the loyalty of the Party's traditional base of support (urban SOE and government workers, intellectuals, and Party cadres) in the form of subsidies that undercut the conditions necessary for the circulation of capital as the primary signifier of value in China (Cheng 1995). New tensions associated with this pattern of development emerged and were characterized by increasing rural inequality that fueled 1) the growth of a 'floating population' of rural to urban migrant laborers

³ On the continual flow of funds from the central ministries to the urban (SOE) sector during the 1980's, see Cheng (1995).

⁴ Often overlooked by market enthusiasts, Hinton (1990) argues that these increased subsidies that the government provided to farmers for agricultural products, especially staple grains, played as critical a role in stimulating agricultural productivity and income gains as did exchanges in private markets.

who were denied access to social security benefits reserved for holders of urban residence permits (Li, T. 1994) and 2) a boiling sense of dissatisfaction among urban intellectual/skilled strata with the role of Party corruption in the procurement of new wealth since 1978, and (critically) their *lack* of opportunities to share in that experience. Inflationary trends (in 1988 reaching 27%) only exacerbated these strains as central government revenues stagnated, deficits tied to foreign borrowing accelerated as money (credit) in circulation expanded more quickly than output (Hartford 1990, 72-73). This paradigm led to a crisis situation. Liberalization strained the Party's capacity to retain the loyalty of its traditional base of support, as evidenced most explicitly in the form of the 1989 spring protests, which had been percolating from as early as 1986 in urban areas, especially on elite university campuses.

That is not to say that a revolt by the traditional working class base of the Party spurred the spring 1989 protests. A good number of scholars (Black and Munro 1993; Walder 1999; Walder and Gong 1993) have argued that the Party's June 1989 crackdown was inspired by the 'threat' posed to the Party by workers' involvement in the Tiananmen demonstrations. However, Lau's (1996) detailed study of the protest literature and timeline of demands made by participating independent workers movements by concludes that independent workers' level of activity was overestimated. Workers' level of activity was limited to support for the students' right to protest and anti-corruption slogans. The direction of

economic policy in China in the post-Tiananmen 1990's confirms Lau's thesis that the Party was much more concerned about the discontent of urban intellectuals than of workers. The Party leadership was, however, concerned about workers' eventual support for the protests should the liberal democracy movement not be stopped in its tracks. If protests and the contradictions between the state and the intellectuals and urban petit-bourgeoisie that gave rise to them were not checked, greater threats to the Party's monopoly of political power could potentially grow out of hand. By rolling back (and most importantly making requisite concessions to) the intellectual and petit-bourgeois strata that led China's liberal democracy movement, the Party essentially found a successful formula to nip the crisis in the bud.

The Party's resolution to the 1989 crisis was not the imposition of capitalist rule on the organization of production relations in the largest value-pumping sector of China's political economy (large industrial SOEs) (Smith 1990). Instead, while migrant workers coming to the cities from rural areas suffered the brunt of repression during the June 4th crackdown, urban state workers experienced, for a period of several years in the very early 1990's, a renewed policy of state protections for SOEs⁵. Indeed, by the end of the 1980's,

⁵ These protections would be quickly undercut by the state's subsequent two-pronged policy of encouraging greater private investment in the economy *and* new strategies to release ministries of financial responsibility for enterprises that were 'uncompetitive'. This would lead to new types of contradictions in the Chinese economy, moving state workers to the front and center of conflicts with the state by the end of the 1990's. It remains to be seen, however, whether or not those conflicts will be resolved through a transition to capitalism.

the attempt to create labor markets in the heart of China's economy had fallen so far short of its goals that researchers such as Michael Korzec (1992, 50-51) were declaring the 'failure of Chinese reform' and predicting that the CCP would never impose a labor contract system on Chinese labor:

Although, at the end of August 1989, more than 10 percent of the labor force of state enterprises in China were registered as 'labor-contract-system workers', half a million more than the number at the end of 1988, the time for drastic experiments with the labor market was over...the labor contract system has disintegrated. ..
It is improbable that contract workers will eventually replace permanent workers as the backbone of the Chinese economy.

Post 1989 Expansion of Private Markets' Presence in China's economy

However, the June 1989 repression of the intellectual led liberal democracy movement did not lead to a widely anticipated withdrawal of Party commitment to economic restructuring. This was the case despite austerity policies, the pronouncement of renewed restrictions on private enterprise activity, and recommitment, in principle, to Chinese SOE sector production in the early aftermath of the Tiananmen crackdown. Although the Party remained committed to investment in the SOE sector in the early 1990's, this is also the period that saw a massive influx of investment from Hong Kong, Taiwan, Korea, and Japan, encouraged in the wake of American capital flight in response to the

June 1989 crackdown (Hsiao and So 1996). By 1992, when, on his pivotal *southern tour*, Deng made declarations in support of the role of private enterprises in 'socialism with Chinese characteristics', a much more public resurgence of market-entrepreneurial activities and correlated incidences of labor exploitation of labor took hold in China's urban areas, especially in, but not isolated to, the more developed coastal cities (Lu 1992). The devaluation of China's currency in 1995 only further intensified the attraction of foreign capital to investment in China's economy. Notably dramatic increases in the levels of American, European, and Japanese investments were felt, with ever greater amounts moving into longer term capital intensive projects, contributing to surging double digit levels of economic growth from 1994 through late 1997. Expectations that the June repression of the liberal democracy movement would bring an end to market oriented experiments in China gave way to a renewed sense of *certainty* that China was, alas and ironically, becoming capitalist.

Indeed, if the 1980's looked like Chinese capitalism's decade of incremental development, the 1990's took on *the appearance* of capitalism's full fruition (Biddulph and Cooney 1993, 225). Reports of exploitative labor relations and widespread profiteering in industry were no longer limited to privately owned companies that were springing up everywhere to feed the insatiable foreign exporters' appetites. Research emerged asserting that many state sector companies were now experiencing similar conditions, especially in the small-

and medium-sized companies (Lee 1998; 1999; Leung 1994; Zhao and Nichols 1996). Regional disparities, both inter and intra-provincial, grew very rapidly despite double digit growth (Bramall and Jones 1993). The 'floating population' of rural-urban surplus migrant laborers provided a seemingly endless supply of cheap labor for a stratum of *nouveau riche* owners of restaurants, construction companies, hotels, and other private sector work that urban workers refused to take (Yan 2002). The Party, at the 14th and 15th Congresses, resolved to and did enact a policy of 'letting go' of state subsidies to smaller sized SOEs while simultaneously increasing their exposure to domestic and foreign competition.

By 1997, it looked as if China was finally about to shake off the yoke of the social obligations long associated with the SOE. Almost all SOE workers had become contract workers and huge numbers of those in failing units were classified as 'laid off' or 'on vacation' (Sabin 1994; Lau 1997). The position of SOE workers was plainly weakened by the raised level of (foreign and domestic) private investment in China's economy. That only added to the certainty of both liberalizers and restructuring's critics that a commodified proletariat and capitalist counterpart, both substantially freed from state interference, were, alas, the new subject-contenders for political-economic control of China on the eve of the new millennium (Lu 1992; Nee 1996). This idea coincided with the prevalent belief that China was experiencing a corporatist type of capitalist development, over which the state exercised a large role, but that enabled capitalist markets to

expand their reach with every passing day (Unger and Chan 1996). A slightly modified variant of this position saw China as a 'mixed' economy, one which combined the best of capitalist markets and state-socialist nationalist guidance and economic redistribution.

So what has occurred that could lead a reasonable observer to doubt that capitalist relations of production dominate the Chinese political-economy? At the very least, the kind of class conflict that transition to capitalism in China requires has become clearer since the late 1990's. Monkey wrenches were thrown into the expectation of a smooth 'gradual' Chinese transition to capitalism with the onset of the Asian Financial Crisis (AFC), upsetting expectations that the combined market-state guidance model of late industrializing growth would necessarily produce smooth capitalist development in China. By mid-1998 the AFC was making itself felt in China (Lau 1999; 2001; Lo 2001). East Asian investors reduced or withdrew investments due to credit collapses and bankruptcies back home. Chinese producers in export sectors that competed with newly devalued South East Asian currencies saw sudden decreases in foreign purchase orders. On top of these dilemmas, the economy also faced the same ominous aggregate drop in prices in an already overheated national economy that was giving East Asian economies major headaches prior to the AFC (Cooper-Ramo 1998; Yuan, Yang, and Xun 1998). Just when SOEs were slated to compete for domestic and foreign private investors, foreign investors suddenly were holding back.

Investment from Asian countries fell by 21% in 1999, while overall FDI dropped 11%. Exports to Asia fell by 9.9% in 1998, with those damaged by the AFC facing the most serious declines (Lau 2001, 241-242). To make matters even more worrisome, consumers, lacking faith in the Chinese economy, were holding onto bank deposits even as interest rates were pushed to near zero, not circulating money for either investment or commodity consumption.

Meanwhile, the capacity of provincial and national officials to command funds for failing SOEs that would placate laid-off and retired workers diminished considerably. As a result, during efforts at restructuring SOEs, factory/ministry cadres characteristically maneuver to drive down the value of SOE assets to attract 'investors' who virtually dictate the terms of SOE stockholding conversion. In the process, the conflict with SOE workers only intensifies as they observe inside deals for SOE assets that are designed to transfer public wealth to a new class of wealthy cadres and private investors, few of whom have any interest in investing in SOE production (or, frequently enough in any private production for that matter), because of declining growth rates and overproduction that characterize Chinese markets. This trend becomes increasingly endemic as China edges toward enforcement of provisions in the WTO agreement that call for loosening tariffs in most agricultural and key industrial enterprises within less than a decade and a further elimination of subsidies to uncompetitive state owned producers. In response to those who

believed that, regardless of economic growth rates, China's economy would enjoy

smooth success, a writer *Business Week* commentator pointedly declared:

(Confidence)..is born of a conviction that the massive unemployment, poverty, and corruption, being produced by China's market reforms will not swell into a social revolution...(A) Hong Kong based managing director for Goldman Sachs & Co. says even in a best-case scenario, reforming the state sector will cause 'tremendous stress, lots of difficulties, pain, and potential for social unrest.' If the (Chinese development) stats skeptics are right, the strains on the system may prove greater than anyone is now predicting⁶.

So where is China going in this transition and why does it matter? Why speak of China as not yet capitalist if, aside from the SOE sector, where, in any event, production relations have been altered considerably, capitalist markets seem to reign supreme? Is it possible that, instead of a completed transition to generalized capitalist markets, China will follow a path witnessed in the former Soviet Union, in which stagnation and zigzag maneuvers by enterprise and state leaders are employed to avoid the price of that transition (Burawoy 2001)? What are the possible scenarios for China's political economy and what are their implications for Chinese workers?

Ever Uncertain Transition in China

China, when not viewed from the world of immediate, and undeniably strong, appearances, is in fact not on any *set* road to capitalist relations of

⁶ Fredrick Balfour, "How Much is China Cooking its Numbers?" *Business Week*, April 8, 2002.

production, nor has it necessarily made the transition to capitalism. Even on the eve of China's entry into the WTO, much about its transition remains an empirical question and calls for greater care in study (Rawski 2000; 2002). China has experienced a much deeper integration into world markets than did its Russian counterpart, *despite* a continuing one (CCP) Party monopoly (So and Chang 1998). Nonetheless, even with the higher levels of investment in China by foreign and domestic capitalists, the process necessary for capital to act as capital in the heart of the Chinese political economy has not taken place due to the level of exigent class conflict called forth by capitalist transition. The reasons are of critical importance because they are pertinent to positions China's working class movement takes in the period of transition from state-socialism.

It is true that China's SOE sector has undergone considerable restructuring (Parker and Pan 1996). However, it would be hyperbole to assert that the greatest value pumping (large) SOEs have been subjected to the laws of market competition such that capitalist markets determine how they are operated and financed. Precisely for this reason, neither has the market eviscerated the SOE's role as the dominant supplier of value to the source of state power nor has a new class within China emerged to challenge the SOE sectors' sustained and domineering influence on how political power is maintained in China. This fact tells much about the nature of Chinese political economy, especially the emergence and expansion of what is mistakenly labeled 'gangster

capitalism' for the past decade. Writing in late 1998, Liu Binyan and Perry Link noted the continuing prominence of the SOE sector in China's political-economy:

Notwithstanding the widespread discussion of the effects of the "private market" on China, China's state enterprises, although they were never very efficient, still dominate the urban economy... With few exceptions, only state enterprises receive loans for China's banks (which are themselves exclusively state owned) and only state enterprises can have access to foreign currency. Still the state sector's share of the economy has steadily declined. Twenty years ago it was the only sector, and today it produces about 30% of the gross domestic product. But the 70% of the 'non-state' GDP includes all of agriculture and rural industry, which together are 60% of GDP. Contrary to the impression given in the Western press, only about 10% of GDP comes from urban private enterprise. The state sector of the economy also dominates the concerns of the Chinese leadership-concerns that are, as always, essentially political ⁷

There is no question that private enterprises have expanded rapidly in China, particularly since Deng's 1992 'southern tour.' However, their contribution to GDP, compared with SOE counterparts, remains small. Furthermore, in contrast to the literature on the failing performance of SOEs, Dic Lo (Lo 1999; 2002) contends that the difference in performance by scale within that sector has been overlooked at the cost of a more accurate picture of what fueled the engine of Chinese economic growth during the 1990's. For starters, the SOE sector continues to dominate the largest value producing large and medium sized enterprises (LMEs). LMEs also constitute the most protected, soft-budget-oriented and least market-exposed part of that sector of production. The majority of declines in growth has occurred in the SOE sector in the smaller

⁷ Liu Binyan and Perry Link "A Great Leap Backward? Review of *Zhongguo de xianjing* [China's Pitfall]" in *The New York Review of Books*, October 8, 1998.

companies and the collectively owned enterprises (COEs), which overwhelmingly tend to be the most exposed to international markets and least tied to state ministries as far as production prerogatives are concerned (Lo 1999, 695). Furthermore, the deterioration that the SOE sector (in small and medium sized enterprises) has experienced in terms of financial performance has been visited upon other more market ensconced sectors in similar proportions. In this sense, quite differently from the FSU model, the soft-budgets employed to subsidize LMEs, iron rice bowl trappings and all, actually have managed to improve productivity in the greatest value producing enterprises of the still dominant and least market dominated state sector⁸. That is to say, markets have become more institutionally generalized in China than has been the case in Russia, but the state sector has remained both a vital and substantial contributor to state revenue. Meanwhile, Lo points out that there is also good reason to be wary of grandiose assessments of how much capital has become generalized in China's economy:

For the first time since the start of the reform era, the trend of the secular decline of the enterprise pre-tax profit rate has been reversed (in the SOE sector): it increased from an all-time low level of 5.5% in 1998 to 6.4% in 1999, and further to 8.4% in 2000...It is spectacularly obvious that industrial investment has been experiencing a slump since the mid-1990's: its share of the total capital construction investment in the economy has decreased from the average level of 47% in the 1981-85 period, 53% during 1986-90, and 47% in the 1991-95 period, to 38% between 1996 and 1999. But it is precisely in 1998 and 1999, when the Keynesian-type fiscal packages were forcefully put into effect, that the slump in industrial

⁸ Again, due largely to the revamping of the LMEs while the state subsidies for small and medium sized SOEs dried up significantly.

investment was most severe... What this phenomenon indicates is the reluctance of economic agents, particularly financial interests, to involve themselves with industrial production... (This) is consistent with the argument that private capital that has accumulated in China over the reform era is mainly speculative financial capital, and that it is in significant measure responsible for the profitability decline of Chinese industry – through a process of ‘rents’ squeezing profits (Lo 2001, 262-263).

Cooper Ramo (1998) notes that even a location such as Shanghai, awash in money from worldwide and Chinese investors, has been distorted by speculative short term finance capital markets that militate against the systematic implementation of capitalist production relations. Liberalized rules for foreign investment in 1992 brought in a massive flow of currency that was directed toward Shanghai’s real estate sector. However, that sector no sooner took off like wild fire in 1994 than the housing market began a sudden collapse. As a result, FDI in Shanghai slipped in 1997 to \$6 billion from a 1994 high of \$10 billion, due in large part to a burst in the real estate bubble encouraged during the previous three years.

The pattern of development described by Cooper-Ramo is one that highlights the potential and vulnerabilities of restructuring, in ways both similar and divergent from Clarke’s Russian case. Cooper-Ramos notes that China (unlike Russia) displays noticeably greater *potential*, bubbles notwithstanding, to develop internal markets that can render market vagaries less overwhelming:

...China has attracted incredible amounts of foreign capital: since 1992: FDI has grown by 500 percent. In 1997, more than 14 percent of all capital to the developing world flowed into China... Much of China’s continued

growth will depend on keeping those foreign flows robust, and to do that the government needs to diversify both the sources of these investments...and the sectors where these investments are being channeled.

If all goes according to plan, tens of millions of Chinese will move from their traditional housing into high rise apartments... This goal will be good news not only for manufacturing firms that sell everything from washing machines to alarm systems, but also for the economy as a whole, since these apartments promise to be more liquid than traditional housing... If the supply and demand curves for real estate in cities such as Shanghai actually meet in 2000, then the country may well have developed the solid legal and financial foundation for an orderly property market (ibid., 73-74).

However, such optimism overlooks the real risks that the "diversification"

Cooper-Ramos calls for entails for national development plans, which are the ideological cement for China's economic restructuring. Thanks in large part to the uneven characteristic of capitalist markets development internationally, supply and demand curves, whether they be in the real estate or, more critical, in the industrial sector of a developing country, rarely are characterized by smoothness when FDI plays a predominant role in national development. Thus, diversification of public investment could actually threaten the capacity of the state to maintain capital controls in sectors that contribute to national state coffers. That, in turn jeopardizes the fiscal capacity of the state to funnel Yuan into public works projects, critical R&D programs, vital state enterprise investment, and local state/city governments to mollify angry laid off workers (Wang and Hu 2001).

Excitement generated by China's entry into the WTO notwithstanding, concerns continue about the kinds of socio-political stresses that would result from stipulated near future tariff removals in state dominated sectors (Han 2000). Additionally, representatives of institutions tied to US capital and IFIs, remain anxious about Chinese leaders' willingness to fulfill WTO obligations, that is, the systematic imposition of the capitalist norms of competition on domestic manufacturers. An analyst in *The Financial Times*, looking at China with a clearer eye than most mainstream social scientists, summed up this view with the following admonition:

One lesson of the collapse of socialism in Eastern Europe is that profitability, not quantity of investment, is the key to sustained economic growth. Here, arguably, lies China's fundamental problem. There is no doubt that massive investment is being made--more than Dollars 300bn in foreign direct investment in 20 years, and vastly bigger amounts by the state. All this shows up as growth because the sums are spent, the workers are hired and the cement is poured. But what about actual return in a decade or two? This is much less clear...Many...think, mistakenly, that China is capitalist. In fact, China's system is exactly what its leaders call it: socialism with Chinese characteristics. In practice, that means a large state sector, party committees even in private enterprises, corporate boards that are unable to fire managers, no market for corporate control and massive changes in economic policy (such as consolidation of the motor industry) dictated without consultation⁹.

How, then, is the current and future state of transition in China assessed and what does the fate of transition hold for workers? Attracting capitalist investment into the heart of the economy such that capital dominates a society in transition from state socialism is not merely contingent upon *desire* alone to. It is

⁹ Arthur Waldron, "China's Disguised Failure *Financial Times* (London), July 4, 2002

just as much determined by the actual market conditions in which capital invests. Capital, after all, does not invest simply because investment is desired. If it did, the problem of capitalist reproduction long ago would have been solved forever.

When markets, viewed from the vantage of capital, are deemed insufficiently ready for investment due to perceived burdens of costs (i.e., social security, payments to 'corrupt' rentiers, high tariffs, etc.) or lack of buyers, capital can simply withhold investment. Capitalist markets do not just exist by virtue of their being declared 'opened'. They must be opened in a fashion that capital sees worthy of its investment -- that is -- its return is high enough. Naturally capital will try to find a way to enter markets such that entry is lowest in cost, highest in profitability, and capacity to dominate is premium.

In the case of China, as with the post-Soviet Russian case, the battle for investment coincides with a battle over the terms of the realization of capitalist transition.¹⁰ China's rulers clearly hoped to continue with a NIC style development plan of utilizing currency generated by foreign exports to sustain restructuring and revitalization of protected state sectors.¹¹ However, as shown by the frequently tense WTO negotiations since 1998, international investors and credit institutions have had quite a different perspective on how China should develop markets. Lo (2001, 262) argues that, for Chinese leaders who intend to continue with a national development plan based on large SME development

¹⁰ In other words the amount of capital flow needed to sustain capitalist economic growth and reproduction.

¹¹ This is eminently clear from economic development white papers that Chinese ministries put out frequently. Almost every book on economic development in China also works on this assumption.

with simultaneous consumer growth across strata, the present time period is anything but certain:

From the 1992-94 financial liberalization and the 1995-97 enterprise downsizing – both have fundamentally undermined the existing (anti-market) regime of accumulation – it could be posited that... Chinese state authorities have been captured by these newly emerged speculative financial interests in the economy. The anti-market nature of the politics adopted in the 1998-2000 period, however, suggests that this capture is in no sense total. What remains, therefore, is the continuation of enormous uncertainty over the future prospects of the political economy.

Foreign capital and international financial bodies, especially but not only the WTO, also increased the pressure on China to conform to its expectations, placing China's rulers in a rather precarious position. Cadres do enrich themselves in the process of making greater compromises with international investors. However that fact alone does not mean that cadres will fall in line with capital on the social and political prices to be paid for attracting further investment in the heart of the Chinese economy. The stress caused by this ostensible 'stubbornness' during negotiations on WTO and similar international trade agreements designed to secure greater capitalist investment in the Chinese economy is perpetually bubbling to the surface. In a February 1999 article, *Business Week* reported that foreign investors were increasingly concerned with the often arbitrary policies of Beijing:

[1999] marks the 10th anniversary of... at Tiananmen Square, as well as the 50th anniversary of the founding of the People's Republic. Celebrants can easily turn into demonstrators if they're angry enough and poor enough.

With these threats looming, Zhu has quietly set aside much of his

politically destabilizing reform plan. He is also engineering a crackdown on the provinces, shutting down heavily indebted, corrupt investment trusts and sealing the exits for any Chinese company that wants to ship money out of the country.

There's some merit to this crackdown: China needs a better regulated and less corrupt economy. But the moves show Zhu is as much a Party cadre intent on control as he is a reformer. And while Zhu in the past used the levers of state power to curb inflation and promote growth, this time his policies seem likely to lead to even more stagnation.

Ministries are changing the rules to favor local players--and sideswiping foreign investors in the process. Foreign ventures are losing distribution deals and forking over more of their profits to tax collectors. "Multinationals have been in the economy for six or seven years, and they're not getting the returns [they want]," says Padraig Lehane of Dun & Bradstreet in Shanghai.

Before capital invests in labor as a commodity, labor must be transformed into a commodity, that is, tradable in labor markets. In order for that transformation to take place, labor must trade at the *price* set in existing capitalist labor markets. This is not a process that occurs as a result of new opportunities that markets present to labor. It arises as a result of a process of struggle whereby previously non-commodified labor has no other means to access means of subsistence other than to compete for wages in labor markets (Wood 1994).

Marx (1935, 20) summed up the power relation as an explicitly unequal one:

The worker leaves the capitalist, to whom he has sold himself, as often as he chooses, and the capitalist discharges him as often as he sees fit, as soon as he no longer gets any use, or not the required use, out of him. But the worker, whose only source of income is the sale of his labor-power, cannot leave the *whole class of buyers, i.e., the capitalist class*, unless he gives up his own existence. He does not belong to this or that capitalist, but to the *capitalist class*; and it is for him to find his man, *i.e., to find a buyer in this capitalist class*.

Capitalists don't merely invest in labor markets because there are workers willing to work, reference post-Soviet Russia or millions of unemployed workers in China today. Capitalist investors are in search of workers who will work at or below the going *market rate* for the labor they perform in specific sectors of production. The value capital accords labor in a transitional economy is determined in comparison with rates in existing capitalist markets elsewhere. Conflicts arise, then, between workers in post-state socialist societies with their own sense of value informed by collectivist and/or nationalist ideologies and those who collaborate to compel them to accept the going valuation of the labor power in international capitalist markets (Burawoy 2001; Clarke 1993).

Just as important, capital seeks to dominate new markets of investment and to eradicate whatever obstacles that prevent that from transpiring. Thus, capital is seeking more than cheap labor costs for exports back to the home country or other advanced capitalist regions of the world market. Indeed, it is entirely reasonable to estimate that the greatest source of conflict as China 'restructures' will concern how much of China's *domestic* market becomes open to foreign investors. A factory director in a Changsha large SOE water pump producer that had undergone major progress toward privatization stated the WTO provisions were not of real concern to his factory¹². He explained that his company was able to under-price foreign competitors' imports even after tariffs were lowered.

¹² Author's Interview with general secretary of Tongda Corporation in Changsha, Hunan Province, November 2000. See "Dui Guoyaoqiye Huibie (wave goodbye to the SOE)"

What *did* concern him however was what would happen if and when American or Japanese producers should invest in factories in China to produce similar goods for Chinese consumption. CEOs of major foreign companies have told interviewers that they expect the biggest conflicts to arise over the matter of how much of China's domestic markets will be opened up to foreign investors in the near and long-term future.¹³ The largest capital--intensive investing companies are quite frank about their willingness to take losses in the short-term on their investments on the assumption that future tariff revisions and eliminations of SOE competitors' subsidies will open up massive Chinese domestic market opportunities. In the case of China's transition, there remains a battle over the terms of capitalist investment. Resolution has hardly been reached, nor is it in any sense guaranteed to bring about the systemic submission of producers and appropriators to the laws of capitalist competition.

The obstacle to capitalist transition remains, as it has from the beginning, China's working class, most critically in the largest value creating sector of production. How that struggle continues to play itself out is what will determine, invariably, whether China becomes capitalist and what it will mean for China to become capitalist.

¹³ The director of Scargill Inc. China Division, the largest agricultural investor in China, stated this outright to Prof. David Davies in July 2003.

Sources of Uncertainty in China's Transition

Quite simply, China's transition to capitalism is tenuous due to the social relations of production domestically, which are also aggravated by the problem of overproduction and inter-capitalist competition internationally. Cumings (1999) comments on the impact of the AFC on the East Asian NIC

'developmentalist' model that Chinese leaders attempt to mimic home in on why China's project is especially conflict bound today:

South Korea and Japan have been sheltered economies, indulged in their neo-mercantilism and posted as engines of economic growth, because of the great value they had in the global struggle with communism. Now that that struggle is over, however, the issue of their 'fit' with a new era of free markets and neo-liberalism comes to the fore... The deep meaning of the Asian crisis, therefore, lies in the American attempt to bring down the curtain on 'late' development of the Japanese-Korean type, and the likelihood that they will be successful – because the strong, nationalistic neo-mercantilism of Japan and South Korea was propagated in the soft soil of semi-sovereignty, and because... the Americans have, paradoxically, had willing accomplices in Northeast Asian peoples who have sought to reform or nullify this same model themselves (45).

Because of the international environment of capitalist restructuring, despite comparably high levels of FDI in China, China bears a closer resemblance to Russia than many observers seem to recognize. Russia has faced a virtual global boycott in its industrial base, because its central enterprises and financing institutions remain largely unchanged in patterns of investment and credit. After foreign capital finished its feeding frenzy on raw materials procurement schemes, it largely left Russian managers and its workers without capital.

The question remains, then, both if and how China will make a transition to capitalism given the disconnect between the social relations of production in the commanding heights of China's economy and the expectations of international and domestic capital of further restructuring (i.e., confrontations with SOE workers) in its economic center. The present regime of accumulation is caught in a contradictory moment of both requiring greater investment of capital into its economic heart and maintaining the loyalty of workers in those vital sectors of production. It is, after all, the former that puts the position of the latter ever more directly in a vulnerable position. There is nothing about capitalist markets that *necessarily* guarantees Chinese workers, as a class or as individuals, the possibility of improving their position upon the (future) completion of a capitalist transition in China.

Capital, as Marx insisted, is first and foremost a social relation, which must be imposed on a national economy in order to coherently act as the primary

determinant of value.¹⁴ In response to competition from other capitals and falling rates of profits, dominant capitals also must enter into a struggle with workers who produce commodities, in order to increase the amount of surplus that capital can appropriate from investments in production. The problem China faces in completing a transition to capitalism is intimately tied to the limits of the social relation called capital. Overproduction has led dominant capitals internationally to redraw the terms of investment such that capitalists are able to withdraw greater portions of surplus from productive activities as the price for its investment.¹⁵ This has only served to exacerbate the level of social conflict required for an attempted transition from state socialism to the law of value requires.

Robert Brenner (1998) has argued that the present economic trend of 'global turbulence' is an outcome of the attempts on the part of Post-war advanced capitals, since the early 1960's, to reverse declining aggregate rates of profits, which stemmed from intensified international capitalist competition. The (temporary) resolution sought on the part of advanced (and, most critically, US) capitals was two interrelated policies. First, domestic reorganization of class relations of production from the late 1970's set the foundation for US capital to restore its competitive export position. 'Reorganization' was accomplished

¹⁴ It should be noted that Weber held the same for what he categorized 'modern capitalism'.

¹⁵ As Burnham (1997), Panitch (1994; 1998), and Wood (1997a; 1997b) among others have argued, this is not a result of 'states' becoming weaker as much as a process of class conflict through which labor has been significantly rolled back north and south, with the state now more transparently playing the role of enforcing increasingly vertical social relations of production.

through a one-two legislative-judicial assault on trade unions' organizing capacity that originated in the late Carter administration, deracination of social welfare programs, 'lean production' combined with 'downsizing,' regressive tax cuts, and, perhaps most crucially, Clinton's move to debt removal. This maneuver, compounded by liberalization in the financial arena, from the mid-1990's onward, spurred a revival of domestic US manufacturing productivity and investment (Brenner 1998; Ferguson and Rogers 1979).

In the same vein, beginning with the dismantling of Bretton Woods, a whole series of international treaties, accords, agreements, and the like have been signed that progressively remove barriers to capital flows in and out of regions. This has rapidly subjected formerly protected political economies to two potential threats to domestic economic integrity, namely imports from advanced (i.e., the most competitive) capitals,¹⁶ and credit/currency speculators (Bello 2002; Brenner 2000; Kolko 1988; Cumings 1998).

The Asian Financial Crisis (AFC) was tied in closely to this process. As Mitchell Bernard (1999) has pointed out, the rush to liberalize foreign lending in East Asian countries came in response to pressures put on state leaders from domestic manufacturing and credit capitalists, who themselves were reacting to

¹⁶ It should be noted the often heard argument that 'globalization' kills competition and leaves us with the choice between a few monopolistic corporations misses the significance of what is happening as capitalist relations expand. In fact the reason why opposition to globalization arises in very diverse regions of the globe is because local producers are (or perceive themselves as) unable to *compete* with producers from the most advanced regions. That in the process hundreds of smaller producers are wiped out when a corporation establishes a foothold over a given region changes nothing about the fact that it is able to do that by virtue of its superior marketing, financing, and production efficiency (i.e. its competitive superiority).

increasing competition from other producers in South East Asia and China. These state leaders likewise acquiesced to pressures from the US to open up formerly protected domestic markets. This only served to increase the pressure from domestic capitalists who utilized the option of capital flight and who simultaneously increased their calls for privatization, reliance on foreign laborers, rewriting of finance, tax, and labor legal codes to combat competitive challenges from producers in South East Asia and advanced capitalist countries, especially the US.

The AFC, initially set off by ICI's lack of confidence in the viability of short term investments in Thailand, was closely linked to the intensive competitive pressures placed on the export 'engine' of Thailand's economy in the aftermath of China's devaluation of the Yuan. This set off a domino effect in star NIC countries such as Korea, where foreign investors likewise experienced a 'sudden' collective angst over the integrity of loans to Korean companies who happened to be over invested in Thailand's now defunct real estate and stock markets (Bello 2000). The result for workers was devastating as the IMF then demanded unprecedented (for East Asian NICs that is) harsh bailouts that threatened to undermine the very institutions that once enabled East Asian NICs to control the direction of capital flows into national development projects *and*

actively participate in world commodity markets (Cumings 1999; Wade and Veneroso 1998)¹⁷.

Wade and Veneroso (1998) note that East Asian NIC development was premised on the capacity of the state to accumulate and distribute sufficient funds to (protected) firms that had the potential to compete in world markets. This resulted in a debt-equity structure that radically differed from those traditionally found in Western countries, whereby the debt load frequently was higher than the value of equity capital.¹⁸ In the case of Korea, for example, it was just this structure, (as opposed to the capacity of Chaebols to compete in the international arena) that would make Korean companies in the post-bailout era especially vulnerable to foreign reassessments of their *value*:

The [IMF's] much higher real interest rates will tip many high debt/equity firms into bankruptcy – and the resulting financial instability and unrest may cause net capital *outflows* instead of the inflow that the Fund expects. Meeting western standards for the adequacy of banks' capital requires a rapid fall in banks' debt/equity ratios, and a sharp cut in their lending, causing more company bankruptcies. Opening up the financial sector to foreign banks will result in a large scale take-over, because after the liquidations foreign banks and companies will be the only ones with the

¹⁷ Cumings points out that this was not the first time that East Asian NICs needed bailouts, but it was the first time that such a price was exacted for a bailout. Critical to this play of events was the new calculus of geo-political power relations in the aftermath of the fall of the former Soviet Union, which rendered the NICs much less an asset that *necessarily* needed economic patronage, the likes of which a Latin American country's state leaders could only dream of, and wildly at that. For a sense of how important access to export markets and the ability to protect national manufacturing markets from foreign investment (i.e. competition), see Philip MacMichael's (2000, pp. 38-39) comparison of the fates of Korea and Brazil as NICs

¹⁸ Wade and Veneroso (1998) and other defenders of the Developmentalist model (Woo-Cumings et al. 2000) make a strong argument that what was called 'crony capitalism' in the popular media was a rational arrangement in the context of what was necessitated to propel national development projects. This can be acknowledged without needing to resort to a defense of either the corruption and/or unequal, not to mention downright oppressive class relations that characterized the 'model.' (Hart Landsberg and Burkett 2001; Bello 1992).

capital for recapitalizing the domestic ones. But foreign banks may not lend to high debt/equity local companies and may not participate in the kind of alliances between government, banks, and companies that (that) financial structure requires. If Citibank buys up Korean banks and applies normal prudential limits...it will not lend to a company like Daewoo with a debt/equity ratio of 5:1. The amount of restructuring of Daewoo before its debt ratio comes close to 1:1 is hard to imagine (*ibid.*, 14-15).

The subsequent neo-liberal recipe of restructuring Chaebols and government financing called for dramatic increases in unemployment, attacks on trade unions (for not meeting their patriotic duty to accede to calls for 'flexibility'), and a general program of austerity that redirected wealth upwards as the paradigm for future development (Hart-Landsberg and Burkett 2001).¹⁹ Excited forecasts were offered by many economists that East Asian NIC economies would quickly recover after this round of reintegration and 'structural adjustment.' However, reports as recent as spring 2003 indicate that local companies and banks face greater exposure to foreign buyouts²⁰. Furthermore, East Asian NICs are now even more susceptible to shifts in the US economy because the prime mechanism for dealing with the fallout from the AFC has been the combination of increased exports to the US and constricted domestic demand. When the volatility of the current global market and its incapacity to generate

¹⁹ See also Nicholas Kristoff, "Crisis Pushing Asian Capitalism Closer to U.S.-Style Free Market," *New York Times*, January 17, 1998, John Larkin, "South Korea's Recession Brings 'IMF Orphans,'" *The National Post*, November 27th, 1998. Jerry Levinson, "One Dimensional Bailout," *Washington Post*, December 31, 1997.

²⁰ If not through outright buyouts, foreign investors also can 'save' companies struggling with debt by investing in large proportions of equity, which contributes as significantly to the redirection of surpluses into private investors' coffers, thus diminishing state capacity to fund national development projects that are not short term or driven by profit alone.

sustainable growth is taken into account, the problems facing workers in East Asia are transparently on a scale that neither romanticizing past 'developmentalist' state models (Woo-Cumings 2001) nor further 'integration' into global capitalist circuits of production and exchange are likely to resolve. Brenner (2000) prophetically noted that despite the early signs of East Asian recovery:

The international recovery that has gathered force since 1999 has provided little clear evidence that the world's leading manufacturing economies can finally expand together, at least without the benefit of a US current account deficit that is setting new records every year – i.e., without the continuation of a US consumption boom... [F]or the world market to expand sufficiently to absorb US export growth at its current rapid rate, it would seem that US imports and the US current accounts deficit must increase disproportionately. The implication is that for the American and world economy to continue to grow vigorously, the reigning pattern of expansion must continue to prevail – though this would obviously do nothing to reduce the current account deficit, indeed would be likely to make it worse (40).

What differentiates China from East Asian NICs such as Korea, Taiwan, or Japan, whom CCP leaders hope to emulate, is that in East Asian NICs the terms of capitalist development is a settled issue. Capital has long flowed in and out of these countries as capital in accordance with contemporaneous global market conditions. For China, on the other hand, there is little likelihood that it could attract capitalist investment into the heart of China's economy *and, at the same time*, continue with its national development strategies, which are *politically* dictated. There is not a lack of desire to restructure production relations such that capital acts as capital in the Chinese economy systematically. However, the

matter is clearly one of more than adding a little markets here and taking out a little socialism there. Chinese restructuring has not brought forth the kind of investment and consumption patterns from domestic and foreign investors and consumers that would sustain a 'developmentalist state' patterned on the East Asian NIC experience. The Chinese ruling party continues to cling to a two-fold policy of 1) securing (and increasing) its accumulative capacity through traditional access to state resources (*guanxi*, corruption, speculative ventures, etc.) and 2) pursuing nationalist political and economic development strategies that limit (albeit increasingly less so) the level of capitalist control over state institutions that control the direction of capital flows.

It is inaccurate to describe China as having completed a transition to the law of value, and it is equally inaccurate to assert that its capitalist future is certain. In saying this, I reject the notion that China is a 'mixture' of capitalism and socialism. Capitalism is a system of production relations that must dominate the economy. What some define as 'gangster' capitalism in China is actually part and parcel of the reality that capitalist markets do not dominate the Chinese economy. What is seen as "gangster capitalism" (i.e. corruption, rentier forms of appropriation, raw exploitation reinforced by authoritarian labor regimes, etc.), far from bringing China closer to capitalism, actually prevails as an inadequate mechanism for China's transitional ruling class to accumulate surpluses without acting capitalistically. The reason for the prevalence of such

non-capitalist forms of accumulation is precisely because there is a *lack* of necessary capital to develop a Chinese economy that is subjected to the law of value.

The Transition to Capitalism, the Limits of Capital, and The Uncertain Chinese Transition

There has clearly emerged an ever widening gap of power between those who produce value and those who accumulate wealth in China. As markets have become employed more and more widely in China, cadres have sought to accomplish two objectives. They have sought to take advantage of their access to the state bureaucratic apparatus to benefit from the state policy of letting go of companies deemed to be no longer of value to the state. The objective of this policy has been to stimulate investment in that sector by private capital *in addition to* restructuring companies as *productive* independent shareholding corporations. Central to this policy would be loosening the politically based ties between the state and SOEs. These companies, thanks to their new market-driven basis and independent shareholder ownership, then would contribute to the revitalization of failing enterprises while enabling the state to focus its energies on the engine of the Party's national development plans – the largest SOEs .

However, the 1990's policy of restructuring (e.g., shareholder corporation conversion, merges, and/or outright sell-offs) in the small- and medium-sized

SOEs has not sufficiently redirected of capital derived from 'privatization' into productive market based investment. Nor has it successfully *compelled* workers to give up their claims to social protection from the state and (critically) SOEs in the aftermath of the AFC. It is true that China remains protected from the worst encroachments on national markets that foreign capital made in post-AFC Southeast Asian and Asian economies. This is especially the case due to the non-convertible status of the Chinese Yuan, which has served as a buffer zone in the face of hits on currency by foreign currency speculators. Nonetheless, as noted above, the devaluing of Southeast Asian currencies and the concurrent rapid and numerous bankruptcies of East Asian companies that invested in China impacted China's economy. At the same time, China's booming growth rates slowed down significantly, even though China continued to outpace its neighbors who were in a state of unprecedented financial crisis. A reminder of the late 1980's returned with numerous sectors of production encountering overproduction, deflation, *and* low levels of consumer demand. Indeed, consumers consistently responded to frequent lowering of bank interest rates by throwing even greater amounts of Yuan into the bank, expressing votes of no confidence in the Chinese economy and prospects for reform. Increases in unemployment due to mid-1990's policies of 'letting go' of small and medium sized SOEs only intensified a situation already laden with potential for social unrest.

On the one hand, China's response to the AFC and declining domestic investment and consumer confidence was to throw some 1.2 trillion Yuan into public works projects while pushing through a series of initiatives to restructure SOEs. Critically, efforts were made to make state workers accept layoffs as inevitable and to seek new 'opportunities' in labor markets. This was widely interpreted as a 'get tough' on state workers period in order to resolve SOE (and associated central government) debt burdens. By April 1998, Zhu Rongji, was already backing away from this punitive approach in the face of rapidly spreading SOE worker protests in urban areas suffering from surging unemployment rates and inadequate provincial government payments of retired workers' pensions and health care insurance. An order sent down from Zhu to all provincial governments called on them to ensure that every laid off SOE worker was enrolled in reemployment programs, allotted subsistence payments, and so forth.

Meanwhile, the competitive position of China's exporters faced renewed threats as neighboring NICs gradually started to rebound due to their credit and enterprise relations restructuring efforts to resolve economic havoc tied to the AFC. In 1999 leading Chinese economists were complaining that China's economy would continue to lag as neighboring exporters were able to produce higher-value added exports and outperform Chinese in overseas markets.²¹

²¹ See "China to lag behind in more competitive post-crisis Asia", *AFP*. June 27, 1999.

Projections for SOE profitability were geared downward in order to meet definitions of program 'success'²². Company managers in hard hit districts complained of facing contradictory demands to both streamline production and simultaneously maintain government set levels of employment. In the interim, government financing maintained balance sheets of ailing enterprises²³ through special loans, tax breaks, and so forth.

As it became clear that eventually the state was letting go of as much responsibility for SOEs as was possible, provincial cadres and SOE directors/managers sought 'private buyers' of enterprises.²⁴ This only further inflamed SOE worker anger as corruption became not only more common but more transparent (Jiang 2002). Critically, much of the transfer of assets that occurred in the process of cadre/manager orchestrated company 'conversions' resulted in little or no new productive investment. Indeed, the most likely scenario that was sought frequently was land speculation after all factory assets had been sold off or run down to near zero value. This was especially more likely to be the 'option' resorted to instances in which no outside buyer could be found or, even worse in the eyes of both workers and liberal reform oriented cadres, when there was more wealth to be made through speculation than investment in

²² See "Rust sets in on reform". *South China Morning Post*, June 10, 1999.

²³ See "State-Owned Enterprise Reform" Change sees SOEs swap one crisis for another." *South China Morning Post*, June 10, 1999.s

²⁴ See "SOE sell-off prospects looming larger as Jiang again takes charge." *South China Morning Post*. August 23, 1999.

production by a capitalist. The growing consensus in China was to push forward entry into How the WTO to resolve such a dilemma or be faced with greater economic stagnation. How WTO membership, which China finally won after more than a decade of hard negotiation, will affect China's transition remains an important question.

Even though, as Lau has documented, Chinese capital has made quite significant advances in its *capacity* to buy out state assets, domestic capitalists in China have been quite hesitant to invest in state industries. This is not terribly surprising, because private companies in China are not generally equipped with the economies of scale or the access to state credit needed to invest in post-purchase production. This is especially the case because state workers, even in sectors that have been 'let go,' still consider said enterprises to be both their possession and to be responsible for their subsistence (Phillion 2002). This predicament is magnified by the lack of sufficient consumer activity due to excessive rates of SOE failure related unemployment. Instead, private business owners, especially in regions experiencing financial difficulties, are more likely to join up with state cadres to buy off companies, only to engage in speculative schemes that are shared with state and factory cadres. It is hardly the case that 'reforms' in smaller and medium sized SOEs that have been 'let go' have created or solidified the role of capital as the dominant signifier of value in China. Accumulation in this sector has become more 'gangster' like, but not capitalist.

Nor has foreign capital stepped in to buy out these companies, because it is much more interested in capturing more lucrative markets typically dominated by large scale SOEs in China.²⁵

Large scale SOE corporatization and restructuring has been much ballyhooed inside and outside China, in preparation for China's entry into the WTO. However, considerable skepticism remains about prospects for capitalist techniques of production becoming systematically implemented and able to attract sufficient capital into sectors of production dominated by large SOEs. Analyses point to the 'problem of labor' or 'labor strife' in the state sector as the focal impediment to SOE market integration.

Reports that labor strife in China that has intensified in the past five years should be considered in this light. State sector workers, across the board, have suffered considerable losses in status and social protections, with the exception of more skilled younger workers and workers located in (to date) the most protected large companies. Stories of labor resistance to SOE restructuring and/or outright dismantling indicate that although workers have hardly succeeded in organizing as a coordinated collective force, they also not have faced terribly heavy repression as a price for protests. Rather, the state's strategy

²⁵ In several cases we studied in Henan, foreign investors tried unsuccessfully to purchase small and medium sized SOEs, with plans to reinvest in production. However, those plans were thwarted by state and factory cadres who hooked up with 'outside domestic corporations' to buy out the company with the intent to make massive speculative profits from the factory land. That is to say, cadres in these particular cases are still more inclined to reproduce their social position of power through non-capitalistic means, even when capital is more than readily available as an 'alternative'. In deals involving 'corrupt' transfers of state assets to these cadres, cadres stood a far better chance of self-enrichment than through teaming up with actual capitalists interested in restructuring and productivity.

has been to treat cases of SOE worker upheaval on a case-by-case basis, here making small payments to buy time, there sending in police to isolate key workers' leaders. Critically, in almost every instance of SOE protests, government ministries responsible for enterprise funding remain the primary target of criticism and negotiation. Protests have increasingly become ritualized in terms of government handling and have met with less and less sympathy, not to mention compensation payments (Lee 2002). They remain, nonetheless, a kind of safety valve with which workers anger is controlled *and, just as important*, as a way to forestall the force of capitalist markets. Workers in companies that have failed due to bankruptcy or government policies have not, by and large, nor do they expect any time soon to go hungry due to their lack of participation in labor markets dominated by capitalists. They continue to eke out a level of subsistence through a variety of classically non-market techniques, including relying on government subsidized 'reemployment' markets in which they peddle goods, children's employment in private companies, severance payments, pensions, and so forth. When these fail, they resort to demonstrations to receive what they continue to feel the state owes them for their past roles in once productive state enterprises.

In the larger protected SOEs slated for restructuring, initial hopes that they could implement ample streamlining measures to increase competitiveness with foreign companies have not met with actual achievement. For example, a study

led by Sheehan (2002) of efforts to corporatize²⁶ 10 major steel companies in China, finds that major SOEs have had significant difficulty meeting their original goals of laying off half of their workforces. Workers are relocated to sideline sub-companies instead of removed from the company roster. Anxiety about workers protests against restructuring that has taken place with greater frequency and militancy, combined with lingering notions of managerial responsibility to workers, has held back layoff goals. Furthermore, aside from housing, the enterprises have been unable to shift responsibility for school and health care to local governments, thus retaining many of the social welfare costs with which private companies need not concern themselves. The study contends that although state interference has been reduced since 1999, when corporatization efforts began in these enterprises, extensive state interference in production decisions remain:

Top management appointments still need government approval. And permission is also needed for SOEs who want to convert their debts to banks and suppliers into shares in the company, and for stock market listings to raise desperately needed capital.

One of the aims of this phase of SOE reform was the achievement of a level playing field for all companies, ending the 'sweetheart deals' that gave certain large corporations a competitive edge in the 1980s and early 1990s. But this has not been achieved: some of the SOEs that the team visited are so certain that they would be turned down for stock market listings and debt-to-equity swaps that they have not even asked for state permission (Sheehan 2000).

²⁶ The attempt to convert SOEs to companies with state independent boards accountable to independent shareholders, free of non-market interference.

This timely study reveals that reform initiatives have most benefited local governments that transfer jurisdiction of failing SOEs to newly corporatized large SOEs. Instead of increased movement on the restructuring front, the result is, failed companies, which would otherwise have been bankrupt long ago, remain operative as shells of their past selves and workers remain unemployed and dissatisfied with their new 'owner.'

Companies under local government control often do better than those under national industrial bureaus. Because local government has a vested interest in their success, they are less likely to be forced to take over other loss-making firms and make cost-of-living payments to their workers, as well as being better placed to win local contracts (ibid.).

The interest of local government cadres in retaining access to economic surpluses generated by politically based access to enterprise surpluses continues to dominate the logic of production relations in large SOEs. The dominant political class hardly acts as a 'state capitalists', let alone capitalists; their power continues to depend on the priority of socio-political priorities over competitive performance in capitalist markets. As a result, key facets of assets restructuring such as layoffs, ending the social welfare role of companies, and management independence, remain stunted versions of original projections. It is for this reason that, even with the WTO entry matter settled, whether capital will flow in the heart of China's economy as capital, remains an empirical question.

This situation is appreciably different from the capitalist context that characterized East Asian NIC development in the post-war era. In the case of the

NICs, capital circulated in the economies and stimulated the development of state based industrial development by virtue of the agreement reached between dominant (domestic and foreign) capital on the role of state institutions in setting boundaries (through the maintenance of powerful state controlled banks, control over surplus investment flows, high tariffs in critical growth sectors, etc.) for capitalist investment (Chibber 1999; Hart-Landsberg and Burkett 2001; Lim 1997; 1998). These 'irrational' state aligned institutions supplied needed credit for R&D to competitive enterprises seeking footholds in emergent cutting edge global markets.

China's ruling class faces class relations of production and conditions of international overproduction that make it considerably more difficult to effectuate the force of capitalist markets in the same manner. Several scenarios are possible, none of which take for granted the inevitability of capitalist transition in China. *Despite* the inroads that profit based markets have made on Chinese society in all realms of life, the present and dominant class relations that characterize production in the heart of China's political economy continue to militate against the likelihood that China's economy will be subordinated systematically to capital acting as *the* primary determinant of value creation. This is not to say that China will not make a transition to capitalism. However, that feat remains far from an accomplished one and does not necessarily bode well for the Chinese working class movement. This is the case because, if for no

other reason, there is no reason to assume that capitalist investment in China's economy will resolve the crisis of unemployment and hardship China's SOE workers face. This predicament alone indicates that, aside from the benefits of increased individual and collective organizing rights, Chinese workers as a whole would likely be in a seriously weakened bargaining position when confronting capital over the price of its labor power in labor markets.

Chapter 4

The Discourse of Workers Democracy in Chinese State Socialism: The Maoist Decades

Introduction

State socialist economies, in varying degrees, faced secular crises of productivity and political legitimation in the Post-war era, especially from the mid-1980's. In many cases, these crises eventually led to the overthrow of a national Communist Party (CP) and/or created major challenges to collectivist forms of production that earlier CP-led revolutions had engendered. Transitional strategies (i.e., policies designed to facilitate the harnessing of capitalist markets to state-socialist economies) have challenged the built-in socialized norms of protection from competitive market uncertainty that state-socialist workers took for granted as the reward for their participation in state-socialist production. Of course, these protections were most extensively reserved for the most skilled workers in the high value-adding core industries that made up the engines of state-socialist political economies. The notion that workers were the "masters of the house," especially in core industries, was a bedrock that underlay the very reproduction of state socialist production relations in those sectors that created the greatest amount of value to central planning ministries. Therefore when Communist Party leaderships attempt transitions from or reforms in state socialism that call for the subjection of state-socialist economies to capitalist competition, they have a special need to address

how such transitions would affect workers' capacities to improve their lots as "masters" of state-socialist societies in transitions that greatly relied on competitive capitalist markets.

What we find in the Chinese case was a discourse of workers democracy that provided a terrain on which battles over the relations of production under socialism from the earliest moments of the Maoist period beginning in the late 1940's. Cliver (2003, 4), in a very detailed paper on the evolution of 'democratic management' (*minzhu guanli*) in Chinese state socialism notes contends that, "...*minzhu guanli* has repeatedly been resurrected as an essential element in everything from the Great Leap Forward to the ongoing reform of state-owned enterprises..." I argue in this dissertation that *minzhu guanli* was one of a number of concepts that developed as part of a broader discourse of workers democracy in China¹. The distinctly non-capitalist understandings of the SOE's role in Chinese society that this discourse reinforced would influence Chinese workers attitudes well into the period of for-profit market-oriented economic restructuring. This we find to be the case despite the considerable effort by the CCP, from 1978 onward, to reinterpret and develop a *revised* discourse of workers democracy as a component of market oriented enterprise restructuring. Before I analyze the discourse of democracy as a contested idea in the period of post-Mao SOE restructuring, in this chapter I analyze the origins of the discourse of workers democracy during the Maoist period of state

¹ Cliver is right to focus on *minzhu guanli* for his paper,; it is the most prominent element of the discourse of workers democracy in China during the 1950's, early 1960's and the post-Mao period.

socialism. I seek to lay out what social groups/actors were prominent in the battles over how the discourse of workers democracy was interpreted during the Maoist period, how these battles were shaped and constrained by the national development strategies CCP pursued, and, finally, the manifold and often contradictory consequences that arose as a result.

Early Contributing Factors to the Development of a Discourse of Workers Democracy Under Maoist State Socialism

The concept of workers democracy, that is, ideas that expressly called for greater direct involvement of workers in decision-making processes in the workplace, was not new to the state socialisms in 1949. In the earliest years of the Bolshevik- led government in Russia, there were struggles over the role of workers and their potential to control production. These were exemplified in the efforts of the Left Opposition to institutionalize worker-elected factory committees as the nucleus of Soviet political-economic power (Sirriani 1982). These efforts came to naught in a short period due to the Left Opposition's failure to win over the dominant Leninist faction of the CPSU in the early 1920s and the rise of the Stalinist wing that solidified the role of hierarchical decision making in the Soviet enterprise. It is fair to say that, for most of the Soviet experiment in Russia, there were few attempts to implement, let alone institutionalize, workers democracy until the later years of the Gorbachev period, by which point socialist theory was considered measurably less the propeller of future Russian development (Filtzer 1994).

In the case of post-revolutionary China, despite the alliance between China and the Stalinist Soviet Union, attempts to institutionalize workers democracy as part of Chinese socialism made considerably more headway in the thought processes of China's direct producers, enterprise and governmental cadres, and intellectuals (Brugger 1976, 56-57). The phrase "master of the house" {*Zhurenwong*}, which describes workers' purportedly powerful role in Chinese socialist production, demonstrates how much effort there was to break from the Soviet model of strict hierarchical organization of authority in socialist factory and society in general.

The aggressive embrace of bureaucracy and hierarchy in the industrial workplace that characterized Soviet development was also a central issue of contention within the CCP throughout the Maoist period (Blecher 1986; Riskin 1987; Selden 1988). During the Yanan period, the CCP needed to create alternatives to absolute vertical decision-making models by virtue of their impracticality in guerilla war. Hence, the CCP was predisposed to experimenting with mechanisms that delivered authority to middle and lower levels in enterprise and party organizations (Selden 1971). What emerged as a result was an anti-bureaucratic thrust in industrial policy that reinforced predispositions toward decentralization:

[From 1943 on]...there evolved an organizational policy...of...centralized authority and decentralized administration...[It] was designed to *inter alia* to prevent growth of hierarchical barriers at middle levels. Secondly, policy formulation at the center was not simply concerned with financial matters but endeavored to devise concrete tasks to meet the requirements of war. A situation [existed] where middle levels of organization had been simplified or eliminated, where hierarchical barriers had been broken down but where the center

prescribed and checked up on the implementation of specific work tasks (Brugger 1976, 54).

This particular rural revolutionary context created a space within the Party that encouraged experimentation with varying challenges to vertical one-man management that the Soviets encouraged. Dissatisfaction with that model's emphasis on urban development at the expense of the countryside only further contributed to a space in which the issue of democracy could be linked to that of workplace relationships in industry. Brugger, in his (1976) *Democracy and Organization in the Chinese Enterprise [1948-1953]* notes that, although the Yen'an formula could not simply be replicated in large-scale industrial enterprises, it nonetheless continued to make its influence felt in the years following the 1949 defeat of the KMT:

One is reminded of the "War Communism" dilemma: to what extent was the Yen'an model merely a product of circumstances and to what extent did it represent a pattern of organization that could be applied to a different social and political milieu. In the early 1950's Chinese leaders tended to believe it was the former, but in the 1950's the latter (54-55).

At the same time, in the years leading up to the CCP's revolutionary victory, cadres and workers' actions in enterprises that were liberated from KMT control also informed subsequent interpretations of the significance of workplace democratization. Workers often disregarded the centrally made enterprise policies that encouraged moderation in order to maintain an alliance with 'national capitalists'. 'Excessive' appropriation of capitalists' assets often was the preference

of local workers and cadres. In many instances workers set wage policies that CCP leaders regarded as blindly egalitarian to the point of discouraging skilled workers from productivity. Such conflict perspectives on industrial policy between workers and national cadres influenced divisions over the interpretation of democratization in the realm of the workplace to come. Cliver (7) writes that in April of 1947, only 2 years before the end of the Chinese revolution, factories in liberated Harbin began a campaign of reigning in 'left adventurers' who threatened 'the broader goal of restoring and developing the national economy.' The Party media organ Xinhua published an editorial that called for 'workers to learn how to manage production, suggesting that state-run factories should establish factory management committees with representatives elected by the employees to discuss how to lower costs, improve production, and resolve all manner of problems from supplies to production to sales' (ibid, 8). In April, 1947, the 6th All China Labor Congress (what was then the precursor to the All China Federation of Trade Unions [ACFTU]) passed a series of resolutions officially stipulating 'democratic management' as a policy as a policy designed to confront bureaucratization and workers' activism that violated the spirit of CCP national development policies.

Battles over Minzhu Guanli in Chinese State Socialism: 1949 to the Early 1960's

One decisive difference between the Chinese and Soviet revolutions was their immediate aftermaths. China's was peaceful and benefited from a rapid economic

rebound after decades of civil war; Russia's was civil war and constant external challenges to national reconstruction. China's peaceful rebound contributed substantially to the greater amount of space for forms of workers' rebelliousness and debate on labor relations in industrial enterprise. The years 1948-50 and 1956-57 saw the highest level of labor collective rebellion at the point of production in Chinese history (Perry 1994, cited in Cliver 2003, 9). Party leaders in the CCP were very aware of the level of urban worker activism and its implications for the broader question of increasing worker management in the factory. This phenomenon and resolutions were intimately linked to the even larger issue of what was meant by the 'new democracy' that the CCP promoted in the early years of the Chinese Revolution. And divisions over how much control Chinese enterprise workplace committees, unions, and Party cadres should exercise in management of industrial enterprises reflected broader fissures in the party on the question of national development strategies.

The CCP did share the Soviet model's orientation toward discouraging rebellious acts on the part of workers that interfered with economic revival. Given the previous decades of outright corruption and economic backwardness, this attitude was fairly understandable. At the same time, it could be said that urban based cadres and workers were ahead of the Central Party leadership, which was more inclined to advocate for radical reforms in the rural regions while emphasizing on the need for stability and production in the urban economy. The response of the

Party to worker-led factory takeovers was generally negative. Cliver (2003, 7) notes that Party leaders were especially concerned with takeovers that resulted in the appropriation of factory property by individual workers as a remedy for their economic hard straits. How, after all, could workers as a class benefit from factories being stripped of their assets by individual workers? What the Party leaders failed to appreciate, however, was the potential that workers had to collectively control their factory property, even though numerous examples of that potential existed at the time (ibid, 9). And, of special interest, Cliver further notes that there existed numerous precedents for such collective takeovers that workers could use to protect their *collective* interests, as opposed to purely individualistic needs:

The Xinguang Underwear Factory was frequently cited to employees in other firms as a model of worker responsibility. The factory was in dire straits due to outstanding debts and a shortage of materials. The owner had already fled, and the workers were divided over how best to proceed. Some wanted to dismantle and sell the factory's equipment in order to buy food. Others hoped to restore production and manage the enterprise themselves. With support from the party, some of the workers organized a "temporary committee to maintain production." By August, 1949, some 400 workers struggled to increase production in order to provide assistance, and ultimately employment, to those who had been laid off previously (ibid, 10)

This example is especially noteworthy given the similarity of this narrative to similar ones that played themselves out in the 1990s case studies we examine in chapter 7. Cliver (8), proposes that, "It was...in the context of emphasizing production and resisting worker radicalism that the CCP first put forward its early policies for democratic management." Thus for example, in a book on enterprise

democratization in 1951, an intellectual criticized urban workers for their 'low level of consciousness,' something presumable indicative of the Party's low regard for workers' abilities to collectively manage factories (ibid 9 FN). These were undeniably important considerations, albeit not the only ones. In fact all factions were quite excited about more radical types of consciousness on the part of urban workers, as long as they could be latched to specific agendas. However, I try to show below that there were other factors at play that The *minzhu guanli* policies developed in the 50's were indeed developed in response to workers' activism at the point of production and the potential threat that posed to the dominance of the Party in industry. These factors included most prominently 1) the structural challenges that faced Chinese urban industry in the 1950's, 2) the divisions between old and young cadres in newly appropriated state enterprises, 3) the leverage that workers' based rebellious activity at the point of production gave to factions in ascendant moments of political struggle and 4) similarly, constraints that that activism placed on factions once power after consolidating power.

Democratic management, then as now, comprised diverse types of workplace organization and practices, which are characteristic of a broader discourse of workers democracy in China :

Minzhu guanli thus included certain elements which can be understood as "worker control." Maximally, worker control can be understood as syndicalism - direct control over production or collective ownership of factories by workers. In its more quotidian form, worker control may constitute everyday resistance to managerial control made possible by

workers' roles in the production process. In opposition to Taylorist "scientific" management, worker control may mean an effort to retain or gain greater input into the conditions and operations of production. Worker control may also include demands for respect, equality, and freedom from abusive treatment. In a broader context, worker control connotes the ability to form autonomous organizations, to negotiate collective contracts, and to influence the social conditions and public policies which workers face in their homes and neighborhoods (ibid, 3).

Problems associated with bureaucratic expansion in the post-1949 years were matters of concern to all contending factions in the CCP. However, the nature and roots of that bureaucratization were understood quite differently along factional lines. More important, how it could be resolved was also a matter that produced considerable intra-Party divisiveness. How the problem of bureaucratization was framed invariably shaped how one argued workplace democracy should be implemented in order to eradicate the bottlenecks brought on by bureaucracy.

The core challenge that faced the industrialization process in 1950's China decade was how to restructure Chinese development to serve national development, a change from KMT--led patterns of localized development that left most of the Chinese populace uninvolved in and unaffected by industrial development. The dramatic upgrading of both involvement and skill levels by the industrial labor force was perforce an utmost priority. This was a goal that was shared by both main factions of the Party. And, as noted above, all factions of the Party saw bureaucratization as a threat to socialist productivity, particularly as it affected the output in industries that made up the engine of national development.

However, the contradiction between vertical forms of management called for by Stalinist models of enterprise-ministerial relations and the calls, stemming from earlier *minzhu guanli* resolutions, for Chinese industrial enterprises to set up factory level-management committees led to considerable confusion:

In the early days after liberation, the North East People's Government with easy access to Soviet advice...quickly worked out a model of administration based on the [Stalinist model]. Other regions however, were not at all sure how a general imperative to emulate the Soviet Union should be interpreted. After all, the establishment of factory management committees had little in common with the Stalinist system which vigorously condemned the 'parliamentary system' of management that had existed in that country in the early days of the Bolshevik Revolution (Brugger 1976, 77).

Again, in contrast with the Soviet experience, regardless of positions taken on the problem of workers and who shall manage factories in revolutionary China, bureaucracy was regarded across the board as a pitfall to be avoided and was held responsible for lack of socialist development. Important members in the CCP leadership called for the Party to address the problems associated with what was understood as bureaucracy. Opportunities thereby existed for workers and cadres to legitimize initiatives toward workers democratic participation in management of factories as part and parcel of the project to reduce bureaucracy.

The role of workers and their unions in management was likewise a sensitive topic in post-revolutionary China because the concept appeared threatening to the more Stalinist-oriented Party leaders (like, for example, the very prominent Gao Gang) in the Northeast who directed vital and massive reindustrialization projects. They held in low regard older cadres' influence in revived and new enterprises, due

to their lack of requisite managerial skills². Economic crisis in early 1950, along with widespread strike activity, only reinforced this desire to rein in the role of unions (and cadres) in production and relegate them to social security, labor discipline, and motivational functions (ibid. 81). This coincided with a similar call to increase the power of enterprise cadres who possessed requisite technological expertise needed for factory management.

Brugger argues that union cadres in any event were often simultaneously in management positions, because union positions required persons with bookkeeping skills (ibid, 82). Ironically, when they were replaced by less experienced (and presumably more production-line-based) cadres, this hardly remedied the problem of worker representation. Overburdened by paperwork, replacements were even more likely to side with management and avoid criticism of production line decisions.

At the same time, the low number of union cadres per factory limited the Party-led union-based representational effectiveness in industries. Thus, although the unions were poised on paper to play a vital role in the mobilization of workers' role in *minzhu guanli*, they were often overwhelmed by their capacity to do much by virtue of the bureaucratic duties it played in the union. This only further contributed to resentment on the part of older cadres because newer cadres brought into the factories were younger and less committed to their tradition of revolutionary class struggle. To the extent that *minzhu guanli* was supported within the factory, it

² This refers to Those with greatest Yenan experience and sympathy for Maoist populist egalitarianism.

frequently was a card that administrative cadres used to isolate 'older' revolutionary cadres³. Newer cadres did, however, fit the need to increase skill levels in the highest value sectors of Chinese industry (ibid. 86-87). It was no accident, then, that the base of support for *minzhu guanli* within the Party tended to be from urban based cadres that were aligned with the Expert faction.

The "expert" faction of the Party revolved around figures such as Liu Shaoqi and Deng Xiaoping. This faction pushed quite aggressively for increased power for trade unions and workers' congresses, while they simultaneously embraced many of the very elitist prejudices that characterized strictly Stalinist cadres such as Gao Gang. Thrown into this mix was the unabashedly hostile view that Maoists had about the ends of those who pushed for "democratic management" in factories, especially the "expert" and syndicalists. No small number of ironies occurred as a result. Not least of these ironies was the sight of Maoists at pains to distinguish themselves from the expert and Stalinist factions by advocating egalitarian mass mobilization against bureaucratic elites' holds on power. Yet, as the leading faction of the CCP, the Maoists expressed concerns about both the possible manipulation of industry-based workers' congresses and trade unions by anti-communists and contending CCP factions. The former threatened pressing need to maintain and improve the productive output of industry as a critical contributor of value to the Chinese state (Perry 1997). The latter directly impacted on the Red faction's hold on political power.

³ Older in the sense of actual revolutionary experience.

Nonetheless, because the syndicalist 'left-adventurists' had been largely purged from the CCP by the mid-1950s, debates within safe parameters were possible. These debates legitimized challenges to authority from below that dovetailed with the spirit of workers democracy, if not always in practice, then in rhetoric. And, even more critically, all factions were concerned with the issue of how best to raise the level of performance of the new members of a work force that, unlike the KMT labor regime, relied on the upgrading of skills and disciplined participation in production. This opened up the social space for experiments in workers democracy in the Maoist era.

A discourse of workers democracy, then, had a foot in the door by virtue of the intra-CCP split on how to proceed with national development goals. As a discourse, one that showed up first in the debates on *minzhu guanli*, and later in mass based political campaigns directed at workplace relationships, workers democracy would stamp its imprint on the consciousness of workers in China. It did so in line with the aim to strengthen socialist concepts of egalitarianism (probably in ways unintended by many of its strongest advocates) in the Chinese working class. While the end result was not workers direct control along the lines of the Left Opposition's campaigns in early Bolshevik Russia, workers were able to engage this discourse to legitimate demands for the expansion of obligations that the SOE had to workers.

Something more than Painting Socialism

Burawoy and Lukacs (1992) argue that legitimation of labor regimes in state socialism is substantively different from that in capitalism. Built into the very fabric of state socialist productive relations are obligations on the part of the state to both improve the economic and cultural level of workers as a class and to empower them to control critical processes of political decision making. These concepts, although they exist in more abstract ways in capitalism, are not tied in any sense to political legitimacy:

When the problem is to mystify the appropriation of surplus, as under capitalism, ideologies play a secondary role in reproducing society. They are diverse and not essential. However, where surplus appropriation is transparent and has therefore to be justified as being in the collective interest, then ideology comes to play a prominent role everyday life. Thus state-socialism calls on both its dominant and subordinate classes to proclaim the virtues of socialism – its efficiency, its justice, its equality – in ritual activities from communist shifts, production conferences, brigade competitions, and campaigns to forced marches and public speeches (20–21).

Although, in certain respects, the Chinese discourse of workers democracy often constituted little more than what Burawoy and Lukacs (1992) called in the Hungarian case “painting socialism,” it also reflected a wider consensus in Chinese state socialism that there existed an urgent need to challenge the Soviet model of enterprise relations that would render ‘painting’ socialism unnecessary. The discourse of workers democracy in China was developed as a contested idea that contributed to the character of Chinese state socialism, which responded to demands in the early and mid-1950’s from workers that the Party fulfill its promise of

collective empowerment for workers at the point of production. That is to say, the discourse of workers democracy was not merely used to paint over and pretty up the flaws of state socialism in China. Rather, it likewise developed in response to the real and strong conviction within China's working class that socialism provide the goods that 'Chinese New Democracy' promised, at least rhetorically, from the Yanan period onward.

The First Decade and Attempts at Reforms to Democratize Enterprises and Develop Workers Democracy

Bottlenecks associated with state-socialist monopolies of Party-state ownership and control of SOE-produced surpluses shaped Chinese state socialism. However, for 30 years, there were repeated efforts, from the point of production to central party plenaries, to reform and improve the capacity of workers to have a say in the affairs of enterprise production and surplus distribution.

In the quest to improve the skills and motivational levels of the Chinese working class, calls for *minzhu guanli* in China affirmed Party industrial policy by advocating greater worker involvement in affairs of production. In other words, *minzhu guanli* was advocated as both an extension of and a mechanism to improve the efficiency of CCP urban industrial policy. However, there was a clear emphasis on *minzhu guanli* improving productivity, which enabled almost any faction to embrace it. Cliver (2003) cites instances where even those who admired the Soviet model of enterprise organizations found usages for the concept:

Despite differing interpretations, the CCP's top leaders were unified in their belief in the capacity of *minzhu guanli* to revolutionize industry and improve production. It was hoped that *minzhuhua* (democratization) would "liberate" not only the working class, but also the productive forces, leading to the rapid improvement of production by raising workers' consciousness and enthusiasm. A Northeast Daily editorial published on February 28, 1949, emphasized the connection between liberation and production by combining *minzhuhua* with *qiyehua*, "enterprization," or the establishment of rational factory systems based on Soviet methods. Deploring the lack of responsibility and accounting in state factories, the editorial stressed the need to combine "scientific" management with "democratization," stating that "it is only when the masses' consciousness is raised that workers themselves will willingly respect the system (Cliver 12).

Factory directors, therefore, could promulgate forms of *minzhu guanli* that effectively increased their power. Workers' committees could be employed to "educate" workers about production priorities, work rules, and mobilization of production. Workers' congress representatives assigned by factory directors were the most effective means to accomplish this end. Invariably, this would leave unresolved the basic problem of Party representatives' inability or unwillingness to challenge factory directors' production decisions. Despite this frequent practice, it would be a mistake to argue, as Kaple (1994) does, that, in the 1950s, production relations in Chinese industrial enterprises merely resembled the Stalinist model. In fact, very real experiments in institutionalizing worker participation in production decisions were attempted throughout China during the 1950s.

Indeed, through the 1950s the institutions provided workers opportunities to challenge decisions made by factory directors. From as early as 1950, as a part of the "New Democracy" stage, the Party hoped to improve the condition of the working

class through improving social welfare benefits while maintaining low wages. The low wage policy was a critical part of Chinese plans to develop heavy industry as the basis for national development. *Minzhu guanli* called for two institutions within factories to provide Chinese workers with the opportunity to supervise and make changes in directors' production related decisions: the factory management committees (FMC, *gongchang guanli weiyuanhui*) and the Workers Representative Congress [WRCs]. Elections of the WRCs were to be organized at production team levels by the (Party controlled) union (*ibid.*, 13-14). Representatives could be recalled, were to meet once or twice a month, and were expected to relay workers' suggestions and criticisms. In addition to these duties, WRCs were granted the right to review reports by the factory director and oversee the FMCs management of the factory.

However, as Cliver points out, complicating the potential of the WRCs was the establishment of the superior bodies known as the factory management committees:

The factory director chaired the FMC, and the committee's decisions would only be implemented if promulgated as an administrative order by the factory director. The director was also granted veto power over any decision of the FMC which he felt would harm the interests of the enterprise, or which violated the directives of higher administrative organs. In an emergency situation, the director could act unilaterally to resolve pressing problems, but he was required to inform the FMC of his decision and obtain approval after the fact. If members of the FMC disagreed with the director's decision, they could appeal for intervention, while carrying out the director's decision in the meantime (*ibid.* 14).

The discourse of workers democracy in China extended beyond how much workers should be allowed to exert control over workplace production. Maoists viewed pushes for expanded workers control and autonomy from the Party at the point of production as part of a general power play by the CCP's expert faction. They countered that such policies merely reinforced the experts capacity to limit the extent of Party control over enterprises, its ability to redistribute surpluses downward, and its means to challenge the disparity between elite cadres' (or bureaucrats) and workers. Cliver's study of *minzhu guanli* in the early 1950's would seem to support such a conclusion:

A closely related factor which also exerted a strong influence on the success or failure of *minzhu guanli* was the character of the workforce. In general, skilled, male workers in any industry were far more likely to be able to participate in management than were women workers, whose skills were less highly valued by the party and administration. The party clearly favored skilled workers and technicians, and most of the workers recruited into the party in this period came from these groups. The most successful examples of *minzhu guanli* are to be found in industries which the party valued, and which had a high proportion of male workers, such as machinery, metalworking, and railroads. Such workers were often literate and well-organized, already held a substantial degree of control over their work, and enjoyed administrators' trust and confidence. Given a common language of technique, it was easier for administrators in these industries to establish a basis for communication with workers. In addition, the party's desire to acquire these valuable skills provided such workers with greater opportunities to participate in management (Cliver, 55).

Cadres who most vociferously promoted *minzhu guanli* in China argued for increased rewards for skilled strata, that is, increased disparities in income and benefits among workers and between workers and cadres. Furthermore, the expert

wing *shared* with Stalinists the mechanical belief that by virtue of increases in productivity due to policies that rewarded skills, especially technological ones, the condition of the working class would improve, thereby raising the level of socialist development and legitimacy. Finally the Expert wing that advocated *minzhu guanli* as a policy alternative showed an ironic fondness for Taylorist means of labor control and a predilection for technological upgrading. These are all phenomena that the Maoist wing of the CCP, particularly with the support of rank and file workers and older cadres, would battle against for decades, beginning in the middle to late 1950s and continuing until the end of the Cultural Revolution. And, suffice it to say, the Maoists would engaged their own notions of workers democracy to justify these crusades. This is the complex environment in which the discourse of workers democracy brewed.

Notably, however, the Expert wing, in its push for *minzhu guanli*, rarely engaged the types of arguments for increased use of capitalist competition and markets that were employed in the discourse of workers democracy as was the case in Yugoslavia. That is not to argue that the expert wing had no interest in greater use of markets in Chinese socialism: the speeches of Liu and Deng show clear support for this. However, their arguments, at least until 1978, never embraced the calls for greater capitalism that Yugoslavians such as Djilas were making as early as 1957. Although referred to as “capitalist roaders” by Mao, the expert wing never really developed any theories that called for more than very limited use of markets

in the less value-adding sectors of production. Nor, of course, did those who supported a Stalinist line in China. The discourse of workers democracy developed primarily as a response to contradictions within state socialism that did not draw on a capitalist logic of production.

Obviously, direct forms of workers' control could not coexist with the type of *minzhu guanli* that was broadly carried out in factories in the early years of the revolution. Often, this is explained as a failing of the Maoists who fought this policy because it directly threatened their ability to consolidate the Party's monopoly of political and economic power. However, such critiques are limited in scope and overlook the reality that the expert faction, although it much more fervently advocated *minzhu guanli* in the Chinese SOE, was driven by a desire to wrest enterprise control from Party monopoly, with its primary goal to increase the autonomy of enterprise managers. The calls by the expert wing for *minzhu guanli*, therefore, unlike in the case of syndicalists and Trotskyists, were not a matter of wresting control of power from enterprise managers or managers. In fact, if anything, these calls were often a mechanism to ensure the greater authority of enterprise cadres, namely skilled workers and shop floor managers, who were deemed most qualified by virtue of educational levels to take on the position of workers' representatives. In this way, they acted as a check on elements in the factory that placed Party goals (i.e., greater equalization of income levels, meeting of

Ministry set quotas, worker recruitment into the Party, etc.) ahead of enterprise interests as individual units.

At the same time, *minzhu guanli* came under heavy criticism from Maoist cadres in the CCP for not accomplishing the very aims that it aspired to accomplish. From the vantage of Maoists, what was the point of reforms like *minzhu guanli* if, in the end, the overall social condition of the Chinese working class was in fact losing ground vis-à-vis the cadre strata, not to mention the remaining 'national' capitalists? From the vantage of the Maoist wing, which retained control over the party until 1978, save a few short interludes, the capacity of the Party to carry out national development initiatives was impeded by excessive autonomy given to enterprise managers and workers. Of greater concern to Maoist cadres was that within the factory, relations between workers and factory leaders reinforced privileges for the skilled workers and cadres (intellectual workers) at the expense of workers who lacked educational advantages needed to master production technologies. That was something that the Expert wing of the Party regarded as much less problematic and unrelated to the matter of democratically managing enterprises.

Brief Summary

However, even though the *minzhu guanli* initiative was short lived (it was rescinded by 1953), the discourse of workers democracy did not disappear with it. Its impact continued to be felt. This is likely due to three important facts: (a) *minzhu*

guanli further stimulated the discourse of workers democracy in China because workers in SOEs did have opportunities to challenge factory leaders, thus raising the expectations of workers for the goals of socialism; (b) in the mid-1950s, despite the clampdown on *minzhu guanli*, SOE workers literally erupted in open rebellion in the forms of slowdowns, strikes, and other types of collective protests against conditions of production that kept the issue of labor relations and workers democracy at the fore; and (c) Maoists incorporated the discourse of workers democracy into their anti-Soviet and mass mobilization campaigns from the late 1950s onward, as a means to counter the expert wing's use of *minzhu guanli* to mobilize support for its developmental strategies.

Maoist Mobilizations and the Discourse of Workers Democracy

In what rare treatment there is of the question of workers democracy and Chinese state socialism, it is generally assumed that workers democracy was most strongly advocated and practiced by those who sought to increase the level of enterprise autonomy from Party-state control (Chen 1995, 1999; Kaple 1994; Perry 1997). Because the Maoists were most closely identified with efforts to maximize the power of the Party, they are taken to be responsible for creating barriers to the realization of workers democracy. There certainly is something to this contention because the Maoists were the faction that most vigorously opposed the efforts to

implement *minzhu guanli*. However, that does not mean that the Maoists lacked a developed discourse of workers democracy. After all, an elemental facet of Maoism was its opposition to bureaucratic privilege and the empowerment of the mass base (i.e., workers and peasants) through counter-hegemonic forms of political activity. Maoist rhetoric proclaimed workers democracy to be a virtue whose spirit must be constantly practiced, if through means other than *minzhu guanli*. In fact, the Maoists employed a discourse of workers democracy that, it is fair to say, basically eschewed the word *democracy*!

The thrust of the Maoist critique of *minzhu guanli* was that it did not deliver the goods. On the one hand, this criticism was little different from those made by Stalinists in the Soviet Union, which served as the pretext for crushing the Soviet left opposition and any other syndicalist elements in the 1920s. However, the Maoists were hardly satisfied with the Stalinists' remedy of enforcing Party bureaucracy control over enterprises with an omnipotent Party-appointed factory director at the helm.⁴ Such dissatisfaction is not entirely convincing, given the Maoists own productivist orientations along with their insistence on the central role of the Party in the enterprises, which is often used to explain why Maoists could not actually carry out reforms that would eradicate the need for a parasitic bureaucratic sectors' role in production (Harris 1977). Nevertheless, the fact remains that Maoists went

² Of course the omnipotence of the factory director in Soviet Russia was encumbered by the need to negotiate with workers on the terms of their accession to Party quotas (Clarke 1993). It is not unimportant that these same ostensibly omnipotent managers had to constantly find ways to get workers to work through non-economic modes of coercion and/or cooptation, since the option of the layoff or firing in response to low productivity was not available.

well beyond Stalinists with harsh criticisms of bureaucracy and artificial divisions between skilled and unskilled labor,⁵ recognizing the impracticality of copying the Soviet model of enterprise relations that gave great power to the factory directors.

To begin, the official end of *minzhu guanli* did not stop initiatives to democratize production relations in Chinese SOEs. Maoist cadres found themselves in need of a mechanism to challenge the Soviet model of production relations. This required, for starters, alternatives to strict hierarchically based formulas for administering enterprise production and rewards systems. However, it was not just a need to provide alternative to the Soviets or the expert wing that moved the Maoists to formulate policies designed to enhance workers democracy in China from the mid-1950s onward. To say the least, they had little choice given the rising expectations of Chinese workers for more comprehensive changes in their role as “masters” of Chinese socialism, which they displayed most fervently in their mid- and late-1950s nationwide strike waves.

The dissatisfaction among cadres with *minzhu guanli*, Cliver argues, stemmed from complications that arose from trying to organize production along democratic lines while retaining sufficient levels of productivity. Especially prominent among problems was the leading role Party secretaries played in the FMCs, thus discouraging active worker participation in management decision making. The perennial problem of Leninism showed itself in Chinese shop floors, where the Party

³ This division is also referred to in China as the division between intellectuals and workers or workers and cadres.

cadre was dedicated above all else to maintaining the favor of the Party to keep their social position. This could only lead to cynicism about the prospects for achieving workers democracy via *minzhu guanli*. Furthermore, as a rule, this position tended to reward skilled workers and shop floor managers with representative authority, given their greater capacity to carry out duties, thereby reinforcing gaps in power along skill lines.

The subsequent turn to one-man management a la the Soviet model in 1953 provided even less satisfactory results:

By 1956, many industrial workers were increasingly angry at what they saw as a betrayal of their vision of socialism. In August of that year, following the wholesale nationalization of industry and commerce in the “socialist high tide,” an article in *Chinese Worker* quoted a worker as saying, “This quite simply is feudal order; the ‘managers’ in these enterprises have become the feudal kings of petty kingdoms. How can this phenomenon be allowed to continue in socialist enterprises?” Frustration with the unions and the failure of democratic management, as well as resentment at the privileges and arbitrary power of managers and party cadres, led to wholesale criticism by dissatisfied workers of the party state and the socialist system in the spring of 1957 (Cliver, 44).

The CCP responded with reprisals against organizers of strikes (and/or independent unions), a return to policy formation in the trappings of *minzhu guanli*, and plans to restore the power of the WRCs. However, the central barrier – directors did not have to heed the WRCs recommendations – to the effectiveness of the WRCs remained intact (ibid., 45). Furthermore, the mechanism chosen to counterbalance the power of the director was to increase the powers of the

enterprise Party secretary. In fact, *minzhu guanli* would come to play a very small role in future debates and policies geared toward changing production relations. However, the discourse of workers democracy would remain an integral to Chinese state socialism because many of the CCP's major policies developed from the 1950s to the mid-1970s were considered as remedies for the failure to create socialist democracy within and outside the now economically and politically dominant state-owned enterprises. Furthermore, new policies in the SOEs were also designed as alternatives to the Soviet enterprises strict one-man management system of production relations, with management answerable to even stricter ministerial authority.

The consequences of the Cultural Revolution (CR) is hardly a matter of uniform agreement, and for many, if not most, scholars within China and abroad, it was the most repressive and totalitarian period of Chinese history. However, few, even the harshest critics of the CR, will deny that efforts to transform social relations in virtually every realm of life occurred during this period. Although Maoists in the earliest stages of the CR eschewed organized forms of revolt in the factories, this discourse arose within the context of the CR and further increased the influence of workers democracy as a notion, if not perfectly practiced, in the Chinese workplace.

By the early 1960s, there were other examples of broad experiments in extending democratization to the state-socialist workplace. Most notably, in Titoist Yugoslavia, autonomy and worker self-management posed a clear alternative to the

Stalinist model of one-man management and strict ministerial ownership. There were factions in the CCP that were attracted to the Yugoslavian's openness to foreign trade and encouragement of market-based competitiveness. Both of these qualities were viewed by these factions as mutually reinforcing under the right conditions. This challenged the faith in self-reliance that underpinned the Maoist approach to socialist economic strategy. Furthermore, Maoists were committed to pursuing an alternative strategy of Soviet one-man enterprise management as part of the Sino-Soviet break in the early 1960s.

As a result, at the start of the Cultural Revolution, pressure remained on the Maoists to create an alternative policy of workers democracy in the SOE. Thus, it is true that not only did the Maoists not encourage mass rebellion in factories; they also eliminated the factory-Party committees that were the legacy of attempts in the previous decades to provide a mechanism of workplace democratization in the Chinese SOE. However, these actions were taken not simply to jettison workers' democracy in China, but in response to what was perceived to be the failure of *minzhu guanli*-related policies to bring actual democratization of the workplace to Chinese workers:

Within enterprises there was a renewed attack on any vestiges of the Soviet 'one-man management' system which had been officially withdrawn in 1956 but still had adherents. There was also criticism of the dual system of 'managerial responsibility under the unified leadership of the factory Party committee' which had replaced the Soviet model in 1956 and to a large extent characterized industrial management after the retreat from the Great Leap Forward. In practice this had often, though not universally, resulted in the Party committee being relegated

to ensuring the manager's orders were carried out. In place of this system, the primacy of the Party's leadership was to be affirmed in accordance with the Anshan Constitution put forward by Mao in 1960 (Watson 1978, 176-177).

The new policies of enterprise work relations developed in the Cultural Revolution period emphasized a mass-based approach that rejected the formalistic nature of democratization that took place under *minzhu guanli* reforms. Bettleheim's (1974) favorable assessment of the Cultural Revolution's impact on factory relations makes frequent references to the ability of workers to, through their own initiative, use Mao's teachings to rebel against managers:

Li Chou-hsia, a woman worker and member of the Peking General Knitwear Factory's, ...explained the masses not only rejected the revisionist line, but were also...demanded participation in management, in keeping with the Anshan Constitution. The first experiment in workers' participation in management was proposed by the revolutionary committee before the formation of the new party committee...[It] focused on the abolition of the 'unreasonable rules' imposed by the old management – regulations concerning work organizations, discipline, etc. which reflected a lack of confidence in workers' initiatives... (21-22).

Bettleheim's observations are meant as an affirmation of the way the Cultural Revolution ostensibly delivered real direct democracy, in contrast to the formalistic elections of managers that *minzhu guanli* provided:

The election of workers' management teams is organized by the members of a work team or shop and is entirely under their supervision; management is concerned only with the principle of workers' management teams. Team members are elected at various levels corresponding to the levels at which the teams themselves are organized – factory, shops, work teams (ibid. 22-23).

However, and critically, Bettelheim tells in the next breath that “candidates must be actively engaged in the study and application of Marxism-Leninism and Mao Tse-tung though, have some experience, and be representative of the masses” (ibid., 23). And only a paragraph later, “both the workers’ management teams and the revolutionary committee are under the ideological and political direction of the party committee” (ibid.). Bettelheim’s reports reflected a discourse of direct worker participation in the affairs of enterprise management, which could be accomplished by the removal of company leaders that stood in the way of this goal.⁶ Prominent in this discourse was the call for the elimination of the division of labor within the SOE as a means to redistribute power within the factory. In a manner markedly different from the Soviet model, and even the most prominent Eastern European alternative found in Tito’s Yugoslavian self-managed enterprises, the Cultural Revolution called upon workers to take factories into their own hands when all other means failed to bring about real reform of SOE power relations. In the final analysis however, the workers democracy discourse developed in the Cultural Revolution era remained almost as limited in terms of goals achieved as earlier efforts at *minzhu guanli*. This was the case despite the intent to overcome the flaws of *minzhu guanli* formulated in the previous decade.

⁴ It is not an unsafe estimation that Bettelheim’s reports, as valuable as they appeared at the time, were far too dependent on official cadre interviews, with little in the way of independent confirmation at the mass-based level where much of the reforms he relayed were putatively initiated. This is not to deny the value of such interviews outright, but to highlight the plain fact that cadres have their own interests in conforming to a dominant line regardless of the circumstances. It is apparent that throughout the Chinese revolution various factions have framed the discourse of workers democracy in order to reflect positively on the current line.

Perry (1997) shows in her work on Shanghai labor militancy during the Cultural Revolution how this discourse became a mechanism that at times enabled workers to justify spontaneous attempts to bring the Anshan Constitution to the enterprise and extend the level of the working class's power under state socialism. Economistic demands were prevalent in many instances where "temporary" and lower skilled workers took advantage of calls to rebel against profit-driven managers in order to win wage increases (Lee 1978). Still, Perry points out that workers also were just as driven in instances like the Shanghai Commune by politically inspired desires to challenge the very organization of factory relationships, if not the power of the CCP in workers' lives. In fact, it is possible to describe the Paris Commune effort as the closest that Chinese workers ever came to experiencing a form of factory relations that had the potential to supersede both the contradictions of state socialism and capitalism:

If Beijing spawned the most famous social force of the CR in the form of student Red Guards, then Shanghai must be credited with producing a more enduring and politically more influential mass organization: The Workers' General Headquarters. Having dubbed his grand experiment a '*proletarian cultural revolution*,' Chairman Mao was elated when a rebel movement broke out among the workers of China's industrial capital. Worker rebels were soon hailed as the main fighting force of the CR; before long, they surpassed the Red Guards in both numbers and political significance (Perry 1997, 29).

However, superseding contradictions was not the end result of the Cultural Revolution. Indeed, by the end of the Cultural Revolution, the power of the Party leadership had been restored and strengthened to counter mass-based and/or Red Guard organized rebellions in the enterprises. There were a number of important

factors that worked against the possibility that the discourse of workers democracy during the Cultural Revolution could be anything but limited in its results. For starters, factionalism made it very difficult to move beyond the dominance of cadres in the affairs of production, thereby rendering many of the “rebellions” little more than switches from one cadre grouping to another:

Since each of these factional groups claimed to be the ‘true revolutionaries’ and denounced their opponents as ‘reactionaries and revisionists’, there was no organizational basis for carrying out reforms... Since the mass organizations could not be relied upon to reform themselves, the only resort was to fall back on the Army and eventually rebuild the Party. Thus, the possibility, that Mao appeared to have raised, of abandoning the Leninist vanguard Party and its state structure in favor of ‘extensive democracy’ (as might have been realized through an experiment like the Shanghai Commune) was firmly rejected, and the process of rebuilding state, Party, and factory organization began (Watson 1978, 178).

As a result, although during the Cultural Revolution period there was a commitment to challenging the nature of work relations in the Chinese SOE that was uniquely Chinese in terms of level of overhaul called for, it remained largely nominal. As noted at the beginning of this section, the workers democracy discourse during the Cultural Revolution made little mention of the word *democracy*, yet its content would be found in the discourse of workers democracy that would be reformulated in the 1980s as contested component of post-Mao Chinese economic restructuring. An admixture of *minzhu guanli* and mass-based workers’ participation contributed to a discourse of workers

democracy that legitimately exposed enterprises to greater amounts of competition, a topic that is treated in the next chapter.

Chapter 5

Workers' Democracy as a Discourse of Chinese Transition: The 1980s

Introduction

In this chapter, I analyze how the discourse of workers' democracy was reformulated in the first decade of restructuring after 1978. From which social actors in Chinese state socialist society did the initiative come from? What understandings of capitalist relations of production informed the reformulated discourse of workers democracy from 1978 onward? What logics of state socialism informed this renewed discourse of workers' democracy? How do we explain the reported positive reception from workers the renewal of *minzhu guanli* during the 1980's? Did their enthusiasm about workers democracy oriented policies indicate an embrace of their role as wage workers in capitalist markets as the proponents of market-based restructuring initially hoped? In the following sections I first ask how a revised discourse of workers democracy was informed theoretically at the outset of post-1978 economic restructuring in China. Then I lay out the alliances and conflicts among various key social actors in the SOEs and the Party leadership and how these contributed to the outcomes of the initial *minzhu guanli* policies. I argue that this renewed discourse produced the unintended consequence of providing a field for Chinese SOE

workers to resist the new relations of domination that Chinese workers faced during attempts to privatize SOE assets in the 1990's; which I discuss in chapter 6.

The Discourse of Workers Democracy and Economic Restructuring in Post-Mao China

From 1978, the post-Mao CCP leadership moved toward much greater involvement of for-profit market-based exchanges and production in the agricultural arena of production. This was regarded by the CCP leadership as a crucial part of an effort to increase the productivity of a Chinese economy exhausted by the Cultural Revolution. At the same time, because the location of urban-based SOEs in relation to Party-state revenue was so strategically pivotal to Party-state reproduction, SOE market-based restructuring would proceed at a much slower pace. From the very early 1980s, CCP leaders were concerned that hastily made moves toward incorporating the logic of capitalist markets into the SOEs would tear away at the socially based guarantees of welfare that Chinese SOE workers enjoyed. This eventuality could threaten the legitimacy of the Party as the genuine representative of SOE workers (Wilson 1987, 303). The example of Poland's Solidarity movement stood out as a real concern to the CCP leadership and was frequently cited in the literature as motivating elements in the Party to advocate carefully implement democracy in the workplace as part of

economic restructuring (Zhang 2001, 46-47). In addition to renewing the discourse of workers democracy to shore up political stability in the period of economic restructuring, there were also key social actors in Chinese society who collectively benefited from the discourse of democracy in post-Maoist China. They would play a key role in how that discourse would be reappropriated in the Post-Mao era.

Workers Democracy as a Theoretical Rationale for Restructuring State Owned Enterprises in China

Where changes occurred in industry in China during the 1980s, they were far less radical than those taking place in the rural sector of production. The restructuring that took place in the SOE sector rarely caused workers to lose their jobs, wages, or, most important, the social security perks that come with the status of SOE production worker. In fact, during the most of the 1980s, urban SOE workers, especially those in the medium and larger industrial enterprises, enjoyed substantial salary increases in addition to investments in factory infrastructure (Walder 1989). The discourse of workers democracy in Post-Mao China emerged in a context of nervousness about the potential for worker unrest (a la the Polish Solidarity Movement). Therefore, it was recognized among cadre leadership that mechanisms were needed to convince Chinese SOE workers that the potential sacrifice of their social welfare rights at the point of production would be countered by the

gains they would enjoy from increased opportunities to represent their self-interests in restructured SOEs (Chen 1995; 1999; Wilson 1987; Zhang 2001). Almost from the very start of the restructuring era in China, the CCP leadership endorsed a policy of reviving two institutions that the Cultural Revolution had eliminated: the Workers Representative Congresses (WRC) and the All China Federation of Trade Unions (ACFTU). These two institutions would complement and monitor the empowered enterprise director under the factory director responsibility system, which accorded greater decision making powers to enterprise directors as part of a program of greater SOE autonomy from state interference. As Deng Xiaoping put it in as early as September 1978:

Workshop directors, section chiefs, and group heads in every enterprise must in the future be elected by the workers in the unit. Major issues in an enterprise should be discussed by workers' congresses or general membership meetings (Chen, 1999, 55).

It might appear that Deng and the reform wing of the Party were continuing a Maoist tradition of calling for greater involvement of workers in the management of the enterprise. However, this was a clear departure from the Maoist past and not merely because of the revival of the ACFTU and WRCs. The emphasis that Maoist cadres placed on confronting authority through mass mobilization, in order to 'equalize' state socialist relations of production, was clearly rejected by the new leadership. Nonetheless that past

was not something that could be entirely wiped from the memories of workers by fiat. A tradition of both workers participation and elections of leaders during the Maoist period, which directly challenged the right of management to have total power in the SOE decision making realm, had a definite impact on the notions of socialism that workers carried with them to the factory gate. Unlike their Russian counterparts, the discourse of workers democracy, no matter how flawed, had been kept alive for almost three decades of Chinese state socialism. And, as we have argued, during the Maoist period, workers did have (limited) occasion to make use of the varying elements of that discourse to fight for expanded benefits and powers within the confines of state socialism. Therefore the reassertion of *minzhu guanli* provided the CCP leadership a theoretical rationale for restructuring SOE organization such that enterprise directors secured unprecedented decision making powers, while retaining the socialist promise of worker empowerment:

In the ideological realm, the CCP... derives its legitimacy from its claim to act as the vanguard of the proletariat...[N]ot even Mao ever sought to sever the Party's theoretical links to the proletariat as the leading class of the revolution. The 1982 constitution [continuing that tradition] designates the People's Republic of China as a 'socialist state under the people's democratic dictatorship led by the working class and based on the alliance of workers and peasants.' The institution democratic management serves to augment the Party's claim that the proletariat, in the final analysis, exercises a contributory role in formulating the affairs of state. Worker participation in the enterprise provides

necessary symbolic evidence of the status of the working class as the masters (*zhurenwong*) of Chinese society (Wilson 1987, 301).

Thus there was a clear initiative begun from the Party leadership to revise the discourse of workers democracy in a fashion that suited the reproduction of the social relations of SOE restructuring, even before major restructuring occurred. It was not until around 1984 that the party actually began to seriously broach the topic of enterprise restructuring. Even then moves toward outright privatization in only a certain sector of the SOEs would not become official policy for another decade. However, the notion of *minzhu guanli* served a theoretical need for the Party insofar as it also enabled the Party to link its commitment to the socialist concepts of worker empowerment to concepts of liberal democracy that were integral to imported capitalist markets.

To this end, Wilson contends, enterprise democracy was also reappropriated by the Party leadership to justify the copycatting western capitalist prioritization of (profitable) productivity over all other (social) considerations:

Enterprise democracy [in China] is closely related to the perception of socialist democracy as a response to the needs of modernization...[and] of enterprise democracy as a factor of productive efficiency. In this view, the forms of worker participation is presented as an objective demand of modernization...From the Chinese perspective moreover, enterprise democracy is directly linked to productive efficiency (ibid, 302).

Minzhu guanli , as concerned enterprise restructuring, made for the ultimate bridge to (predominantly western and Eastern European informed) theories of *market socialism* that Chinese intellectuals were adapting to their interpretation of 'Socialism with Chinese Characteristics' (ibid 303):

Since Deng Xiaoping's consolidation of power, major Eastern European reform documents have been translated into Chinese and studied by Chinese reformers...Chinese attention to East European theorizing about democratic management is mainly propelled by a pragmatic interest in its application as a factor of economic efficiency...[as well as] a means of socialist construction (ibid, 303-304).

This theoretical admixture provided Party leadership with a rationale that had the potential to rationalise the state socialist and capitalist components of proposed restructuring in the post-1980's.

Minzhu Guanli's Institutionalization and SOE Restructuring in the 1980's

Minzhu guanli in the 1980's was a set of ideas that the Party leadership hoped to renew and use to win over the support of urban workers to the kinds of restructuring in SOEs and in Chinese society generally. However, the purpose of *minzhu guanli* did not remain at the theoretical or ideational level alone. It comprised, carried out in a manner far more comprehensively than in the 1950's *minzhu guanli* campaigns, an institutional arrangement within enterprises that involved the active involvement of enterprise cadres

and production workers alike. In the process there were winners and losers, in addition (which I discuss in chapter six) to consequences that informed the consciousness of SOE workers I interviewed in Henan who were struggling with the impact of SOE privatization.

The First Stage: Democratic Elections of Directors

Although restructuring of the SOE sector was not planned to be nearly as comprehensive as that seen in the rural sector in the early 1980s, nonetheless, there were initiatives taken throughout the 1980s that were designed to lay the groundwork for more thoroughgoing overhauls down the road. On the one hand, there was little opposition to long overdue increases in the wage funds for Chinese workers in SOEs, which they enjoyed throughout the 1980s, nor to investment increases in machinery and other company infrastructure. However, these reforms were accompanied by nervousness among SOE workers about future job security, a centerpiece of the SOE ethos. There was also anxiety among workers about the increased power of managers within SOEs due to economic restructuring initiatives. That power was something that the SOE workers had a history of fighting in numerous instances during the Cultural Revolution (Bettleheim 1976; Perry 1976).

Institutionally, the Party controlled union (ACFTU) was in a position to gain greatly from restructuring because its role had been considerably downgraded during the Cultural Revolution. Indeed, the union media organs were where the greatest effort to promote the new *minzhu guanli* policies could be found. The ACFTU was unquestionably the biggest institutional actor to gain directly from *minzhu guanli*'s renewed role in 1980's China. The role of the union in educating workers about restructuring policies and the new types of labor discipline they required was considered critical. Of course, the ACFTU already was a unit that worked at the behest of the central Party leadership, until it was disbanded for much of the Cultural Revolution. However, the resurrection of the ACFTU was hardly sufficient to accomplish the goal of removing Party intervention in the affairs of production. Indeed, the most enthusiastic advocates for greater commitment to *minzhu guanli* argued that it was needed to ensure that the revitalized ACFTU not replicate its traditional subservience to the Party and that it actually served the interests of workers. The question of course was how to make *minzhu guanli* accomplish such a feat as SOEs were still controlled by the Party state, as were the unions. The 1980's enactment of *minzhu guanli* hardly resolved such roadblocks to the increased autonomy of the ACFTU in the SOEs. However, this was presumably not necessarily a major concern since 1) workers did take advantage of the WRC elections to

elect new managers and to throw out ones that they believed were not up to the task of management (Chen 1999, 30-31). It is quite clear from the literature that workers participated in *minzhu guanli* far more than in the 1950's. For example, Chen (31) states that in Beijing by 1982 workers had cast votes to elect directors in 560 enterprises, with 240 new ones elected to replace incumbents. In the same city, enterprises run by the local government saw "only 130 of 1,200 directors or section heads retained" (ibid.).

Still, SOE workers were not the only ones to use *minzhu guanli* to their advantage. Arguably *minzhu guanli* was a mechanism (like *minzhu guanli* in the 1950's) that certain kinds of Chinese SOE workers (i.e. skilled ones) and cadres were best able to take advantage of and how they did shaped the way the discourse of democracy would be yet revised and battled over in the 1990's. As Chen (30) puts it:

[A]lliances and opposition among the central leadership evolved over time among the central leadership, enterprise cadres, and ordinary workers evolved over time...into [a] three-cornered [power struggle] among the workers' congresses, the enterprise Party committee, and the enterprise director.

Chen richly documents how this struggle transpired and it is worth attention since it speaks so directly to how and why social actors in China supported this initiative in the moment of early 1980's market oriented transition. It is not an accident that enterprise director elections were the first form of *minzhu guanli* to be put into motion at the start of China's economic

restructuring. Generally the incumbent directors were supported by most enterprise Party committees, which had previously assigned them. This explains a very practical part of the new central leadership's push for *minzhu guanli* as a key to economic restructuring. The enterprise Party committee was dominated by cadres who had secured their appointments during the Cultural Revolution. Those cadres were most likely to oppose the type of market oriented restructuring plans the Dengist leadership had in mind for SOEs (ibid, 31). That directors were turned out in such large numbers was consistent with the tradition of the Chinese SOE labor force, which took advantage of nearly every opening made available or that it created during the Maoist period to challenge enterprise directors and cadres. In this instance, reforms during the Maoist decades notwithstanding, workers had good reason to be enthusiastic about elections. SOE enterprise directors and cadres were, after all, primarily responsible to ministerial superiors, which exacerbated alienation among SOE workers (ibid, 32). Furthermore, Chen points out that materially SOE workers, especially in the early 1980's, had a strong interest in elections since:

'the [restructuring policies] increased [the] power...enterprise director[s] wielded over enterprise affairs [which was directly linked] to income and bonus...[Under] [t]he factory director enterprise responsibility [system]... executive power began to expand while the Party committee was discouraged from interfering in enterprise administration (ibid, 33)

When the outcomes of the elections phase was seen, then Party leaders further encouraged called for the leading role in elections of enterprise administrators to switch from the enterprise Party Committee to the WRC. In this sense, then, the Party was to be further removed from direct involvement and control of the elections, ostensibly giving SOE workers even greater capacity to monitor and affect enterprise decision making. Also of note is what workers are reported to have done with their newly one ability to counter the once unquestioned power of the Party secretary in the factory:

Given the newly established authority of the director, his or her capability and qualifications to a great extent determined the enterprise's quality of management and hence its efficiency... [T]he workers elected their director not just for the sake of democracy or self respect but also for their material interests. Elections tended to expand the resources available for welfare and also resulted in a more responsible welfare policy (ibid 34).

Party committee cadres, especially those aligned with Mao's Cultural Revolution, complained most vociferously about the new policies as 'window dressing' and 'competitions of eloquence' (ibid). They resisted *minzhu guanli*, to the extent possible, by using their power to scratch non-Party approved candidates. Party leaders countered such efforts by assigning the task of approving candidates to the factory management committees, which worked at the behest of the director.

There was also a logic of workers democracy that corresponded to the *type* of state enterprise. In the aftermath of the initial elections the SOEs, with

closer ties to the central ministries, were pushed in the direction of developing worker participation through involvement in the WRCs instead of direct elections of leaders (ibid 36). However, it was constitutionally stipulated that Collectively Owned Enterprises (COEs) should have direct elections of their enterprise administrators. Such an arrangement made perfect sense in terms of the greatly loosened ties of the COEs, both smaller and much more exposed to private competition than the SOEs. Thus, except in situations where workers demanded it or the candidates for director were explicitly pro-market reform, the Party leadership rarely pushed elections on the SOEs, save in the early experimental phase. In those instances, however, percolating dissatisfaction with enterprise cadres, reflected in rising labor based protests in the late 1970's, was something that the new Deng leadership could utilize to its advantage by replacing older Maoist cadres.

The Second Stage: The WRC and Conflicts among Institutional Actors in the 1980's

However, prioritizing the role of workers representative congresses in SOE democratization was a preferred mechanism to reinforce the ties between the central ministries while maintaining an image of commitment workers democracy. This manouever, initiated by the Party leadership is what set up a three way conflict that Chen documents. The WRCs were assigned roles that were largely supervisory and consultative, to act as a kind

of bridge between enterprise administrators and production workers, which set up a clear conflict in the SOE between the WRC and the Party committee. However, few WRCs were reported to have worked well, or as intended at least. An influential researcher on reform in Beijing is quoted by Chen as asserting that Chinese workers value the right to elect bosses more than the right to elect deputies to the Party Congress (ibid, 56). SOE workers' displeasure with WRC performance, which was blamed on Party cadres, was a matter of frequent comment in Party documents and media organs (ibid, 41). In response to this palpable dissatisfaction, in October 1984, the Party committee was further separated from management, while the WRC was granted greater say in decision making. This coincided with other SOE policy changes in 1984 that accorded greater power to enterprise directors and experiments in using labor contracts to move away from the iron rice bowl system of lifetime employment.¹ This only further opened up rifts Party cadres and Party leaders. One might have expected that *minzhu guanli* could have been a weapon that workers would, thereby, be inclined to use against the Party leadership and its reform policies. To the contrary, the target of workers' ire was squarely basic enterprise level cadres. Furthermore, local (i.e. provincial and city government level) cadres teamed up with Party

¹ Part of the iron rice bowl policy that was most directly confronted that year was one that allowed children of SOE workers an automatic job assignment in the same factory.

leaders to support the use of policies such as *minzhu guanli* to deal with the political obstacle to exposing SOEs to greater degrees of market competition:

The mutual political distrust and conflicting interests on reform between Party elites became a major motive in political reform... Party cadres at different levels and in different areas suffered to different degrees. Local and regional cadres were higher up in the Party's hierarchy of power and could even play a role in the choice of central leaders, whereas cadres at the basic level were too distant from the center to have any bearing on policy – or decision making. They were unlikely to establish personal relations with leaders and so the leaders had few scruples in enforcing reforms at their expense... [I]n urban enterprises reform sharpened the conflicts between workers and cadres, and the leaders found in workers a reliable force to circumvent cadres' attempt to block reform (ibid, 44).

The WRC and Mediated Conflicts within the 1980's SOE

If at the macro level the renewed and altered discourse of workers democracy served to legitimate Party policy, what role did the discourse's key institution – the WRC – play within the enterprise? The possibly only in-depth study of a WRC in a Chinese SOE, conducted by Peking University sociologist Zhang Jing (Zhang 2001) in the mid-1990's, reveals that the WRC, as it was designed in the 1980's, reinforced the very relations of state socialist production that reform was (in theory at least) supposed to undermine. The reason is quite straightforward, the primary acting body of *minzhu guanli* in the enterprise, the WRC, was organized by the ACFTU. The enterprise trade

union and the WRC were technically independent of each other in the SOE. Indeed, from the vantage of production line workers, that is the most attractive feature of the WRC, that it receives its authority from elections by workers. However, as Zhang argues, the WRC has reinforced the tradition within the Chinese SOE to avoid the establishment of opposing and distinct group (or class) based interests. The WRC was an institution that workers and lower level cadres have engaged to maintain favor with the factory director in order to secure. This is an ironic outcome in the sense that the WRC was ostensibly desired by workers and Party leaders alike because it would help to clarify the autonomous interests of managers and workers in enterprise production. However both SOE workers and Party leaders alike have had good reason to resist the full realization of this goal. The former have clung to their expectations that the SOE is a unit that is obliged to play a social welfare role and provide job security. The latter have had no strong interest in allowing workers to have an autonomous power base from which to challenge the direction of enterprise restructuring or the Party's monopolized authority over that process.

At the enterprise level, this trend has been reinforced by how alliances and power structures were reorganized in the restructured SOE during the 1980's. Critically WRC elections are organized by the factory trade union. This is critical not so much because of the union's ties to the Party and its

legally stipulated obligation to carry out Party policy within the enterprise. As important is the fact that the factory union chief must maintain the favor of the factory director in order to maintain that position, especially to maintain access to factory provided funds to distribute services unions are expected to deliver to SOE workers. The union chief has a vested interest in making sure that union cadres are elected to the WRC, which makes the WRC more able to maintain an amicable relationship with the factory director. That outcome strengthens the rapport between the union chief and the factory director; 'troublemakers' on the WRC create a potential for tension between the union chief and factory director:

The relationship between the union and the enterprise, due to the former's role of administering services, is one characterized by great caution, with the union taking care to accommodate factory leaders by sticking to a strictly self-enforced role of providing 'suggestions'. The union has no capacity to independently administer services. If it tried to do so, it would receive no support. Union cadres are assigned by the factory leaders. They are not elected. The bulk of their funds are from administrative funds [i.e. enterprise allotted service budgets], not union members' dues. As a result, it plays a meditative role to ensure that it receives a greater amount of administrative funds for its budget (ibid, 94).

Additionally, a significant proportion of WRC candidates are themselves cadres and/or skilled technological workers who have little in common with production workers as concerns income and workshop related issues (ibid, 62). This does not mean that the renewed WRC then has no function in the factory or that workers, despite their often negative view of

the WRC, have not participated in the WRC to pursue material gains. The key, for SOE production workers thereby becomes finding ways to win election of their shopfloor managers to the WRC and thereby to represent one's workshop unit through that representative in their contact with the union chief and factory director.

As a result, Zhang contends that the 'substantive' democratic potential of the WRC is institutionally constrained to the point of almost no return. However, from the vantage of winning minor reforms and, more important, the protection of social welfare provisions when they are threatened by enterprise administrators' reform proposals, in the 1980's and into the 1990's the WRC was able to be engaged in a fashion by contending parties to maintain a power balance within the enterprise that prevented administrators from severing their social welfare obligations to workers (ibid, 66). On the one hand, then, the WRC is a mere formality, on the other, it is a forum that provides workers with a tool to engage the discourse of workers democracy to protect or defend basic social welfare rights. In the worst case scenario, Zhang finds that the WRC is an institution through which administrative initiatives to cut services to SOE workers are forestalled to another day (ibid, 86).

On the face of it, the Chinese workers' democracy initiatives that developed in the 1980s and satisfied the desires of SOE workers for security in the face of the party's push to increase the power of SOE factory directors and managers. At the same time, as evidenced in the nationwide discontent with cadre corruption that led to the Tiananmen protest by 1989, an institutional reform like *minzhu guanli* was hardly sufficient to smoothly reproduce the class relations of post-Mao transition. Wilson (1987) only two years before Tiananmen, sums up very neatly the contradictions that were surfacing in China as a result of economic restructuring:

Since coming to power in 1978...Deng...has instituted...measures, including wage rises and the reinstatement of piecework and bonuses, designed to counter the falling wages inherited from the Maoist era and to improve workers' standard of living. At the same time the economic reform movement poses a threat to certain institutionalized expectations held by Chinese workers about the nature of the relationship between workers and the state. The intention of the state to do away with the state guarantee of employment for urban dwellers, to abolish the system of permanent job security, to widen wage differentials, and to eradicate the complex system of urban price subsidies infringes upon the 'social compact' forged between the state and its workers since 1949...The considerable challenge...is to convince the majority of workers that the sacrifices demanded by the reforms will be exceeded by increased material benefits...in the long run (317-319).

Chen argues that capitalist oriented restructuring only exacerbated the tensions that reforms like *minzhu guanli* were designed to mollify:

Moreover, the workers' congresses as an organ of power tended to decay as China's industrial enterprises accelerated their pace toward

capitalist style management since the late 1980's. In many places, the director was authorized to hold supreme power to handle relationships between the state and enterprises and to deal with the increasingly complex economic environment. It is ironic indeed that, as manifested in the management structure of China's foreign funded enterprises in recent years, the development of capitalism not only undermines the foundation of Party dictatorship but also make workplace democracy suffer (Chen 1995, 399).

At the same time, the discourse of workers democracy in China did not disappear with the tumultuous Tiananmen crackdown as might have been expected. In fact, if anything it picked up and was renewed yet again in the 1990's in ways that, I will argue, counter to Chen and Wilson, while often ironic, are entirely in keeping with the social relations of coercion that characterize China's transition from state socialism.

Chapter 6

1990s SOE Restructuring in China and a (Once More) Revised Discourse of Workers Democracy

Introduction

Although initially anticipated by some to be put on the backburner in the aftermath of the crackdown on the 1989 liberal democracy movement, SOE restructuring received increased support from the central leadership of the CCP. This was not as surprising a turn of events as it appeared at the time. Given calls for financial austerity combined with support for the SOE in the early post-Tiananmen years, it followed that new sources of funds to the state would have to be found to offset growing deficits brought on by lagging SOE productivity and debts. Furthermore, greater involvement of foreign and domestic capitalist investment in the Chinese economy would also be key for the Party to retain the complacency (if not loyalty) of the intellectual and petit-bourgeois strata emerging and competing with Party cadres for surpluses in expanding exchange markets. In a nutshell, the impact of the Tiananmen liberal democracy movement was a compromise that created opportunities to accumulate wealth for groups who did not traditionally enjoy Party connections. Among those groups, the small traders and factory owners in urban regions and university students and graduates were the primary beneficiaries of post-Tiananmen policies that increased the role of

private investment in the Chinese economy. Through most of the 1990s, and even into the 2000s, these two strata have been largely co-opted and pacified as social forces of political protest (Li 1994). Finally, to a certain extent, it can be argued that the growing presence of private investment in the 1990s also resolved the problem of absorbing rural labor surpluses caused by decreasing returns on agricultural labor participation.¹

However, for SOE sector workers, *especially* those in companies faced with increasing debt burdens and marketplace competition, *despite* the political appearance of support for the SOE sector in the early aftermath of the Tiananmen crackdown, the 1990s SOE restructuring policies amplified nervousness about future social security. Indeed, as the 1990s progressed, access of SOEs to funding became tied more strongly to productivity, potential for profitability, and, critically, the capacity to repay loans to bank lenders. This would throw the fate of greater numbers of SOE workers and administrators into jeopardy, a departure from the 1980s policy of leaving urban SOEs alone and a direct challenge to the Party's traditional

¹ Through the 1990s, although they continued to face discrimination and often outright harassment, rural migrant laborers in the cities actually endured much fewer restrictions on participation in urban labor markets than in the previous decades. By the turn of the new millennium, migrant labor (*waidiren*) enjoyed de facto freedom to move to the urban areas, although they continued to be denied the social benefits accorded to official urban residents. Further, the increase in real wage income that they enjoyed in the early 1990's declined as urban labor markets experienced surpluses and urban prices grew over the decade.

commitment to SOE workers as the masters of Chinese socialism (*zhurenwong*).

I argue that the discourse of workers democracy in 1990s China changed once again in response to these changes in the pattern of SOE production and surplus distribution. Because the changes were most dramatic in China's smaller- and mid-sized SOEs in the 1990's, it is there that the workers democracy was most vociferously promoted.

Selected editions of the 1997 to 1997 ACFTU journal, *Workers' Movement Forum* ([*gongyun luntan*] hereafter *The Forum*), provide representative material from the Party-controlled union documenting the understanding of the role workers democracy played in 1990s SOE restructuring. *The Forum* is a national periodical published for trade union cadres and provides mainly a compendium of articles that appeared in either provincial editions of *The Forum* or in the trade union newspaper *The Workers' Daily* (*Gongren Rebao*). *The Forum's* purpose is largely to keep cadres abreast of the latest Party-union labor policies and positions. The focus of these editions is when, how, and why various manifestations of *democratic management* succeed or fail in China's moment of transition. One ironic and noteworthy aspect of these reports is that by the 1990's the discourse of democracy integrates notions that borrow from the discourse of democracy constructed during the Cultural Revolution period. I seek to explain this

phenomenon with reference to the types of economic restructuring that occurred in the 1990s. I argue that certain Maoist notions of workers democracy were actually developed in the official literature of Party, media, union, and intellectual organs to rationalize economic restructuring in the SOE sector during the 1990s. This was in addition to an increased call for what the Party had largely dropped after the initial renewal of *minzhu guanli* in the 1980's, namely the call for *democratic elections of factory directors* in the SOEs. I explain why this became a rallying cry in the official media organs that addressed themselves to Chinese SOE workers and cadres in the 1990's. I then review results of interviews with workers and managers in Henan Province in factories that in official documents were proclaimed to be SOEs that revived productivity because they had a director who was elected by the workers. The purpose of these interviews is not merely to compare and contrast workers' views on democratic management with the official portrayal found in the dominant media. Nor is it to document what has already been documented in the literature and in the popular media in the last few years, namely, the fact that SOE workers are unhappy with the type of restructuring that they have faced since the 1990's. Rather, through an analysis of the transcripts of interviews I conducted in Henan province in 1999 and October 2000 with SOE workers whose factories had purportedly undergone one form or another of enterprise democratization, I seek to trace

the ways SOE workers' engaged the discourse of democracy to affirm the core state-socialist principle that an the SOE has an obligation to guarantee employment and basic social welfare benefits to SOE workers. That is to say, SOE workers engaged the discourse of democracy to expand upon already guaranteed social benefits. This paralleled the efforts of SOE workers from 1949 through the 1980's to save what they perceived as a fundamental right, namely, lifetime job security. I follow with a similar analysis of interviews with workers who led workers protests in the moment of 'fraudulent' SOE privatizations in Zhengzhou, the capital city of Henan Province. These interviews reveal that workers do make use of central concepts and institutions that have made up the discourse of workers democracy in China in order to not only fight for jobs lost but also the *right* of workers to *democratically* control state owned factory assets. These cases further show that in the moment of resistance to privatization in the Chinese SOEs, the discourse of workers democracy provided a terrain on which workers could battle capitalist assumptions that provided the ideological justification for changes in the social relations in the Chinese transition from state-socialism. That is, this discourse is not merely a discourse that China's ruling cadre elites used to impose a new set of class relations of domination on China's workers; it was also one that China's workers used to attempt to supersede those very relations. I argue that the contending interpretations of workers

democracy that are evident in this chapter are important if we are to understand the uncertainty of the Chinese transition from state socialism.

How the contest over interpretations of key concepts of state-socialism takes place in and shapes the outcomes of the transition from state-socialisms remains a matter to which field research has much to contribute. Burawoy (1999) neatly develops the role of field studies in the period of transition from state socialism:

In conventional portraits of the 'transition' the micro is determined or is an expression of structures, policies, and ideologies of macro character, with little theorization of the unintended consequences brought about locally by political and cultural contestations intertwined with economic struggles...(ibid, 1)

It is precisely the sudden importance of the micro processes lodged in moments of transformation that privileges an ethnographic approach...[T]hus, even an ephemeral moment captured ethnographically will reveal something of the conflicts and alternatives thrown up by the destructuring effects of the end of state socialism (ibid, 2)

The Expansion of the Terrain of the Discourse of Workers Democracy in 1990's China

Many of the themes from the discourse of workers democracy that developed in the 1980s carried over into the 1990s. For example, the WRC continued to be heralded as a key institution in SOE reform success.

However, some distinguishable changes arose as well in the 1990's that were

not as prominent or that were nearly nonexistent in the 1980's. For example, the role of elections of factory directors in enterprises was a much more frequently and exalted component of the discourse of workers democracy in the official literature (a sample of which reveals this rather plainly).

Furthermore, concepts of workers control seen especially in the much praised reports of workers spontaneous takeovers of factories and election of new managers (*shencan zijiu*), the decisive role of managers and even directors working side by side with workers on the factory floor, a loose assortment of concepts related to 'transparency of enterprise affairs (*Changwu gongkai*), and finally, the "Employees Director and Supervisor" system, which places workers on the board of directors and/or in SOEs that are converted to limited shareholding companies (*Yoxian Gufenzhi*). As in the 1980's, Party leaders and union cadres were actively involved in promoting these concepts of workers democracy. In contrast to the 1980's however, our field interviews indicate that workers in small and medium sized SOEs, especially in ones that were suffering from heavy layoffs and debt crises, were more inclined than other workers to challenge the way workers democracy was used by the dominant 'reform' wing of the CCP. At the same time, older 'left' cadres, i.e. those who came of age and subscribed to the principles, in one degree or another of the Cultural Revolution, were far more inclined to engage the discourse of workers democracy as a mode of resistance in contradistinction

to their tendency in the 1980's to dismiss the discourse as 'window dressing.' Finally, we also see that, once again, skilled workers and lower level cadres in the moment of resistance are at the forefront of devising strategies to use the discourse of workers democracy to fight privatization in the 1990s.

How the Political Economy of SOE Restructuring Informed the Renewed Discourse of Workers Democracy the 1990's

The gamut of types of workers democracy oriented concepts not only widened, but, according to Plenary documents, presumably corresponded to the nature of changes occurring in the economy in the 1990's. The 1990s, except for a brief period in the early post-Tiananmen crackdown period, saw a much more aggressive commitment by the Party to reducing or ending ministerial ties and financial obligations to failing small- and medium-sized SOEs. The primary mechanisms used to accomplish this goal were "corporatization," tying credit to profitability, merging with profitable SOEs and/or private companies, or selling enterprises outright to outside investors. While SOEs in the 1980s rarely experienced such threats to their viability as a social unit, in the 1990s small- and medium-size SOEs were far more likely to be subjected to such pressure.

There was never a clearly stipulated hierarchy of preferences set by the Party as to which method should be engaged to resolve the problem of failing companies. However, access to traditional channels of Party-state credit for

financing was being denied for small- and medium-sized SOEs, especially those already in debt and demonstrating little potential for capacity to repay loans to banks. Whether or not small- and medium-sized SOEs were failing previously, they now faced state-owned banks providing loans that required repayment, which served as the basis for evaluation of future loans. It was left to enterprise directors to decide what strategies to follow to deal with this new financing paradigm. Given the role ministries played in appointing directors, those decisions frequently were shaped by the choices of provincial and city government cadres regarding what approach to take to resolve small- and medium-sized enterprise indebtedness.

The quandary of indebtedness that faced small- and medium-sized enterprise did not come from nowhere. The indebtedness was linked intimately to past Party policies that encouraged SOEs in the 1980s to invest in new markets with after-tax company surpluses. With the sudden availability of Chinese state funds for investment in machinery, wage funds, and dual track pricing, opportunities abounded for directors and managers, given their role in state-owned enterprises, to invest in production and skim from kickback schemes. Additionally, the 1980s provided workers in China's SOEs, across sectors, to enjoy dramatic increases in wages due to the system of bonuses and piece wage reforms. The downside of the 1980s reforms was that they encouraged further extensive growth patterns of investment in

which company administrators invested in new arenas of production because of the availability of the funds with little reference to actual consequences when markets became saturated (Smith 1993; Lau 1998). That is to say, the Party encouraged over-investment in hot item markets with no clear plan for dealing with the inevitable problem that profitability in markets could not continue to expand after saturation points were met. In markets dominated by capitalists, the problem is easily solved through the process of clearing markets of unprofitable producers through bankruptcies or mergers. As Lau explains, this over-investment was an untenable predicament that called for change in the central planning apparatus' relationship to the SOEs. Prior attempts to salvage and increase productivity in small- and medium-sized SOEs had come to naught.

A Liaoning Report for Union Cadres on Democratic Management in Failing SOEs

The official discourse of workers democracy in the 1990s was redeployed with renewed vigor as part of Party led nationwide campaign to sever the tie between the state and small- and medium-sized SOEs and, more broadly, to eventually privatize them. A 1998 report from a Liaoning investigative unit to the ACFTU on the impact of "Worker-staff Democratic Choice and Democratic Review of Enterprise Administrators" is typical of reports on workers democracy policies in the 1990s:

These past years have brought difficulties for state and collective enterprises in Liaoning Province. In an effort to overcome them, as a result of either workers' demands or administrative ministries arrangements, these enterprises have instituted democratic elections, democratic suggestions, or democratic hiring competition to democratically select enterprise administrators.

The report then proceeds to catalogue the manifold evidence of widespread implementation of elections in SOEs with statistics on percentage of participating

companies and the advantages enjoyed as a result:

1820 state and collective enterprises have democratically selected administrators in Liaoning Province. Wherever workers and staff democratically choose enterprise administrators, the absolute majority considerably improved the performance of company leaders. Management has been reformed, economic efficiency has had varying levels of improvement. For example, Shenyang City Transportation Company...democratically selected and hired administrators in 1996. Soon thereafter the company went from indebtedness to turning profits...In Shenyang's Heping District there were 46 enterprises that implemented democratic choice, of which more than half turned a profit; the remainder cut their losses...In Anshan, of 5 enterprises experiencing losses were designated test sites for democratic, of which, except for one still experiencing losses, 3 companies recovered profitability and one has broken even. In Dandong, by the end of 1996, some 136 state owned and collectively owned enterprises promoted democratic recommendations and democratic elections. 26 companies stabilized development, 55 turned profits, and 35 clearly experienced declining losses.

The results of different success stories at the individual enterprise level are recounted briefly. Sources of success included improved cadres' caliber when elected, a more motivated and stable workforce, better assignments of

tasks, greater willingness to take risks, and high annual or biannual approval ratings for managers who were elected or chosen democratically. An account is given about one director who was so pleased with democratic elections that he subjected the enterprise's WRC to democratic elections. After a failing loading company elected this director, the spirit changed dramatically, so much so that wages that had been paid only three times a year were now paid every month. The company adopted new, more aggressive tactics to take advantage of any markets that provided potential customers in addition to other measures of enterprise restructuring.

The narrative is one that reflects the post-Mao 1980's view within the Party that enterprises are better run by cadres who put efficient economic performance at the head of their priorities. However, the official narrative now goes further as a response to the problem of enterprise failure, a problem that was much less grave in the 1980s. By the 1990s, provincial leaders were being encouraged by central leadership to loosen ties with or to outright sell off failing small- and medium-sized companies that were faced with debt crises in the face of increased competition and declining state funding. Hence, the consistent reference in official literature in 1990's China to debt and the critical role of workers democracy in its removal and the eventual return of enterprise profitability. These types of connections were less frequently made during the 1980's and almost never made before the 1980's.

One further leitmotif is that when enterprises are both democratic *and* exposed to greater market competition advances are made in workers' economic situations. This is due not only to the increased shop floor motivation that democratization stimulates but also to the opportunities that clever management strategies in competitive markets provide. Enterprises that implement democratic management improve their productivity and are regarded favorably as targets of investment by foreign investors. Then, the link is established between influx of foreign investment and democratization of management. However, with the exposure to market competition comes a risk, one that is not made apparent in the official discourse of workers democracy. There is the possibility that an enterprise exposed to market competition will *not*, despite its best efforts, succeed. The inherent risk is in the long-held belief that SOEs have an obligation to the social security of workers, because the workers are the masters of the workplace. What is the rationale of letting go of workers if, through no fault of theirs, a state-owned company fails?

This risk, however, is implicitly recognized as a problem in other forms. For one, workers democracy *is* heralded as a preventive mechanism against the problem of corruption that has plagued enterprises due to the opportunities presented to managers and directors for skimming from subcontracting deals:

Asset subcontracting is also a key concern of workers. Enterprise affairs council laws stipulate clearly that the size of assets subcontracted, value, and limits are all set forth and must be subject to democratic audit. The WRC must approve the agreements before they are official...[U]pon democratic audit, one company was found to have had an arrangement between the company accountant and subcontractor, with the latter providing the former a bonus for the agreement. The subcontractor owed back wages, didn't pay into the workers' health care insurance fund while simultaneously using health insurance to pay for the general manager's dog. As a result, the company nullified the subcontracting arrangement, fired the general manager, and reassigned the accountant to a non-finance position.

The subtext here is that workers democracy will help root out corruption that occurs when managers and directors conspire to take advantage of their social positions to absorb surpluses that should be invested in production. Workers benefit when they have an institution like the WRC and elections of administrators to ensure that restructuring of enterprise relationships occurs in a fashion that optimizes the outcome of competitive markets for company employees.

In the same report, workers democracy also is viewed as a mechanism with which to counter overzealous privatization thrusts among ministerial bureaucrats and enterprise directors. This thrust is framed as a product of cadre misinterpretation of the calls on the Party to diminish the ties between the state and small- and medium-sized SOEs:

For some companies that are in the midst of SOE reforms, selling off companies is taken to be the only method of implementation...rejecting other options that would make it possible to save a SOE. Jiang Zemin, at the 15th Party Congress, stated, "We need to improve the overall state owned economy by shoring up large

enterprises and letting go of the smaller ones by choosing to restructure, partnerships, merge, lease properties, subcontract, conversion to shareholding (*gufenzhi*) or sell off companies to private buyers." This is a call for local policy of loosening state-enterprise ties to be made according to the on the ground situation of small enterprises. However, many cities have slated small companies for sale to private buyers as their only option, plainly ignoring the central leaders' intent. It is our opinion that revival of small and medium sized SOEs is a complex and difficult task, one which impacts on the problem of disappearing state assets and the ability of the Party to grow. Loosening state ties to revive small and medium sized the SOEs should be conducted enterprise by enterprise, with enterprise self-revival (*ziji*) as most preferred option.

The concerns expressed here largely reflect Maoist-influenced objections to rapid privatization of state assets in China. An interesting intersection of pre-Maoist and post-Maoist reformers' rhetoric is evident in the concern found here and is especially prominent in Maoist³ literature these days. In the post-Mao era, the Party leadership has accepted and promoted the idea that autonomy from the state, in the right measure, necessarily will bring about increases in productivity, opportunity, and worker participation in management of their affairs. Lau (1999) argues that Maoists in China have ceded considerable ideological ground on the role of the state in the economy. Among cadres who fall under the category of "Left," demarcated by their

³ Although I might be making a sweeping generalization here, the bulk of what is commonly known as "conservative" cadres in China who are harshly critical of the pace of marketization, are primarily Maoists of old or their younger epigones. That does not mean that there are not differences between Maoists of today and the past in China; differences do exist and are clear enough. However, for my purposes here, when it comes to expressions in the official literature, be they older "conservatives" or younger "conservatives," Maoists' rhetoric and positions are largely consistent with each other.

adherence to economic planning and hostility to private sector growth in the national economy, largely ceded the initiative to the mainstream "Right" cadres at the 14th Party Congress. With the resolution of the plan-market relationship by re-endorsing Zhao Ziyang's "primary stage of socialism," the legitimacy of the private sector was no longer a matter of contention in the Party. Thus, the locus of debate within the Party shifted to the use of shareholding in SOEs:

The Left criticizes the use of the shareholding system as either straightforwardly a form of privatization or leading eventually to it...The Right takes a contrary position...In practice, the Rightist program has been implemented as the official program, whereas the Left has been reduced to the margin of no consequence and forced to fight a rearguard defense. The shareholding system has since 1993 been a major component of the official SOE reform policy, whose implementation has been unaffected by the Left's critique of it, while small SOEs have been rapidly privatized and the private sector has grown phenomenally without regard to the Left's critique of such developments (ibid, 80).

The cornerstone of the Rightists at the 14th and 15th Party Congresses was the shareholding corporate conversions of the small- and medium-sized SOEs. The fact that left wing cadres put up no great fight against this policy direction indicates their weakness within the Party. Privatization was nonetheless a sensitive matter. If conducted too aggressively, it could whip up whirlwinds of uncontrolled privatization. This concern is expressed often in internal documents on democratic management in 1990s China. For CCP cadres that supported greater moves toward SOE privatization, workers

democracy was regarded as a measure that could legitimize the move toward shareholder corporatization and the progressive clipping of state responsibility workers in SOEs. For the now much smaller wing of Left cadres, workers democracy represented a policy that could be used to protect workers against the threat of lost social security in the moment of privatization measures. This might be seen as an advance compared to the Maoist decades, when Maoists largely rejected democratic management reforms as formalistic and pointless compared to politically mobilizing mass activism against hierarchies of power and the division of labor. Indeed, as I note below, one indicator of that is a book by a Maoist cadre (Zhang 1999) in Beijing praising the uses of *minzhu guanli* and other forms of workers democracy to help SOEs revive productivity and maintain SOE workers' social position.

On the one hand, the Liaoning report is, in fact, as are many of its sort, quite frank and open about the policy of "democratically choosing and auditing" small- and medium-sized SOE administrators facing shortcomings:

These past several years have seen considerable development in the democratic selection of enterprise leaders in Liaoning, proving that this policy contributes positively to the revival of small and medium sized SOEs. Still, there remains a great way to go...From areas where the policy has been implemented already we know that theoretical comprehension of the policy is not a major problem. The crucial problem is at the level of enterprise leadership. Under the present system, wherever administrators give the right to select enterprise leaders, the democratic selection of leaders proceeds very smoothly; where the situation is the opposite, democratic selection simply cannot

be carried out effectively. When leaders are not willing to let go of power, the problem is usually one of old habits and prejudices, though desire to benefit from corrupt insider deals as enterprise leaders cannot be ruled out as a contributing factor.

This was indeed one, if not the major, point of conflict in the 1990s process of restructuring – the desire on the part of managers to coordinate deals with ‘buyers’ of enterprises from which they could secure bribes and promises of leadership rank in “restructured” companies. Small- and medium-sized SOE leaders stood to gain especially if they found buyers for their enterprises. As the Liaoning document notes, this threw the entire possibility of “democratic selection of managers and leaders” into jeopardy because companies that are privatized without consent of the workforce are de facto not subject to any kind of worker control, not to mention state regulation.

The seriousness of this phenomenon is evident since the late 1990s in report after report about managers and directors involved in one after another fraudulent scheme to team up with outside buyers of small- and medium-sized SOEs, allowing for no consultation with workers. However, there exist few reports that provide an in-depth examination of how workers end up in this position in small- and medium-sized enterprises, which would go beyond the ideological boundaries of the official discourse of workers democracy.

This points to another key element of the discourse of workers democracy in Chinese small- and medium-sized SOEs in the 1990s: privatization. The focus on the role of enterprise leaders in the implementation of workers democracy only further reveals the ideological nature of the discourse. The privatization policies themselves open workers up to the threat of both corruption *and* complete loss of any legal claims to social security as state workers. At the same time, the policy of workers democracy, ostensibly designed to protect workers from bad managers and directors, *entirely depends on* the willingness of directors and managers to subject their social power to democratic election, selection, or audit. The positions of both the Chinese Right and Left cadres toward worker democracy reproduce the status quo, with no theorized mechanism for resistance to the unequal power relations of privatization in small and medium sized SOEs outside official Party channels. Such channels themselves are often a party to and benefit from the stripping of social security from workers during SOE sell-offs.

Workers' Movement Forum Special Editions on Democratic Selection of Small and Medium Sized Enterprise Leaders as a Component of 1990s Economic Restructuring in China

The ACFTU published several volumes of *The Forum* from 1995-1997 that were published at the height of the Party's promotion of 'letting go of the

small SOEs and reviving large SOEs'. These volumes were dedicated to the question of workers democracy and 1990s small and medium sized restructuring. They highlighted the leading role of Henan Province in the quick and widescale implementation of the policy of 'democratic selection of enterprise administration' (*minzhu xuanze jinin guanli*). Since Henan was indeed in the forefront of promoting this national policy and trade unions were the primary unit responsible for its implementation within SOEs, these documents provide a collective data set of official literature that provides clear insight into the ideological framework within which the discourse of workers democracy was nurtured in moment of 1990s Chinese enterprise restructuring.

Henan Province was noted for its aggressiveness in carrying out the policy of encouraging city governments to find ways to let go of small and medium sized enterprises. This is not the first time that Henan has taken the lead in China. The provincial capital of Henan, Zhengzhou was the city in which the workers movement was 'born' and experienced heavy blows in a 1927 massacre. During the Cultural Revolution, the Revolutionaries were very active in Henan and in the early post-1978 years experienced the greatest number of expulsions from the CCP. One could say the zeal with which the Cultural Revolution was embraced in Henan was not a little responsible for the subsequent heavy-handed Post-Maoist implementation of Central party

edicts that called for enterprise restructuring by those who took the place of Maoist cadres expelled. Regardless, we do know that the Henan Cultural Revolution and its prior history as a base for the 1920s Chinese workers' movement, left both a tradition and a large number of former or demoted cadres who had some experience in mass based oppositional organization.

The Henan move was widely cited as an early and positive response to the call from national Party leadership to deepen enterprise restructuring in small and medium sized SOEs and to link it to the democratization of SOEs. The linkages were made explicitly by Jiang Zemin in speeches to meetings convened to discuss enterprise restructuring:

Completely relying on the working class is a policy that derives directly from our nation and Party's character...The working class is the leading class in our nation...In the process of deepening SOE reforms, constructing a modern enterprise system, we must remain firm on the following: Without the broad masses of workers' support, enterprise reform cannot succeed...We must politically guarantee the position of workers as masters of the house. Mobilizing workers' motivation...means strengthening democratic management and listen to the suggestions of workers... Systematically ensure workers' right to participate in enterprise management and implement workers' effective supervision of enterprise leaders...The constant reforming of the productive environment and conditions requires caring about the broad mass of workers' livelihoods and social security. At the moment, this requires giving greater concern to enterprise sectors in trouble...

The rhetorical references to failing enterprises, new to the 1990s, are complemented by a hopeful belief in the future of (at the time likewise novel concept of) globalization. The mid-1990s for China were a period of massive

booms in foreign investment levels, especially in labor-intensive industrial sectors. Additionally, with the revaluation of the Yuan and signals to domestic investors of market liberalization, domestic private business activity similarly grew in sync with foreign export oriented expansion. The push to aggressively move toward shareholder corporatization in the small and medium sized enterprises reflected a belief more broadly that this was a global trend that promised increased levels of and vitality of market activity as a consequence. Delegating the formal right of workers in SOEs to elect and supervise/audit enterprise administrators is posited as a part of a global pattern of restructuring state enterprises to make them more productive by removing the intervention of ministries that have non-market based priorities that are irrational in competitive markets. Democratically elected or supervised enterprise leaders would have to perform their tasks such that enterprises were productive in global competitive markets and thereby able to attract investment in shares of stock.

Henan was the location of as large numbers of small and medium sized enterprises engaging in many of the industrial sectors that were opened to foreign investment and competition following Deng's 1992 southern tour. Provincial and city leaders received clear messages from the central leadership that small and medium sized enterprises could not rely on the center for guarantees of credit. Nor however could they simply abandon

their commitments to basic social security obligations to state owned employees. This distinguished Henan from provinces in the northeast industrial belt, where much larger and more capital intensive SOEs were dominant.

There's one other key difference that should be noted. The history of workers' militancy in Henan surpassed that found in the northeast. State mandates brought collectivist forms of ownership to provinces in the northeast. Henan, as we've already noted, was a province that had a history of workers' organization that, for all the disruption of periods like the Great Leap Forward and the Cultural Revolution, informed the consciousness of workers in periods of challenges to workers' social security. Although it can be reasonably argued that workers in the northeast enjoyed the greatest level of socialist benefits in their mammoth SOEs, their counterparts in provinces like Henan arguably possessed a far deeper appreciation of the linkage between struggles for social security. We would not want to exaggerate the extent or impact of the militancy. After all, Henan workers in the case studies we examine in the next chapter also display many of the same resigned and leadership dependent qualities found in other provinces. Nonetheless, this militant tradition did contribute to the Henan Provincial government's view

that workers democracy was necessary⁴ and a vital ideology of small and medium sized enterprise restructuring.

A report from the Anyang City-Provincial Organizing Committee and Anyang ACFTU Branch reports that early on in the enterprise restructuring process many enterprise administrators in Anyang could not make the necessary adjustments to fierce competition under market conditions⁵:

(As a result)...state assets have disappeared, enterprise debts hit new heights, losses more serious than ever, and workers unpaid for long periods. Workers reacted with intense dissatisfaction and collectively demonstrated and petitioned the government for redress, in many instances demanding the recall of their enterprise administrative leaders. These factors attracted a high level of attention from the city council and government. The city general secretary took it upon himself to meet with and listen to WRC representatives' suggestions. Committees studied the relevant laws, and researched how, under conditions of socialist markets, democratic management could be carried out in order to improve the caliber of enterprise leaders, improve leaders' output, and fundamentally stabilizing enterprise productivity and the workforce (31).

The report then goes on to state that the city government departments and committees united in their understanding of the role democratic selection of enterprise administrators would play in restructuring and revitalizing failing companies. A lack of understanding of democratic management is

⁴ Interviews with trade union cadres and enterprise directors revealed that in fact the impetus for workers democracy policies, in addition to the calls from the center for this policy, came in reaction to the groundswell of dissatisfaction and conflicts generated by the policies of letting go of small and medium sized enterprises in Henan. Note that the leaders of workers' in the Zhengzhou cases in chapter 8 turned to Maoists who participated in the Revolutionary faction (*zaofanpai*) during the Cultural Revolution.

⁵ *Minzhu Xuanping Qiye JinYingzhe: Congfen Tixian Zhigongqunzhong Dangjiazuo zhude Quanli.* (*The Workers' Movement*. Vol. 8, no. 128), pp.31-36.

blamed for the problems of debt in Anyang. The principles underlying the initiative are noteworthy, namely 'transparency', 'autonomy', 'competition', and 'selecting excellence'. These reflect the incorporation of western capitalist market ideals, notably prominent in the 1990's excitement about globalization and lean production, into the Chinese concept of workers democracy. Heads of selected industrial departments were chosen democratically it is reported, whereupon efficiency and output improved dramatically, profitability and wages both were possible again. The extent of democratization, both in terms of numbers of enterprises and activity, appears to surpass any other era since 1949:

Of the 10 companies chosen as original test sites, the largest of them was Henan Province Pharmaceutical Company, with 3800 workers. It was also one of Anyang's indebted enterprises with a transparent and latent debt of over 200 million , the largest of them was Henan Province Pharmaceutical Company, with 3800 workers. It was also one of Anyang's indebted enterprises with a transparent and latent debt of over ¥ 200 million and on the verge of bankruptcy. (33)

The story line is familiar: New company leaders, new (foreign) markets are found, workers' suggestions are taken seriously, productivity and efficiency increases, and the relationship between enterprise administrators and workers improves dramatically. In the 3 years series that comprise these editions of *The Forum*, the results of numerous meetings on the accomplishments of democratic selection of managers are reported on by different branch investigative committees of the Henan ACFTU. One can see

almost a copycat pattern in the manner of reporting, with little difference between respective cases outside of company name and products. This is not unique to China. Under the state-socialist rubric, reports on policy implementation are designed with the need to affirm policy decisions delivered from on above (Burawoy 1992).

It would be rather easy, too easy in fact, to rely on the explanation that the policy is but one more example of fake policies, designed to just legitimate the monopolistic political power of the Communist Party ⁶. Unquestionably this is one important part of the puzzle. Yet, the pictures painted in the Liaoning and Henan reports are not only rosy ones with no space allowed for negatives. There is indeed a more nuanced picture that emerges in the official 1990's discourse of workplace democracy that reflects the strains being placed on the Chinese political economy in transition and the rising discontent on the part of SOE workers who faced the most deleterious consequences imposed by transition. It is also clear from interviews in Henan that workers have engaged the discourse of workers democracy in a way that in previous decades was not necessary, namely, to protect their right to a job.

⁶ As one Chinese scholar now teaching in the US stated to me, "It's just one more fake policy like others they have. All the stuff the Party says is false".

⁷ It is fair to say that our own investigations into the actual situation of democratic management at model companies in Henan reveal why this is so—serious inquiry and documentation of the existing level of democratization in these companies, from the vantage of workers especially, would reveal the class based relations of coercion that workers democracy as an ideology uphold. Thus in depth field research on this

Field Interviews and Analysis of Selected Henan Models of Democratic Management

The enterprises selected for the cases in this section were selected in fall of 2000. The enterprises were chosen because they were small and medium sized enterprises that were proclaimed as examples of enterprises that successfully restructured (*gaizu*) as a result of implementing democratic management. The enterprises were located in 3 cities, Anyang, Xinxiang, and Luoyang, all in Henan Province, an early responder to and leader in promoting the central leadership's call for democratic selection of enterprise administrators to revive failing small and medium sized enterprises.

Chen (1999, 39) reports that:

In 1994 the Henan provincial government decided to establish a 'system of open and democratic elections' in all state enterprises that failed to show profits. By late 1995, nearly 200 state enterprises in Henan were managed by democratically elected directors who reportedly brought back the dying enterprises back to life.

Interviews with company leaders were initially conducted in advance of later interviews with workers at the enterprises. The enterprises I chose to focus on in this section comprise those which reveal to us the character of the discourse of workers democracy in Chinese transition during the 1990's, particularly where enterprise restructuring is occurring at the greatest pace, namely in small and medium sized enterprises that are either collectively or

policy is virtually non-existent in China, though 'reports' on its implementation are abundant.

state owned. They are also companies, which, at the time of the interviews, had experienced relatively low levels of direct collective forms of conflict between workers and administrators. These interviews were set up to analyze, in ways the official Party based literature did not make possible, what the actual level of 'enterprise democratization' occurred at these selected model companies⁸. In one case, it was not possible to interview workers. However, two in-depth interviews with the enterprise union chief pretty much revealed the distance between the official version and on the ground reality.

The *purpose* of these interviews was *not* 'expose' in nature, i.e. to prove the policy does not meet the description in the official literature. I *take it for granted* that this policy is largely not able to meet its lofty goals. Nor is the goal to draw a general theory from these cases about the national implementation of this policy. I am more interested in how workers interpret the discourse of democracy and how it shapes their responses to the social relations of 1990's SOE restructuring.

Interviews were conducted or attempted at 6 models of democratic management over a period of 6 weeks in September and October 2000. I also entrusted further interviews to a colleague from Henan who provided me with an extra set of interviews. Although I am fluent in Chinese and was able

⁸ The companies were those featured as models of democratic management in the Henan based editions of *The Forum*.

to conduct many of the interviews myself, it was decided that due to time limitations to arrange for my colleague to do interviews at factories where I had begun the interview process. This worked out well in some cases and in others did not meet original expectations⁹. On the basis of the quality of the interviews¹⁰, I selected for examination the Luoyang Number One Dyed Fabric Factory, the Anyang Chemical Fiber Textile Factory, the Xinxiang Golden Dragon Wire Tubing Factory, and the Xinxiang Wireless Electronics Factory.

The No. 1 Dyed Fabric Factory, Luoyang, Henan Province

Of the four SOEs discussed in this section, Luoyang No. 1 Dyed Fabric Factory (#1) stands out by virtue of the missing element of (blatant)

⁹ The main obstacle to this interview project being richer was my colleague's provision of only about half of the initially anticipated interviews. In the Luoyang case, for example, although I was able to conduct rich in depth interviews with the union chief and WRC representatives, expected interviews with workers at the factory, which would have been very helpful, never were conducted. Nonetheless, interviews that were provided did possess ample quality content for analytical purposes.

¹⁰ One example from an electronics factory in Xinxiang provided me with an interesting interview with a retired engineer who had some interesting commentary on official claims that democratic management had 'turned around' the company and made it productive again. In a nutshell, he argued that market conditions alone were responsible and that democratic management had nothing to do with the fortunes of the company. However, as a retired engineer he hardly represented an average worker's perspective.

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corruption as a major factor in its demise. This SOE was, until about 2000, a model of enterprise autonomy and worker controlled democratic management. In 1991, due to declines in productivity and overburdened with debt, after searching unsuccessfully for an SOE willing to merge with the # 1, the enterprise was slated by the City government to be sold to a Township and Village Enterprise (TVE) owner of a slaughterhouse. The terms of the deal called for ownership of the SOE to be turned over to the TVE. Thereupon, the TVE, would layoff of all workers over 35 years old, take no responsibility for the pensions or subsistence of laid off workers, and eliminate the trade union along with the relationship between government and the factory unit altogether. The sale would effectively end the status of SOE membership enjoyed by enterprise workers and cadres at the #1.

This was unacceptable to the overwhelming majority of workers and cadres, especially since the sale would effectively lay off, without responsibility for subsistence payments, all workers under the age of 35. As a result, in April 1992 the workers gathered at the factory and made known their dissatisfaction with the proposal and adamant refusal to accept it. The workers and cadres put forth a counter demand, namely *democratic management* of the factory with the goal of breathing new life into the #1 as an SOE. Soon thereafter, after meetings were held between the city government and #1 cadres, a public meeting of the #1 Workers Representative Congress

(WRC) was held at which a respected shop floor manager was chosen by the workers as the new factory director. Changes were made in managers and Party representative, new management styles were adapted and within a short space of time productivity had revived and the SOE was profitable and paying wages once again.

And the # 1 factory did apparently manage to turn around its productivity and profitability in a short time. The 1300 odd workers contributed out of pocket loans to the company to revive an investment fund base. The new leaders instituted a fresh management policy based on developing products such as fashionable dungaree and flannel wears that would win purchase orders from foreign companies. Also a new management style was developed around the principle of rewarding management based on performance, which resulted in a reorganization of administrative units from 24 to 10 and cuts in management cadres from 140 to 54. In 1993, a Hong Kong investor visited the factory and was, the story goes, so moved by the enthusiastic energy in the factory that he established a joint venture with #1 and imported dyed fabric machinery from Hong Kong.

Remuneration was reorganized around the principle of piece work, which was determined according to a collective contract. Shop floor managers' pay and bonuses were also tied explicitly to modern measurements of efficiency and product quality, which resulted in increases

of piece-wage rates by 40 % at #1. In addition, according to official documents, some 6 million RMB were invested by the company in the construction of new housing units for workers.

As Zhao and Nichols' (1996) field interviews with workers and managers in textile SOEs in Henan province found, classically capitalist devices of speedup, increases in work hours, intensified forms of labor control and the like are frequently legitimated by the language of SOE enterprise reform. Likewise, in the case of 'democratic management' reform, official documents and media stories reflect a trend of employing concepts such as 'enterprise transparency,' 'worker investment,' 'election of managers' etc. to legitimate the labor discipline necessary to attract purchase orders from foreign companies.

Interviews with the #1 union chief and 3 WRC members revealed that in the case of #1 'democratic management' was an discourse that was appropriated by managers and cadres to justify the severing of the government ministries' direct obligations to the reproduction of the SOE. WRC members explained to me that one of their important jobs was ideological work, which consisted of persuading workers to accept piece wage rates and work speed rules because the SOE now relied almost entirely on foreign purchase orders for its economic survival. When asked if that did not contradict state socialist principles, I was told:

In a manner of speaking, you're right, but then again, if we don't do what you appears to you as unsocialist, there are no wages, no social security, no jobs for the workers. There is no WRC, there is no union, there is nothing outside of scanty unemployment insurance payments (Interview with WRC representative #1, July 1999, Luoyang #1 Dyed Factory)

In any event, in 1997 the #1 encountered major difficulties yet again. When the AFC struck, it had a devastating effect on many textiles enterprises in China who were dependent on the revenue from foreign purchase orders that enabled them to maintain payments on new machinery necessary to compete in international markets. The #1 was no exception, since many of its products were sent in the direction of South East Asian factories.

The union chief related the unfortunate set of circumstances as such:

It's really unfortunate, most of our trade is with Southeast Asian partners. Once the Asian Financial Crisis hit, all of a sudden our orders dried up. We had some very extensive purchase order agreements that just went belly up. It's not really something that we can blame the government policy for in any way, it's really just a matter of bad luck. The workers didn't blame us, they realized that the fate of the enterprise had nothing to do with how it was managed or with their workers representatives (Interview with union chief, July 1999, Luoyang #1 Dyed Factory)

On top of this misfortune, the enterprise could no longer profitably accept purchase orders, since the provincial government, in response to the problem of declining competitiveness that stemmed from devalued currencies in Southeast Asia, lowered the amount of tax rebates returned on each purchase order. This effectively made it impossible for the #1 to

reproduce the social costs built into the SOE modus operandi. By the end of 1998, the #1's main workshop had closed down. To make matters worse, the factory was ordered to stop production until it had overhauled its drainage system to meet environmental standards not met by its antiquated and polluting technologies. For the #1, this meant having to search for an 'environmental protection loan'. However, new lending policies made conditions for loans more strictly based on profitability potential and the existence of a guarantor.

Finding a guarantor in 2000 was the problem that most vexed the #1 management and made it unable to revive production in the main plant. Instead, the #1 laid off the workers at the main factory. A Hong Kong firm that originally invested in the company formed a partnership with the #1 in a factory outside the main factory's premises. Under this shareholding corporate arrangement, the #1 supplies labor and takes care of the management while the Hong Kong investor supplies the machinery and capital. At this factory, there also exists a WRC and 'democratic management,' although its role is even further compromised by the decidedly advantageous position of the foreign investor given the situation of both enterprise debt and unemployment at the #1. When asked about this, the responses from the WRC members and the union chief revealed the limits of

what discourse of workers democracy can offer workers, as it is framed by Party leaders and enterprise cadres:

The fact remains that as long as we have the foreign investor working with us we still have a WRC. The WRC can negotiate with the company about the terms of production, investment, and the like. If the workers are unhappy, we can go and negotiate with the investors on behalf of the workers. As well, as long as there is the WRC an SOE entity, we can negotiate through the city government as well on the terms of investment and production. (Interview with union chief, October 2000, Luoyang #1 Dyed Factory)

When I pressed her on what the terms of negotiation would be like in a situation like the one the WRC representatives were now faced with at the Luoyang #1 Dyed Fabric factory, a WRC representative conceded that democratic management faced no small challenge:

Of course we would prefer that we could negotiate from a stronger bargaining position. However, what matters really is getting a factory productive so that we can help workers get their wages. If we can't do that, then we cannot be a WRC anyhow. But I don't think we have a negotiating strength issue in any event, the foreign investor knows us and respects us. That is enough for us. If production needs to be sped up, workers also understand. They will do what is necessary. What is important is they keep the faith of the investors and they can maintain their wages. And we are here to help with that and to communicate workers concerns to the investors (Interview with WRC representative #2, October 2000, Luoyang #1 Dyed Factory).

I further pressed the union chief on one aspect of democratic management with an interest in whether or not he had given any consideration to broader possibilities of democratic management beyond the individual factory, since the #1 Dyed Fabric was a part of a provincial and

national policy. Was it possible to, instead of relying solely on private investors to save the company, to coordinate with other companies that were successful models of democratic management?

You know, you have a real point there. That would be great actually; we could help each other out in moments of crisis. But that's not what the policy of the government is, it is to get companies back on their feet and let them fend for themselves. I'm a member of the Party of course and that's not our Party policy. Would I like it? I think it would be a good thing, but it's not possible or realistic under our circumstances of reform (Interview with union chief, October 2000, Luoyang #1 Dyed Factory).

In the end, the majority of #1 workers faced a fate of either being laid off and having to find work, private factory work if young and skilled, or temporary low paying jobs if unskilled and older. In any event, by the time of the interviews, the likelihood of being able to strengthen the #1's integrity as an SOE through the state sponsored policy of democratic management had been exhausted since the #1 had only become more dependent on capital, especially from abroad, to make up for what the #1 union chief informed me was its biggest obstacle to survival, the lack of capital.

Anyang Chemical Fiber Textile Enterprise
From Interviews with Enterprise leaders and Anyang Trade Union Officials

The Anyang¹² Chemical Fiber Textile Factory case (hereafter *Anyang Textile*) was cited in field interviews with company senior managers and the general secretary of the Anyang ACFTU as one of Anyang's best examples of democratic management in action. In the fall of 2000 the factory had a total of 4318 workers, of whom 518 were retired¹³, making it Anyang's 3rd largest SOE. Officials and enterprise administrators stated that in September of 1995, the company carried out a democratic election of the factory director because *Anyang Textile* was laden with heavy debt and losses¹⁴. In addition to lost wages, the company also had not paid back workers for loans they had made collectively to help finance *Anyang Textile*. Almost 2/3rd of workers had been laid off. Some 400 workers and cadres applied for transfers, just one of many signs of lost faith. Lastly, enterprise leaders were caught engaging in

¹² Anyang is a city in Henan province, about a 4 hour train ride (south) from Beijing. Xinxiang, mentioned below is about 5 hours from Beijing and Zhengzhou is 7 hours by train.

¹³ In Chinese SOEs, retired workers count as part of the total of workers. The company is responsible, through its contributions to the social security funds, for the social welfare of retired workers. If a company wanted to buy out an SOE, it would be considered responsible for their social security funds and other needs such as housing, health care, etc. The failure, thus far, to set up a reliable national pension system from government funds has frequently contributed to difficulties in persuading capitalists to buy out Chinese SOEs.

¹⁴ Unless I state otherwise, claims made in this section are by the cadres we interviewed about *Anyang Textile*. Our summary of their version does not imply veracity.

corruption, which led to their arrest and the decision to democratically elect a new factory director.

Although it was agreed that assignment of a factory director by the city government was not desirable since the last chosen factory leaders were such a failure. Therefore a democratic election was seen as a better formula to resolve the leadership crisis, though the city leaders still played a formative role in the process. The City set up an enterprise administrator democratic election organizing committee, consisting of relevant governmental department leaders, factory directors from successful large enterprises, accountants, and economists. This committee then placed ads in newspapers for potential candidates. They received 60 applications, narrowed that down to 30, and then selected 10 from that group's written statements. After interviews, 5 remained for consideration. Lastly, groups representing company leaders, city government leadership, and workers' representatives from the WRC, interviewed the 5 and chose a director of a small textile SOE in Anyang.

According to these cadres, within a month of being elected, the new director turned the company around. One matter resolved quickly was the problem of company funds turning up in private accounts, which ended up returned and monitored more carefully because of the new policy of enterprise transparency. Enterprise cadres who had not contributed to the

collective financing fund were required to pay in their share. Enterprise leaders were also required to subject their use of company phones to WRC monitoring. As a result of these reforms confidence in the WRC was restored and, consequently, productivity at *Anyang Textile* improved greatly.

Although management became stricter on the work floor, cadres told us workers had no objections since they once again received wages. Wages remained relatively evenly distributed, with the director only receiving double the wages of workers.

Anyang Textile invested almost ¥ 9 million in high technology machinery. According to the enterprise union chief, after democratic management became policy, the government interfered in production much less. Worker surveys reported almost 90% levels of satisfaction. In the past, approaching workers for company loans was much more difficult because workers were in a state of poverty. Now they have wages and when the company lacks capital, workers respond positively to loan requests. All the cadres we talked to were excited about the prospects of entry into the WTO, since the textiles sector stood to gain from lower tariffs in the US. This they also believed would strengthen the position of the company and thereby benefit workers. In this sense, one cadre told us, WTO entry would 'add to the benefits the company enjoyed from *minzhu guanli's* contribution to increased efficiency and worker motivation'.

Anyang Textile Workers Interviews

From the *Anyang Textile* factory we were able to access 5 privately conducted interviews with workers. These interviews were conducted without permission from factory cadres; therefore workers could feel free of worry that their answers to questions were being monitored by any enterprise or government authorities. I conducted all the interviews, most consisting of one to two hour periods, separately. Interviews required a day in advance to schedule. In all, I interviewed 3 women production workers, 1 machine repair worker, and a janitorial staff worker.

The workers' assessment of the changes *Anyang Textile* had undergone in the past few years was quite different from what company leaders and Anyang trade union officials related. The company apparently had changed its name, using the director's name, and a subcontracted franchise company likewise changed its name in a similar fashion. In the eyes of the workers, the company was essentially the director's possession. As for the collective investment in shares of company stock (*zhigong rugu*) called for by administrators, workers, who were expected to contribute ¥ 3,000¹⁵, were quite ambivalent toward the idea. The machine repair worker told us it was

¹⁵ Roughly 5-7 months of salary for a production line worker.

forced on workers, a common phenomenon in companies in trouble or about to undergo shareholding conversions. The company was slated to become a shareholding company in a month at the time our interviews were conducted. Workers interviewed stated that most *Anyang Textile* workers were unconvinced that the company would be able to pay out dividends on their 'investment shares', thus their tendency to not strongly support investing in shares. And of course, the company had a high debt level, owing the banks some ¥ 2 million in interest. Still it was likely, according to a production line worker the company would undergo shareholder conversion and many workers would end up investing, since they could be laid off if they didn't support it through investment.

Only a month prior to the interviews in November of 2000, some 100 workers had gathered and sought out the director demanding overtime pay, and were met with punishment for doing so and had to write 'apologies' for their actions. Workers were assigned type of work (i.e. heavy vs. light lifting) according to how well they got along with the factory director. Levels of work intensity only increased since the new director took over. Favoritism was cited in every interview, in addition to inappropriate use of company funds for auto purchases and dinners for friends of the director. The two male workers who worked on the shop floor for longer periods contended that the old factory director was more concerned about workers' needs,

especially social security. One of them related his perspective of the conflict like this:

You know, they say all this stuff about democratic management? But this is not what they must mean. In China workers are supposed to be in charge. But now basically our feelings don't matter. That's bad enough, but if you leave this factory, where else can you go? In the old days at least it was possible to have a job or to go somewhere else if you had the right connections. What is this all about? (Interview with machine worker #1, Anyang Textile Factory, October 2000)

Regarding the WRC's role, the machine worker told us that it was something that shop managers chose and in any event workers' representatives didn't speak out that much. The representatives did cast ballots for this director, but they really knew very little about him. These accounts were basically confirmed by 3 women workers, in their early to mid-twenties, who worked on the production line. They contended that work intensity had increased with the new director. Some several hundred workers were led by a worker surnamed Gao to demand overtime pay for work performed on National Founding Day (October 1st), but were told the director was not present. The workers were offered the choice of 2 additional days off during the Spring Festival, but they countered the law allows for 7 additional days off as compensation. The workers were dispersed and Gao was demoted.

That Gao was just unlucky. You say democracy? How can there be democracy if they do that? This is not the way it was before, even if things in the old days weren't perfect, you know? All we know now is we can lose our job for any reason maybe and then what (ibid)?

The machine workers engaged a quite different discourse of workers democracy than what cadres in the same factory employed. From these workers' perspective, democracy at the point of production was only valuable to them if it guaranteed certain basic rights that socialism had always promised SOE workers in China. With or without workers democracy, that was a fundamental obligation of the SOE to SOE workers in China.

The women workers I interviewed recalled the election of the director, but stated that he only lasted a year. Thereupon, they explained, the factory encountered more losses, production stoppages. The company lacked inputs like cotton because of capital shortages, which was closely related to the problem of corruption in the enterprise. When the most recent director took over, the government made a series of special loans to buy raw materials, which accounted for the subsequent turn around of the company. Without the loans, the women believed there was little likelihood of a revival.

With respect to the functioning of the WRC, the women production workers expressed satisfaction in a sense. Representatives do try to represent workers' interests and relay workers sentiments to enterprise cadres, however they are generally ineffective. On minor production related issues, such as eating schedules, the WRC can occasionally make some impact. However, in areas of real power related matters (i.e. important production

strategies, management approaches, work pace, etc.) they have little capacity to make changes.

In any event, they noted that WRC meetings are only once a year and workers don't know much about the content. Production related issues are all decided on by senior managers and cadres; the WRC has little to say about such matters. "There doesn't seem to be much need for a WRC," one female line worker exclaimed at one point. "It has no real relationship to the workers it's just a formality" (Interview with women worker #3, Anyang Textile, October 2000). The attitude of these women workers confirmed the findings of Zhang (2001) that I discussed in the previous chapter. Workers have a sense that democratic management would be about something that should protect workers and in this sense it falls far short:

What's the point of their democratic management or even saying they have that? It's not that great a concern to me, but I know for other workers who are facing layoffs (*xiagang*), it's a really unfair situation. I don't think workers should have to worry about being laid off, not if they really are serious about their so-called democracy. I just think it's a real problem and they deserve better. I wish there was a way out of the situation; it just seems unfair. Luckily I'm young, I can leave, so many can't (Interview with Women worker #2, Anyang Textile Factory, October 2000).

Golden Dragon Wire Tubing Factory in XinXiang

Managers at Golden Dragon Wire Tubing Factory told me their enterprise is a producer of spare parts for refrigerators and air-conditioners in the small city of Xinxiang, located roughly 60 miles from Zhengzhou. Its

workers are very highly skilled, and many even have college degrees. Its products are some of the best in the country and the company is well known in Asia. *Golden Dragon* exports to foreign markets and is the second largest payer of taxes in Xinxiang. *Golden Dragon* was a small enterprise that employed only 2-300 workers when it began operations in 1974 . At the time of the interviews in late 2000, the company employed about 1300 workers. They explained to us that in the early 1990's the company began to experience debt problems and was having trouble paying workers' wages. A director surnamed Cao had bad relations with the workers and as a result there was a call for a change in factory leadership. It was widely felt that an election, with guidance from city leaders, would be the best way to restore worker confidence and improve the company's competitiveness. According to officials and managers, in 1994 the factory director (subsequently known as the CEO after conversion to shareholding corporation status) was 'democratically elected'. One senior manager told me quite excitedly, "now that we have reformed our management system and there are new markets coming to China as soon as we sign the WTO agreement, we're quite optimistic about our future opportunities to expand and increase our production."

Golden Dragon Worker Interviews

A 36 yr. old electrical worker I interviewed, Mr. Yang, stated that in a period of high unemployment in SOEs, he felt lucky to work and bring in 5-600 ¥ a month. Yang stated that his impression is different from what managers stated, the company never was in high debt in the 1990s. If it was experiencing losses, it was still able to pay out wages to workers. He claimed that the then factory director, surnamed Cao, was not removed because his relationship with workers was bad, but rather because officials no longer supported him. This was more than likely tied to his youth and lower level of education, which reflected badly on an enterprise that was performing well and increasing in its stature among competitors. When the company organized a 'selection committee', consisting of company cadre, city cadres, and representatives from the Golden Dragon WRC, they narrowed down the field to 3 candidates and then workers chose the new director from that list. Company productivity and competitiveness improved quickly when the new manager instituted reforms to make the company more transparent. A new management system was devised that emphasized efficiency and input from workers, modeled on the Japanese lean management philosophy. The practice of frequently treating cadres and visitors to lavish dinners and gifts was ended. Workers responded positively to both the new style and the increase in company productivity.

Mr. Yang knew little about the 'democratic election of the company director and was a bit surprised to hear of such an event. He stated that the present director, surnamed Li, was appointed by local officials. While the managers claimed that a 'democratic policy decision committee' had been formed, Yang felt that shopfloor or mid-level managers chose most representatives. He rejected the claim that democratic management had much to do with the productivity of the company. More likely the quality of the commodities the enterprise produced explained the enterprise's condition, which itself is related to the good foundation that the company had for many years before 'democratic elections'. As for worker participation in management, Yang was cynical in his response, "workers have no demands and no enthusiasm for participation. Even if they wanted to concern themselves, there's nothing they could change." When asked to explain his aloof attitude toward democratic management, Yang declared, "Under the present economic conditions, with things not going too well, workers' demands are fewer, only concerning themselves with getting wages.' If there occurs a conflict between managers and workers, Yang declared that workers would never turn to the union since, 'all they do is send little gifts out during Chinese new year and not much else'. When asked about problems like corruption, he stated, 'we pray the director is treating many clients to dinner! All we care about is getting our salary, and if that

helps, then so be it!' (Interview with Golden Dragon Worker Yang, October 2000). Mr. Yang provided a fascinating view into the mindset of the SOE worker in the 1990's. On the one hand he seems almost complacent.

However, his words are laden with sarcasm, one which points an accusing finger at the official discourse of workers democracy in China. As he put it before I left, "Democratic management, fine. What about the democratic right to a job? That's what we're supposed to have first and foremost, no? This is a socialist state owned enterprise with Chinese characteristics, no?" (ibid).

A 38 year old production line worker named Zhao, like Yang, was optimistic about the prospects of shareholding, noting that if workers were called on to buy stock in the company, they usually did so and earned dividends. However, he felt that he and his coworkers were not inclined to think about democratic participation as an issue. The factory had a pretty good record taking workers' suggestions and besides, "as long as the company is able to pay wages, we're not concerned about much else.

Whether or not our suggestions are implemented isn't something that matters to us" ..."

Workers are most concerned about whether or not the company is going to go bankrupt. At present, democratic management can't guarantee that the company won't go broke in the future. At the moment our factory has the support of the city government and the banks. We work hard because we're afraid the enterprise might go broke otherwise (Interview with Golden Dragon Worker Zhao, October 2000).

On the face of it, it would appear that workers such as Zhao display classic traits of apathy, with little or no trace of any of the discourse of democracy. However, looked at through a slightly different frame, implied throughout his discussion was a conviction that democratic management only has meaning if it can guarantee an SOE worker's right to a job. Here, then, democratic management actually is a notion that is deeply socialist in meaning and used, even when it appears rejected as farcical, to reject the dominant and core expectations of workers in the period of transition from state-socialism, namely that they give up their claims to the right to a job by virtue of working in an SOE. When I asked him if he thought it was possible to have democratic management and layoffs he looked at me with a look of little more than bemusement.

Xinxiang Wireless Electronics Factory Administrative Cadres on Democratic Management and shareholder conversion

Two senior managers and a union chief informed me in separate interviews that The Xinxiang Wireless Electronics Factory, a producer of wireless communication products that employed about 1500 workers, had carried out a democratic election of the company director in 1994 (Interviews with manager Yao and Liu, Xinxiang Wireless Electronics Factory, October, 2000). The company carried out this election due to heavy economic losses

that it suffered throughout the 1990's. These losses were caused by the practices of the then director and his team of managers, who were too interested in maintaining good political relationships and not concerned enough with production in competitive markets. Although the company experienced losses, it was able to keep up payments of wages, but this was a precarious situation that could not be tolerated for much longer due to the threat of losing access to credit. He also was blindly investing company funds in new areas that had nothing to do with the factory's production but promised quick profits. Actually he was investing in products that had little future provided him with opportunities to profiteer.

The union chief explained that workers wanted to have the chance to elect their own factory director and put the factory on a new road to becoming competitive (Interview with union chief Hao, Xinxiang Wireless Electronics Factory, October, 2000). After electing a new factory director in 1994, the factory turned around rather quickly, with investments in appropriate products that ensured profitability. This worked to stimulate workers' interest in productivity, which in turn spurred a desire to convert the company to shareholding corporation form. Workers and managers, Hao explained, both enthusiastically invested in stocks since profits created the basis for dividends. Workers also had a chance to vote through their stock

purchases in addition to the extended power their WRC won during final negotiations for the shareholder conversion plan (ibid).

Interviews with Workers on Democratic Management at Xinxiang Wireless Electronics Factory

A 48 year old sales division worker, Mr. Li, with 32 years seniority claimed that, in fact, the director who was 'democratically elected' was not elected through the WRC. Instead, he was basically selected through a process that was dominated by the city government. From that point until 1998, when the company became a shareholding corporation, there were no more 'elections'. In 1998, the company leadership passed a resolution whereby stockholders' representatives voted for the board of trustees, which then organizes the enterprise leadership. This maneuver was what was referred to at the beginning of this chapter as the "Employees – Director – Supervision" system, created for SOEs that became subject to shareholder control.

Since the democratic selection, Li agreed that the company's performance improved, new products were developed with better market potential. Workers' level of motivation had increased as a result. The WRC was now selected and reelected every 3 years. Since the democratic selection, the Li felt that the company had become much more transparent, the quality

of management was improved, and the enterprise had performed much better in sales.

However, the system of stock ownership has certain weaknesses, especially for the smaller investors, since there is no security, which Mr. Li explained:

If bad decisions are made, the small investor can lose quite a bit. There should be small investors' representatives on the board of trustees. Of course the system has certain advantages for workers, since they can receive dividends at the end of the year in addition to their wages. But that's not why workers invested, if they did; they were more motivated by their tendency to do what the government says they should do. If it were only workers of their own accord demanding shareholding conversion, the government wouldn't approve it actually (Interview with worker Li, Xinxiang Wireless Electronics Factory, October 2000).

Mr. Li's view was very critical of the idea that shareholding could bring workers greater power:

Oh yes, I'd love to have more say through the WRC or the investors' representative on the WRC, are you kidding? We should have that. We aren't just investors after all. We're workers in this SOE and they shouldn't forget that (ibid). But actually I don't expect that will happen. After all, ok, we have a representative on the board. Great, but they can still fire us maybe. Or lay us off even worse. So, what power do we have really? If we have democratic management as they say, why can't we protect our job? That's what I want, otherwise, this shareholding is just a share of a private company in which I have no rights whatsoever. (ibid)

In this passage, it is interesting to note how Mr. Li takes the discourse of workers democracy in China and engages it like other workers in a way that is rich with the socialist idea that a job is not merely a mechanism to a

wage or a dividend share, but a fundamental right, his core identity as an SOE worker. He has taken the official discourse of workers democracy and uses it against itself, even as he embraces the dividends he might earn from a 'shareholding' company.

A 51 year old production worker, with 31 years seniority, surnamed Zhou, stated that the 1994 selection was not direct democracy. He contended instead that it was a matter of the city government evaluating several candidates. In the end the vice-director was *chosen*, not elected and the WRC was not involved. In 1998, the director became the CEO and the enterprise was transformed into a shareholding corporation, without an election. Thereupon he explained the factory only produced one good, which was both marketable and the basis of the company's success. He continued,

And, of course, the companies that make our product are not that many in number, so we dominate the markets. But the older workers have mostly been forced to quit or been laid off. Now we mostly employ younger temporary workers (*lingshigong*). The result is a company culture of looking out for yourself if you're a worker and concentrated authority in the hands of the factory director. The director frequently threatens workers who complain to him, "If I can't take care of you, I'll deal with your wife". Older workers are kept from working, regardless if they have issues with him or not. The factory has basically become his factory (Interview with worker Zhou, Xinxiang Wireless Factory, October 2000).

The notion, inherent in state-socialist transition in 1990's China, namely, that enterprise directors should have more power like their counterparts in capitalist economies was greatly resented by Mr. Zhou. As

the conversation turned to the matter of democratic management, he first told me that the company was more transparent now and the WRC elections played a role in that. However, as with other interviews, I found that as the discussion carried on, Zhou revealed attitudes that showed him to be deeply critical of the lack of substance in the process that is referred to as democratic management by cadres. Towards the end of our conversation, he was a little more forthcoming on his attitude toward the WRC,

The WRC is basically chosen at the whim of the managers and some are chosen by workers, though not by secret ballot. So workers don't really think it's something important and don't really care who is chosen as representative. So the quality of representation is pretty perfunctory. (ibid).

When the *Xinxiang Wireless* was converted into a shareholding corporation, the company leaders were the same as before. The shareholders selected the CEO. Most workers didn't buy shares, the majority were bought up by leaders. It seemed to Mr. Zhou that conversion to shareholding should bring about some kind of benefits, like starting a new product line or dividends to the workers. But since workers didn't buy in, there were no real benefits to mention. Mr. Zhou was retired early, so his life has no security and cannot find a new unit to take him:

That left me with no choice but to turn my labor relationship over to the employment center, since the city government wants to make our company take responsibility for its own losses and gains, so the company doesn't care about what happens to me, nor the city government. And the union doesn't speak out on behalf of workers. In my opinion, the enterprise's operations should be transparent and

major decisions should have to be approved by workers' representatives. Now it's just a matter of the director having complete control. The present leadership is more like a mafia group. The conversion was just a policy to transfer power to the director. The workers have no security or power and the future is bleak. Our biggest concern is our rights, especially livelihood security. Only when there is true democratic management can the workers have any rights and protect them.

Again the linkage between the enterprise's duty to workers to provide work and social security stands in contrast to the perspective required of a wage worker who accepts that, no matter how great the remuneration, one's fate as a laborer is invariably up to the market. A wage worker might have the right to organize in a union and fight for politically for certain protections from markets, but, as no less than Adam Smith put it in the *Wealth of Nations*, wage workers must simply accept that capitalists in markets have a far greater capacity to influence the outcome of struggles over the character of capitalist labor markets (Smith 1993 [1776]). In these cases, we hear workers like Mr. Zhou rejecting the idea that investors should have the lion's share of say in the enterprise. Workers' representatives, even in shareholding corporations that are still SOE juridically, should retain power vis `a vis matters concerning workers' fates. He could be no less clear about what he meant by 'fate', a direct reference to what the government no longer cares about in his opinion, namely whether or not SOE workers have work.

Notable Patterns in Interviews with Henan SOE Workers about Workers Democracy

It might be tempting to take away from these interviews the impression that SOE workers have little interest in workers democracy or that it does not inform the way they think about the changing relations of production that transition from state socialism is imposing on them. Indeed the workers I interviewed in these companies seemed far more interested in hanging onto their jobs long enough to be able to access pensions when they retire. However, there is reason to doubt such a conclusion and to regard it as jumping the gun. In fact, embedded in these interviews with Henan SOE workers is a sense of what workers democracy should be, and that sense is quite different from what enterprise cadres hold. For these workers, transition or no transition, markets or no markets, an SOE has an obligation to workers to provide jobs and workers democracy, be it in whatever form, should be intimately linked to that principle. That is, workers democracy is about far more than simply elections it is about a social contract that once broken renders the very concept workers democracy glaringly lacking in substance. On the one hand, workers express great pessimism toward the way workers democracy performs as an institution in the period of transition, offering comments like 'what good would it do?' However, scratch beneath the surface and one finds far more than rejection of the concept. Indeed, what one finds is the *potential* for the utilization of a discourse of workers

democracy by workers as a tool to do something that SOE workers did not have to do in China for nearly the past half a century: fight to save jobs.

Interviews with Workers Leaders of Protests against Privatization in Zhengzhou, Henan Province

The case studies for this section bear certain similarities to the ones discussed in the last section in that they comprise small- and medium-sized SOEs in Henan Province that were struggling to maintain production in the face of growing debt and layoffs. However, the companies in this chapter consist of SOEs that experienced far more volatility and conflict as a result of choices made by enterprise and Zhengzhou city cadres in their efforts to resolve small and medium sized crisis. Interviews with Zhengzhou workers, who were leading protests against the selling off of SOE assets to buyers who had betrayed their inflated promises to restore production and job security, show that the discourse of workers democracy has also been employed in the moment of resistance to the terms of SOE restructuring under Chinese transition from state socialism.

In this section, then, I want to first provide a brief exposition of three cases of what can only be loosely called privatization. These served as the sources of interviews with workers' leaders of protests against the terms of restructuring in individual small and medium sized SOEs in Zhengzhou City.

These interviews took place at the end of 2000 and during the spring of 2001. I was responsible for conducting the former while the latter were left to a Chinese colleague in Zhengzhou who was familiar with and (along with her husband and other former Cultural Revolutionaries) offered support to SOE workers' protests in Zhengzhou at the time. Due to limitations forced by circumstances, interviews were only conducted with leaders that workers had chosen to represent their interests in battles for compensation and property as a result of the failed promises of privatization. In each instance, when battles became pitched, the workers turned to these workers' representatives and regarded them as their legitimately elected workers' representative congress, despite the refusal of enterprise and city government cadres to recognize them as such.

The Zhengzhou Paper Factory, Zhengzhou, Henan.

The Zhengzhou Paper (ZZP) factory's decline is a story that is known throughout Zhengzhou City, not only because the level of collective protest that it attracted was so high, but because the circumstances of its degeneration have been experienced by SOE workers city wide¹⁶. From the mid-1990's, in line with the Party's policy toward SOEs of 'taking a firm grip on the large, letting go of small,' the Zhengzhou city government encouraged

¹⁶ According to outside supporters of the factory struggles in Zhengzhou, some 48 factories have had experiences identical in substance to the ZZP.

small and medium sized SOEs to resolve their manifold debt problems by finding a merger partner with whom to form share-based co-operative enterprises (*gufen hezuozhi*). Outwardly, this policy was supposed to head off the debt problem and its source, namely inefficient management, by injecting fresh capital into the SOE and subjecting it to modern management techniques to revive profitability. Workers were guaranteed by law to be able to have final say in the matter of such transfers of ownership rights. They were also to be able to retain rights to the factories' assets in the event promises made in the process of the transfer were not kept. How that policy has played itself out in the realm of reality has been a quite different matter.

The ZZP was established in 1958, as a producer of print paper. As of the 1990's employed 860 workers, of whom 171 were retired¹⁷. Its crisis began in 1995 when the factory, due to debt and the existence of one workshop that violated environmental regulations, was ordered to temporarily halt production. By the end of 1997, ZZP had endured almost 3 years of plant closure, except for 3 workshops that were rented out to private businesses, with over 80% of the original workforce out of work. When workers representatives received word that there were several companies who were willing to merge with ZZP, they expressed enthusiastic interest in any

¹⁷ Most of the information about the company comes from documents supplied by workers' representatives, often in the form of petitions to the city and provincial governments, and/or directly from interviews.

company that could save their SOE. On November 26, 1997, the WRC held a special meeting to meet with 4 merger candidates. Of the 4, Fenhua Inc. attracted the WRC members' interest and unanimous approval choice as merger partner. Fenhua's leaders made a merger offer that promised to revive production and restore all employment positions, back pay, and pension obligations. In a nutshell, ZZP workers proceeded to await the implementation of the merger agreement, which, after 8 months of waiting, was finally approved by the Light Industry Ministry, officially transferring registration of ZZP assets to Fenhua Inc, making ZZP now one of Fenhua's subsidiary companies.

However, Fenhua failed to live up to its side of the contract, especially provisions calling for it to contribute to a circulating capital fund, revive production, reemploy all workers, construct new workshops, and purchase new machinery and new warehouses. To make matters worse, Fenhua likewise reneged on its obligations to pay its share of subsistence relief and health fund contributions. As months of waiting for Fenhua to fulfill its end of the agreement dragged on, it became increasingly transparent that the merger was simply a device for Fenhua to absorb SOE assets at a cheap price. Only 20% of workers were reemployed in a workshop of the factory that was rented out to a private business. Finally, only two months after the merger was officially approved, Fenhua, with the cooperation of the original ZZP

director, applied for and secured a loan using the factory's land as collateral, without securing the approval of the WRC.

After waiting almost a year to see if the situation would improve, anger with Fenhua drove workers to take new initiatives to defend the SOE. After trying unsuccessfully to secure a meeting with the Fenhua subsidiary director, 50 workers gathered and marched to the City government and Light Industry Ministry offices to present their grievances and petition officials for a resolution. As a result, Fenhua leaders and ZZP WRC representatives signed an agreement, which stipulated that Fenhua not make any changes in its implementation of the merger agreement without consulting the ZZP WRC, consult the WRC for approval of any plans to sell or develop company land, abide by principles of democratic management in line with laws regulating SOE shareholding cooperatives, and allot subsistence relief to the workers. Soon thereafter, the Fenhua director declared at a mid-level management meeting, "This agreement is null and void. What was once known as ZZP is now Fenhua Inc., whatever I say goes!" Thereupon Fenhua devised a number of rationalizations to fine workers involved in the petitioning activity that brought about the city government brokered agreement, only sharpening the terms of the conflict.

After an unsuccessful attempt to meet with Fenhua management one more time, workers' leaders, now having completely lost any trust in

Fenhua's intentions, proceeded take up the task of investigating the origins of this merger partner. They discovered that the company was essentially slapped together just prior to the merger. Indeed, the Henan Provincial Commerce Ministry actually granted Fenhua a business license on the same day that the merger agreement with the ZZP WRC was signed. Suffice it to say, upon further investigation it became clear to the WRC representatives that almost everything the workers were told about Fenhua from the get go was the product of invention. On October 19th, faced with the reality that the WRC and ZZP workers had uncovered the truth about the merger's fraudulent basis, the Henan Light Industry Ministry organized an arbitration meeting between workers' leaders and Fenhua management, which the Fenhua "CEO" refused to appear at, sending instead the original ZZP factory director (now "Fenhua general manager"), and after four days of negotiations, talks broke off.

Fenhua then sent 5 board members to meet with and negotiate a new agreement with the ZZP WRC. The end product of this several day meeting involving both workers' representatives and rank and file workers was a resolution passed overwhelmingly by the WRC on October 28th calling for the nullification of the merger and return of authority for ZZP operations to the ZZP WRC. However, on the 29th, one of the Fenhua board members managed to secure a copy of the ZZP land ownership certificate, which

alerted the WRC to the Fenhua board's interest in taking out a mortgage on the ZZP property. The WRC leaders sought out the Fenhua leaders and demanded an explanation, giving them a deadline to respond to their demands, at which time if unmet would result in defiant acts on the part of the workers. On November 3rd, police showed up at factory in a standoff with workers whom Fenhua claimed were threatening to engage in terrorist acts against the city's electrical and water supply systems, which only further enraged the ZZP WRC and rank and file.

In May of 2000 Fenhua, after many months at a time denying workers subsistence payments, retirement pensions, and health insurance contributions, insisted that the only hope for workers to receive what was owed them in back payments and wages was to accept the selling of ZZP land. By June of 2000 the stakes were clear in the eyes of the WRC and rank and file. There was little reason to believe Fenhua's claim that selling off the land would result in the workers retrieving lost payments or the revival of profit making productive activities. Indeed it was transparent that Fenhua's intention was to bankrupt the factory, thereby legitimizing the death of the ZZP as a SOE unit altogether, and profiting from the sale of the land to real estate developers. The WRC and rank and file had already, by this point, petitioned government ministry officials in small and large groups over thirty times since the merger, with no change in the situation. On June 7th, the WRC

held a mass meeting and declared its intention to occupy the factory until the city forced Fenhua to return ownership of the ZZP back to the WRC. From this date until August 8th, ZZP workers kicked out Fenhua representatives from the factory and collected rent payments from the one workshop that was still in production.

The occupation lasted a little over two months. When workers' leaders approached the Working Committee formed by the city government to seek a resolution to the standoff, they were told the committee was unable to resolve the workers' problem, that their action was illegal, and in any event they were just taking orders from superiors. On August 7th, two workers' leaders were detained and subsequently arrested by the police. On August 8th a force of some 500 police officers was amassed at the factory gates, forming a human wall leading to the factory, dispersing those inside and surrounding the factory and thus enabling Fenhua representatives to retrieve locked files and damaging documentary evidence of wrong doing since the merger. Thereafter, some 40 workers were detained and questioned. In September the Working Committee then ordered the ZZP workers to reelect its WRC. The workers elected the two worker leaders who were now in jail. The WRC continued to put out resolutions calling for the immediate release of the two leaders and for ownership of the factory to be turned over to the WRC. By

March of 2001 the city agreed to turn over ownership rights to the WRC, nullifying Fenhua's relationship with the ZZP.

Yibiao Airconditioner Factory

Aside from the commodity produced, the stories of Yibiao Air conditioner Factory (YAF) and the ZZP are strikingly similar. An employer of 300 workers, the YAF ran into problems of debt starting from the beginning of the 1990's that required a solution. The resolution would be merging with a company called Guotong Technologies Development Ltd. (Guotong), with whom a merger agreement was signed on Feb 27th, 1997. Although a Singaporean company had made a bid for merger with Yibiao, a small private company that engaged in buying and selling of technologies aggressively sold itself to the Yibiao WRC by topping every condition of merger that the Singaporean company offered, making it irresistible in the eyes of the WRC. In return for merging with and securing control of YAF's assets valued at 40 million Yuan, Guotong agreed to pay off YAF's debt, reemploy workers. However, this company had a history of employing false estimates of its own assets to secure licenses, ownership certificate and government approvals for mergers with other factories. This knowledge was possessed by a group of workers and lower level cadres; nonetheless the factory director proceeded to accommodate Guotong by arranging to transfer

and/or sell off machinery, parts, and remaining company possessions to ensure a low assets appraisal. As a result, the factory lost its capacity to produce. Guotong proceeded to go back on its promise to invest 5 million Yuan in new production lines, rented out two office buildings near the factory to outside companies, forced workers to 'resign' and terminated labor contracts with 28 workers and sent another 51 on vacation leave without salary.

In January 1999, YAF workers held a mass meeting to carry out a "Democratic Evaluation". At this meeting the general sentiment was that Guotong lacked the means necessary to revive the SOE and that, aside from the factory director who became a Guotong general manager, Guotong was the only real beneficiary of the merger, almost overnight able to nab for itself a chunk of state assets. On the other hand, the workers at YAF, except for a small number who were 'reemployed' in odd jobs by Guotong (eg. restaurant dishwashing, piecework clothing production), were transformed into 'orphans' presented with the constant threat of factory asset liquidation. Workers began making their objections known to Guotong through forming a "Save the Factory Committee" whose main duty was preventing the further sell-off of company. Appeals to the Light Industry Ministry were to no avail as officials asserted that the factory no longer belonged to the ministry and that in any event there was no road back. In 2003, the WRC won their battle to

annul the merger agreement with Guotong. At the moment the leadership is trying to figure out how to devise a workers' cooperative that can produce enough in value to make the enterprise's contribution to the retired workers' pension fund. However, the likelihood of that project reaching fruition is quite low since the leadership has been compelled to accept the debt that has accumulated since the mid-1990's, leaving them unable to find new sources of credit to fund any cooperative projects.

Zhengzhou Power Supply Generator Factory

The Zhengzhou Power Supply Generator Factory (PSG), founded in 1956, had 1,725 employees, active and retired and was at one point one of the largest tax contributors in Zhengzhou. The factory was a well known supplier of medium sized power supply generators to oil fields, machinery, and parts with a work force of 1,750 workers, of whom 600 were retired. In 1993, the Mayor of Zhengzhou appointed a new factory director (Shi) who managed to turn the originally quite successful SOE supplier to Chinese oil fields into a company torn apart by unprecedented debt. According to worker leaders the debt was artificially created¹⁸ through a number of activities including the disappearance of large bank loans intended for machinery investment, raising

¹⁸ We should note that workers' leaders from the ZZZ reported that the debt their factory was largely a product of similar activities on the part of managers and that in fact the company was in fact quite viable before the factory machinery was bit by bit sold off.

funds from worker 'investment' schemes designated for workers' housing construction that were siphoned off to unknown accounts, the selling off of materials and machinery at cheap rates, and the apportioning of production line management positions and profits to relatives. When workers petitioned Chen to audit Shi's performance record as factory director, as required by SOE law, he refused. Shi was instead automatically reassigned (and promoted) to a post in the city government. The situation with the next two directors followed this pattern and by the end of 1996, under the direction of the Mayor, the factory director declared the factory bankrupt. In early 1997 Chen had arranged for the factory to be 'purchased' by the Sida 'corporate group,' at no cost. The deal was brokered on the condition that Sida take responsibility for the employment situation of all employees.

Similar to the ZZG and the YAF situations, workers at the PSG SOE also experienced a sharp decline in standards of living during this 'transitional period' starting from 1995 onward. However, unlike the case in ZZG and YAF, when Sida took over the factory, production did not shut down altogether. While a sizable proportion of the original workforce was rendered redundant through a variety of mechanisms including forced early retirements and layoffs, some 400 workers remained at work in the factory by 2000. However, by 1999, Sida was also making clear its intention to follow through on the city government's directive to carry out the selling off of the

company property and land. Sida warned the remaining active workers that if it did not carry out its plan, they would lose their jobs and any chance for future security.

One key move on the part of Sida to facilitate the complete sell off of factory property was the relocation of machinery to a smaller cross-town factory that also belonged to the PGS. With the 'relocation' of the factory, all that would remain was the finalization of the sell-off of the factory land to real estate developers. To Sida's disappointment this plan would not proceed as smoothly as expected. Although Sida was able to coerce active workers into not resisting directly the relocation of plant property, it could not do the same with retired workers or pre-retirement age workers who had been laid off. From early 2000 on, there were numerous incidents of workers organizing in bands and making it impossible for Sida to go through with relocation of the machinery and materials used in the main plants. Critically, due to the large scale nature of the PGS factory and machinery used to make power generator suppliers, moving machinery was not the kind of activity that could take place in a short period or in secret. As a result, mobilization took place to disrupt any attempts to 'set up camp' on the part of movers.

In March 2000, workers' leaders hung three banners from the factory gates stating respectively, "Steadfastly stand by Mao Zedong Thought," "We will never go the way of Privatization," and "Long Live Jiang Zemin!" In

June 2000, the mayor organized a 'working committee' to meet with the WRC to negotiate. Although the spirit of negotiations seemed serious, no follow up action took place that changed the situation at PSG. Instead Sida brought in Public Security Bureau (PSB) police to intimidate workers' leaders, telling workers they were operating at the behest of the Working Committee. In July, another 'Working Committee' put together by the City Heavy Industry Bureau arrived on 3 separate occasions with PSB offices to inform workers' leaders that their actions were both wrongheaded and illegal, that the property of PSG belonged to the Sida "Corporate Group" to which workers had no claims, and that the banners should be taken down immediately or face imminent arrest.

On July 27th, Sida's 'general secretary' met with a mass meeting of PSG workers and relayed an announcement from the Vice Mayor (who sent additional PSB officers to be 'new working committee members' present at this meeting) stating that the government stood entirely by the Sida Corporate Group. Finally in late August 2000 two workers' leaders were arrested. By mid November they were released. Since then the conflict of PGS workers against Sida and the City government's attempt to remove factory machinery and materials from the main factory site in order to facilitate the sale of PGS land has continued without resolution and at times

turned violent as Sida has remained determined to carry out the 'transfer' of factory machinery¹⁹.

SOE Worker Resistance in China, Workers democracy and the Limits of the Possible in the Moment of Transition from State Socialism

Each of these 3 cases are products of the Chinese state's strategy to both free its ties (and obligations) to the SOE and compel workers to pay the bulk of the price for their respective enterprises' subsequent fates. It is worth noting the differences between these three cases and that of the # 1 Dyed Fabric enterprise discussed in the previous section, since the latter likewise was one that involved both collective resistance to privatization and the use of democratic elections of factory leaders to resolve a factory crisis. While in the #1 Dyed Fabric case this strategy appears somewhat successful, in the latter 3 Zhengzhou instances it has proven to be much more tenuous.

The moment of confrontation in the case of the #1 predates the Zhengzhou cases by about 5 years. The nature of the crisis faced by the #1 also differs from the latter three. By all accounts managerial lack of innovation combined with intensified competition from domestic and international textiles producers put the #1 into a dilemma *without* the active contribution of government officials or factory directors to the enterprise's

¹⁹ Underground gangs have also been employed to carry out the task and to intimidate factory defenders.

destruction. Further, in the # 1 case the local city government accepted the workers' leaders' resolution to the enterprise's predicament and there was made available government aid (for a short period after 1991) and capitalist investment in the company in the moment of conflict (until 1997 at least). When the workers at the #1 collectively gathered and protested the idea of selling their factory to a slaughterhouse owner, the timing of their conflict coincided with the rapid influx of East Asian capital in China in the early 1990's. The leadership of the workers at the #1, in the moment of conflict, embraced heartily both government ideology about the compatibility of 'democratic management/production control' and the (market smart) embrace of foreign capitalist markets to overcome the crisis of the SOE.

The workers' leaders in the 3 Zhengzhou cases, by the moment of conflict, had followed a trajectory that both dovetailed with and diverged from those of the #1. Workers at the #1 also engaged in a collective form of action against a buyout proposal almost immediately when the proposal was announced. The origins of their collective conflicts that occurred in the Zhengzhou cases date back to the early 1990's; they did not come to the fore however until about 1996 to 1997. By the time the conflicts did surface, the workers leaders in the Zhengzhou factories were faced with conditions that made them much more confrontational towards authorities and the ideologies of economic liberalization. Workers in these three cases were quite

slow to react to the decline of their companies, even when production came to an outright halt or the active participation of government and factory cadres in the razing of factory infrastructure was transparent. Besides gradual organization in the form of written and in person appeals to government ministries to investigate, little militant collective forms of activity resulted until, at the earliest, mid to late 1998.

Further, the market appeared to be a reliable savior in the #1 case, at least at the moment of collective action on the part of its workers in 1991. However, in the Zhengzhou cases the correlation between workers' declining economic situation and the embrace of markets was starker once the threat to the existence of the SOE appeared in the form of attempts to sell off the factory land, the last bargaining chip for the SOE workers. The problem might appear to be one that is best explained by the problem of 'corruption.' After all, in all three Zhengzhou cases the pilfering of state assets through illegal means on the part of state officials, factory cadres, and hastily scrapped together 'business corporations' is manifest. However, though less self-evident, the conflicts' outcomes are likewise shaped by the lack of capital available to resolve the crisis in a way that would ensure workers' ability to reproduce their subsistence and existence as an SOE, or as free wage laborers for that matter. The China of the late 1990's was one that looked quite different from that at the start of that decade.

The AFC not only abruptly made sources of foreign capital for a period scarcer; it also reinvigorated those within the CCP who advocated quickening the process of SOE privatization. Both the Paper and Air Conditioner Factories were hit hard by exposure to foreign competition. In the case of the former, decreasing tariffs on foreign investors' paper products in the mid-nineties wiped out many Chinese SOE producers who were replaced by more efficient smaller, private and unregulated enterprises, who supplied foreign investors with inputs (Han 2000, 50-53). Zhengzhou Paper Factory's 'problems' emerged when it was closed down in 1995, on the pretense of not meeting environmental regulations²⁰. The Air Conditioner Factory likewise experienced declines as a result of overproduction in the air-conditioner market and overexposure to southern Chinese producers who were heavily invested in by Hong Kong based capital. In both cases the problem facing the SOE was not so much insuperable debt. Rather, much more critical was the determination of state authorities not only to not support SOEs when faced with crisis, but to conceive of schemes to convince workers to accept 'alternatives' that essentially amounted to the acceptance of the death of their status as masters of the house (*zhurenwong*). The mire into which SOE workers in these two cases were thrown was one that the AFC and the pressure it put on government officials to hasten the demise of the small and

²⁰ Workers' leaders stress that only one workshop of seven was environmentally not up to regulatory standards.

medium SOE through privatization schemes combined to exacerbate. The speed with which China has agreed to open up domestic markets in exchange for entry to the WTO is something that is likely to secularize this trend and which makes the case studies in this chapter relevant to the much larger value producing segment of China's SOEs that have yet to be subjected to the imperatives of capitalist competition.

SOE Worker' Struggles in Henan and the Discourse of Workers Democracy

Workers' leaders defined the terms of struggle in the Zhengzhou cases in very much polarized language, one that made frequent reference to the need for challenges to privatization with every tool available to the *democratically elected* WRC, a phrase repeated and emphasized again and again. Furthermore, incorporating ideas that had been popularized in the 1990s that plainly were borrowed from the Cultural Revolution days, workers' leaders espoused the need to revive production through the mechanism of 'democratic management/production control.' However, the workers in the Zhengzhou cases were not at all enthusiastic about the official policy calling for 'democratic management' in SOE factories that undergo restructuring. From their vantage, the official system of "Workers Representative Committees," "Democratic Management" and "Production Control," etc. were part of a general policy designed to rationalize the

toppling of the SOE and the rights of SOE workers. At the same time, consistent with Chingkwon Lee's (1999; 2000a; 2000b; 2002) findings in the case of SOE conflicts in Liaoning Province, workers in the Zhengzhou cases have become virtual experts in labor and enterprise law. In the process of challenging (and continuing to challenge) the illegal machinations of factory directors and government cadres, workers leaders frequently employed the set of concepts that are constitutive of workers democracy. The use of legal frameworks has a dual function in these cases. On the one hand it provides workers' leaders with a mechanism to challenge Party based corruption in the period of transition, an obvious plus as Lee points out. At the same time, the law also provides the state with a device to channel workers' protests and to exhaust them since legal routes require long periods of time to reach a verdict and then verdicts are often only minimally enforced. Indeed, this is the trend in the 3 Zhengzhou cases, where workers' leaders chose to rely more on legal battles in the aftermath of collective protests.

While in the mode of resistance to SOE restructuring in China, these workers' leaders were also prone to reproduce a discourse of workers democracy that, to varying extents, also reproduced the official deployment of that concept in transitional China. This was not only the case in the # 1 Dyed Fabric Factory, where workers' leaders plainly were only able to play the role of aiding outside private investors in the establishment of a new labor

discipline based on the priorities of world markets. In the Zhengzhou cases, where workers leaders were much more confrontational with factory and government cadres, this also occurred. Even the ZZP leaders, probably the most radicalized of the 3 factories studied, saw no viable alternative to forming a shareholding corporation (*gufenzhi*) once they got the factory back from the Fenhua "company". Even though the move to privatize initially was carried out through this mechanism, which they could see would lead to a redistribution of the assets into the hands of a small number of shareholders, they held, nonetheless, that this was the only route to go if they were to accomplish the goal of bringing the factory under the democratic control of the workers. When the contradiction was pointed out, leaders acknowledged that it was very possible that workers could end up losing the capacity to democratically control the factory, but believed that there was little other choice --given the realities that blocked opportunities to secure a loan from a state bank.

In the YAF case, workers leaders were very keen to how the lack of democratic management led to the collective state of crisis YAF workers experienced beginning in the mid-1990's. Like their confreres at the ZZP, YAF workers leaders were able, through their struggle, to secure back rights to the factory property. However, since winning back those rights, they have basically not been able to do much with that victory, in large part because,

along with the property, they also won the problem of the factory's debt. Although YAF leaders recognized the link between the corrupt pilfering of their factory and the lack of involvement of workers in the factory's management, they were not nearly as likely to rely on the active participation of workers in the battle to win back their property. They instead organized a "Save the Factory" committee, filling the role of the WRC in abstentia, which depended on the pledge of a small core of older skilled intellectual workers to carry out the campaign against Guotong. As a result their bargaining capacity has never matched up to that enjoyed by the ZZP leaders, who relied on a newly formed elected union and WRC to develop a more mass based strategy to pressure the city government to return possession of factory property rights to ZZP workers. At the same time, one of the YAF workers' leaders showed possibly the highest understanding of the relationship between workers democracy and the crisis that the workers faced in their factory when, after an almost 3 hour in depth discussion about the history of the factory conflict, he exclaimed,

God Damnit! This is what it all comes down too, what we are doing *now* is what we should have been doing years ago, organizing a real WRC that is actively involved in factory matters, the whole factory. This we must do better in the future, our lives, our jobs hinge on our abilities to do so (Interview with worker leader #2, YAF, Henan, September 2000).

Finally, PPG workers' leaders at times appeared to be as militant as workers in the ZZP, yet they have not won nearly as much. In fact the face-

offs with the police have been the most violent. To date, however, they still have not won back their collective right to the company. In interviews, they were deeply bitter toward the city government for its betrayal of the rights of the PPG workers and its corrupt interest in selling off the company to speculators, which they contended was only an antidote to prevent workers' winning democratic control of the workplace. However, in terms of organization, the leaders' strategy was primarily one of relying on leftist Party members in Beijing to pressure the central Party to intervene in their situation. This strategy was quite a natural one since, compared to all the other cases, the potential for mass mobilization of workers at the PPG was lowest, due to the ability of the Sida 'company' to continue to provide some form of employment to a substantial fraction of PPG workers. About half of the active work force were transferred to office related jobs that paid lower but reliable wages for the interim. PPG workers' leaders found it least practical to focus on the problem of workers democracy since, until they secured repossession of factory property rights, such matters remained abstract. In interviews, they were also the most likely to concede that they were primarily interested in winning compensation for retired workers as the price for transferring ownership of the land on which the factory sat.

It is not an accident that Chinese workers took so long to attempt to use a discourse of workers democracy that radically challenged the official

discourse of democracy. One of the leaders at the ZZP explained to me, when I remarked that the workers seemed to have waited quite long, that workers in China were traditionally passive and trusting of their leaders. I asked why this would be the case when ZZP workers as an example had a tradition of electing their WRC and involvement in production decisions. He replied,

During the 1980's they were taken care of, which was their main concern. As long as things were well, they just left management matters to representatives and authorities. They had little real motivation to become more involved in the affairs of managing the company. So really the WRC was not that active in representing workers' interests as much as helping out cadres with management related issues. Therefore, it was not until it was really very late that workers realized that relying on the company leaders was not a viable option, even though the leaders had already abused them for years through layoffs and corruption (interview with ZZP leader He, ZZP, Zhengzhou, September, 2000).

His comments indicate that a discernible development had taken place in the attitudes of these workers and their leaders in the 1990's, in response to the conditions of production that transition from state socialism imposed on them. That they chose this discourse of workers democracy is not the only noteworthy phenomenon here. It is just as noteworthy that the way Zhengzhou workers used the discourse shows a radically different understanding of the concept from those who hope it will produce a new class of wage workers who accept the power of markets. No longer, in these instances, are workers using the WRC to win the favor of directors. Instead,

they engage the discourse in attempts to save what they believe is their core right as SOE workers in a socialist society, namely, a job.

Chapter 7

Conclusion

From the late 1970's a dramatic reorientation in the CCP leadership occurred that reflected a sense of the limits placed on development by factional battles, a shift that called for subjecting enterprises gradually but surely to the imperatives of for-profit market mediated competition. This strategy promised a dramatic investment in human and fixed capital combined with greater amounts of enterprise autonomy in the realm of production and investment decisions. The transition enjoyed a decided advantage over the effort in the neighboring Soviet Union. This was primarily due to the large number of surplus laborers available in the rural sector, which during the Maoist period had experienced a lower degree of collectivization than laborers in the urban industrial sector. Therefore, the introduction of a market based enterprise sector produced a far less intense threat to the heart of China's political economy and thereby the political survival of the CCP than was the case in the former Soviet Union.

That strategy appeared to affirm the prevailing view outside China in social science literature that a more gradual approach to transition to capitalism, one that created a more 'mixed' economy and that spared the more sensitive SOEs the far reaching restructuring and exposure to competition seen in China's rural sector, would avoid the disastrous calamity called 'shock therapy' that was later applied to the heart of Russian industry. These forecasts tended toward a

static conceptualization of the transition to capitalism, seeing capitalism in the existence of given 'factors'. Typically mainstream analyses take for granted that bringing in new capitalist ideologies into the Chinese workplace culture will perform a role in making China able to more quickly and successfully integrate into international circuits of capitalist production. However, this approach is not limited to mainstream social sciences; it is practiced by Marxist and various radical schools as well, taking for granted the existence of capitalism in the form of increased marketization and the more deleterious outgrowths of inequality in the period of Chinese transition. In chapters 2 and 3, I argued that their respective methodologies are likewise problematic, since they leave analysts with little more than subjective sentiment to evaluate the impact of 'capitalism' in China.

The alternative to this weakness, offered in this dissertation, is a theory of transition from state socialism that can historically account for the outcome of that transition without taking for granted the actualization of capitalism. Borrowing heavily from Simon Clarke's work on the Russian transition from state socialism, the theoretical approach engaged in this dissertation has been to not presume that capitalist relations of production have been born as a *system* of production relations in China. Instead, we have looked at the heart of value production in China and noted that enterprises in this sector continue not only to play their vital role in the reproduction of the Party's monopoly of political

power in China, but they also have been largely protected from exposure to capitalist markets and retained non-capitalist priorities to guide production management and investment decisions. Even in the small and medium sized enterprises in China, it remains apparent, especially in the cases we looked at, that although there has been considerable enrichment on the part of enterprise leaders at the expense of workers, that wealth has been typically procured through monopoly advantages and, critically, forms of corruption.

Indeed, the cases from Zhengzhou that we analyzed in chapter 8 revealed one of two noteworthy scenarios: 1) cadres scramble for corrupt avenues to secure profits because there does not exist capitalist investment in their companies as long as they are expected to carry the burden of laid off workers social security needs or 2) even when there does exist a foreign buyer, cadres reject it because there is greater profit to be made from running down enterprises and selling their land off to speculators who have no interest in production. SOE workers, on the other hand, don't recognize the power of the market as their ideological barometer; instead they cling to traditional state socialist ideologies that call for the SOE to provide their basic social welfare needs for life in return for labor participation in publicly owned enterprises. Even when SOE workers embrace an ideology of transition like workers' democracy to their own ends to resist the terms of privatization (or more accurately in the Zhengzhou cases, corruption), interviewed SOE workers sought to recapture possession of their

SOE and to compensate workers for their losses and, ideally (if unrealistically), to provide employment through production revival. Rarely do SOE workers interviewed display the belief that by accepting the end of their relationship with their work unit they have a future in labor markets as they exist in present day China. Nor do these workers believe that workers' democracy is a tool that they can employ to make a transition to market dependence a worthwhile one. From the perspective of workers I interviewed, market dependence is, in fact, regarded as a barrier to their central goal in their discourse of workers democracy.

As we noted in chapter 4, there has existed a contested discourse of workers' democracy circulating in China since the Yanan period. 'Workers' democracy' ran a gamut of notions including democratic election of managers and directors, workers' supervisory committees, factory management committees, and (during the Cultural Revolution) workers' management teams, cadre participation in production floor labor, all the way to spontaneous rebellions and direct production control where necessary.

However, none of these reform efforts were able to address and resolve a fundamental reality of Chinese state socialism, namely, the lack of actual democratic participation which workers could exercise in the face of Party assigned cadres' dominance of enterprise production, be they production oriented ones or politically correct revolutionaries who put the social welfare needs of the unit first and foremost. This is reflected in the apparent tendency of

Chinese SOE workers during these periods, despite higher levels of worker participation than in most Stalinist systems, to remain largely uninvolved in the affairs of production decisions. Even in the 1980's when the most thoroughgoing implementation of *minzhu guanli* occurred in the Chinese SOE, after a period of excitement about electing factory directors, workers' actually showed little interest in their revived WRC. Worker satisfaction was instead associated with increasing salaries, which were products of increased investments from central ministries in urban industry and new (and generally popular) piece-wage policies that had little to do with the role given to the WRC in the SOE (or capitalism for that matter).

Workers' Democracy as it circulated in official literature in the period of transition from state socialism in China differed significantly from what was envisioned and practiced during the Maoist period, even while borrowing many component notions from that era. Critically, from the 1980's on, the dominant view of workers' democracy in official media organs regarded workers' democracy, especially constituent institutions such as the WRC and democratically elected managers, as a complement to decreased intervention of state ministries in the SOEs and greater exposure to competitive markets. This perspective was, as I noted in chapter 5, not unique; it was instead picking up steam globally in an age of neo-liberal restructuring of capitalist production and trade regimes across borders.

However, the official discourse of workers' democracy in the period of Chinese transition has not been terribly effective in terms of legitimating the Chinese state's policy of 'letting go' of its responsibility for the fate of failing SOEs, especially for the social welfare needs of Chinese SOE workers. Even more important, the official discourse has also not helped make Chinese SOE workers' accept a key ideological premise of transition, namely that *SOE workers* should shoulder the burden for the failure of the Chinese SOE. Put in another way, SOE workers have not assimilated the idea that their value in labor markets alone should be the final determinant of their futures when an SOE experiences failure.

Explanations for this outcome found in the literature have tended to stress particular aspects of the policy that make it unlikely that workers will be able to use the institutions of workers' democracy (i.e. the WRC, supervisory committees, etc.) to exercise control over important production and investment related decisions. Additionally, the failure of SOEs to act more like capitalist companies free from external interference in the affairs of production and investment has been cited as a major hindrance to institutionalizing workers' democracy in Chinese SOEs. The argument goes if there were more enterprise autonomy, institutions of workers' democracy such as the WRC and unions would have more clearly defined roles as representatives of workers' interests.

The findings in this dissertation throw such assumptions up to question, if not into considerable doubt.

Recognizing this, I might have opted for the position taken in much of the radical and Marxist alternative in the literature and declared China capitalist and thereby unable to deliver workers' democracy to Chinese workers. However, this is unsatisfactory at a number of levels. For one, the matter of capitalist 'restoration' in post-state socialisms remains debatable and problematic in terms of on-the-ground research in the moment of transition:

A focus on the day-to-day realities of postsocialism reveals a much more ambiguous account of the transformation announced with such fanfare by theories of modernization and of market and democratic transition. Each of these theories has a limited view of the interaction and interpenetration of system and life world, macro and micro, global and local; we need instead to attend much more to how the unfolding uncertainties of macro institutions affect practices within micro worlds and also to how family, work, and community are refashioning themselves – often in opposition to what governments intend... [W]e find time and again that every step forward in the direction of the market produces forces opposed. In reaction to the iron law of market expansion, we discover the iron law of market resistance (Burawoy, in Burawoy and Verdery 1999, 7).

Simplistic conclusions (e.g. China has become capitalist by virtue of markets, inequality, privatization, etc.) offer little in the way of explaining why capitalism does not offer Chinese workers the kind of empowerment promised by the advocates of Chinese capitalism, be it *laissez faire* or with a 'mixed' human face. The price of capitalist transition, with special attention to how the dynamics of capitalist development impact that price in particular spaces and temporal periods, needs to be carefully theorized before any analysis of how far

transition from state-socialism has come and to where it might lead (Clarke 1993b; Harvey 2000; Wood 1994; 1999). Indeed, if the political stance of Marxism is that capitalism cannot deliver the goods to China's working class in the period of transition, presuming capitalism has already arrived in China renders that position entirely ahistorical and subjective. How do we know that the present 'capitalism' in China won't become more humane or provide workers with the opportunities liberal analysts promise Chinese workers in exchange for giving up their relationship with the SOE? An account that links the on-the-ground class relationships at the point of production in China with the systemic conditions of capitalist transition in the present moment provides a much sounder foundation from which to critique the impact of the Chinese transition from state socialism on China's working class.

It is within this theoretical framework that I have attempted to analyze the impact of the discourse of workers' democracy on Chinese SOE workers in Henan. I argue that there remains good reason to believe that the transition to capitalism has not occurred in China, as long as capitalism is understood to be a set of class relations that is in motion systematically in the Chinese political economy. Chinese state socialism in the Maoist period was based on a set of class relations that was based on non-market based coercion in the heart of China's greatest value producing sector, the urban SOEs, and largely in the rural sector. The rural sector and the 'collectively owned enterprises' in the urban

sector were less directly accountable to central planning; but in terms of logic of production they remained committed to redistributive principles that dominated China's national political economy. This did change dramatically in the 1980's in the latter two sectors when the CCP allowed them to greatly decrease commitment to the redistributive principles of the national political economy and to participate in markets for profit. On top of these two changes, of course foreign investment in China also began to flood into coastal areas in the 1980's and especially from 1992 onward.

However, this dissertation's investigations into the small and medium sized enterprises where workers' democracy was being most vigorously promoted as a component of SOE privatization revealed that almost anything but capitalist production had taken hold in that sector. The failures to convert SOEs to enterprises that were compelled to produce like capitalist enterprises in the 1980's continue on into the 1990's. Directors of small and medium sized companies that we investigated in Henan were losing privileged access to state guaranteed investment, yet they were still able to find a whole host of non-capitalist mechanisms of coercion to maintain their privileged position of power. Since their 'labor relationship' (*laodong guanxi*) with the enterprise (and thereby the state) remained in effect in most instances¹, workers likewise were still able

¹ This rhetoric of 'fair compensation' is based on traditional notions of fairness in the redistributive oriented state socialist economy. It is also reminiscent of traditional feudal notions-discourses of 'fair price' and that the 'mobs' used in grain riots during the British transition to capitalism, eloquently recounted by EP Thompson (1966, 65) in his classic work *The Making of the English Working Class*.

in many instances, despite the great price forced on them for the failure of the companies, to demand 'fair compensation' from the state when their economic crises became too severe. One of the most common ways a small or medium sized SOE slated as 'let go of' survives is through directors compelling workers to buy 'shares' in the SOE as a converted shareholding corporation; the implication being that a worker, regardless of productive value, can retain their labor relationship with the unit and the concomitant social welfare benefits (albeit in hollowed out form) integral to it.

The case studies would appear to affirm our theory of transition from state socialism in China; that is capitalism is hardly systematically in motion as the determinant force of the Chinese political economy since capital act as the arbiter of value in the SOE sector. They tell a story of a sector of the economy in stagnation that does not submit itself to market regulation even when planning ministries absolve themselves of their responsibilities to small and medium sized SOEs. It is in this context that the discourse of workers' democracy as a component of Chinese transition is best understood.

The relevance of these case studies is that they make it apparent that a transition to capitalism is not only about wages and freedom of collective bargaining. The future appears to point in another direction, namely a transition that demands that SOE workers give up their claims to the social welfare promises of state socialism in return for capitalist investment that does not

deliver their kind jobs or social security. This struggle has not transpired with sufficient results in the SOE sector that has undergone the deepest levels of exposure to capitalist logics of production and, I contend, helps to explain why capital does not dominate the political economy of China to date.

The reason why this type of struggle is necessary in the Chinese SOE sector is that struggle is the price capital, i.e. the dominant source of capitalist investment targeting the Chinese political economy, demands of it in this period of intense global competition and secular declining rates of profits (Harvey 2003, 153-156). China has enjoyed, by virtue of its large resources of cheap and mobile rural labor, a period of almost 2 decades where it could fairly easily attract enough capitalist investment without threatening the core structure of its political economy. However, since 1997, capitalist investors and IFIs have put the squeeze on the CCP to overhaul the engine of the political economy. It is unlikely (though not impossible) that the Chinese ruling class will be able to carry out the type of protectionist policies that the East Asian Tigers utilized to spur capitalist growth.

The cases from Henan show a setting in which Chinese workers possess little faith in new market driven relations of production that are transposed onto traditional state socialist ones in the period of transition. In the process SOE workers have not remained passive recipients of discourses like workers democracy that Party leaders and enterprise cadres attempt to engage as part of

their justification for the declining position of Chinese SOE workers in Chinese society. State workers have, the studies indicate here, retained, even when they appear to be cynically dismissive of the idea *in toto*, a firm belief that if there is such a thing as workers democracy, it should be linked up to the basic social obligations of the state owned enterprise to provide workers with employment and basic social welfare protections. The practice, by Zhengzhou workers in the period of resistance to privatization, of reemploying the discourse of workers democracy against the intent of Party cadres and enterprise leaders to *compel* them to accept tying their fates to their performance in markets, should not be surprising. This is the case, *even though* in instances where conflicts have yet to emerge in SOEs Chinese workers display little interest in their official institutions of workers democracy. What is significant here is that in a moment of resistance, workers employ a discourse of democracy that is deeply informed by the logic of state socialist production and that is deeply opposed to the capitalist one that confronts them today². And this is a new phenomenon inasmuch as, although in the half century of Chinese state socialism Chinese SOE workers engaged the discourse of workers democracy for a variety of purposes, they have never had to engage this discourse for the purpose of protecting their right to a job or basic social welfare.

² Again the similarity with what Clarke found on Russian attitudes toward capitalist transition is strikingly relevant to the findings here. Russians, Clarke (1993a) found that Russian citizens were not against capitalist markets as much as opposed to the capitalist markets that they faced in the period of transition.

That this has occurred does not signify therefore that there is necessarily great hope for Chinese workers in the near term to develop strategies of resistance that might bring about workers democracy, nor does it necessarily imply the supersession of the coercive class relations of state-socialist transition or capitalism. There are a number of reasons for this, presuming that our case studies have at least some indicative value. For the most part, the Zhengzhou workers elected as independent leaders in the moment of resistance were consistently better educated skilled workers or lower level cadres (i.e. workshop managers, engineers, skilled machinists, etc.), chosen for their experience collecting and writing materials used to advance the case against fraudulent 'privatizations'. And although their experiences had revealed to them the relationship between the lack of worker democracy and their respective factories' fates, they nonetheless remained limited in their capacity to develop a counterstrategy to transcend the coercive relations of Maoist and Post-Maoist 'workers' democracy'. On the one hand they aspired, upon retrieving the property rights to their factory, to create an alternative to the model of enterprise relations the Party offered workers in the guise of workers' democracy in the moment of transition. At the same time, workers' leaders were just as inclined to believe that the only way to accomplish that was through converting their factories into corporate shareholding companies that were subject to competition. They were acutely aware that there were real contradictions in such a plan, since

outside investors could quickly outweigh workers in the control of stock. However, this was seen as unproblematic since many workers' leaders, when pressed, conceded that they did not have great faith in production workers' role in production and investment decisions. When asked about this, they noted that even though they came to their primes in the Maoist era and appreciated the popular discourse of workers' control from that era, workers in China never really involved themselves in the affairs of production. They left that to cadres, whom they judged on their ability to deliver social welfare benefits and wages. Because those were guaranteed regardless of who was in power, workers rarely felt the need to make waves about how production decisions were made.

By the 1990's, when workers were in dire need of organization, they had little immediate sense of how to use institutions of workers' democracy that existed in China to take back control of their factories from corrupt cadres. That combined with the assumption of superior knowledge on the part of elected workers' leaders made it very unlikely that the discourse of workers' democracy could be used as an effective weapon to supersede the relations of production that characterize Chinese transition from state socialism. What remains to be seen is how the playing out of the Chinese transition from state socialism will impact the level of struggle in the Chinese SOE and throughout the Chinese working class in general. This invariably remains a matter of whether Chinese workers are compelled to accept the logic of capitalist production as a system of

class relations in China's future, or whether stagnant but non-market type of coercive class relations that dominate the Chinese political economy continue, or whether workers can battle both such outcomes as the path of transition from Chinese state socialism and battle for a new path that supercedes state socialist and capitalist relations of production. In this analysis, capitalism not only cannot be assumed to have arrived in China, but whether or not its future arrival is desirable for China's workers remains a matter of ideological struggle.

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