Marx Was Right

by William McGurn

The more I look at China, the more I think Marx was right after all. Not about the abolition of private property, the dictatorship of the proletariat, or any of that rubbish. Even those who still call themselves communists don't believe in any of this. Where Marx is worth reading is when he is discussing capitalism, particularly its early development in Europe.

That might seem an odd sentiment coming from an unrepentant capitalist roader such as myself. As an editor for Asia's leading business magazine, week after week in our editorial pages I find myself defending the role of capitalism (and specifically foreign investment) in China against critics who either see it as a corrupting force in Chinese society, or more frequently, against those who, for reasons I believe well- intentioned but misguided, wish to impose human rights restrictions on investment into China. Either way, businessmen going to China tend to find themselves held up in the Western press as robber barons ruthlessly exploiting the Chinese people.

That's not a mistake Marx would have made. The father of communism could reach almost lyrical heights in describing how the advance of a commercial class revolutionised feudal European society. The irony is that this is precisely the role the market economics is now playing in China. In defending their role in China, Western businessmen at least like to point to the many good works and social services sponsored by corporate giants, such as Hewlett-Packard's helping Chinese employees buy their own homes, AT&T's taking young Chinese managers to the United States for advanced studies, or IBM's donating computers to Chinese schools. All this is well and good and insufficiently reported. But the focus on motives is fundamentally distracting. Far more significant is the progressive role these investors are playing simply by being in China and providing a growing Chinese middle class with options they never had

before.

Market Economics in China

This is what Marx meant when he said that the bourgeoisie has historically played "a most revolutionary role." For the rise of a merchant class in feudal Europe changed forever the relationship between ruled and ruler by eroding some of the authority of the latter. Property became a wedge against some of the absolute power of the monarchy, and contracts -- free agreements between people -- replaced the arbitrary relationships of birth and nobility. As Marx put it, "The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilization." Is that not what we are witnessing in China today?

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It may be worth stepping back for a moment to appreciate the extent of the changes we have already seen. For anyone who remembers the China of only a few years ago, the transformation, not to mention its speed, has been stunning. As recently as 1988, Beijing had an almost country aura about it. The city's roads and boulevards were vast and wide but filled almost exclusively with bicycles; when we took a car to go to the zoo, we were frequently the only one on the road, leaving one feeling as though one were on the runway of a giant airport. At the Beijing Hotel, where we stayed, not a soul spoke English, and the capital's most cosmopolitan spot--as every guidebook insisted--was its lobby lounge, a collection of old stuffed sofas and chairs with lace coverings, resembled nothing more than a 1940s living room. In the middle of it all stood a giant refrigerator stocked with beers from Hong Kong. There appeared to be no commerce to speak of, and in the rooms the only concession to service was the standard-issue thermos filled with hot water and two chipped porcelain cups with sad-looking floral designs.

Change, Where the Past Confronts the Present

Today all this has changed. Where once there were only people in drab blue or olive work suits there is now fashion and traffic jams. More than a dozen 5-star hotels have sprung up, and on my last visit I was surprised to find a wide variety of channels with offerings ranging from Cable News Network and old *Saturday Night Live* re-runs to a Chinese-dubbed version of *The Sound of Music*. The Hilton where I stayed most recently had a Tex-Mex night, and in the evening we traveled down the block to a gigantic Hard Rock Cafe. Walking through the Forbidden City with my in-laws, we were guided by hand-held tape recorders with special cassettes narrated by Roger Moore of James Bond fame. Although Mao's plain portrait continues to hang over the entrance, the chairman has himself become a commodity in this new China. A generation ago Red Guards pinned Mao badges to their flesh in a show of support. But today Mao has graduated to Warhol-like kitsch, and his visage can be found emblazoned on everything from watches to sun visors in souvenir shops at all the main tourist stops.

Not that this hasn't been accompanied by a healthy dollop of the vulgar. The old rich having long ago been eliminated, there is only *nouveau riche*, and they are not shy about splashing it around. In the new urban centres of wealth, the new China struts its stuff without the slightest hint of inhibition. Perhaps the most glaring example is Shanghai. In the 1920s and 1930s, Shanghai was arguably the world's most cosmopolitan city. Like Hong Kong, Shanghai owed its birth to Britain's victory in the First Opium War, but unlike Hong Kong, Shanghai was not a colony under the British flag. Shanghai was instead a treaty port under a variety of flags, each of which had its own settlement with its own laws, regulations, courts, police forces, etc. In Chinese history this "extraterritoriality" has long been considered a grave embarrassment, but that was never true among the Chinese people, for whom Shanghai represented the China of tomorrow. Here Iraqi Jews rubbed shoulders with White Russians; British, American, French and German traders competed for a share of the growing China market; Catholic priests and Protestant missionaries vied for the souls of the heathen; Chinese from all parts of the country lived crowded together in oft-unspeakable poverty; and misfits and adventurers

from all ends of the earth found a corner they could call home. "Shanghai is not China," explains a 1934 travel guide to the city. "It is everything else under the sun, and in population at least, is mostly Chinese, but it is not the real China."

To the legions of expatriates, Shanghai was a place for cream cakes and macaroons down in the French concession, the jazz band at the Cathay (now the Peace Hotel), spectacular sales at the Sun Sun Department Store, singsong girls on Fuzhou Road, and perhaps to atone for it all, Mass the next morning at the Jesuit cathedral. In the shadow of this expatriate community lived the overwhelming majority of the population, the Chinese, lured by the scent of opportunity. They might be wealthy compradors, go-betweens for the large trading houses. But more common were the wretchedly poor coolies who considered themselves fortunate if they managed to get their daily ration of rice, people who lived and worked in the alleyways that stank of human faeces clogging open drains and, at times, of the emaciated corpses of Chinese who had died of hunger, overwork, or assassination. In 1938 alone, for example, the municipal trucks dispatched each morning to clear the streets of the dead collected 101,047 corpses. Although there never really was a sign over the Public Gardens saying "No Dogs or Chinese," there continues to be a debate over a list of regulations, one of which barred dogs, and another, unaccompanied Chinese. And when the People's Army finally marched in, the good folks of Shanghai put away their silk finery for their Mao suits and the city was cloaked in the Communist primness that clouded the rest of China.

Today old Shanghai is back with a vengeance. Luxury hotels have sprouted up all over; the jazz band at the Cathay Hotel have dusted off their instruments and entertain nightly; discos have replaced the dance halls of yesteryear, with Chinese women in skimpy skirts gyrating on multicolored floors to the latest rock bands. Office rents are in many cases even higher than Hong Kong levels, and the mayor talks about replacing Hong Kong as the region's leading financial centre. For magazines Shanghai's transformation has been a boon, allowing them to feature in juicy detail the seamy side of life, including the resurgence of prostitution, whose abolishment was once the proudest boast of the revolution. The implication is that this will be the China of tomorrow, a country where everyone lives for

today, whose streets are filled with karaoke bars and massage parlours and whose doorways are decorated with faux Venus de Milos.

Clearly this is not the wealth of stolid Swiss burgers, and as the government loses control and social conventions are loosened, there is good reason to be concerned about what this rush of prosperity means for tomorrow. But it is important to note that the general disgust for the more vulgar side of China's embrace of the market is more characteristic of outsiders than of Chinese themselves, who are the ones making these changes. We on the outside look at the changes -- the ascendance of the loud, vulgar and uninhibited -- and simplicity, even the totalitarian simplicity of Maoism, suddenly seems attractive. But for people who have tasted the Cultural Revolution and grown up with communism, the excesses themselves are the other side of something that has long been kept from them: opportunity.

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It is important to be honest about this. During the Cultural Revolution, criticism of what we now know as the most vicious era of Chinese history was conspicuously absent from the dominant literature. To the contrary, the many "friends of China" filled their travel books and observations with paeans to the New Maoist Man being created on the mainland, apparently free of original sin and unbound by the usual laws of physics and economics. "Americans may find in China's collective life today an ingredient of personal moral concern for one's neighbour that has a lesson for us all," wrote John K. Fairbank in 1972. Even Pope Paul VI could describe Maoism as "a moral socialism of thought and conduct," this at a time when Catholic priests and bishops were rotting away in dark prison cells for their fidelity to Rome.

This has changed too, though I have to wonder about the reasons. The same Deng Xiaoping who had been widely lauded as a "pragmatist" up until June 4, 1989, suddenly became the "butcher of Beijing," a change that probably had less to do with

Deng than our perceptions of him. Today a human-rights lobby that either remained silent during or excused the worst excesses of the Cultural Revolution now holds up China as an international pariah. Without doubt there is much in China that deserves our attention and condemnation, and it will be many decades (if ever) before China reaches the level of a Taiwan or Hong Kong. But surely, if we are to judge China's progress there are two key questions to ask. First, when we condemn Chinese practices, we have to ask: compared to what? Is this better or worse than it was before; better or worse than places that have gone down this road already, like South Korea and Taiwan? Second, without denying the abuses, we need to focus more on the how part of the question, i.e., what is the best means to redressing them.

Assessing the Progress: Questions Without Answers

These are not easy questions and different people will mark China's progress differently. But any fair assessment of China today would have to conclude that, as bad as things may be today, the country is freer than it has been at any time since 1949. Indeed, that these questions are raised at all is itself a sign of considerable progress, one that owes itself not to any change of heart by those in power but the pressures for redress of social ills that inevitably accompany the expansion of opportunity. Coming from a communist society himself, John Paul II has paid particular attention to such problems, which he relates to the lack of the "right to private initiative." Perhaps more importantly, the pope has closed the door to those Christians who would attribute the abuse to communism and not socialism. "For a long time," the pope writes, "the most elementary relationships were distorted, and basic virtues of economic life, such as truthfulness, trustworthiness, and hard work were denigrated." An economist would put it this way: the opposite of competition is not cooperation but collusion. John Paul puts in it more human terms by saying that the problem with socialism is that it assumes a benign state.

What Makes Capitalism Work?

The genius of capitalism, on the other hand, is essentially the same as the genius of democracy: it does not depend on a

litany of saints to make it work. At the same time, however, it does cultivate virtues by ordering society so that success depends on consent rather than coercion. That capitalism draws participants into free associations with others to advance the causes of all is what Aquinas might have called virtue formed by habit. Among certain Catholic thinkers, the market's virtues are usually reduced to a grudging acknowledgement of its technical superiority in making life materially better, and even those who think that China's opening has gone too far will concede that it has at least managed to keep people fed and clothed and relatively contented. But it is hard to read the following excerpt from *Centesimus Annus* and not think the pope has gone much further than that:

> A person who produces something other than for his own use generally does so in order that others may use it after they have paid a just price, mutually agreed upon through free bargaining. It is precisely the ability to foresee both the needs of others and the combinations of productive factors most adapted to satisfying those needs that constitutes another important source of wealth in modern society. Besides, many goods cannot be adequately produced through the work of an isolated individual; they require the cooperation of many people in working towards a common goal. Organizing such a productive effort, planning its duration in time, making sure it corresponds in a positive way to the demands which it must satisfy, and taking the necessary risks -- all this too is a source of wealth in today's society.

In China today this is not a matter of theory. It is a matter of practice, and the beneficial effects (other than the obvious material ones) are best examined against the backdrop of the kind of society that existed before Deng Xiaoping kicked open the door in 1979. For the advance of the market is, bit by bit, rolling back the entire system that once made control possible. Most fundamental has been the erosion of the *danwei*, or work unit. The *danwei* role in Chinese communism is roughly the role of the family in America, the basic building block of society. In China, however, one was assigned to a *danwei*, which determined where people lived, where and how they worked, when they might get married, and so forth. Without the *danwei's* chop on a slip of paper, you couldn't get an apartment for your family, enrol your children in school, or get medical attention.

Nowhere is the power of the unit more dramatically illustrated than in the country's notorious one-child policy. In *A Mother's Ordeal,* Stephen Mosher tells the story through the eyes of a nurse for a *danwei* unit, who describes in fascinating detail how the government managed to implement its policy of forced sterilizations and abortions. As the nurse in charge of the *danwei*, she kept track of the menses of the factory's female workers so she would know who was pregnant and who was not. Today China is no less committed to the one-child programme, but officials are having considerably more difficulty enforcing it. The erosion of the *danwei* makes it difficult to keep tabs on people who want to get around the policy, and a mobile labour force of perhaps 100 million is making it all but impossible. The Chinese press in Hong Kong is full of stories about a new class of "black babies": second or third children born without permission. Many get around the laws simply by paying fines, which they can now afford.

In Guangzhou and Shenzhen, where the economic reforms have been in force the longest, there is plenty of ugliness and desperation. Hong Kong and Taiwanese businessmen have gained a certain notoriety for pursuing the fast buck, especially after a spate of accidents a year ago where factories collapsed killing workers trapped inside. There was even one case where the owner of a cotton factory sent workers back into a flaming building to rescue bales of cotton, whereupon they were killed by the fire. Yet despite this, the Guangzhou train station daily sees hundreds of new arrivals, despite the oft-Dickensian conditions of the workplaces and living quarters. Why?

One reason is that it is better than what they left behind and knew before. Guangdong Province has a population of about 66 million people, roughly equal in size to either Vietnam or the Philippines, both countries traditionally held to be "overpopulated." Yet in the 15 years since China launched its reforms, Guangdong has not only put its own people to work, it has also imported an additional 10 million workers, with many more millions to come. These workers are not as foolish as we on the outside may think, and the knowledge they gain--about pay, about skills, about job conditions, about alternatives--is a valuable part of China's enrichment. At the Nike shoe factory I visited, a clear hierarchy had emerged. In general the local Cantonese were in the middle levels, working either as skilled

labourers or junior managers earning twice that of new arrivals, who were at the bottom. At the top of the pyramid, of course, are Hong Kong Chinese and Taiwanese. None of this is coincidence, and it is replicated in factory floors across the province. Fifteen years in the arena has "graduated" the Cantonese to the point where they no longer have to put up with the sweatshops.

Make no mistake about it, the people who have moved up here are not the beneficiaries of anyone's largesse. But the kind of options they will have depends directly on the degree of investment, and anything that restricts this investment restricts their choices. Remember too that it was Adam Smith who said that it was not from the benevolence of the baker that we expect our daily bread. Likewise, whether businessmen in China intend any more than their profits is beside the point. What matters is their actual effect. Surely it is no accident that Chinese prefer to work for foreign firms over local ones, and of foreign firms they prefer American ones. It is likewise a healthy incentive on these American firms that their presence in an increasingly engaged China raises questions about their practices and forces them to behave, even if only out of self-interest. Few are the American firms that could have survived the bad publicity that would have come had they been the owners of the factories that collapsed last year. And it is a concern far more effective than any mere regulation. What does any of this mean for the future? Clearly China is determined to continue to develop, and though it has come very far each successive step will be the more difficult. If the experience of Taiwan and South Korea is any clue, the march of market forces will ultimately be attended by parallel political demands for a greater say by a better educated, more prosperous and more confident Chinese middle class, and the interplay between these demands and the government's willingness to accommodate them is likely to come in fits and starts with many reversals. The truth is that we have no experience in moving from a totalitarian to a free nation, not, at least, a nation of China's size. We have only to look at the unhappy developments in the former Soviet Union to know that freedom has its own challenges.

The good news is that the market by its nature creates further demands and raises expectations; it is highly unlikely that Chiang Kai-shek or Park Chung-hee ever thought that they were putting their respective nations on the road to democracy,

much less intended it. But they did so, not because they were interested in reducing their power but because it became necessary to give up ever greater bits of control if they were to continue to prosper. It now looks as though we are seeing the same thing in China, though on a much larger scale and complicated by the fact of Chinese communism. Today it is clear that the central government is no longer in control over key aspects of every day life, and that more and more decisions, at least those affecting their daily livelihoods, are in the hands of the Chinese people themselves.

In the brooding halls of Zhongnanhai, China's aging leadership retains an amusing inability to speak in principle of the capitalism (the accepted orthodoxy is "market socialism with Chinese characteristics") they have embraced in practice, obviously believing that somehow they will find a solution that allows them to have both growth and control. In the short run they are certainly correct, if only because people who have strong personal memories of shortage and deprivation will put up with a great deal of government injustice and inefficiency so long as they see that things are getting better, however slow that process may be. But the long run implications are not as clear, and if I were a Chinese leader who had read his Marx, I shouldn't be too confident.