II. MODELS AND STRUCTURES

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On the Three Stages in the Development of Socialism

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ABSTRACT: Socialism passes through three stages, which capture the qualitative transformation of the relations of production caused by changes in the productive forces. Specifically, the primary stage = public ownership as central (private ownership as supplement) + market-based distribution according to labor as central (distribution according to capital as supplement) + state(plan-) dominated market economy. The intermediate stage = multiple forms of public ownership + multiple commodity-type distribution according to labor + state-dominated planned economy (market adjustment as supplement). Finally, advanced socialism = single-form public ownership by entire society + product-based distribution according to labor + complete planned economy. Communism = single-form public ownership by entire society + product-based distribution according to need + fully planned economy. By contrast, the modern capitalist economic system = private ownership + distribution according to capital + state-directed market economy. This new theory of the three stages of socialism reasonably coordinates the various systemic criteria in the Marxist classics, and helps reveal the inherent connection between the primary stage of socialism and the great systemic goal of communism.

KEYWORDS: Socialism; stages of socialism; Marxism, socialist economy, political economy

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THIS PAPER FOLLOWS a very different line from China's official classification of the primary stage of socialism in terms of productivity and standard of living, which in turn differs in important respects from current economic developments in China. It will follow the spirit of Marx's methodology and take changes in relations of production as the key determinant of each stage. These relations are revealed in the systems of property rights; distribution; and regulation. I will also analyze the characteristics of production, exchange and distribution in each stage, as well as micro-, medium- and macro-level economic management in each stage. The goal is to develop a framework to address the various forms of conflicts and constraints at each stage, with due consideration given to politics and the state at the level of the superstructure.

Examples and illustrations will be drawn from the historical experiences of China, with some references to other countries.

I. THE PRIMARY STAGE OF SOCIALISM

1. *Property Rights in the Primary Stage*

The property rights system contains multiple ownership forms, with public ownership as the central one, while also promoting the sound development of the complementary non-public economy. An appropriate ownership structure in this stage has, approximately, 30% state ownership as a form of public ownership, 40% urban collective or cooperative ownership, and 30% individual, private and foreign ownership, thus forming a 3–4–3 ownership model. This structure, of course, does not exclude mixed ownership by various types of capital in negotiated proportions.

1) *The state-owned economy.* Governments at all levels set up state-owned asset management departments, which have the power to centralize the management of state-owned assets at their respective levels. The board of directors and managers of state-owned enterprises are publicly selected and hired from the market, with corresponding systems of strict evaluation as well as of ample rewards and severe penalties. State-owned enterprises enjoy autonomy in decision-making, except in the case of large capital investments that require approval by state-owned asset management departments at the same level. Their after-tax profits are mainly reserved for expanded reproduction, but

a certain proportion could be handed over to government financial departments. State-owned enterprises are mainly located in strategic high-tech industries, construction, urban and rural infrastructure such as water and electricity networks, natural resource exploitation industries, ecological and environmental industries, major financial industries, and high-profit service industries. Their concentration in these areas makes it possible for state-owned enterprises to play a leading role in the national economy, and to quickly catch up with the developed capitalist countries in science, technology and economy. The Industrial and Commercial Bank of China and China Aerospace Science and Industry Corporation are two typical examples in this respect. In Belarus, which follows a model of "socialist-oriented market economy," state-owned enterprises currently account for 70% of its industry (Cheng and Li, 2021). In China's market economy under socialism with Chinese characteristics, however, state-owned enterprises currently account for only 20%.

2) *The collective economy*. In collective ownership the employees of a given enterprise own all of its assets (including land in rural areas), and cannot quantify the assets owned by each individual employee; distribution is according to labor; the general manager, under the leadership of the Enterprise Management Committee, is responsible for decision-making on all affairs of the enterprise. Collective ownership is generally suitable for small and medium-sized enterprises in urban and rural areas, especially for rural areas where cadres have strong organizational capability. Nanjie Village in China and the Yamagishi Society in Japan are examples of this kind of collective organization.

3) *Joint-stock cooperation*. Spain's Mondragón Corporation is the best model of joint-stock cooperation in the world. Its success lies in the cooperative principle, optimizing the combination of the cooperative and the joint-stock system, and achieving an organic unity of the cooperative and the market economy.[1] Socialism can draw lessons from this property-rights model: collective ownership by united laborers, combining workers' individual ownership and collective ownership. The vast majority of employees own shares in basically

1 Mondragón is a comprehensive collective group corporation in Spain, which integrates industry, trade, finance, scientific research, and service in one body. It ranks 7th in Spain's large corporation groups. Its system fully demonstrates the basic principles of the cooperative system, which are mutual assistance, cooperation, democracy, and equality. In the meantime, it develops the internationally recognized "Rochdele Principle." See Tan and Cheng, 2012.

the same amounts, which cannot be withdrawn during the period of employment. In the corporate governance system, there is a General Assembly of All Members as the highest authority, with one-person one-vote in major decision-making on important matters, the election of the Management Committee (or Board of Directors) and Supervisory Committee, and the appointment of business teams by the Management Committee.

4) *The non-public sector.* In an open environment where socialist countries are a minority in the world, foreign capital introduced by them is mostly private capital from capitalist countries. Hence the existence of various forms of non-public economy, such as Wholly Foreign Owned Enterprises (WFOE) and private enterprises, which are established on the basis of private ownership and income distribution according to capital ownership. There is an exploitative relationship between private capital and waged labor. In the small-scale private economy, the producer–manager is both the direct laborer and the private owner of the means of production, who relies on his/her own labor to obtain income. This is a sector of the private economy without an exploitative relation.

2. *The Distribution System in the Primary Stage*

The distribution system contains multiple forms. Market-oriented distribution according to labor is the main form, with distribution according to capital as a supplement, along with some income earned by individuals from their own labor. This is a multiple property rights system, with public ownership as the main element. Reasonable distribution policies and forms of regulation at the corporate, state and private levels should effectively reduce polarization and realize common prosperity, and allow the fruits of socialist development to benefit the entire people. Specifically, this stage of distribution can be analyzed at three levels: enterprise, state, and private.

1) *Initial distribution of income at the enterprise level.* Income distribution at state-owned enterprises must work out relations between the state and enterprises; between enterprise managers and individual employees; between tax payments and retained profits; between expanded reproduction and collective welfare; and between managers, scientific and technological personnel and general staff. Incomes of managers are linked both to profits, and to the income level of

their employees (generally not exceeding five times the average). Enterprises pay a basic salary on a monthly basis and a performance bonus according to annual evaluation results. In some instances, given rising economic efficiency, the incomes of workers at state-owned enterprises can exceed those of public employees and civil servants. However, the overall balance of the three should be maintained, in order to facilitate rational allocation and flow of talents in the market.[2]

Collective-owned enterprises and joint-stock cooperative enterprises will similarly take into account the balance of individual and overall interests. A certain flexibility must be maintained with regard to the ratio between money directly paid to individuals, based on the principle of distribution according to labor, and spending on collective welfare. Currently, the aforementioned Nanjie Village attaches greater importance to common prosperity; therefore in its distribution system the former accounts for 30% and the latter for 70% (housing, schooling, health care and pensions are all paid for by the village).

Finally, private enterprises can be directed to gradually implement employees' stock ownership and profit-sharing systems. This system is adopted by a few private enterprises in capitalist countries. In socialist countries, this system should be gradually established and enforced through legislation. Huawei may serve as an example; it does not engage in the traditional stock system with private ownership by a few individuals, but has about half of its employees owning shares in the company.

2) *Redistribution of national income at the state level.* After establishment of a socialist society, the superiority of socialism should be fully reflected as economic strength warrants: a constantly improving social security system, a flexible housing system with basic housing security, free provision of education, medical care and pensions for all citizens, subsidies for unemployment, breastfeeding, and so on. The state must also avoid a situation (as in Sweden in the past) in which the gap between unemployment subsidies and the minimum wage is so small that people do not bother to work.

2 After the implementation of the market economy in China, the incomes of employees in the financial sector, especially the executives of enterprises, have been abnormally high for a long time. Even the incomes of tellers in state-owned banks are higher than those of university professors. The result is a chaotic flow of talent in the market and a decline in the overall efficiency of society.

Housing for rural residents may be built under collective or government-designated auspices, by peasant families themselves, or by the village collectively. Urban residents mainly rent public-owned housing, which coexists with multiple forms of housing including fully privately owned housing, rental of private housing, and housing under joint public and private ownership. Each urban employee at marriage age can rent government-built public housing to meet basic needs (for example, 30 square meters [323 square feet] of indoor space). If larger space or better quality and location is desired, one can apply for this, at a market price, with the proportion of each party's payment depending on the housing price and income level of the city of residence. This allows flexibility in adapting to the changing needs of residents and personal income changes. At present, China has corrected the two extreme systems of full public ownership before the reform and full private ownership since the reform, and is gradually developing the production and supply of housing with joint property rights.

A strong and effective financial transfer payment system promotes two important goals: to get rid of absolute poverty, and to narrow the excessive gap in regional development and living standards. Absolute poverty, defined as income less than a minimum set by the government, should be gradually eliminated in a step-by-step manner, while a long-term mechanism for poverty eradication should be established. In mid-2021, China will announce that all its 1.4 billion people will be lifted out of absolute poverty, although its economic strength made this possible within the first two decades. As for the second goal: To narrow the gap between urban and rural, and between backward and developed areas, various forms of financial transfer payment should be adopted.

A variety of taxes may be used to regulate distribution. This includes at least three measures: first, a progressive inheritance tax of up to 90%, long ago proposed by classical Marxist writers; second, lower tax rates for income from both labor and capital. In China's new personal income tax, implemented in 2020, both the minimum and the highest tax rates are *higher* for labor income than for capital income. This not only contradicts Marxist principles of fairness, but also widens the already unreasonable gap between rich and poor. The third measure is implementation of a tax on nationality renunciation. For example, the United States adopts a different tax rate for citizens who give up their U. S. citizenship, which could be implemented in

China to avoid the taking away of wealth generated through the use of resources in China. China once "allow[ed] part of the people [to] get rich first, who will then help others and achieve common prosperity," but this has not happened. In recent years, a large number of the rich and super-rich have transferred their wealth out of the country through changing nationality or using offshore trusts to avoid China's relatively high personal income tax, while China has so far refrained from implementing different tax rates for those renounce their Chinese citizenship, and from regulating offshore trusts.

Finally, there should be a profit-sharing system for the entire people, with strong state-owned enterprises and higher rates of dividend. In order for all citizens to recognize the need to optimize and enlarge state-owned enterprises, part of the profits of state-owned enterprises could be distributed evenly to citizens over the age of 18. In this respect, the experience in Macao, a special administrative region of China, may serve as a good reference, where everyone receives a dividend from the government every year.

3) *Redistribution of national income at the private level.* One may envision a non-governmental charity system, with a socialist orientation. Unlike foundations and charity funds in capitalist countries, which claim to serve the public interest but which are essentially set up for exemption from inheritance taxes (Kuai, 2013), charitable foundations in socialist countries must use all their assets for public welfare, charitable undertakings, and for people in difficulties, so that it really becomes an important way of redistributing wealth among the people. So far, Chinese legislation has followed this principle; foundations are mainly set up by state-owned enterprises and institutions rather than by private enterprises.

3. *Regulation and Adjustment in the Primary Stage*

China's regulation and adjustment system is a multi-faceted state-led market system. The socialist market economy implements a dual-function system, based on market adjustment and the leading role of the state. This gives full play to the fundamental role of the market in the short-term allocation of general resources, while also strengthening the country's macro-, medium-, and micro-economic adjustment as well as adjustment of foreign economic relations.

1) *Market adjustment: strengths and weaknesses.* The law of value is the essential relationship between commodity production and commodity exchange, and it is the regulator of the market economy. This role will be continuously enhanced with increases in the degree of socialization and export-orientation of the economy.

Market adjustment means adjusting supply and demand of commodities through mechanisms such as price and competition, which guide the flow of economic resources and distribute economic interests among different stakeholders. Specifically, the positive effects of market regulation are numerous. The market directs individuals, through independent decision-making, to closely follow changes in demand. It quickly guides the flow of economic resources to areas with high efficiency in the short run. It reflects, through price signals, the situation of supply and demand, thereby guiding production operators to make quick and independent decisions. The market also guides production operators to improve means of production, production technology, and product quality, thus increasing social productivity. Finally, it empowers producers to strengthen business management and internal and external cooperation based on local interest considerations.

However, market adjustment also has weaknesses, which are difficult to overcome. Markets have had difficulties in realizing overall macroeconomic goals and long-term interests of society. Many areas are not suitable for market adjustment; where natural monopolies are caused by economies of scale, such as transportation, water supply, and power supply, market adjustment is not ideal. In welfare and nonprofit sectors, such as education, health, environmental protection, cultural protection, basic research, national defense economy, etc., market adjustment also causes adverse consequences. The market can also easily aggravate the gap between rich and poor. If the distribution of wealth and income is completely left to the market, which in actuality means control by capital, especially private capital, then it is bound to result in the *Matthew Effect* (existing gaps in incomes or capacities are reinforced, instead of being overcome). It is difficult for the market to achieve coordination among industries. Producers pay closer attention to short-term resource allocation and short-term profitability. Basic industries with long capital return periods and long-term strategic significance are overlooked, and production capacity leans towards overcapacity. Finally, transaction costs are relatively

high. In an increasingly large modern market economy, factors such as supply and demand, transaction costs affect each other and change frequently. These factors inevitably cause market actors to invest tremendously in searching, decision-making, adaptation, and even error correction, which creates higher costs at the micro and macro levels.

With regard to the functional deficiencies of markets in resource allocation, Western scholars have put forward various ideas, such as market structure theory, public product theory, spillover or external effects, informational asymmetry, market incompleteness, and unfair distribution. These ideas deserve our attention. The actual historical record of market adjustment is quite mixed. Since the 19th century, market-driven economies have witnessed numerous economic, financial and fiscal crises, and huge gaps between rich and poor in western capitalist market economies. All this confirms that the advantages of the market need to be supported, while the disadvantages need to be rejected.

2) *State regulation: strengths and weaknesses.* After the Great Depression in the 1930s, state intervention and regulation of economic life have become a regular phenomenon in the economic operation of various countries in the West. The state uses economic, legal, administrative, persuasive, and other means to regulate the economic behavior of various economic entities. State regulation in socialist conditions is not arbitrary or chaotic. It follows laws of proportional and planned development. The sustained and healthy development of modern economic society essentially requires that, while the market plays a basic role in resource allocation, society consciously conducts macro-, meso-, and micro-level regulation in accordance with its overall goals. That being said, what are the strengths and weaknesses of government regulation?

At the macro level, the advantages lie in the formulation and realization of overall economic and social development goals. The primary goal of state regulation is macroeconomic stability. Scientific macro-control is an inherent prerequisite for the full development of the socialist market economy. Solving problems in this field is not an advantage of the market. Employment is related to social stability, but in general market players do not care about the overall employment situation. Price stability determines the accuracy of price signals in the market; yet individual market operators, in pursuit of personal profit, often use signals of various degrees of opacity. The balance of

total supply and demand and the balance of international payments are determined by the overall behavior of thousands of producers and operators, while those operators have no ability or motivation to maintain such equilibrium. The imbalance of international payments has already had a huge negative impact on the economies of some countries. It is difficult to solve the problem of disparity between rich and poor through market adjustment. Individual market actors are concerned with micro-economic benefits, but would find it difficult to deliberately improve the overall economic, social, and ecological benefits of society.

A major function of state macro-control is the construction of the entire economy, society, culture, and ecological civilization. This goes far beyond the scope of resource allocation, and cannot be determined by the market. In achieving macroeconomic and social developmental goals, the state can have a vision beyond the economic decisions made by individual enterprises for short-term and local interests, and for that reason can adjust resource allocation and economic operation from an overall, global perspective.

At the meso-level, the advantage of the socialist state's forward-looking, overall, and strategic vision lies in its ability to use scientific regulation to resolve the imbalance within industrial structure and the imbalance between regional economies in overall economic development. Unlike adjustment by the market, which centers on the short-term allocation of resources, state regulation pays attention to investments in new industries with long development cycles and strategic significance, basic industries related to national economy and livelihoods of ordinary people, and regional development strategies. For example, the state has the ability to use tools such as fiscal and taxation policies to promote the large-scale application of new technologies, accelerate the elimination of industries with backward production capacity, thus speeding up the transformation and upgrading of the industrial structure. China's regional economics in the Pearl River Delta, Yangtze River Delta, Beijing–Tianjin–Hebei area, Midwest and Northeastern regions, and "Belt and Road economies" (Yangtze River Belt, the Silk Road Economic Belt and the 21st-Century Maritime Silk Road) have already realized rapid development, thanks to active regulation and control by central and local governments.

The advantage of the socialist state's scientific regulation also appears at the micro-level. The order and efficiency of a modern

market economy cannot simply be based on the consciousness and self-discipline of market players. With fair and authoritative regulation, the state can effectively guide economic subjects towards legal and honest operation. It can also maintain the normal order of the market through economic and administrative management measures, such as market access permits, penalties, and blacklists. Supervision, before during and after given market activities, has an indispensable role to play, contingent upon specific circumstances. For example, with regard to the minimum wage system, workers' rights and interests, and environmental protection, the state is able to constructively protect the interests of workers and safeguard the interests of the public by standardizing policies and regulations, something that cannot possibly be done by the market.

However, failures too may take place in state regulation. These are largely related to subjectivity in state preferences, the mechanism for shifting the direction of adjustment, inter-departmental coordination, and the driving mechanism of adjustment undertakers. Specifically, the first disadvantage is that state regulatory preferences can be inappropriate, which is likely to cause the goal of state regulation to deviate from the requirements of society. For example, a state preference to increase GDP as the first priority would lead to blind investments, and to neglect of people's livelihoods and ecological protection. Second, improper state regulatory procedures could lead to non-democratic decision-making, delayed implementation, and higher costs, making it hard to respond to market changes in a timely and flexible manner. Third, weak matching procedures within state regulation could make it easy for a regulatory goal to be controlled by the interests of specific executive departments and local authorities, thus causing policy-based internal friction. Fourth, lack of motivation for state regulation may weaken the initiative on which state regulation depends. This typically leads to delay in solving problems, resulting in bureaucracy and loss of efficiency.

3) *Different characteristics of market adjustment and state regulation.* First, the market and the state play different roles at the macro and micro levels. In the theory of the market's basic role, it is stressed that the state must adopt both macro- and micro-regulation to rectify "the decisive role of the market." It is necessary to improve the macro-control system that is guided by national development strategies and plans, and that has fiscal and monetary policies as its primary means.

The spontaneous effects of the law of value will still bring about negative consequences, and the country's macro- and micro-regulation must be used to avoid or alleviate such consequences. Macro-regulation mainly involves adjusting market activities such as investment and consumption through fiscal, monetary, and other means. This also includes the necessary administrative means, so as to achieve macro-economic goals. Micro-regulation is basically the comprehensive use of economic, legal, administrative, and other means to manage the behavior of micro-economic entities in order to maintain the normal order of the market, promote scientific and technological innovation, develop independent intellectual property rights, promote social harmony, and maintain good ecology.

Second, the roles of the market and the state differ in the scope of material resources that they allocate. The goal is to combine a) the short-term allocation of resources by the market; b) the direct allocation of special resources such as underground resources (*e.g.*, raw materials, mineral ores, water), infrastructure resources, and transportation resources, by the state; and c) the long-term allocation of many general resources by the state. The effectiveness of the basic role of the market is predominantly reflected in the short-term allocation of resources driven by the law of value through short-term benefits, while the effectiveness of state allocation of resources is principally demonstrated in the long-term allocation of many general resources and the regulation and allocation of the special resources. Due to the non-renewable nature of some special resources like underground resources, the state strengthens their regulation and allocation by coordinating short-term and long-term interests, local interests and overall interests. Market-oriented operation of specific production and business projects does not mean decision by the market. The essence of market decision is decision by micro-economic subjects themselves in given production and business projects. In this process, however, many important projects are planned and decided by the state first, followed by market-oriented operations. After the reform and opening up, the market's decisive role was played in the allocation of resources such as rare earth elements and coal. As a result, resources have been exploited in a destructive and inefficient manner and sold at low prices in international markets, with the creation of sudden wealth of the coal bosses and frequent mining disasters. These are lessons paid for with blood. At present, large-scale overcapacity in steel and coal industries, the coexistence of high housing

prices and real estate bubbles, etc., are all related to the excessive role of the market and the insufficiency of the state's role.

Third, the roles of market and government differ in non-material production areas such as education, culture, and health. The decisive role of the market must be combined with the leading role of the state in these areas. Education and culture are an important part of economic and social development, and the vital carrier of the socialist core value system, which requires that social benefits should be placed first and combined with economic benefits. Thus, the share of relevant resource allocation realized through the market is relatively small in proportion. Many projects in education and culture provide global and long-term intellectual support, cultural inheritance, cultural cohesion, and cultural orientation for economic and social development. Only through the dominant role played by the state can efficient allocation of non-material resources be achieved in such projects. In the anti-COVID19 fight since the beginning of 2020, China has done a better job than capitalist countries such as the USA, UK, India and Brazil, mainly due to its character as a socialist country, in a series of regulation mechanisms and capacities. Joseph Nai and Francis Fukuyama argued that it was not that China's socialist system is superior to the capitalist systems of the West, but only a difference in governance capacity. This is obviously wrong. How can one distinguish between social system and social governance capacity?

Fourth, the market and the government play different roles with regard to the allocation of resource-related property rights. Does resource allocation only involve the relationship between the market and the state? In a nutshell, there are two aspects of resource allocation: market vs. state, and private vs. public. From this perspective, the basic role of the market under socialism is related to the mixed economy with public ownership dominant — the inherent requirement of a socialist market economy and its essential feature. In the socialist economy, unlike in a capitalist system, the role of the state-owned economy is not to engage in sectors where private enterprises are unwilling to enter, or to remedy the deficiencies of private enterprises and market mechanisms, but to achieve sustained, stable, and coordinated development of the national economy and consolidate and improve the socialist system. If public ownership no longer has a dominant position in the socialist economy, the efficiency of state regulation will be greatly weakened, and this will adversely affect the

implementation of national economic and social development strategies. As a result, the country will lack an economic foundation to ensure the fundamental interests of the people and common prosperity. The kind of reform that advocates selling public schools, enterprises, and hospitals is a typical measure of neoliberalism.

In the primary stage of socialism, China keeps public ownership as the mainstay of the economy, while allowing diverse forms of ownership to develop side by side. Compared with the contemporary capitalist economic system with private ownership as its mainstay, this better fulfills the requirements of modern market economy, and has better performance and greater fairness. Economic practice in and outside China in recent centuries has demonstrated that a system with public ownership as mainstay and state ownership as main guide can prevent the frequent financial, economic and fiscal crises as well as the polarization associated with capitalism. The decisive difference between socialism in its primary stage and capitalism lies in the ownership of the means of production — whether public capital or mixed ownership with private capital in control is dominant.

Belief in socialism is first and foremost expressed as belief in public ownership, and the consequent belief in common prosperity. Furthermore, in the sense that economy determines politics and the economic base determines the superstructure, public ownership is the socialist economic base for the superstructure of governance by the party of the working class, as well as the pillar and mainstay among the multiple property forms of socialism at the primary stage.

Fifth, the roles of the market and government are different in distribution. In this field, the market and government each play a significant role of regulation. In the initial distribution, the market plays the greater role, through the spontaneity of the law of value, while the state also regulates, to some degree, the distribution of wealth and income through relevant laws and regulations. Only in this way can we truly achieve an increase in labor's share and effectively safeguard laborers' rights and interests. In the process of redistribution, the state must play a greater role in combatting the polarization of rich and poor, and create actual growth of people's wealth and income. In the past, the decisive role of the market was emphasized in urban housing. As a result, housing prices skyrocketed while developers became wealthy suddenly, causing many complaints among the people. Only

in recent years has the state actively regulated the housing market, and brought about a favorable turn for the improvement of people's livelihoods.

4) *The complementary roles of market and government.* Are the roles and functions of the market and the state mutually exclusive? The answer is: no. The two operate at different levels. In short, the decisive role of the market and the more effective functioning of the state need to be viewed as an organic whole, rather than as two opposed factors that cannot work simultaneously. It is necessary to use effective market regulation to inhibit failures of state regulation, and to use effective state regulation to curb failures of market adjustment. This will not only give full play to the favorable regulatory functions of the socialist state, but also avoid the neoliberal trap. Currently, market fundamentalism is being fiercely attacked by leftist and Keynesian scholars in the West. It is therefore not appropriate for China and other socialist countries to weaken state regulation at the macro, meso, and micro levels.

IV. CORE ELEMENTS OF THE INTERMEDIATE AND ADVANCED STAGES OF SOCIALISM

Marx, Engels, and Lenin's time is many years from the present, but their basic vision of future social stages, and certain of their scientific predictions, can be upheld. However, they had no concrete experience in the practice of socialism, and no knowledge of the reform of the socialist system in the decades following the Second World War. Therefore, some of their conclusions on the stages of socialist development need to be re-examined in order to further enrich and develop the scientific theory of socialism.

I believe that the official Chinese theory concerning the primary stage of socialism, based on productive forces and living standards alone, is only one analytical perspective, and has significant divergences from the current conditions of China's economic development. Therefore, it is necessary, following the spirit of Marx's methodology, to take the change in productivity as an indirect yet ultimate sign, and take the change in the relations of production as a direct sign for the classification of stages of socialism. That is to say, we need to analyze the primary, intermediate and advanced stages according to qualitative changes in the systems of property rights, distribution and regulation.

Given the different national situations and the complex combination of productive forces and relations of production as expressed in the economic system of a country at different stages of development, to use changes in productive forces as the indirect or ultimate sign would primarily mean to conduct a summary of history; hence the changes in productivity will not be elaborated here. The following is a detailed account of the role of the relations of production in determining the stages of socialist development.

First, we consider the qualitative change in ownership at the different stages of development. Public ownership of the means of production is a common feature of the whole period of socialist development, but with different degrees in its maturity and perfection. Based on Marx's theoretical thinking and lessons from the practice of socialist countries, ownership of the means of production in socialist countries will undergo three changes: from multiple (public–private) ownership with public ownership as the mainstay; to a system of different forms of *public* ownership; and, finally, to a structure of single ownership by the whole society. These changes correspond, respectively, to the primary stage, the intermediate stage and the advanced stage of socialism. In democratic socialism, private ownership is in the dominant position; this is its fundamental difference from scientific socialism.

Second, we consider the change in the distribution system in different stages of development. The form of distribution will change, in tandem with change in ownership of the means of production. Corresponding to the first, multi-ownership, stage, is the multi-distribution form, with distribution according to labor in the primary position. When ownership moves to the second stage, characterized by multiple forms of public ownership, distribution is characterized by multiple forms of distribution according to labor. Finally, when ownership evolves to single ownership by the entire society, the form of distribution then appears as a single one-level distribution according to labor. The relatively low level of productive forces and the consequent existence of multiple economic constituents in socialism at the primary stage make it necessary, in addition to the various forms of distribution according to labor, to introduce other supplementary forms of distribution according to operating results, capital and labor value. This distribution structure, along with the above-mentioned ownership structure, mode and operational mechanism of economic

activity, form the basic content of the relations of production in the primary stage of socialism.

Finally, we summarize the change in the operational mechanisms of social–economic activities in the different stages. These mechanisms further strengthen the role of relations of production in establishing the stages of social development. Given the pluralistic ownership that characterizes the primary stage of socialism, the mode of social and economic activities has to be a market economy under the guidance of a new type of planning, with an operational mechanism based on market adjustment and led by the state. In the intermediate stage, however, due to the major changes in productivity and ownership structure, the economic system is now one in which commodity relations still exist, the role of the market mechanism will be significantly weakened, and that of planned regulation will be increasingly strengthened. As for the advanced stage, under the single structure of ownership by the whole society there will be a single planned regulation. Commodity economy no longer exists and, apart from foreign economic relations, socialism will enter the typical stage of perfection envisaged by Marx.

Our account of the intermediate and advanced stages of socialism cannot be very specific at present, but their socialist nature must be stronger than that in the primary stage, with less non-socialist material. Some of the changes in the intermediate stage are manifested in the following three respects: First, in the system of property rights, public ownership is more mature, and various forms of this ownership are practiced. Second, in the system of distribution, distribution according to labor is more adequate, in a variety of forms. Third, the regulation system of the planned economy is more complete, and a planned system of production is implemented that is increasingly governed by planning intentionality. On this economic basis, the superstructure is characterized by a relatively adequate democratic system. Dictatorship exists only in the sense of defending against foreign aggression; the state will not have withered away, only because it is still needed to maintain rights, such as distribution according to labor.

According to the predictions of the founders of Marxism, some of the partially qualitative changes in the advanced stage of socialism are manifested in the following three respects: First, in the system of property rights, public ownership of the means of production is fully mature, and a unified public ownership is practiced in the

whole society. Second, in the system of distribution, distribution according to labor is adequate, a unified distribution according to labor is practiced. Third, in the regulation system, planned economy is complete, and a pure product-planning economy is in place. On this economic basis, the superstructure is now characterized by a fully democratic system.

III. CAPITALISM, SOCIALISM, COMMUNISM

1. *Major Differences Between the Three Systems*

In contemporary China, there exists a variety of ideas with regard to the criteria for distinguishing stages of socialism. To sum up, these criteria include "the level of productivity development," "the realization of modernization and its corresponding living standard," "the relations of production and the ownership of means of production," and "the operational mechanism of social economy." In this paper, I have argued that, according to the general theory of Marxism on social and economic formation and stages of development, the ultimate role and indirect/ultimate impact of the productive forces must be considered, but equally important is the direct role and direct impact of the relations of production. This principle applies both in distinguishing different social–economic formations in history, and in ascertaining different development stages within the same social–economic formation. Furthermore, the partial transformation of the production relations caused by changes in the productive forces results in the three stages of socialism. This may coexist with the view that the stages of socialist development are defined by GDP (and living standards), as illustrated in Table 1. This new theory objectively defines different societies and their development stages, which is helpful to reveal the essential connection between the primary stage of socialism and the great goal of communism. It shows that socialism at the primary stage is the initial form of scientific socialism.

2. *Five Conditions for Transition from Socialism to Communism*

The common feature of the primary, intermediate, and advanced stages of socialism is public ownership of the means of production, but with different degrees of maturity and perfection. In the advanced

TABLE 1.
Core Elements of Capitalism, Socialism (Primary, Intermediate, and Advanced Stages), and Communism

	System of property rights	System of distribution	System of regulation
Modern capitalism	Private ownership primary according to capital	Distribution by market	State-directed economy
Primary stage of socialism	Public ownership in various forms primary (private ownership secondary)	Market-based distribution according to labor primary (distribution according to capital secondary)	State-dominated market economy
Intermediate stage of socialism	Multiple forms of public ownership (state, cooperative, joint-stock)	Multiple commodity-type distribution according to labor	State-dominated planned economy (market adjustment secondary)
Advanced stage of socialism	Single public ownership by entire society	Product-based distribution according to labor	Complete planned economy
Communism	Single public ownership by entire society	Product-based distribution according to need (distribution according to labor for new consumer goods in short supply)	Complete planned economy

stage of socialism, the form of public ownership will become mature and perfect, and the main difference between it and the communist system lies in whether distribution according to need is realized. Communism, characterized by the highest economic fairness and efficiency, is the general direction of development of human society, but its realization requires a series of conditions and a long time.

To that end, five basic conditions must be met: first, the material condition — highly advanced productive forces; second, the economic condition — single ownership of the means of production

by all the people, a planned economy and distribution according to need; third, the social condition — full development of education, science, technology, culture and health care, and the elimination of the major difference between mental labor and manual labor; fourth, the spiritual condition — the great improvement of ideological awareness and moral character; fifth, the political condition — abolition of class and the withering away of the state.

3. *The Economic, Political, and Cultural System as an Evolving Totality*

First, it is necessary to grasp the economic system at different stages of development. The primary stage is not only about laying foundations; it is also the transition to the intermediate and advanced stages of socialism. This is a historical process in which the public-owned economy grows stronger and distribution according to labor becomes dominant. The key is to grasp the present and future economy from the perspectives of the three economic systems — property rights, distribution, and regulation — at different stages of development. Some may argue that there is no risk to China's superstructure, *i.e.*, the long-term rule of the working-class political party, even if privatization becomes the main element of the reform. This is a misconception, which deviates from historical materialism. The rule of the political party of the working class, public ownership, and the guidance of Marxism are all indispensable factors that together constitute the essential content of socialism.

Second, we need to systematically relate political systems to the core realities of different societies. In socialist countries the working-class parties are in power (and, when necessary, carry out multi-party cooperation). The People's Congress (the name may vary in different contexts, such as Congress in Vietnam and Cuba), as the highest organ of state power, forms the government: court, procuratorate, Ministry of Supervision, etc. The political direction of a socialist country is to uphold the organic unity of the leadership of the political party of the working class, the people as the master of the country, and the rule of law, and to strengthen modernization of the country's governing system and governing capacity. This must include implementation of regional autonomy of minority nationalities, and full autonomy at the urban and rural grassroots level. In

short, the state systems and policies of socialist countries are obviously different from the dictatorship and democracy of monopoly capitalist classes in the West.

Third, the cultural systems of different societies need careful attention. Even at socialism's primary stage, the cultural communication system will embrace: diversity based on core socialist values, such as public ownership and common prosperity, democratic centralism, the rule of law and harmony, freedom and openness; a system of cultural property rights, enterprises and public cultural institutions; cultural opening, with national culture at the center and with introduction of beneficial foreign cultures; and cultural regulation, with the government in the guiding position and the market playing an active role. This institutional system stresses the priority of social benefit in literature and art, education and academic research, publicity and media, etc., while taking economic benefit into account as far as possible, instead of having the market as the sole criterion and profit as the guiding principle. This conception differs greatly from the cultural systems in capitalist countries.

CONCLUSION: THE THREE STAGES OF SOCIALISM — THEIR BASIS IN THE MARXIST CLASSICS

Beginning from Thomas Moore's book *Utopia* in 1516, world socialism has had a history of a little more than 500 years. The fact that the vast majority of European critical utopian socialists regard private ownership, commodity, money, and market as the root of evil is of great reflexive value. Marx, Engels, and Lenin all believed that during transition from the old society to a communist society (including socialism as the first or lower stage), private ownership, commodity and monetary relations could continue to exist in very small amounts. Only when private ownership, cooperative economy and commodity–money relations are completely eliminated can there formally be a communist society. This is the first concept of a socialist economic system, established by Marx, Engels and Lenin; it is a socialist social concept in a strict sense. Vietnam has so far adhered to this criterion for socialist society, declaring that it is still in the transition phase to socialism and not yet having achieved socialism.

Of course, Lenin sometimes referred to the New Economic Policy period, which contained a certain amount of private ownership,

cooperative economy, and commodity economy, as socialism, but only in the special sense of the working class and its party being in power. Stalin, similarly, declared, in 1936, that socialism was achieved in the Soviet Union (Stalin, 1978), at a time when there still existed cooperative economy, commodity and monetary relations, and the issuance of money wages instead of labor vouchers. Mao Zedong agreed with the Soviet standard, and in 1956 declared the end of the transition period (the period of New Democracy) from the old society to socialist society.

After China began its reform and opening up, the constitution in the 1990s stipulated the implementation of a property rights system that had public ownership as the center and non-public economy as an important part, and implementation of the socialist market economy. These steps further lowered the standard for socialist society. This is the third concept of a socialist economic system, established by Deng Xiaoping. As to whether non-public economy has surpassed public economy and become the main central form in reality, this is a question about the actual operation of the economy, about whether or not the country is strictly following the constitution, and about system adjustment.

There is no right or wrong in the three views of the socialist economic system. They just represent different values and criteria for economic systems. I have tried to enrich the theory by, in a broad sense, defining the first concept of a socialist economic system as the advanced stage of socialism, the second as the intermediate stage, and the third as the primary stage. The idea of three stages of socialism is based on previous research, based on the Marxist classics and on practical experience (for details see Cheng and Hu, 2018). This new theory answers, in a logically consistent manner, the difficult questions of what socialism is and how its practice and operation should proceed; it is intended to serve as the basis for further academic research and practical undertaking. It obviously differs from views of "socialism without working-class rule," "socialism–capitalism convergence," "high welfare is socialism," and "permanent primary stage of socialism."

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