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Yining Li

# Beyond Market and Government

Influence of Ethical Factors on Economy



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Yining Li  
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## Preface to the Revised Edition

This book explores how moral factors exert influence on the economy.

Not long ago, some students asked me, “Of your published writings, which three books do you believe best reflect your academic standpoint?” I recommended the following: *Unbalanced Chinese Economy* (Economic Daily Press, 1990; Guangdong Economic Press, 1998; Encyclopedia of China Press, 2009, which was reviewed as one of the “Top Ten Economic Works Influencing the Economic Development of New China”); *Beyond Market and Government* (Economic Science Press, 1999, nominated for the Fifth National Book Award 2003); and *Origin of Capitalism* (The Commercial Press, 2003, nominated for the National Publication Award 2007 and Prize of Honor winner in the China Publishing Group Book Award 2007). The second of these, first published in 1999, had the subtitle “Influence of Moral Factors on Economy.” This revised edition published in 2009 contains modifications and extra material to reflect the changes that occurred during the 10-year interval.

Four reasons account for the choice of the title—*Beyond Market and Government*. Firstly, as the book says, in the long period before the emergence and establishment of market and government, custom and morality were the only modes of regulation. This is not only true of remote antiquity; even in modern times, there have been isolated tribes, remote mountain villages, small islands, or migrant communities cultivating virgin land, where the only things working to regulate social and economic activities are custom and morality—not market or government. Therefore, we are justified in calling custom and morality a kind of regulation beyond market and government.

Secondly, in places where regulation by market or government does work, there are still some gaps that the two modes of regulation cannot reach owing to the limitations of their influence. Each does compensate for the other’s limitations, but only up to a point. For example, human beings as “social men” do not necessarily think or act only for economic benefit, nor will they always be passively subject to regulation by the government. The gap can only be filled by custom and morality. In this sense, regulation by custom and morality can be viewed as a regulatory mode beyond market and government.

Thirdly, social life includes a wide range of activities, one part of which is trading activity and another is non-trading activity. In the former, the market plays the role of regulator at the basic level and the government at a higher level. But the same cannot be said of non-trading activity, which is not restricted by market rules and mechanisms nor is subject to government intervention. The government is only responsible for defining its scope and ensuring that such activity does not overstep the boundary. Thus, non-trading activity has to be regulated by factors beyond market and government, namely, moral force.

Fourthly, once markets and governments do emerge, a variety of causes can give rise to market failure or government paralysis, rendering regulation by market or government ineffective or extremely limited. But even in such circumstances, custom and morality still exist and continue working as normal. This is another reason that custom and morality can be regarded as a mode of regulation beyond market and government.

For the above reasons, this book is titled *Beyond Market and Government*. It must be explained that regulation by custom and morality lies between regulation by market and regulation by government. Regulation by market is called the “invisible hand” and regulation by government the “visible hand.” Regulation by custom and morality is closer to the “visible hand” when its power to restrict is relatively strong and closer to the “invisible hand” when it is weaker.

But when is such power stronger or weaker? There are two main deciding factors. One factor is whether or not regulation by custom and morality has become a convention or a rule universally accepted by all members of the group. If so, its restricting power will be stronger; if not, it will be weaker. For example, a village rule is an agreement among all villagers, and they are obliged to follow it. In this situation, the restricting power of regulation by custom and morality embodied in the village rule is stronger. The second factor is the degree to which each member identifies with the group. If the degree is high, the restricting power is stronger; if not, it will be weaker. For example, if the villagers have a high degree of self-identification with their group, they will be more self-disciplined in following the village rules. That is to say, the rules will have more restricting power on the villagers.

Of course, in some situations, the restricting power of regulation by custom and morality is relatively weak, but this does not imply that it has no effect at all. Moreover, stronger does not always mean better where such power is concerned, since regulation by custom and morality takes many different forms. The above-mentioned village rules generally have stronger restricting power, whereas some regulation by custom and morality formed through self-discipline, despite involving no restricting power, can often play a role and influence individual behaviors.

In terms of social development trends, we note a continual increase in non-trading activities, in which regulation by custom and morality plays a major part. In the past when productivity was very low, trading activities barely existed, whereas non-trading activities covered almost all social and economic life. Later, with the increase in productivity, the traded sector gradually increased and expanded and the non-traded sector shrank correspondingly. When productivity increases to a higher

level, the share of the non-traded sector in socioeconomic life would gradually rise again. In other words, once the economy is highly developed, with income per capita increasing greatly, people's values and attitudes will change accordingly, as regards benefits, occupation, lifestyle and life itself, family and children, interpersonal relations, material wealth, spiritual enjoyment, etc. When national revenue and disposable personal income rise to a certain level, non-trading activities will increase and relations within the non-traded sector will develop at different levels. This is an inevitable trend of social and economic development. Consequently, as the major mode of regulation in the non-traded sector, regulation by custom and morality will play an ever more important role in social and economic life. In the past, regulation by morality has been an issue of interest to and exploration by specialists in philosophy, economics, and sociology, but I hope in the future more non-professionals will join us and think earnestly how regulation by morality plays a role beyond market and government.

This book devotes seven chapters to the role of moral factors on the economy. At present, discussion on this topic in academic circles is far from enough, as is our awareness of its importance in social and economic life (including the traded and non-traded sectors). That said, I believe this situation will change in the future. More people will join us in this study, and the role of regulation by custom and morality will be fully deployed. In this sense, my effort in writing this book will be worthwhile.

Beijing, China  
October 2009

Yining Li





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# Chapter 1

## The Issue of Regulation by Custom and Morality

### 1.1 Historical Review

#### *1.1.1 The Meaning of Regulation by Custom and Morality*

To discuss the meaning of regulation by custom and morality and its past and present roles, one must start with the question of resource allocation.

People often ask what it is that economics studies and why we should study economics. Different schools may supply different answers, but none can get away from this thought: Economics is about allocation of resources, and the study of economics is the study of how to use limited resources in the most rational and efficient ways so as to increase the overall wealth of the society and make it increasingly affluent. Some scholars would go further: The study of economics is in order to use resources rationally and allocate them efficiently so as to increase the wealth of the society and make income or wealth distribution fairer and fairer. In short, economics is a science of resource allocation and its mechanisms.

In the discipline of economics, two standpoints on resource allocation have formed. The first holds: Resources can be allocated rationally and efficiently by means of market mechanism, and resource allocation theory is no more than a theory of spontaneous regulation by market on economy. The second considers: Market mechanism has many limitations in resource allocation such as low utilization rate, irrational allocation, unbalanced income distribution, etc.; therefore, market mechanism should be replaced or at least rectified through regulation by government (or regulation by plan). Between these two attitudes, many other different viewpoints exist such as: Equal importance should be attached to the two means of regulation; either regulation by market should play the major role and regulation by government the auxiliary role or vice versa. In general, current study on resource allocation mechanism shows the existence of the two means is universally accepted and the only disagreement is on their relative weighting in resource allocation.



Regulation by market and regulation by government are two distinct modes of resource allocation. But in fact, ever since the appearance of markets and governments, neither of the two modes has been the only one at work in social and economic life. In a market economy, a more realistic view is: Market plays a basic role in resource allocation and regulation by government a high-level role. Both modes exert influence on social and economic activities. Wherever there are trading activities, the market mechanism is at work. Wherever there is government, there is government supervision or guidance, be it direct or indirect, on trading activities so that they remain in line with government aims and within the boundaries it defines. In this sense, regulation by market as a basic mode can be called “primary regulation” and government regulation, as a high-level mode, “secondary regulation.”

Now, we want to ask: Are there only the two means of regulation in social and economic life? Is there another, a third type of regulation? And if so, what is it?

As previously stated, the terms “regulation by market” and “regulation by government” both indicate the mechanism by which resources are allocated, namely, the resource allocation rules by which social and economic life operates. Without a market, there could be no regulation by market and without government, no regulation by government. However, human beings have been on the earth for hundreds of thousands of years, whereas market appeared only several millennia ago and government even later, so how did human society and its economy run, and how were resources allocated in the long period before regulation by market and by government were established? Is it possible that another means of regulation was there to allocate resources? If not, how could human society have survived till today?

Barter, a type of transaction, first appeared among tribes and can be regarded as an embryonic form of spontaneous regulation by market. At that time, predating both states and governments, there were no concepts of government management or regulation of resource allocation. Then, we may enquire: In the long period before the appearance of barter or within tribes after intertribal dealing emerged, given that there was no market force or government force, what was it that controlled resource allocation between people or between tribes? It could only be force of custom or morality. Factors of custom and morality constitute a cultural tradition that is universally accepted and followed by people and through which they handle and adjust their interpersonal relations. Under the influence of this cultural tradition, people’s behavior becomes more orderly and conforming. Even in remote antiquity this was the case.

In light of this, regulation that relies on the force of custom or morality—a regulation beyond market and government—can be called “the third regulation.” Since production factors are provided and employed according to custom and production outputs are distributed on this basis too, it can undoubtedly be called “regulation by custom.” Custom comes from tradition and group identification, the foundation of which is moral belief and principle. Since custom is supported by morality, regulation by custom is inseparable from regulation by morality. Hence, they can be compounded under the term “regulation by custom and morality.”

In his work *A Theory of Economic History*, the British economist John Hicks used the term “customary economy” and considered it the earliest model of non-market economy. He pointed out that “the economy of a neolithic or early mediaeval village, as well as of tribal communities, was not organized by its rulers (if such

existed); it was based upon a corpus of tradition. By that tradition individual function was prescribed, and continued to be prescribed.”<sup>1</sup>

According to Hicks, in “customary economy” “people are not much disturbed in their ancient ways by external pressures. Their economy can function, with every member performing his allotted task, including the decision-making which is left to him within his allotted circle; overriding decisions from the “centre” will scarcely ever have to be made.”<sup>2</sup> Such “customary economy” is self-adjusting for maintaining a balanced state. As Hicks wrote, “once the system has attained an equilibrium, it can continue for long ages without the need for reorganization—without the need for decisions of an organizational character. The ordinary emergencies, such as harvest failures or attacks by the “usual” enemies would not require new decisions; ways of dealing with them could be incorporated within the tradition rules. So long as the equilibrium persisted, there might even be no need for an organ by which ultimate authority could be exercised.”<sup>3</sup> Without doubt, the “customary economy” described by Hicks was an economy regulated by force of custom and morality only.

But does it follow that with the emergence of markets and governments and regulation by them, regulation by custom and morality disappeared? Far from it: The diminished importance and influence of regulation by custom and morality does not imply its total disappearance. Indeed, in areas where regulation by market and government cannot reach, it still plays a major role. For example, there are places outside the reach of government—remote mountain villages, small islands, wilderness lands—but there are people living, working, and multiplying there. It is regulation by custom and morality that enables them to continue living and producing there.

We come to a preliminary conclusion: Before the appearance of regulation by market and government and in places where market and government factors cannot reach, regulation by custom and morality is the only form of regulation that works.

### ***1.1.2 Coexistence of the Three Modes of Regulation***

Since the appearance of markets and governments, there have been occasions when regulation by custom and morality comes into play as well as the other two modes, thereby creating a situation of three types of regulation coexisting and cofunctioning.

A typical example is the social and economic life of medieval cities in Western Europe.

In Western Europe, since the tenth century or so, some old cities in decline experienced a revival. New houses were built on the ruins of the old city, forming new neighborhoods, or industrial and commercial districts emerged along the old city boundaries and gradually became an integral part of the city. More importantly, a group of new cities appeared. Different from the ancient cities both in political and economic terms, these revived or new medieval cities came into being and developed

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<sup>1</sup> John Hicks [1, p. 15].

<sup>2</sup> Ibid.: 14.

<sup>3</sup> Ibid.: 14–15.

as something different from serfdom and as places of refuge and resettlement for escaped serfs. Many of those serfs became craftsmen, and their organizations were called guilds. Members of a guild, or guild-masters, were owners of manual workshops. They sold their products and bought raw materials in the market, so their behaviors were regulated by the market. The administration of the city, or the municipal government, formulated a series of rules for the market and the production and operation of the workshops in terms of product price, operating hours, borrowing and lending rates, etc. This was regulation by government in action. The guilds also had their own rules. For example, they set a ceiling on the number of journeymen and apprentices in each workshop. In some cities, guilds even made it a rule that each guild-master could have only one workshop.

In some cities, guilds also set restrictions on production equipment in each workshop such as the number of ovens in bakeries, the number of looms in textile workshops, and so on. Some guilds forbade opening underground workshops or covertly producing on equipment hidden in other people's houses. All facilities should be for self-use only, and hiring was not allowed. Some guilds set limits on family members involved in production. For example, only sons, brothers, and nephews of an owner were allowed to participate in production, and no further relatives could be included. To do otherwise was considered covert hiring and an obvious violation of the rules. All rules and restrictions were set by the guilds to safeguard the stability of their trade at a period when the cities of medieval Western Europe were in their initial stage of development. By this means, no manual workshop would expand to a size large enough to threaten other workshops. The rules set by the guilds were based on traditions accepted by all members, therefore they belong neither to regulation by market nor to regulation by government but to regulation based on the power of custom and morality. In those medieval cities, regulation by custom and morality coexisted with regulation by market and government, all of them playing a role.

Another example of such coexistence is found in the activities of some farming communities in modern Western countries. With the maturity of the market, farmers likewise subjected their producing activities to regulation by market such as what crops to plant, what livestock to raise, at what price to sell their products, etc. Any fluctuation in market price would influence the production and operation of farming households. Price changes and surplus and shortage of farm products are matters of concern to government; when necessary, it takes different measures to regulate the market so as to ensure a certain amount of income for each farming household and that the prices of agricultural products are kept at a certain level. Besides regulation by market and government, farmers also set up their own organizations with the aim of protecting their own interests, minimizing losses caused by market fluctuation or resisting government measures injurious to their development, etc. Once joined in such organizations, farmers should obey relevant rules, and the organizations should protect the rights of all members while restricting their behaviors. This can be classified as regulation by custom and morality. Therefore, farmers' social and economic activities in modern Western countries exist in the context of the three types of regulation.

On those occasions when the three coexist and function together, the relative strength of the role played by regulation by custom and morality is not necessarily determined by that of regulation by market or regulation by government. Actually, their relationship is too complicated to be summed up with the formula “A is stronger and B weaker or vice versa.” Of course, we do often see occasions when regulation by market and government being weak, regulation by custom and morality becomes stronger to compensate. Here are two illustrative examples.

One: In history, in areas newly opened up by immigrant communities, since regulation by market or government did not then function, resource allocation had to depend on regulation by custom and morality. In the early period of the Protestant migrants opening up North America, it was regulation by custom and morality that filled the gap caused by the absence of regulation by market and government. The former element was strong and the latter weak.

China’s history affords many similar examples. In the period of the Southern and Northern Dynasties, in the last years of the Tang, and in the Five Dynasties period, waves of people living in the Central Plains area migrated south and congregated in areas such as Fujian and Guangdong, where families settled down, establishing new villages, preserving their old cultural traditions while starting up new undertakings. In such places, no adequate regulation by market or by government existed, so regulation by custom and morality dominated the social and economic life of the migrants. From this, we can see how great the vitality is of cultural tradition formed under the influence of custom and morality. Thanks to the power beyond market and government, namely, the power of custom and morality, those immigrants managed to overcome a multitude of difficulties in the turmoil of war, migrating with their families and establishing a new homeland in the remote South. The force of custom and morality was a force beyond market and government.

Two: After the appearance of markets and governments, there were many occasions of great unrest, such as invasion by alien peoples, peasant uprisings, feudal separatist rule, wars between warlords, etc. A folk adage goes, “take shelter in the towns at times of minor unrest and in the villages during major upheaval.” In the former case, country folks were likely to take refuge in towns since these were guarded by soldiers and people were safer there, a proof that regulation by government still worked in towns and that social and economic order was maintained. At times of major upheaval, townspeople were likely to flee to the countryside, to remote places or mountain areas in particular, since towns, usually being places of military and strategic importance and therefore fiercely contested, faced the risk of siege and running out of water and food. Even government forces could not maintain normal order, so people had to flee to the countryside, putting as much distance as possible between themselves and the towns. At such times of great upheaval, trade was suspended, and regulation by market could not function. With government paralyzed, regulation by government failed too. However, in remote villages or mountain areas far from the towns, there were still residents living and working. So how did such communities and economies run? How were resources allocated? All these depended on a regulating force beyond market or government; namely, the

force of custom and morality, which, in times of great upheaval, helped to keep social and economic order and enable people to live, survive, and multiply. This illustrates the increase in strength of regulation by custom and morality with the weakening of regulation by market and government.

Nevertheless, as previously stated, the three types of regulation relate with each other in a complicated way. There are situations where A is strong and B weak or where A is weak and B strong. But there are also situations where both are strong or weak. For example, in situations where the market is immature and the market mechanism imperfect, the role of regulation by market in resource allocation will be restricted; at the same time, if the government fails to set certain rules or fails to enforce them seriously or allows rule infringement to go unchecked, it means regulation by government in resource allocation is weak. When regulation by market and government are both weak, one cannot generalize on whether the role of regulation by custom and morality is weak or strong. The answer requires analysis of the specific situation.

One should point out that a custom is something that most people accept and follow and a moral is a belief, a principle for treating oneself and others and conducting oneself in the society. For regulation by custom and morality to play an important role in social and economic life, a precondition would be the majority's endorsing and following the custom and their belief in and support of certain morals and principles. In situations where regulation by market and government are both weak, if the majority in society do not accept a custom formed by tradition or do not totally endorse it, they cannot be said to follow it; if the majority in society lack a certain moral belief or do not adhere to a certain moral principle, then the role of regulation by custom and morality will be insignificant. Here, we have a situation where all three types of regulation are weak; social and economic life is bound to fall into chaos, resource allocation will be disorderly and inefficient. A persuasive example of this is the experience of migrant societies in Chinese history.

This shows that the strength or weakness of regulation by custom and morality is not necessarily directly linked to that of regulation by market or government: It very much depends on the degree of people's subjective effort, on how important they deem such regulation and exercise it actively in their life.

Similarly, at times when regulation by market can fully play its role when government seriously exercises its responsibility for high-level regulation, the strength of regulation by custom and morality will depend on specific situations. With the emergence of markets and governments, once their regulating functions began to come into effect, the scope of regulation by custom and morality shrank, and regulation by market and government replaced it in many areas. Importantly, however, the shrinking of scope is not the same thing as a diminution in strength. In the larger context where regulation by market and government fully play their due roles provided people regard regulation by custom and morality as important and ensure that it plays its role, its influence will be both striking and beneficial. In short, human effort is a decisive factor. This will be discussed in detail in the following chapters.

## 1.2 Nontraded Sector

### 1.2.1 *Various Relationships in the Nontraded Sector*

In the first section, we clarified this issue: A third type of regulation beyond market and government did exist in history, namely, regulation by custom and morality. Its strength or otherwise, its clear results or otherwise, depend on whether people attach importance to it and whether they care that it plays its role. In other words, the crucial factor is people's subjective effort. In this section, we analyze the various relationships in the nontraded sector. In social and economic life, the traded sector and the nontraded sector co-exist. In the former, market rules play the major role in terms of regulating resource allocation, etc. Government guides and manages the market, makes up for the limitations of regulation by market and rectifies the defects of the market. In the traded sector, regulation by market is basic in nature whereas regulation by government is at a higher level. But the same is not true of the nontraded sector, since market rules have no role here and market mechanism does not exist here. Because of the absence of regulation by market in the nontraded sector, the role of regulation by government differs from its role in the traded sector.

To better explain the features of the nontraded sector, let us first discuss human needs, human behaviors and interpersonal relationships. In real life human beings are "social men" living in communities, having their own needs, pursuits, aspirations and emotions. They have relatives, friends, colleagues and neighbors with whom they are in contact. In social contacts, they have to consider various relationships, follow conventions and take care not to overstep boundaries. They are influenced by their surroundings and may influence others as well. They persuade others and are themselves persuaded. Their experiences constantly change, as do their emotions and their ways of thinking. As "social men" they behave thus in the traded sector and in the nontraded sector this is even more the case. Therefore, the study of various activities and relationships in the nontraded sector is in a certain sense the study of countless individual "social men" and the various groups they form.

The nontraded sector not only exists but constitutes a rather large part of social and economic life. The American economist Kenneth Boulding pointed out that a price-centered trading economy is far from capable of including all human economic activities. As well as the exchange economy, there is the "grants economy," an economy that is not founded on exchange but on bestowal. According to Boulding, the "grants economy" has three origins: love, fear, and ignorance.<sup>4</sup>

What is "bestowal" originating from "love"? People have relatives and other close ties. Out of "love," they are willing to grant part or all of their properties and incomes to others, a behavior that has nothing to do with price-centered exchange economy.

What is "bestowal" originating from "fear"? For example, a man is threatened by robbers whose goal is to take his belongings. This man has to choose between

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<sup>4</sup>See Boulding et al. [2, p. 183].

“money” and “life.” Obviously he will choose the latter by giving his money to the robbers. This is also “bestowal behavior,” but “bestowal” engendered by “fear.”

What is “bestowal originating from “ignorance””? According to Boulding, when two parties conduct an unequal exchange, one party takes advantage of the “ignorance” of the other, gaining more whereas the other suffers losses. This is the equivalent of bestowal behavior, bestowal out of “ignorance,” and plainly different from an exchange economy situation.

Boulding came to the conclusion that the “grants economy” was different from exchange economy and that traditional economics could analyze phenomena only in the exchange economy, not in “grants economy.”

Boulding’s statement is not without merit, and his proposal of “grants economy” is educative. But it is hard to sum up relationships and activities in the nontraded sector as “grants.” To be more precise, though social and economic life can be classified into traded and nontraded sectors, to say it comprises only exchange economy and “grants economy” is incomplete. The traded sector might be equivalent to exchange economy, but the nontraded sector is far more complicated than a “grants economy” and the relationships within do not stop at “love,” “fear” and “ignorance.” Those relationships, such as ties among families, clansmen, relatives, neighbors, townsmen, schoolmates, friends, or teachers-and-students, are not trade-centered, so they cannot be summarized with the three origins. Academic exchange, social contact, civic activities, etc., are generally non-trade-oriented, but they cannot be summarized with the three origins, either. Therefore, it is more accurate to say “various relationships and activities in the nontraded sector” than merely use the word “grants.”

Relationships and activities in the nontraded sector are not in the realm of regulation by market, nor are they subject to market rules. Market mechanism does not intervene in the nontraded sector. As for regulation by government, its main role in the sector is to set boundaries for those relationships and activities, namely, that none of them should overstep the limits established by law or violate laws at pain of punishment for infringement. However, government does not involve itself in how the activities are conducted or how the relationships are handled, but allows the force of custom and morality to play the main role here. This is an important distinction between the nontraded and the traded sectors.

### ***1.2.2 Rationality of Individual Behaviors in the Nontraded Sector***

A society is formed by countless individuals who have dealings with each other and sometimes conflicts. Individuals have individual goals but the important issue is how to avoid one person’s goals conflicting with those of others. If realizing one person’s goal entails damaging that of the other, then the rationality of their behavior and goals should be probed. The question of rational behavior and of goals applies in economic and social activities alike. A person’s rational economic

behavior and goals may well be at one with his own rational social behavior and goals, but they might be irrational when considered from the perspective of society's goals. Therefore, as "social persons," we have to consider the rationality of our behavior and goals from an economic perspective and from a social perspective too. Why do we raise such a question in discussing the relationships and activities in the nontraded sector? It is because this question is linked to the limitation of regulation by market and by government as well as to the effectiveness of regulation by custom and morality.

Of course, society expects the behavior of individuals to be in line with social norms and individual goals to be in line with those of social development. If an individual's behavior is not in line with social norms but will not actually harm normal social and economic operation or hamper achieving society's development goals, there is no need for society to regulate it. If an individual's goal is not in line with that of social development provided it will not harm the interests of other individuals or hamper realization of their goals, there is no need for society to regulate this, either. The need for society to regulate arises only when individual behavior and goals are at odds with social norms, with the goals of social development and the interests of others or overstep the limits set for them.

In the traded sector, regulation appears simpler: On the basis of regulation by market, regulation by government can roughly coordinate individual behavior and goals with social norms, so regulation by custom and morality plays only a supplementary role here. In the nontraded sector, things get more complicated. As addressed above, relationships and activities here are independent of market mechanism, i.e., regulation by market has no role in these sectors. Nor does regulation by government interfere too much here: Its main role is to set boundaries for those relationships and activities, i.e., none of them should overstep or violate laws. This leaves considerable space for regulation by custom and morality, which is the form of social regulation most relied on and acceptable to the majority when individual behavior and goals are out of line with social norms or overstep boundaries.

Then we hit a problem: In the nontraded sector, individual rational behaviors may be legal, but to be rational does not imply legality, nor does legality imply that a behavior is rational. But we have to ask: Why does the traded sector have no such problem of rationality/legality in individual behavior? In the traded sector, provided market mechanism is complete, regulation by government is effective, and laws are executed seriously, individual behaviors usually can be legal and rational at the same time. In trading activities, even incomplete laws in need of modification are still effective and have to be abided by. Only thus can the trading parties be protected by law. Since a trade involves the economic interests of both parties, it has to be both rational and legal. No trading activity or individual behavior, even if it is considered rational, will go on happening if it is not legal: at most it will be a one-off. In general, in traded sector, economic interests determine the fact that all trading activities and behaviors have to be both legal and rational.

Things are different in the nontraded sector. Laws only set boundaries within the non-traded sector, and no activity should overstep them. Relationships and activities within this sector are mainly regulated by custom and morality. Therefore there is a direct correlation between the boundaries of rationality of nontrading behaviors and



the scope defined and endorsed by belief and moral principles in habit and morality. In the non-traded sector, the fact that a behavior on the part of an individual is rational does not equate to its being legal, and it certainly does not mean such a behavior is illegal. In fact, within the boundaries defined by law, many relationships are not managed by specific laws to observe, but depend on regulation by custom and morality and by cultural traditions. The fact that an individual's behavior is legal does not equate to its being rational, and it certainly does not imply that legal behavior is irrational. Since there are no specific laws to follow in handling many relationships in the nontraded sector, when a law is brought in it might not be in accord with custom or traditions, thus giving rise to a situation which is legal but not rational.

Unlike in the traded sector, if the situation arises in the nontraded sector where an individual behavior is rational but not legal or legal but not rational, this is considered quite normal. This is because when we talk about legal or nonlegal in this context it does not mean whether those relationships or activities have or have not overstepped boundaries defined by laws: it is about whether or not there are specific laws to follow within those boundaries. The reason we say regulation by custom and morality is extremely important to the nontraded sector is because the greater the lack of specific laws to follow, the greater the need for this type of regulation; the more individual behaviors need to be in harmony with social norms, the greater the need for regulation by custom and morality.

The fact that people are "social men" is more obvious in the nontraded sector. Since people are "social men," the ability of regulation by market and government to deal with issues involving people is rather limited, and regulation by custom and morality is more applicable here. If we consider this argument from the angle of "social men," we will have a deeper understanding.

### **1.3 Between the "Visible Hand" and the "Invisible Hand"**

#### ***1.3.1 The Nature of Regulation by Custom and Morality***

As modes of resource allocation, regulation by market is usually called the "invisible hand" and regulation by government the "visible hand." So is the third mode, regulation by custom and morality, an invisible hand or a visible one? We may approach this interesting question by analyzing the nature of these modes of regulating resource allocation.

The nature of regulation by habit and morality falls between that of the "invisible" and "visible" hands. Regulation by market is called the "invisible hand" because it is based on the mechanism of supply and demand, is by nature a spontaneous regulation beyond the will of people and the result of the continuous contest and interaction of two forces, namely, supply and demand. Regulation by government is called the "visible hand" because it is regulation by departments of government on social and economic life through the application of different measures, is by nature a

manmade and conscious regulation, the result of administration’s effect on economy, and its execution is based on laws, rules and policies. Regulation by custom and morality shares common ground with but also differs from the other two modes of regulation. Therefore, in terms of its nature, it falls between the “invisible” and “visible hand”: Just like the Way of Nature in Daoism, it is sometimes visible, sometimes invisible.

The similarities between regulation by custom and morality and regulation by market are as follows. One: Regulation by custom and morality originates within the behavioral agents, who influence social and economic life in the light of the cultural traditions, moral beliefs and principles with which they identify, and bring about changes in resource use efficiency and allocation patterns. By contrast, regulation by government relies on an external force, namely, administrative power, to intervene in social and economic life, and to influence resource allocation and allocation patterns. Two: Like regulation by market, regulation by custom and morality acts in a spontaneous and gradual way to bring order to disordered resource allocation. By contrast, regulation by government attempts to build order from the outset, an order that exists, unfortunately, only in the government’s mind or plan, but not necessarily in real social and economic life. The outcome of regulation by government might be true orderliness or lack of it. It could even turn an orderly state into disorder.

Regulation by custom and morality and regulation by government are similar in that neither mode is separable from people’s conscious behavior and both perform in social and economic life as a manmade means of adjusting, guiding or restricting resource allocation; unlike regulation by market, these modes of regulation can be changed if there is the will to do so. Of course, when discussing manmade guidance of economic life and resource allocation, the following difference between the two should also be noted: In regulation by government, the regulator is government, manifested as an external administrative power, whereas in regulation by custom and morality, the regulator is the agent personally or a group he identifies with and is a part of. That is to say, in regulation by government, guidance, adjustment and restriction are realized by an external administrative power, whereas in regulation by custom and morality, it is the members of society themselves who regulate socio-economic life and resource allocation: it is they who restrict their own behavior.

Considering all those similarities and differences, we can say that regulation by custom and morality is similar to but not equivalent to the “invisible hand”: Although it is not equivalent to the “visible hand,” there are some points of similarity. Actually, it lies in the space between the two “hands.” If each “hand” represents an extremity, where then is the location of regulation by custom and morality?

Regulation by custom and morality is sometimes closer to the “invisible hand” and sometimes closer to the “visible hand.” In other words, it comes in many different forms. Why so? It is because this regulation is manifested by agents influencing social and economic life through self- or mutual restriction, restrictions that come from the agent themselves, from identification with a group, from respect for and insistence on certain cultural traditions. On different occasions such restriction can take different forms and can be more powerful or less. These different forms and degrees of power can cause this type of regulation to keep shifting position, moving closer to invisibility

or closer to visibility. Suppose the restricting power is stronger, for example, taking the form of village rules, articles of associations, then regulation by custom and morality is closer to the “visible hand.” When the restricting power is weaker, such as in self-discipline, or a group persuading one of its members, then this type of regulation is closer to the “visible hand.” But beware: “Closer” does not mean “equivalent,” and “closer” to one end is bound to mean “farther” from the other. Therefore, we may conclude as follows: No matter what form it takes or how strong its restricting power is, regulation by custom and morality always lies between regulation by market (“the invisible hand”) and regulation by government (“the visible hand”).

Among many ethnic groups, regulation by custom and morality often appears as a historical or cultural phenomenon: For example, some groups practice cremation, others water burial, others interment, and others sky burial. Every group thinks its own practice is better than other forms, in that it is a respectful send-off for the deceased, whereas all other practices are unthinkable. Can one actually say which practice is the most respectful? Since each group has its own unique customs and moral norms, it is hard to say; but respect for the dead is universally seen as essential and the only difference is the form that respect takes.

### ***1.3.2 Forms of Regulation by Custom and Morality: Corporate Culture***

Let us examine this question further.

Many researchers have turned their attention to how the corporate culture of an enterprise influences its production, operation, and management. But the effect of corporate culture on social and economic life does not fall within the scope of regulation by market or government. Rather, corporate culture is both an expression of regulation by custom and morality and a result of it.

In the micro sense, the impact of corporate culture on resource allocation is firstly manifested in its influence on how each employee feels about the enterprise. Of all resources, human resource is the most precious in terms of quantity as well as quality. Quality is manifested in aspects such as technical skills, range of knowledge, health condition and mental attitude. When the number of staff is fixed, the high quality of staff is a reflection of rich human resource. People often ask: What are the most important factors for developing economy and enterprise? Capital, technology and information are very important indeed. But capital needs people to raise and utilize it, technology needs people to develop and operate it, and information needs people to gather and process it. But in every one of these tasks, a good mental attitude is especially important. Without it, the roles of capital, technology and information cannot be brought into play. Accordingly, the most important factors for economic and enterprise development are people, people of enterprising and pioneering spirit. If a society’s material wealth is destroyed, new wealth will rise to replace it provided that society still has people of enterprising and pioneering spirit. If it is pioneering spirit and not wealth that is lost, that wealth will wither away in the future, the society fall into poverty, its economy incapable of recovery.

So there is a direct correlation between an enterprise’s ability to prosper and the quality of its human resources and of its employees’ pioneering spirit. The spirit of the enterprise is embodied in every employee as is the quality of human resources, though this is more evident in some individuals than others. The major target in building a corporate culture is that the enterprise’s pioneering and enterprising spirit be strongly expressed in every employee, forming a spiritual driving force. It is a reflection of the improved and enriched quality of its human resources. So, how is such a spirit formed and developed? It is not through regulation by market or government, although both can, up to a point, inspire people to pioneer new fields and make progress. The formation of such a spirit within an enterprise, apart from the related qualities that employees already have prior to joining it, relies mainly on educating its staff and on the influence of its cultural environment. In this sense, regulation by custom and morality plays a role far more important than the other two types.

An enterprise’s employees form a group. The harmony of their relationship is significant to the performance and cohesion of the enterprise. If there is internal disunity, interpersonal friction, lack of harmony, maneuvering for position, departmentalism and back-biting, and unwillingness to listen and cooperate, the resource advantage of the enterprise cannot be leveraged. Moreover, the enterprise will be damaged as the result of lowered or even negative efficiency. An approach to solving this problem could be to put greater effort into management and into building the corporate culture. Firm but fair enterprise rules are helpful in defining the responsibilities of every unit and post in order to raise the efficiency of the enterprise. In terms of building corporate culture, this is beneficial for harmonizing interpersonal relations within the business, improving cohesiveness and transforming negative factors into positive ones. Resource utilization and competitiveness can be improved thereby. Moreover, the influence of the cultural environment thus shaped can improve the quality of new starters and inspire them to be enterprising and pioneering. These things are the embodiment of regulation by custom and morality. They are also the fruits of such regulation.

As one form of regulation by custom and morality, corporate culture has some points of similarity with regulation by government, but the two are different in nature. Under the latter form, government uses regulatory techniques to influence supply and demand of products and labor, thereby influencing cost, price, and profit. In this process, production factors are recombined and resource allocation patterns are changed. An enterprise can also recombine production factors and influence resource allocation patterns just as government does, but in developing its corporate culture the mode of regulation it takes is different from that of government. Three points are worth noting here:

One: When regulation by government starts to exert influence on the production and operation of an enterprise, the enterprise has actually been put in a passive position. If regulation by government is direct, the enterprise must accept such regulation irrespective of its own considerations. Even when such regulation is indirect, if it influences the production, operation, cost, price and profit of the enterprise, the enterprise must consider these influences, adjust its own actions and adapt to the changes caused by those influences. Corporate culture is different: because the factor influencing production and operation comes from a force within the enterprise—its

employees' own efforts—the enterprise is in an active position. If a business does not value the development of its corporate culture, that culture will have little influence on its production and operation. Conversely, the more it values corporate culture and the better it builds it, the greater influence the culture will have on the enterprise's production and operation and the greater the likelihood of improved performance.

Two: Study of efficiency involves distinguishing three concepts: production efficiency, resource allocation efficiency and X-efficiency. Production efficiency indicates the ratio of output to input, reflecting an enterprise's utilization of production factors. Resource allocation efficiency refers to the rationality of resource allocation and its resultant efficiency: Rational allocation improves efficiency and irrational allocation lowers it. X-efficiency refers to the efficiency (or inefficiency) caused by reasons other than output to input ratio or resource allocation. X-inefficiency is a loss of efficiency for reasons as yet unidentified but to do with insufficient effort on the part of individuals, interpersonal discord or employee dissociation with the goals of the enterprise.<sup>5</sup> An enterprise has advanced facilities and its resource allocation is proper, it will still suffer from lower efficiency (X-inefficiency) if its workers lack enthusiasm and slack off duties, do not work for a single purpose but follow their own agenda. Regulation by market as the “invisible hand” can influence production efficiency and resource allocation efficiency, but has basically no effect on the formation or elimination of X-inefficiency. Exactly the same can be said of regulation by government as the “visible hand.” The main thing that can influence, reduce or eliminate X-inefficiency is regulation by custom and morality, and corporate culture is a form of such regulation. Why can regulation by custom and morality do this when the other two forms of regulation cannot? It is because X-efficiency is linked to whether employee enthusiasm has been brought into play and whether its interpersonal relations are harmonious. Such issues come within the scope of regulation by custom and morality, and more exactly, are the task of corporate culture.

Three: In the second section of this chapter we examined the various relationships and activities within the nontraded sector, noting that the effective agency here is regulation by custom and morality, not regulation by market or government. We should further note that although we have made a distinction between traded and nontraded sector, the two can often influence each other and the activities of both have an economic and social impact. Regulation by market functions only in the traded sector, regulation by government also operates mainly in this area, not interfering with activities in the nontraded sector apart from defining boundaries for them by means of law. Only regulation by custom and morality plays a role in both sectors. As a form of this, corporate culture plays such a role as well, supplying what the other two modes lack. Hopefully, in building corporate culture, interpersonal relations in the nontraded sector will be harmonized and employee enthusiasm be brought into play, which in turn will exert positive influence on these same aspects in the traded sector. At the same time, developing corporate culture should help the enterprise shape its unique style, spirit and objectives, something that can only be achieved through regulation by custom and morality, not the other two modes.

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<sup>5</sup>For a detailed discussion of this question, see Harvey Leibenstein's [3, 4].

The analysis on corporate culture clearly illustrates the special feature of regulation by custom and morality. But community and school culture play a similar role in harmonizing interpersonal relations, encouraging an enterprising and pioneering spirit, restricting behaviors, etc. As two other forms of regulation by custom and morality, they should also be given their due weight.

## 1.4 Moral Standards and the All-Round Development of the Person

In trying for a deeper understanding of regulation by custom and morality, we could start by discussing the monotonization of life, something caused by industrialization, a process that every developed country has gone through. Industrialization brings with it more in the way of material goods, but brings greater monotony to people's lives. This has long been an important topic for many economists. For example, in *Democratic Ideas and Reality*, Halford J. Mackinder asked: What are the toxins of modern industrial life? In his view it was the monotony of work, boring social life and the monotony of the boring collective life. He thought it no wonder that the British bet on football matches in order to escape the monotony of their reality.<sup>6</sup>

Mackinder compared pre- and postindustrialization Europe to the effect that: In ancient Greece and Medieval Europe, social organization was fragmented, but every town of a certain size had considerable scope to develop. In Florence, people shaking hands on its streets or people related by marriage, were actually city leaders, competitors in the same trade. A young and talented Florentine did not need to pursue a career in some faraway capital since he had many choices to work for and within his own city, a general or a commanding officer; he might lead an army to war, a small-scale one admittedly but big enough to call on all his mental resources and his leadership skills. If he was a painter, sculptor or architect, he might be given sole responsibility for designing a commemorative building in the city, rather than watch the work go to a big name architect from elsewhere.<sup>7</sup> In the end, Mackinder says regretfully: Of course no one suggests that you should or could return to institutions on the Athenian or Florentine scale, but the fact remains that you have drained your local life of most of its value and interest by the development of nationwide class organization...If you pursue relentlessly the idols of efficiency and cheapness, you will give us a world in which the young will never see life but only an aspect of life...<sup>8</sup>

We cannot say for sure whether urban life in ancient Greece or Medieval Europe was truly so and humanistic and full of variety, but what is certainly true is that postindustrialization urban life was as monotonous as Mackinder asserted. If technological progress and automated production are inevitable, it is also inevitable that

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<sup>6</sup> See Halford J. Mackinder [5, p. 164].

<sup>7</sup> Ibid.: 164–165.

<sup>8</sup> Ibid.: 172.

workers become more and more tightly fettered to assembly lines. As a result, their feelings of boredom, depression and apathy will get worse. Since an industrialized country has no way to revert to a preindustrial society, the sense of depression can only increase. When essential material goods are in short supply, man's foremost needs are food, clothes and shelter. But once these material essentials are adequate, man will seek self-development including the need for a spiritual life being met, and these should count as basic needs too. A society is seriously defective if it possesses material but not spiritual wealth, or if it can satisfy material but not spiritual needs. The two kinds of needs are closely connected. Once material needs are met, people will have spiritual needs that they hope to satisfy. The meeting of spiritual needs will further develop material production, which in turn will engender higher spiritual needs. Through the interaction and mutual promotion of the two needs, people will develop in an all-round way rather than partially.

The monotony of postindustrialization life can only be overcome by meeting material and spiritual needs. But the questions do not stop there. How can we ensure that both are met? Can we rely solely on economic growth to do so? Will economic growth inevitably result in fully rounded people? Once one form of monotonous living is overcome, will it not be replaced by another? What should we focus on in order to avoid the re-emergence of monotony? These questions all merit exploration. Let us now analyze the relations between morality, belief and the all-round development of people.

#### ***1.4.1 Definition of "All-Round Development of the Person"***

What is meant by all-round development of the person? Scholars have yet to reach a conclusive answer. However, no matter what the differences of opinion, there is at least some consensus regarding the premise of this concept. There are three points: Firstly, the all-round development of people should be based on productivity being developed to a high level. Without this, there will be insufficient supply of material goods, and thus the material conditions necessary for all-round development of people and for satisfying their material and spiritual life needs will be absent. At the same time, a sufficiency of free time is also necessary for such development, but there has to be higher productivity before working hours can be cut or annual leave increased.

Secondly, such development should be based on a certain level of education. Without this, a person's material needs may not be met, let alone his spiritual life needs. If the average educational level in a society is low, this will severely limit the development of productivity in that society; consequently, neither material nor spiritual needs can be met, and all-round development of people becomes impossible.

Thirdly, such development should be based on a certain morality and belief. A society without morality and belief cannot help its members realize all-round development even if its productivity is high and can provide material products in abundance. In such a corrupt atmosphere, people will dissemble, cheat and jostle for

advantage in order to be spared difficulty and people's all-round development becomes a pipedream. Furthermore, these negative elements will surely undermine public security, people will feel unsafe and talk of personal development will be pointless.

Not one of the three points of the premise is dispensable. Highly developed productivity, better education, and good morals and customs are all essential to it. No matter what interpretation is put on "all-round development of the person," education and morality are unquestionably components of the premise.

I wrote in my book *System, Target and People: Challenges Facing Economics*: "People always aspire to improve their lives. In the process of improving it, the more they sense that their individual improvement is connected to the improved lives of those around them ... Even if one person's life improves but that of others does not or actually deteriorates and the social environment becomes more unstable than before, then it is hard to say that life quality overall shows improvement."<sup>9</sup> This passage actually pertains to the connection between moral standards and interpersonal relations, as well as to the understanding of "all-round development of the person."

Morality as a norm is both a power to encourage or constrain individuals and a principle to be followed in handling relations between people. Everyone hopes his life can improve, i.e., that his material and spiritual needs can be satisfied. However, if his environment lacks a good moral ethos, if those around him do not trust each other, lack a sense of security, or have a worsening life situation, then his aspiration cannot become reality. If he alone is well fed, well clothed and well housed can this really be called a better quality of life? Sadly, the conclusion must be this: In a society without a good moral environment or moral standards it can hardly be said that he is more fortunate or that his life quality has improved.

The all-round development of people needs a normal environment at least in the opinion of the majority. In an anomic society where people must lie to survive, can they be carefree and happy even if they do have food, clothes and shelters? Can their quality of life improve? To understand the concept of all-round development it is crucial to know that an individual is inseparable from a group, from the people around and from the social environment in which he lives and grows. This awareness helps in understanding the role of morality in the all-round development of people.

### ***1.4.2 Fostering a Fine Social Ethos***

The all-round development of people relies on the formation of a fine social ethos, and for this to take place, there must be moral constraints on individual and group behaviors. As mentioned above, without necessary moral constraints the society and economy will fall into disorder and the social ethos will be poor. From an economic operation perspective, if a behavioral agent does not have moral constraints and if there is no mutual moral constraint between agents, the behavior will be of short duration, since the agents will anticipate lack of stability and thus lose confidence in the prospects for the economy.

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<sup>9</sup>See Li Yining [6, p. 315].



The term “behavioral agent” here covers a very wide range and variety of people: investors reluctant to invest, shortsighted consumers, staff uncertain of the future who just muddle along without initiative or enthusiasm, students unwilling to study hard because of an uncertain future. All are illustrative of anticipated disorder. Granted, there are various reasons for this, but there is no denying that lack of moral constraint and an unhealthy social atmosphere number amongst them. The resulting short-termism will distort resource allocation and bring down resource utilization efficiency. Therefore, through regulation by moral force, by establishing moral standards and by fostering a fine social ethos the agents’ behavior will be normalized, thereby preventing the emergence of anticipated disorder and short-termism.

Social ethos visibly or invisibly guides people to develop their beliefs and this guidance is especially important in market economy. Where both market mechanism and government sectors exert regulation, there are two types of guidance on enterprises and individuals: guidance by market and guidance by government. The former can be summed up as profit-led, with “economic man” as its premise, since “economic man” will do all in his power to seek maximum personal profit at the minimum cost. Governmental guidance can be summed up as target-led, although it too can be profit-led sometimes. That is to say, when government guidance operates, it too takes “economic man” as its premise. Since man as “economic man” aims for maximum personal profit and minimum loss, the government can take measures to guide people in the direction the government wants them to take. In this way the individual’s interest can be guaranteed and government targets reached. As for an individual, he will always approach things from the angle of cost and profit. If he does not act in accordance with government policies he will pay more and get less, but if he does he will get more and pay less. In this sense, government’s guidance can help individuals to achieve a healthy combination of target and profit.

Man is not just “economic man.” He is also “social man.” Government should ensure people understand what is worth doing and what is not and what should they strive for and what they should not. It amounts to guidance of people’s belief but is expressed in the target-led guidance of government. Predominantly by means of education, government manages to get people to see the achievement of government’s targets as their own belief. In regulation by government, there is no possibility of belief orientation that is divorced from government targets. But actually, belief orientation can stand alone: this is the task of regulation by moral force. Independent belief orientation is exercised by the individual or a group formed of individuals. However, since individual or group targets are not those of the government, the individual or group belief orientation is different from that of government. For example, adherence to a particular religion may provide a belief orientation, but that orientation can also be independent of religion. Also, adhering to a principle of how to treat others can provide a belief orientation, and this too can be independent.

In the formation of a fine social ethos, the belief orientations of government, of an individual, or of a group are often mutually potentiating. Social ethos has an influence on people, helping them develop, strengthen or change their belief, whereas belief orientation can play a positive role in fostering a fine social ethos and thereby further influences the allocation of society’s resources. A clear illustration of

this is the influence of social ethos on consumer behavior, and the changes in consumer spending and structure in turn influence resource allocation. This is because consumption has a demonstration effect, an effect that is by nature a social one. What the society does or does not uphold can find reflection in consumer behavior. For instance, extravagance is a form of irrational consumption that may have a negative impact on the social ethos, since it may exceed one's income or financial capability, or it may excessively take up resources, causing limited resources be used in an irrational way. To take another example: There are often undesirable spending customs in less developed societies that people feel obliged to follow. Cases in point include the staggering outlay on extravagant funerals, building expensive tombs even during the lifetime of the intended occupant, expensive betrothal gifts from the groom's family, preparing costly dowries, lavish wedding banquets, etc. Such undesirable consumption customs reflect a backward culture. But it is difficult for poor families to resist the invisible pressure exerted by customs; hence the consumption behavior thus formed has a detrimental effect on resource allocation.<sup>10</sup>

Another illustration is that a fine social ethos has a positive influence on the caliber and efficiency of citizenry and that improvement here will in turn have a positive influence on resource allocation. Raising the caliber of the people—in education, health, mentality, morality—can also have a positive impact. History makes abundantly clear, when a country is in transition toward the developed state it should be alert to the possibility of social problems that can occur pursuant to achieving economic development and take measures to nip them in the bud. One such problem is how, in the context of ever higher incomes and ever more abundant material goods, to make people's lives more colorful and meaningful. An advanced society cannot be materially rich but spiritually void: it should meet all material, spiritual and self-development needs. The social ethos should not be allowed to slide downhill, but should be directed toward better and healthier development. And this is where regulation by morality comes in.

### ***1.4.3 Fine Social Ethos and People's Self-Development***

A society undergoes constant change during its progress from nondeveloped to developed condition. But one must not confuse social changes with acceptance of those changes by members of the society. They are two different things — a distinction between human society and the natural world. Changes in the natural world can be observed and understood by human beings and they can discover the laws behind such changes, but nature will not change its laws as the result of such knowledge. Human society is different. Society's activities are people's activities and through them they come to understand that society. They can not only observe and understand social changes but also adjust their behaviors to adapt to those changes. They can also take measures to change society. That is to say, human

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<sup>10</sup> See Li Yining [7, pp. 136–139, 151–153].

beings and society are mutually influential and adaptive: In adjusting, societies advance and in adapting men develop. In this interaction, the influence of social ethos on social development and on people's self-development is revealed. On the one hand, a fine social ethos helps people to a correct understanding of social change and to timely adjustment of behavior. On the other hand, when there is a fine social ethos, people's behaviors are more conforming and their understanding improves, which is helpful in tackling problems that emerge as the society develops.

Undoubtedly, the creation and nurturing of a fine social ethos is a much tougher job than managing or building culture in an enterprise or community. Even at the surface level, in creating a fine social ethos, there are no hard targets to meet, nor are there obvious reliable indicators for evaluating whether or not that ethos has been created. That is to say, the fine social ethos concept is an elastic one. However, on further analysis, we will find it does follow certain rules: The higher people's educational and moral level, the better they love life, care about others and support public welfare, and the easier it is to foster and promote a fine social ethos. It is true that effective management or culture building of an enterprise or community can help foster a fine social ethos, but they cannot replace the joint efforts of society at large to enhance the national caliber and foster such an ethos.

People's self-development and the fostering and promoting of a fine social ethos are mutually complementary. The higher the level of man's pursuit, the stronger his sense of social responsibility will be. Such dedication to the public interest will have a beneficial role model effect and help foster and promote a fine social ethos.

Here, we need to clear away a misconception, namely the supposition that if a society is economically underdeveloped, people's self-development and caliber improvement will be constrained and it therefore follows that there is no fine social ethos to foster and promote. The reason that this is wrong is because it treats as an absolute the relationship between the degree of economic development and the fostering and promotion of a social ethos, as if a developed economy is the sole factor bearing on the latter. In actual fact, in some very underdeveloped areas (including the underdeveloped stage common to every nation in history) or even in comparatively poor remote villages in developed countries, the social ethos can be a very good one. In general, the correlation between ethos and economy is rather complex and deserves further research before coming to any conclusions.

But history also demonstrates that the corruption of a country or area often sets in during the transition stage from economic underdevelopment toward developed state. In such a period, the impact of external influences, both good and bad, begins to increase. Moreover, because old social organizations or structures are falling apart and new ones are taking shape and there may be a long period of dividing and reforming, then social usage and customs, people's mental attitudes, social values and standards will inevitably undergo some changes, drastic changes even. The question of whether the social climate is heading in a good or bad direction involves how we evaluate the changes. If we look at these changes through the prism of the original social structures, values or customs, we may find nothing positive about them. However, if we look at the changes from a different perspective, from the angle of the to-be-reached state of social development, our perception might be reversed and all will seem positive. To speak objectively, in the transitional period, the two trends

co-exist, except that negative changes are more easily perceived, and therefore more likely to be discussed and cause dissatisfaction. This situation tends to persist for quite a long time and may not turn for the better until the economy develops, average income rises and national caliber improves. In this process, pure economic growth is not enough: the role of education and culture building cannot be neglected since they will have a positive influence on people's self-development, thereby helping mitigate changes for the worse in the social environment or even prevent such changes.

It is necessary to point out the relation between two works of Adam Smith: *An Inquiry into the Nature and Causes of the Wealth of Nations* and *The Theory of Moral Sentiments*. In my book *The Birth and Development of Macroeconomics* (1997) I wrote: "In his books *The Theory of Moral Sentiments* (1759) and *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), Adam Smith used the term 'invisible hand.' What he really meant was: A good social order that promotes the public good can be the spontaneous and unintended consequence of human behavior."<sup>11</sup>

In fact, the "invisible hand" in *Wealth of Nations* mainly refers to regulation by market, whereas in *The Theory of Moral Sentiments*, it encompasses the role of the law of market and the role of moral sentiments. In the history of economic thinking, the idea of "invisible hand" first appeared in *The Fable of the Bees* (1714), a book written by the Dutch philosopher Bernard Mandeville.<sup>12</sup> Mandeville put forward a proposition that is indicated in the book's subtitle: *Private Vices, Public Benefits*. In his opinion, individual greed and selfish behavior promote social prosperity, and if people abandon their vices and live a poor and simple life, it will spell desolation for society. Adam Smith did not agree. In his opinion, the notion that private vices could create public benefits was an ultraegotistic and unbridled system. Man, in Smith's view, is more than "economic man" seeking only private benefits. Instead, he must follow rules, respect the interests of others, and have a sympathetic heart. Professor Zhao Xiuyi has made a thorough explanation of this point. He points out that Adam Smith's system "affirmed the rationality of people pursuing private interest and well-being on the one hand; on the other, it stressed that such pursuit must be proper, i.e., it must confirm to general social rules and not be intemperate and greedy."<sup>13</sup> Then, how did Adam Smith integrate his two books into his theory? According to Zhao's analysis, "Smith's desire was that a country and people's enrichment by market force must rise in step with the maintaining and promoting of morals."<sup>14</sup> In my opinion, Zhao's analysis is both true to Smith's true meaning and brings a fresh insight. Something deserving of mention here is that although Smith did not talk about government intervention functioning as the "visible hand," he always put great emphasis on the role of market rules and laws. In the traded sector, the consequences of violating laws and the consequences of offending moral standards were equally serious and equally not to be dismissed.<sup>15</sup>

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<sup>11</sup> Li Yining [8, p. 41].

<sup>12</sup> Ibid.

<sup>13</sup> Zhao Xiuyi [9].

<sup>14</sup> Ibid.

<sup>15</sup> See Qiu Feng [10, p. 150].

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## Chapter 2

# Efficiency and Coordination

### 2.1 The True Source of Efficiency

#### 2.1.1 *Mechanism for Low or High Efficiency*

As mentioned in the first chapter, regulation by custom and morality can increase allocation efficiency. In order to clarify why such regulation can promote higher efficiency, we need to discuss further the source of efficiency.

Efficiency is a category of economics and has to do with the effective use and allocation of resources. In the realm of economics, all resources are limited, only to different degrees of scarcity, both current and future. The key point is how to utilize and allocate resources effectively. If both utilization and allocation are rational, a given resource can be used to greater effect, and the result is greater efficiency. Conversely, irrational use and allocation will mean resources are unused or wasted, resulting in lower efficiency. Therefore, from the perspective of resource use and allocation, rationality and irrationality in these areas are the respective sources of high and low efficiency.

In recent years, economic circles in China have come to value efficiency more and more. One reflection of this is the effort directed to transforming the economic growth mode, namely, a shift from the extensive mode of production and operation to the intensive mode. Compared with the long neglect of efficiency in the past, this is a welcome change. But probably most people have an incorrect understanding of efficiency and where its source lies. Some people think that to emphasize efficiency is to emphasize profit, that if profit is high efficiency must be high, and that low profit equals low efficiency. Some people think that output value reflects efficiency, that high efficiency means high output value, and vice versa. It is one sided to equate efficiency with profit or output value: the problem with output value is that profit also has to take into account taxation or price subsidy. Some people think efficiency is connected with input and that high efficiency comes from high input and low

efficiency from low input. Some even say, “Our enterprise provides a living for many, which is our contribution to society and represents our efficiency.” The foregoing interpretations all misunderstand efficiency by simply looking at input and ignoring output. Irrespective of how many employees an enterprise has, it cannot account for the level of efficiency. These examples prove that many do not correctly understand the word “efficiency.”

What efficiency reflects is the ratio of input and output, and change in efficiency shows change in resource utilization. From a macroeconomic perspective, in a country or a region, if people and materials are brought into full play, goods are delivered smoothly and land use is optimized, then it signals rational use and allocation of resources, which is an indication of efficiency. The smooth delivery of goods implies speedier circulation, lower inventory, and idle resources. This is greater efficiency.

The relationship between efficiency and resource allocation is as follows: From the perspective of economics, any resource is considered limited, so society as a whole must consider into which production and services to rationally invest resources. Input of one particular resource might well produce different outputs, needed by society to different degrees. In this sense, investing one kind of resource can produce different results and therefore different efficiency. To output one kind of product rather than another can result in higher or lower efficiency, so one cannot consider different outputs from the same input as having equal efficiency. This is the relationship between efficiency and resource allocation.

On the other hand, when the resources invested are of different scarcity, even if the eventual output is the same, the efficiency will not be. This is because using lower-scarcity resources is more beneficial to socioeconomic development; hence, resource allocation is more efficient.

Having understood the foregoing, we can move on to other questions: Since input of the same resource can have different outputs and since different scarcity of resource can cause different efficiency, then why don't investors invest only in high-efficiency areas and leave low-efficiency areas well alone? Is it through compulsion, ignorance, or other considerations? Perhaps high or low efficiency is neither here nor there to these investors. Since one resource can produce high efficiency and a different one low efficiency, why do investors sometimes choose the latter instead of the former? Surely, they cannot prefer low efficiency, can they? Behind the selection of investing fields and resources and behind efficiency, there must be a mechanism at work, a mechanism more worth exploring than efficiency per se.

This output efficiency mechanism actually involves the source of efficiency. Efficiency comes from a mechanism and the mechanism determines the level of efficiency; when resources are of different scarcity, the crucial nature of this mechanism becomes particularly apparent. Therefore, we must study under what kind of mechanism it is that people choose the efficiency increase mode of minimum input or maximum output and how it is that people start caring about increased efficiency and figuring out how to achieve it.

As previously noted, efficiency cannot be understood purely on the basis of the amount of profit or output value. In the production process, if resources are wasted

or the environment polluted and destroyed, we cannot call it “efficient,” no matter how huge the profit or output value, nor can we call it “efficient” if there is excess inventory of product. The mechanism behind efficiency is simply benefit driven and target led. Benefit driven means: if an investor is strongly concerned with the result of his/her input, then high efficiency will bring him gains and low efficiency loss, so he is bound to compare cost, price, and profit so as to select the investment area or mode likely to produce highest efficiency. Target led means: an investor has his own target or targets, and to realize them, he will consider in which fields and which ways to invest. If increased profit is his target, then the two aspects—benefit driven and target led—combine into one. If his targets are multiple and increased profit is only one element, the situation will be more complicated, and the mechanism behind efficiency will be determined by how the two aspects are combined.

### ***2.1.2 The Roles of Efficiency and Moral Force***

In the market economy, efficiency is regulated by market, and the benefit motivator is one manifestation of such regulation. In order to achieve interest, an investor must improve efficiency by combining production factors on the basis of supply and demand and price conditions. Therefore, the mechanism behind efficiency is actually the benefit mechanism or market mechanism. In a market economy situation, the investor seeks to maximize benefits, so two aspects—benefit motivation and target orientation—combine in the issue of efficiency.

Suppose, as well as regulation by market, that there is also regulation by government, then behind efficiency, there must be the influence of the latter, and the effect of this can be seen mainly in target orientation. Government has its own diverse, multiple targets. To realize them, it needs to exert influence on investors by various means of regulation, so that the investment fields and modes they choose are in line with its own targets, thereby influencing changes in efficiency.

Since regulation by market and by government function at the same time, efficiency is actually influenced by both of these. However, our analysis should not stop at this level. This is because those who conduct activities in the market are traders, and every trader is an investor of resource. It is the government that applies its regulation on the market; it is itself an investor. It is the traders on the market who are affected by government regulation; as agents of investment, they should consider their own interest as well as how government regulatory measures may affect their own interests. So we have to ask: What are the investors’ considerations? Apart from regulation by market and government, are there other factors at work that may impact efficiency?

Let’s take the example of an enterprise. Inside an enterprise, there are people-to-material relations and people-to-people relations. The former is mainly reflected as the relation between the user of production materials and the production materials. The condition of production materials and the average amount of materials used per worker basically reflects the technical level of the enterprise, which in turn



influences efficiency. The people-to-people relation is more complicated than the former, in the sense that it can be classified into different types, such as executives-to-ordinary workers, cooperative relations within the executive tier, executives-to-managers, managers-to-managers at all levels, cooperative relations among managers, and relations between ordinary workers. Not all those relations are harmonious. Some are harmonious, some not quite, and others absolutely not, and the harmony can vary in certain situations. The degree of harmony will influence efficiency, an influence that is different from that of the technical level. Technical level and efficiency can both be increased if the enterprise increases input, purchases new equipment, builds new factories, trains employees, or encourages research into new technology. But if people-to-people relations are not harmonious, can increased investment have much effect or surely efficiency would improve as a result?

When technology reaches a certain level, human factors become more prominent, and the efficiency of an enterprise depends on how great the role played by human factors. Of these, working hours, the educational level, and clarity of duties of every employee are known quantities. But others are unknown quantities; for example, the degree of effort each worker puts in is hard to determine. All have a certain level of laziness, but when its influence is small, the more a worker's imitative and creativity come into play, and vice versa. But the degree to which workers can overcome laziness is an unknown quantity too. Moreover, if their personal targets are in harmony with those of the enterprise, efficiency will increase. If not, the opposite will be true. But the degree of harmony between their targets is an unknown quantity likewise. The influence of those unknown factors on enterprise efficiency is a subject worthy of research, and it is a knotty problem that regulation by market or government may not be capable of solving.

Study of efficiency must go beyond regulation by market and government. But this is not to imply they are not important factors in raising or lowering efficiency, just that their influence has limits, particularly so when it comes to analyzing the source of efficiency. For example, in the study of people-to-people relations, analysis of human factors such as workers' diligence or slackness needs to go deeper. In other words, in many aspects moral factors influence human behaviors and thus efficiency. Then what is the true source of efficiency? The true source lies in bringing people's initiative and creativity into full play. In achieving this, the role of moral force cannot be ignored. Through their influence, people's initiative and creativity come fully into play and efficiency greatly increases.

It must be emphasized that the abovementioned analysis is based on the premise of a fixed technology level. From the people-to-material perspective, the relative level of technology has a bearing on efficiency. It's hard to compare two countries, two regions, or two enterprises in terms of the degree of the influence of moral factors on efficiency if the technology level of one side is much higher than the other's. Only on the assumption of a fixed technology level can the influence of moral factors on efficiency be shown accurately and can the comparison be meaningful.

### **2.1.3 Two Kinds of Cohesion: Group Cohesion and Society Cohesion**

To recap, in the context of a certain technology level, the true source of efficiency lies in bringing fully into play people's initiative and creativity, and for this to happen, there must be a rational economic operation mechanism and there must be harmonious interpersonal relations.

The degree of cohesion shows the existence and extent of harmonious interpersonal relations. There are two types: group cohesion and society cohesion. Both have to do with interpersonal relations, the former those in a group and the latter with those in a society. Cohesion engenders efficiency, group cohesion produces group efficiency, and society cohesion produces social efficiency.

A group can be an enterprise, a work unit, a community, a village or a family, etc. Large or small, each has its own cohesion. Some are tightly organized and others are looser, but tight organization does not mean stronger cohesion nor does looseness imply the converse. Whether a group has cohesion and the extent of its cohesion are directly related to whether there is a harmonious relation between the group and its individual members and between individual members themselves. A tightly organized group cannot be cohesive if its members scheme and plot against each other or if its members are at odds with the leadership. By contrast, a loosely organized group may have strong cohesion if its members maintain harmonious relations with each other and with the leadership and if its members unite together and work hard for the development of the group.

An enterprise is a group formed by its employees, and its cohesion is group cohesion. Developing corporate culture helps build enterprise cohesion. Strong cohesion can help constantly increase efficiency and also help the enterprise come through difficult times, of which there is little doubt. But how is cohesion formed? Is there a connection between group cohesion and society cohesion? How to correctly handle this connection so as to achieve both types?

Society cohesion means all its members unify as one and try their best to realize their common purpose. For example, when a country or ethnic group is hit by a terrible natural disaster or is invaded, its people will show their spirit of unity, resilience, and self-sacrifice. Such cohesion can bring high efficiency and is capable of producing miracles. Even in peacetime, harmonious interpersonal relations can also strengthen social cohesion and harmony and thereby increase efficiency.

Group cohesion and society cohesion may be mutually promoting or mutually restricting, depending on the nature and targets of the group. If it is a separatist political group aiming to change the *status quo*, the more cohesive that group, the more harmful it is to the society and its cohesion. Of course, this is an extreme case: Generally, group targets are compatible with and even in total accord with those of the society. As a result, group cohesion and society cohesion are usually mutually promoting. Let us stay with the enterprise example.

In market economy, since an enterprise as commodity producer makes its own management decisions and takes full responsibility for its own profits and losses, it will take as its prime target the achievement of optimal benefits. It is in a competitive relationship with other enterprises, and in order to win, it constantly adjusts its production and management direction and enhances its internal cohesion. On the premise of fair and legal competition, enterprises share common interests: The more stable the society and the more prosperous its economy, the more they are benefited. The prosperity of one enterprise is not necessarily predicated on the decline of another. In a stable and prosperous social environment, every enterprise has opportunities for development and for realizing its aspirations. However, reality shows that even in a benign environment, some enterprises, owing to poor production management, wrong investment decisions, and inability to adapt to rapidly changing technology, are obliged to shrink production, go bankrupt, or be merged with other enterprises. But these are normal reflections of resource restructuring. Provided such restructuring can enhance the efficiency of national economy and create new investment opportunities, cutbacks, bankruptcies, or mergers will not harm the common interests of the enterprise community as a whole.

Group cohesion and society cohesion are of two different types. Whether strengthening group cohesion can promote society cohesion is closely related to an important stimulating factor of group cohesion, namely, the development of a culture (such as corporate culture, community culture, campus culture, etc.). Staying with the enterprise example, let us suppose that an enterprise's corporate culture sets store by both its own aims and those of the society; that it cares about its own, its employees', and the public's interests; and that it strives to foster its own corporate spirit and a fine social ethos too. This being so, then its building of corporate culture will strengthen its own internal cohesion and society cohesion as well. Such accordance of enterprise and society cohesion truly manifests the social function and value of successfully developing corporate culture. Conversely, if an enterprise values only its own and its employees' benefits but neglects the social role and value of corporate culture, then, even with stronger internal cohesion, such cohesion cannot help in promoting society cohesion or even keep pace with the latter. This point should not be ignored when analyzing the source of efficiency.

If we take this analysis a step further, we will find that increase in national wealth, economic prosperity, and the development of culture and education are all interlinked. A prosperous society with developed economy, culture, and education is more advantageously situated for building culture and promoting society and group cohesion. The role of regulation by custom and morality in promoting both types of cohesion is especially obvious and cannot be substituted by market regulation or government regulation: only moral force can make group members realize that their group aims are basically at one with those of society and that their individual and group interests are basically at one with public interests. With the members' recognition and acceptance of society's aims, both group and social cohesion will be strengthened. Similarly, under the influence of moral force, both group efficiency and social efficiency will increase constantly.

This brings us to the following conclusion: Previous studies on the source of efficiency focus only on economic and technical factors to the neglect of noneconomic and nontechnical factors, on the influence of interests but not on the effect of awareness of social responsibility and public aims, emphasizing only the realization of material value but neglecting human value. Guided by such traditional ways of thinking and methodology, these studies cannot really explore efficiency changes at a deeper level, neither can they reveal the fact that the real source of efficiency lies in the role of people and person-to-person relations, not exclusively in the role of material or the people-to-material relationship. Group cohesion produces group efficiency and society cohesion produces social efficiency. This being the case, we should not go looking to market mechanism or regulation by government to find out how efficiency is produced and increased but to moral force and its influence on people.

## 2.2 Coordination and Adaptation

### 2.2.1 *The Significance of Coordination and Adaptation*

In the first section, we pointed out that factors such as social and interpersonal harmony and people's adaptation to society and to others are of very great significance to the increase of efficiency. In this section, we will follow and further explore this train of thought.

As we know, a society is formed by countless individuals. Once established, a society like a human being is capable of self-adjustment so as to maintain or recover balance, a mechanism to ensure its survival and development. In *Economics and Political Science of Socialism*, I made this statement on society as a whole: Like a society, human beings also have the ability of self-adjustment. Once this ability is lost or weakened, a person will get sick, just as a society will lose balance. Such ability of a human body or society divides into two types: sthenic and inhibiting. Sthenic ability plays a role that is outer-directed, animated, and positive, whereas inhibiting ability's role is inner-directed, conservative, and negative. In normal circumstances, the two play their roles simultaneously, helping the human body or society to self-adjust and to maintain or recover balance. That is to say, normally, the human body or society will not be over-sthenic or over-restrained. Even if there are occasions when the former surpasses the latter or vice versa, they will return to equilibrium naturally after some process.<sup>1</sup>

Now what we must discuss is this: In the absence of regulation by government, would a society still be able to adjust itself? The answer is obviously yes: otherwise, how could human society survive for so long a time prior to the emergence of government and regulation by government? If there was no regulation by government

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<sup>1</sup> See Li Yining [1].

or by market, would the society still have this ability? The answer is still obviously yes: otherwise, before the emergence of regulation by government and market, or in areas where neither regulation can reach, or in periods of serious disturbance when neither regulation functioned normally, how could human society still exist and run normally? So, where exactly does this self-adjustment and self-balancing ability come from, and how does it exert its effect?

A society is formed by myriad individuals, who live or work together and are associated in various relationships. For every individual member of the society, order is one of the most important things determining whether that person can settle down and enjoy a peaceful life and normal work. Order in society is something desired by all. Irrespective of its nature, the existence of order is always better than lack of it. Lack of order always results in confusion which in turn harms people's normal working and living, even threatening their continued survival. Accordingly, for members of the society, order is imperative to avoid such things. Regulation by market and regulation by government are both forms of order. Once regulation by market emerged, the reason that all places with market activities had order under regulation by market is because order is what people want. Once a government has formed, why is it that wherever there is government or wherever government power can reach, government always wants to maintain a kind of order? It is because people wish for order and are glad to accept it and because governments also wish for order and require people to follow it.

Since people generally want order and abhor disorder, this gives society the ability to self-adjust and to recover balance. Self-adjustment means to incline toward and to adapt to order. Recovering balance can be seen as recovering order or rebuilding it anew. When a society's economy is overheated or too cold, it indicates damage to the normal rhythm of that economy and disruption to its order. This being so, through people's need to recover balance, i.e., recovering order or building it anew, the economy will undergo constant self-adjustment. Therefore, even without regulation by market or government, after a period, possibly a long period, characterized by sthenic or restraining action, a society's economy will gradually regain equilibrium. This tells us that the desire of the vast majority of people for normal, orderly life and work gives a society's economy an internal balancing mechanism. If on top of that there is appropriate regulation by market or government, balance will be recovered more quickly.

Normal order has something to do with the harmonized and adaptive nature of a society. Since man is not purely "economic man" but also "social man," social coordination or harmony cannot be achieved through economic development alone. As regards adaptation of people to society and to other people, this can still less be summed up as economic adaptation. The significance of harmonization and adaptation goes way beyond questions of economy. Let us take real enterprise situations to illustrate this point.

To improve efficiency, enterprise management often uses such economic tools as granting or withholding bonuses, increasing or reducing wages, etc. Although material incentives and penalties certainly work, exclusive reliance on such methods evidently has considerable limitations. In cases where the mentality of employees has

changed, or their income has reached a certain level and the bonus or fine represents only a small part of their wages, or the commodities they can afford are unavailable because of market shortage, the employees will no longer care about bonuses or fines, rendering such methods less effective than the previous. So, in the area of enterprise management, it has become an inevitable trend to replace the “incentive principle” with the “adaptation principle.” The latter emphasizes adaptation between the subject and the object, aiming to make the object feel that the subject is indispensable and vice versa. Such adaptive relationship has been called “oneness,” referring to the coordination, in its most complete and perfect sense, of personal relations and interpersonal relations in an enterprise or between the leaders and the led. The “adaptation principle” implies that employees feel inseparable from the enterprise, seeing it as a family of which they are a part; the leaders feel that they and the employees are one and that the employees’ concerns are theirs also. The enterprise and its employees share the same fortune and their relations are harmonized. When technology reaches a certain level, such adaptation between the subject and the object is bound to produce high efficiency. Adaptation is not limited to interpersonal relations within an enterprise; the principle is also applicable to relations among various social forces and is similarly capable of raising efficiency. We may analyze the relationship between government and public as follows: the maintenance of social order is among the duties of government, and to achieve this, it has to resort to compulsive means. But the latter do have limitations, so in addition, the government must do all in its power to establish an adaptive relationship so that the public feels the government is their own, that its target is their own target, and that they and the government are inseparable. This is a manifestation of “oneness” of subject and object in the sociopolitical field. From the point of view of government, if it has truly built adaptive relations in sociopolitical life, the cost of maintaining social order will greatly reduce and its management effect will constantly improve. In short, in the social field, coordination and adaptation are both sources of efficiency.

It’s hard to imagine that efficiency will not decrease when the subject feels alienated from the object. Similarly, it’s hard to see how efficiency can increase when the object feels it can never agree with or unite in concerted effort with the subject whether in thinking or in action. What is true of an enterprise is true of society also.

### ***2.2.2 Coordination and Adaptation in a Changing Society***

It is easier to realize social coordination and adaptation in a static society than in a dynamic one, where it is much more difficult to do so.

For a very long period, human society was basically a static one, which is to say a fixed society. In this, the scope of activity in an individual’s life was usually very limited because of low social mobility. Life was lived from childhood to adulthood in the same environment and among the same narrow range of people. Moreover, from that person’s childhood environment, it would be possible to predict with a great degree of accuracy what that person’s future career, life, spouse, and children

would be like. This is the nature of static society. Being thus, it is very much simpler for individuals to adapt to the people with whom they come into contact.

But it is not possible for modern society to be like this. It is a dynamic, constantly changing, and non-fixed society. Not only is its social mobility higher, it will keep on getting higher, and its pace of change will get ever faster. Development of science and technology gives rise to such changes, and along with social changes, interpersonal relations are in a state of constant change. In a static society, the knowledge and manual skills acquired in youth can enable a person earn a lifelong living; in a dynamic society, what is learned in youth soon becomes outmoded, and one must keep on learning, never able to discontinue learning because of the ever-quickenning pace at which knowledge is updated. In such a society, from childhood to adulthood, activities are conducted in various environments and contacts are made with different groups. The circumstances of an individual's childhood cannot predict that person's future. Opportunities keep coming up but may disappear before being grasped. Everything is in constantly accelerating flux. In order to survive and develop, it is vital to learn how to adapt to the environment, to social changes, and to changes in interpersonal relations. In general, adaptation is a life essential.

In static society, despite the minimal changes in an individual's life, despite the fact that incomes and living standards remain very low because of slow or no economic development, the great majority of people derive from it a feeling of stability; stability seems to equate to well-being and therefore contentment. Moreover, it tells people: This is what life is like, you don't have to change it and no one can change it, either. In such a society, one usually knows spontaneously how to adapt to the surroundings. There are numerous groups, including groups formed by blood ties, regional ties, and economic or political relationships; every person can belong to more than one group. Following group standards forms the normal order: Individual behavior obeys group standards and individual interests are subordinated to group interests. Such things stem from people's desire for normal order and also with their desire for stability and their dislike of unnecessary change. The more stable and contented people feel, the less likelihood there is for social change.

A dynamic society is totally different. The fast development of economy and technology brings people many opportunities and improves their income level and material life, but it also brings them a sense of instability. It seems that instability is a source of worry and that to live in a constantly changing society is to live in never-ceasing worry. Moreover, because groups are also changing, the sense of that stability they provide to members is shattered. People frequently relocate and change jobs or even spouses and adult children live separately from parents, all of which means they change from one group (community, trade, profession, or family) to another. Sometimes the groups are incompatible or even opposed. This will undoubtedly exacerbate the sense of instability.

It's inevitable for a society to move from static to dynamic. However, those in whom the change process produces a sense of instability cannot adapt to the reality and are very likely to find the changes unacceptable or even feel hostile to the dynamic society. They want to return to the static society, the only one they feel able to adapt to and accept. They are unhappy with reality, hoping to find their consolation

and spiritual moorings in memories, which always seem better than current reality even if life in the past was actually harder. They will have no passion or positivity for work, so efficiency improvement becomes impossible. In some people, the strong hankering to go back to the old ways becomes a barrier to efficiency improvement and social progress. This is really just a problem among some ill-adapted individuals, but it has the potential to gradually become a problem for society, a sociopsychological problem.

Why do we say this? Once a society leaves the static phase, it cannot return to it. Some people who are quite clearly at odds psychologically with the change but can do nothing to stop it may well form a countercurrent against the tide of social progress. In his analysis of this problem, sociologist Elton Mayo found there to be just two principles of social organization: the “established” society and the “adaptive” society. The former, at the lowest level, we may look to the ritual procedures of native Australians and, at the higher level, to the British society in the Victorian age, early industrial society in New England, or some Australian cities in the 1880s. With the advent of socioeconomic development, the established society ceases to exist. Since return is impossible, some will be discontented with reality. In Mayo’s opinion, most modern liberal or revolutionary movements had their origins in a fervent desire to return to the established society from the current unsettled situation, and these aspirations were really reactionary and counter to the spirit of the age.<sup>2</sup>

There are four main aspects to adaptation to a changing society:

One, accepting reality: One should accept the fact that society cannot return to the past and that the reality is unchangeable. As long as there are important scientific discoveries and application of new technology, there will be corresponding change in social organization or life. This is the reality, and if one cannot accept it, hankering after the static society, there can be no talk of adaptability. Therefore, accepting reality is the starting point for adaptation.

Two, understanding the reality: Accepting the reality is a prerequisite for understanding it. Compared with the past, the social environment has changed in many aspects. But deeper comparison is necessary to discover where these changes come from and where their significance lies. An obvious example is an individual living in agricultural society, almost totally isolated from and having very limited contact with the outside world, knows little of the real situation there. Hence, he believes society is stable and adaptable. Once an agricultural society becomes an industrial society, everything changes. Those long accustomed to life in the agricultural society may feel things have changed too fast and too much, feel unable to get a handle on the outside world, and feel themselves unable to adapt to it or even discarded by it. And with the advent of the information society, those long accustomed to life in the industrial society may also feel things are changing too abruptly, exacerbating their sense of feeling outmoded and discarded by the world, which contributes to their inability to adapt. In light of this, for an

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<sup>2</sup>See Elton Mayo [2, pp. 25–26]. Mayo also used facts to prove his opinion. Indeed, adaptation to a changing society has been a prominent problem in modern socioeconomic life.



individual to adapt to the social environment, to feel in harmony with the outside world, he should get a deep understanding of the social reality and understand where this inability to adapt comes from.

Three, change of thinking mode: Once reality is accepted and understood, he should change his way of thinking in line with reality and abandon the misconception that he is destined not to adapt to the changing society, so as to recover self-confidence. For example, the transformation from a planned economy to a market economy is a profound social reform, a change that calls for a corresponding updating of one's concepts. Those who lived and worked in the planned economy for many years got used to the "iron rice bowl" (lifelong secure job) and "big pot meal" (egalitarianism), but with the advent of the market economy, those things have disappeared, and new challenges have arisen, such as lay-offs and job-seeking. It is by no means impossible to adapt oneself to a new reality and a changing social environment. On any occasion, provided one exerts oneself, it is possible to increase one's adaptability. Complaining and sighing will only make the discontentment worse; society will carry on changing, but the gap between them will only get wider and wider.

Four, positive engagement: One should actively engage in socioeconomic development and help society move toward its target, positively adapting oneself to social changes rather than passively accepting them. In terms of China's current stage, it is of particular practical importance to adapt to systemic changes. When a society undergoes change, so do its systems and the people living within the systems that are always changing. Systems are the products of social accumulation that build the social environment for life and work. Changes to systems are occasionally rapid, but more usually gradual. In fact, all are involved in gradual systemic change without necessarily being aware of it. Such gradual change is imperceptible in the short term, but looking back after a few years or decades, that systemic change becomes apparent. Hardly have people got used to the change before the next round of systemic change has quietly got underway. Therefore, only by actively participating in social and economic development can people better adapt to social and systemic change.

### ***2.2.3 Relieving Individual's Sense of Depression or Loneliness***

In a context of constant social change, if an individual cannot adapt to the changing society or the changing interpersonal relations—neither of which are reversible—his psychological equilibrium will be disturbed, possibly resulting in depression and loneliness, a state of mind engendered by disturbed balance, a reflection of feeling helpless, and a strong wish to escape the society. In other words, in a changing society, the reason that some people feel depressed and lonely is because, after their relatively stable life is broken, they feel unable to adapt to the changes, increasingly alienated, "forgotten," and "discarded." Even though the society has never actually abandoned anyone, some people at odds with reality believe themselves abandoned.

In a changing society, such feelings are not confined to a handful of individuals. When such people get together, pouring out their discontent with real life, a “group sense of depression” or “group sense of loneliness” will emerge. It is one source of the discontented mood that appears in the process of social change and possibly one manifestation of the clash as the old culture is replaced by a new one. As a society changes, its culture changes from old to new. An old one incapable of adapting to a changed society will inevitably be replaced by the new one.<sup>3</sup>

Individuals or groups harboring a sense of depression and loneliness will be, whether consciously or not, inclined to champion old culture, distancing themselves from new culture or rejecting it. When reflected in social and economic life, this is bound to reduce efficiency in an enterprise, an institution, or the whole society. Generally, such loss is not directly linked with the technology or educational level of its employees but comes from lack of adaptability and coordination.

An individual’s sense of depression and loneliness might also be connected with aging and life experiences. Social adaptability might decrease as a person’s age increases, giving rise to the phenomenon of being able to keep pace with social change as a young person, but not when old. When young, there is no sense of depression or loneliness, but when old it is present. Of course, this problem is not an insoluble one. It should be noted that in a dynamic society, even though there are clashes between new and old cultures everywhere, some people can fit themselves only to old culture and never the new; others like neither, there are still many narrow cracks between the old and the new cultures. People who like neither culture can find a shelter in these cracks or can just hang around by the entrance to the new culture. In real life such situations are not at all uncommon.

In fact, when a society is in flux, the new culture waxing and the old culture waning, the cracks between the two are also changing, and to run away from reality is no solution. People must always make choices. In the main it is the individual who can relieve his own sense of depression and isolation. The only way to solve the problem is: whoever you are, however old, and whatever your experiences, reality must be accepted and understood, outmoded concepts and ways of thinking must change to reflect the demands of real life, and you must actively engage in socioeconomic development so as to help society to proceed along the right track.

In its long process of socioeconomic development, a changing society has a transitional character: It never can be and never should be a terminal point. It is always a “work in progress” and will hence have shortcomings. Compared with static society, a dynamic society will certainly have other defects apart from giving people a sense of instability. The fact that an individual does adapt to a changing society does not imply he considers that society to be defect-free, still less that he interprets its defects as good points: all it indicates is an acceptance of reality and an ability to adapt to reality’s demands by adjusting his behavior and way of thinking. If those defects are the inevitable results of the change process and not readily overcome or if they are the price that must be paid for the change, then a person understanding the reality should see the situation clearly, try hard to adjust, and participate actively

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<sup>3</sup> See Jiang Bin [3].

in socioeconomic development in a bid to rectify those defects and mitigate their negative impact.

In general, harmony and adaptation produce efficacy whereas lack of them brings about loss of efficiency. The three are constant companions. In the process of social change, only with constant harmonization and adaptation can efficiency constantly improve.

## **2.3 Mutual Relief and Efficiency Improvement**

### **2.3.1 *On Flood Containment and the Traditional Chinese Spirit***

In Section II, we proposed that harmonization and adaptability is connected with the replacement of old culture by new. To further understand culture, we begin our analysis by looking into Chinese history and the containment of flooding.

Historical materials show that ancient China frequently suffered from catastrophic floods and rulers in all periods attached great importance to taming the waters. Some foreign sinologists concluded that it was the urgent need for flood containment that catalyzed the birth of highly centralized autocracy in China, reasoning that such enormous flood containment projects could hardly be organized without a highly centralized autocracy. It seems that the autocracy of ancient China was born of frequent flooding and flood-control projects. Flood control, centralization, and autocracy seem to be the three inseparable elements. This is the prevailing opinion in foreign publications on Chinese history. Some even regard the high degree of centralization and autocracy necessary for flood control as oriental traditions.

The establishment of a highly centralized autocracy in ancient China is too complex a topic to go into here. There is no denying that large flood-control projects were connected in some degree with autocratic governments, organizers of those projects. However, from the perspective of flood control, we see that what history has given to the Chinese people is certainly not the highly centralized and autocratic “oriental tradition.” If there is a relationship between the flood containment cause and Chinese tradition, it should be described as follows: to channel rather than to obstruct; to ease off rather than let stagnate; to act together on all fronts rather than going it alone; and to help each other rather than forget all moral principles at the sight of profits. This is China’s spiritual wealth, the legacy of millennia of flood containment.

To channel and not obstruct is one of the most precious crystallizations of experience from the flood-control efforts of many generations. From feudal dynastic monarchs down to government officials at lower levels, whoever had experience of water conservancy and managing flood prevention completely understood the rightness of it. Obstruction might work in the short term but would only lead to failure. To channel was

the only effective path to taming the waters. It was the natural way. This experience was later widely applied in other fields of political life, exerting a far-reaching and not to be underestimated influence on China's past and present. People even use channeling and persuasion to address family conflicts and neighborhood disputes. The connotations of easing and channeling are similar and are invariably involved when dealing with the accumulated grievances produced by conflicts and frictions in interpersonal relations. It would not be going too far to claim that the greatest influence of hydraulic history on the Chinese people lies in their valuing of the concepts of channeling and easing. It was certainly no accident that "harmony is precious" became the principle for dealing with others among the Chinese people.

Through the lens of economics, human factors play an important role in efficiency improvement. Running production, just like managing flood containment, calls for the human factor to be used to its fullest possible effect. Similarly, in dealing with interpersonal relations, it's important to create channels rather than obstructions, to clear conflicts rather than deposit problems like silt. Such actions are both the source and guarantee of higher efficiency.

Thanks to the emphasis on "creating channels" and "clearing," Chinese history has enjoyed long periods of peace and prosperity. It was in such periods that the spirit of "creating channels" was mainstream and many social conflicts were solved. By contrast, periods of turmoil and chaos were perhaps, in a certain sense, caused by government's departure from this principle.

There are two characters in the Chinese expression "to channel": the first means to dredge and the second to guide. Similarly, the Chinese expression "to clear" contains "to dissolve" and "to resolve." To dissolve means to spate and dilute. To resolve means to dissect, untie, and disperse. These concepts are based on tolerance. Addressing friction and conflicts in interpersonal relations in a spirit of tolerance can gradually dissolve grievances accumulated over years, whereas an obstructive approach will pile even more grievances on top of those already built up and make it even tougher to solve problems. For this reason, the experience drawn from flood control is so precious for Chinese.

To tame a great river needs cooperation and help from different sides, such as the upper and lower and medium reaches, the left bank and right bank, towns and villages, this county and that one, and this village and that one, the whole forming a huge cooperative net. For the prevention and containment of floods, channeling and cooperation are both essential. Whether under the rule of a highly centralized regime or the fragmentary regimes of dukedoms, without interregional cooperation, flooding and consequent disasters would have been hard to eliminate or mitigate. Regional cooperation, nongovernmental cooperation in particular, is an excellent part of China's national tradition. Cooperation produces and consolidates group and social cohesion, a cohesion that has enabled the Chinese people, the nation, and its economy to survive numerous civil disturbances, foreign aggressions, wars, and natural disasters. This is a high efficiency, an efficiency that few economists have studied or even noticed, and behind it lies the cooperative spirit of a society and enormous social cohesion.

### ***2.3.2 Lessons from Mutual Help and Relief***

Out of the history of flood containment from dynasty to dynasty rose a national tradition, one characterized by a spirit of “channeling,” “easing off,” “tolerance,” and “cooperation.” A historical and cultural tradition such as this is beyond market and government: society cohesion comes out of it and efficiency is born of it.

For thousands upon thousands of years, China has suffered disaster after disaster, of which flooding is only one: floods, earthquakes, wars, and banditry have all inflicted enormous losses on the people. After flooding, riverbanks and homes needed rebuilding; after earthquakes, towns and villages needed reconstructing; and after the chaos of wars and banditry, people needed to return to their homeland and resume normal life. As refugees or in rebuilding homes, people needed to help each other. By mutual relief and support, the Chinese people have not only survived countless adversities but have kept on developing output, economy, and culture. The spirit of mutual help has equipped Chinese with more resilience in combating various disasters.

This spirit originates with the general public. When a disaster strikes, people come from all directions to help the victims, donate, or provide shelters for relatives, friends, and strangers, embodying this spirit. Such nongovernmental mutual help is a special social underpinning, because it is spontaneous in nature. If it were not spontaneous, could help to the disaster-stricken people last long? Or could the spirit of mutual help be promoted and passed on generation after generation? This spirit embodies the force of custom and morality, and the role of these factors in building this special social underpinning cannot be replaced either by market or government.

Of course, once governments took shape, they naturally took on the responsibility for social relief, spending more or less on helping refugees or the needy out of consideration for safeguarding social stability. But government relief to, say, refugees was more often than sufficient; thus, popular relief and help always played a very important role in this respect, especially in disaster years. The main priority of government relief was keeping social peace, whereas popular relief, though having an element of this, stems more from sympathy and concern for the lives of others in trouble. People give not for the sake of any return to themselves but to fulfill a social responsibility. The greatest distinction between regulation by custom and morality and regulation by market and government lies in the fact that, under the influence of the former, people’s assistance is purely voluntary and comes from the heart.

What connection is there between mutual help and efficiency? In preventing, containing, and fleeing floods and in rebuilding homes, villages, and towns after floods, mutual help promoted higher efficiency. Had there been no popular mutual help, the loss of lives and property sustained by the disaster-stricken people would have been much worse and subsequent recovery and rebuilding nowhere near as effective. With the existence of mutual help, people’s daily lives were to some degree guaranteed and their confidence as regards resisting disasters, self-help, and reconstruction increased. With greater confidence comes greater efficiency.

History has proved this true on countless occasions. Therefore, the legacy of flood containment, quite apart from our valuing “channeling” and “easing off” and our cherishing of the cooperative and tolerant spirit, is the tradition of mutual help. Efficiency is something that springs from interpersonal cooperation and increases constantly as relations become more harmonious, thanks to channeling, easing off, cooperation, and mutual help.

### ***2.3.3 Further Analysis of Mutual Help Behavior in History***

Let us return to the newly emerged medieval cities of Western Europe for an example of mutual help behavior, so as to understand further the correlation between mutual help and greater efficiency: this will give a different perspective on the source of increased efficiency. In medieval Western Europe, newly emerged cities suffered from frequent natural disasters and wars, and citizens had to rely for food and other daily necessities on outside sources. But the supply was not guaranteed, and once cut, the social order and normal economic activities could not be sustained; even daily life could not carry on. When simply surviving was a big problem, how can one talk of efficiency at all, let alone increased efficiency!

Under such special conditions, some of these cities took certain measures and set rules to regulate the urban economy and life, measures that were greatly supported by the citizens. The setting of such measures and the fact that they were respected reflect the spirit of mutual help. For example, some rules forbade coemptive buying of foodstuffs, some prohibited bakers buying wheat surplus for their actual needs, and some forbade urban workshops or citizens making forward purchases of grain in the countryside. Some cities set a limit on food purchases per household per period. All these rules were to prevent any one family dying from hunger for lack of access to food.<sup>4</sup>

Some cities forbade “privileged purchase.” This meant that all commodities brought in from the outside had first to be sold in designated markets and in retail within a certain period, with equal access for all residents. For example, in Wurzburg, Germany, when a ship with coal arrived, for the first 8 days, the coal could only be sold retail, and moreover, each household could buy no more than 50 baskets. After 8 days, wholesale selling of the remaining coal was allowed.<sup>5</sup> In some British cities such as Liverpool, all necessities arriving at the port would first be bought by the city authority, which then allocated them to merchants, handworkers, and residents, so that everyone could have one portion. In some French cities such as Amiens, salt, as a necessity of daily life, was distributed by the city authority. And in Venice, all trade in food was in the monopoly of the city authority to ensure the needs of all Venetians would be met. Some Western European cities in the Middle Ages practiced a system along the following lines: When a merchant ship arrived carrying

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<sup>4</sup> See Henri Pirenne [4, p. 156].

<sup>5</sup> See P. Kropotkin [5, p. 167].

goods from elsewhere, the merchants aboard had to attest an oath to the cost and transportation expenses of their cargo. This oral declaration formed the basis on which the city government's price commissioner set the selling price, and only then could the goods be offloaded and sold. Granted, all of the above were government actions to ensure normal supplies in their city, but they were undertaken in the spirit of mutual help, a spirit prevalent in cities in those days and one that contributed to citizens' receptiveness to regulation by government and economic measures.<sup>6</sup>

These mutual help measures were not limited to the supply of daily necessities. Some cities even set up "public ovens" for poor families to bake bread. Some cities set up publicly operated pawnshops, charging low or no interest so that the poor were not victimized by usurious rates.<sup>7</sup> In medieval Western Europe, city streets were narrow and flanked either side by tightly packed timber houses vulnerable to fire. To prevent fire disasters, many cities set up community service fire brigades and took fire prevention as an important part of urban life. In order to maintain the peace, some cities set up night patrol systems requiring all adult males to do night patrol service.

The above examples show how, in medieval Western European cities influenced by the mutual help spirit, both city authorities and residents were fully aware of the importance of civic service and facilities. Economically speaking, this had to do with the low social productivity and the adversity prevailing in these newly emerged cities. Given low productivity, inadequate supply of necessities, and isolation from and even opposition to the country areas, how could these cities have survived without taking such measures? It was the mutual help spirit that helped those cities stand the test of hardship and made them centers where more and more merchants and serfs gathered. If we bring this factor into our analysis of efficiency, it becomes very clear that the ability of cities to survive and grow was itself a manifestation of efficiency, a kind of efficiency inseparable from the mutual help spirit. Mutual help not only protected the weak within the cities but also safeguarded the common shelters of the weak and the strong alike, namely, the medieval cities of Western Europe as a whole. In this sense, mutual help was a protection for every city dweller. No matter his origin, occupation, or wealth, as long as he came to the city, he would receive its protection, including the protection of its mutual help spirit.

### ***2.3.4 The Never-Fading Spirit of Mutual Help***

From these examples it is evident that the spirit of mutual help truly did play an important role in ensuring and promoting efficiency. But it brings us to another question: Since measures by the city authorities later become obstacles to technological progress and inimical to increased efficiency, does this mean that mutual help also had something of a negative and oppositional effect?

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<sup>6</sup>See Carlo M. Cipolla [6, pp. 63–64, 278–279].

<sup>7</sup>See Carlo M. Cipolla [7, pp. 457–458].

To approach this question we need to begin with the medieval cities of Western Europe. When the cities were still in their infancy, in the interests of maintaining stability and creating good prospects for their trade and to ensure a peaceful life for its practitioners, urban handworkers took a series of measures to restrict market competition. For example, in many cities, the guilds set rules for their members: Those running shops were not allowed to engage in transportation business; workshops were not allowed to post advertisements to attract customers, to pull customers into their shops, or to sell goods at discounted prices. In some cities, the guilds did not allow its members to provide door-to-door services. For example, in early fourteenth-century Germany, tailors in Helm were not permitted to solicit customers from door to door, and in Frankfurt shoemakers were also prohibited from selling their making and repairing services in this fashion. Door-to-door selling was regarded as a practice that would sharpen competition, deepen friction, and widen income disparities among people of the same trade.

According to guild rules, working hours of the manual workshops were restricted. Normally, the production and running hours were from sunrise to sunset; workplaces could only be illuminated by natural light, no work should be done by lamplight, and night shifts were strictly forbidden. The guilds had rules on payment too: Apprentices had board and keep supplied but no wages. The wage level and working day duration for journeymen were both fixed, and no extra payment or bonus was allowed. They were paid once a day or a week. Piece-rate payment was forbidden in many cities lest it should intensify competition, but later, when epidemics left many cities short of workers, this was relaxed somewhat and piece-rate payment was adopted in some fields. Even so, the payment level was still subject to a unified standard. The guilds also forbade its members to affiliate or merge with each other in a bid to prevent the formation of large-scale workshops.

The role of such restrictive measures on competition shall be analyzed from a historical view. In the early period of the medieval cities, such restrictions played a positive role in promoting urban stability and development, peaceful life of the inhabitants, and increased efficiency. However, with economic development and enlargement of market scale, those measures became obstacles to productivity development because they bound the initiative and creativity of the producers and hindered the progress of technology and efficiency increase. As a result, they were gradually abandoned. The question we now need to discuss is this: how do we see the mutual help spirit? Since the competition restricting measures taken in the light of this spirit played a positive role in the early stage of medieval cities in Western Europe, this spirit should be regarded as positive. When those measures became obstacles in the later Middle Ages, does it mean this spirit had become outmoded? The answer is no. The fact that the measures had become outmoded does not at all mean that the mutual help spirit was obsolete.

As discussed previously, the mutual help spirit is spontaneous, emerging from a sense of sympathy and social responsibility: people are motivated to help those in difficulties, not by what return they might get. Under its benign influence, in different historical periods and situations, governments or organizations took measures aimed at ensuring that none should starve, particularly the most vulnerable poor.



We should evaluate the objectives of the measures taken by medieval Western European cities.

Evaluation of measures taken by government or organizations, including the city authorities and guilds of medieval Western Europe, is possible without taking into account the historical context. Once the economy had developed to a certain stage in the above-cited medieval cities, the measures became obstacles to productivity development and efficiency increase and were inevitably abandoned. But this means only that the measures had become obsolete, not the spirit of mutual help as an embodiment of moral force. In a new historical period with a new social and productivity level, this spirit can and should be manifested in forms appropriate to the time. To hold that the mutual help spirit can only be manifested under such old measures and that they therefore should remain unchanged is to misunderstand and distort that spirit. Changes in historical conditions will always necessitate specific changes to policies and measures, whereas the spirit of mutual help will live forever.

In his famous work *Mutual Aid*, P. Kropotkin has a brilliant statement to this effect: The absorption of all social functions by the State necessarily favoured the development of an unbridled, narrow-minded individualism. In proportion as the obligations towards the State grew in numbers the citizens were evidently relieved from their obligations towards each other. In the guild—and in medieval times every man belonged to some guild or fraternity two “brothers” were bound to watch in turns a brother who had fallen ill; it would be sufficient now to give one’s neighbour the address of the next paupers’ hospital. In barbarian society, to assist at a fight between two men, arisen from a quarrel, and not to prevent it from taking a fatal issue, meant to be oneself treated as a murderer; but under the theory of the all-protecting State the bystander need not intrude: it is the policeman’s business to interfere, or not. And while in a savage land, among the Hottentots, it would be scandalous to eat without having loudly called out thrice whether there is not somebody wanting to share the food, all that a respectable citizen has to do now is to pay the poor tax and to let the starving starve.<sup>8</sup>

Arresting though Kropotkin’s statement is, it fallibly smacks more of emotional reaction than rational analysis. State behavior is not the same as popular mutual help and the two should not be mixed up. The mutual help spirit should be championed and will carry on, though in certain circumstances, it is stronger and in others weaker. State policies and measures, on the other hand, should be adjusted in accordance with historical conditions rather than copied blindly irrespective of the age. Kropotkin used three examples here: that of the medieval age, of barbarians, and of the unenlightened.

As regards the example of the medieval age, the group (guild) behavior, i.e., guild members taking turn to care for the sick, was not a government behavior, but a behavior of mutual help and a duty its members willingly took on in accordance with their spirit of mutual help. The guilds disbanded, but such spirit should be preserved and continued: as to how people should take care of their sick neighbors or colleagues, that is another question, and it is not essential to follow the ways of

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<sup>8</sup> See P. Kropotkin [5, pp. 205–206].

the old guilds. The real problem, and one that must concern us, is that with the disintegration of guilds and the change of times, the mutual aid spirit has faded.

In Kropotkin's example, the barbarians blurred the boundary between law and custom or between law and morality. In a prelegal age, everything had to be dealt with in the light of custom or moral principles. Therefore, an onlooker failing to intervene to stop a fight would be punished according to these principles. This means that the barbarians respected mutual help as a moral principle. However, with the coming of government and laws, things changed. Murders had to be handled by policemen, not by following tribal custom as the barbarians did; otherwise, social order would be lost. No longer could a nonintervening onlooker be convicted as a murderer for not stopping a fight, but this did not imply the acceptability of a third party to look on without helping. From the perspective of social order, that third party should not idly stand by with folded hands: there is a social responsibility to try to prevent it.

As to Kropotkin's example of the unenlightened, sharing food was normal at that stage, as well as reflecting custom and morality. But if modern people were to emulate the Hottentots' behavior by yelling three times before eating, it would be unworkable or quite likely to bring disorder to the distribution and consumption in the society. But surely modern people have their own equivalent of the Hottentots' sharing. They have their own way of caring for the needy without having to adopt the customs of primitive society: The spirit of mutual help should be preserved and promoted, but its forms should change in line with the historical situation.

## 2.4 The Moral Basis of Efficiency

### 2.4.1 *The Dual Basis of Efficiency*

It is generally accepted that efficiency has a material and technological basis. This basis is constituted by possession of certain production equipment and raw materials, a certain technology level and workers with a certain level of technical skills, and a certain level of social infrastructure (transportation and communication facilities, water and heat supply, energy supply, etc.). The importance of this material and technological basis is also widely recognized: without improving this basis, efforts to improve efficiency will be hampered.

However, is this the only sort of basis? If one has the requisite material and technology basis, does it inevitably follow that efficiency will rise? The first three sections have made clear that a pure material and technology basis is not in itself enough reason for efficiency increase. There is another basis, namely, morality. It is the people who make use of production facilities and raw materials, and the deployment of technology is something determined by the qualification, initiative, and creativity of people. People, a component in the material and technology foundation of efficiency, are animate beings with thoughts, ideas, emotions, and goals: they are not machines. They have individual attitudes, some being enthusiastic about work

and others indifferent. They are not isolated entities but have various contacts and relationships with different degrees of harmony. All these form another basis of efficiency, namely, a moral basis.

The two bases coexist and neither one on its own can account for an increase or decrease in efficiency. Suppose two enterprises have the same technology level and produce the same products with the same level of demand, but one has high efficiency and the other low. Why? The answer lies in their different moral bases. Therefore, the correct point to draw is that efficiency has a dual base: a material and technology base and a moral base.

In any age and for any group—from a family, to an enterprise, to a village, to a society, and to a country—there is a need for spiritual cohesion, a moral standard as behavioral guide, and ethical concepts. They do not conflict with or disrupt science. In handling interpersonal relations, an area where science is impotent, regulation by custom and morality comes into play. When interpersonal relations become harmonious and individual creativity and initiative are fully deployed, efficiency will increase naturally. This shows that efficiency does have a moral basis.

The follow-up discussion is as follows: Economic development, technology progress, technical improvement, and the updating of workers' knowledge have changed the material and technology basis of efficiency, and this is a constant, ongoing process. This being so, is the moral basis subject to change also? Is there any constant moral principle as the moral basis of efficiency? If the moral basis does change along with the material and technology basis, is this proactive change or adaptive change? "Proactive change" indicates that the change of moral basis is directly caused by the factors forming the moral basis, such as moral norms, code of conduct, evaluation standards, etc. "Adaptive change" means the change of moral basis comes about because of change in the material and technology basis. Of course, distinguishing proactive change from adaptive change can be difficult, since they often coexist and are interwoven with each other.

To better explain this point, we will explore the relation between the two types of basis.

### ***2.4.2 The Relation Between the Two Bases of Efficiency***

Changes in moral norms, codes of conduct, and valuation standards are influenced by changing economic and technological conditions and the development of productivity, but we cannot regard changes in the moral basis of efficiency simply as adaptations to changes in the material and technology basis.

If we take as example the change of the attitude toward interest on loans in Europe, this can show why changes in ideas of morality do not necessarily have a close or direct connection with the material and technology basis of efficiency. In medieval Western Europe, the Roman Catholic Church forbade charging interest on loans and regarded it as immoral. According to J. W. Thompson, the position of the Church drew on Aristotle's maxim—"Money cannot bear fruit"—and a quote from the New Testament "lend, expecting nothing in return." Strict observance of this

teaching was required and it was generally practiced. Any charging of interest was forbidden by the Church as an immoral act contravening Christian doctrine.”<sup>9</sup> Given this perspective, the ban was an unquestionable moral truth for the Church and the common people. In the twelfth and thirteenth centuries, papal decrees were issued that people need not pay any loan interest and that interest already charged should be returned. Naturally enough, this papal instruction was received with enthusiasm among the people, who thought it as the embodiment of morality.

However, the real situation is not as simple as how the Church envisaged it when issuing the banning decree. People dislike the charging of interest on loans, regarding it as against morality, but in reality loans are a necessary evil. If interest charges were banned, the following consequences would ensue: Those in need of funds would have no way to borrow, or loaning activities would be carried out in secret at higher interest rates, or interest would be charged in disguised forms. Hence, the belief that “interest on loans is immoral” gradually began to waver and their doubts about the ban grew day by day. The theory that “money should not produce money” also lost ground. “There was a huge gap between theory and reality, and the monasteries themselves often violated the Church’s banning decree. Nevertheless, the religious spirit had left such a deep impression on the world that it took several centuries before people got accustomed to new routines fitting the subsequent economic recovery, became used to regarding as legal such concepts as commercial profit, employment of capital, and loan interest without a lingering sense of guilt.”<sup>10</sup>

The question of interest on loans never went away, despite changes in people’s belief or their reevaluation of moral principles. When it came to the Protestant Reformation period, the problem intensified with the divergence of different Christian denominations. The Lutheran and the Calvinist churches, despite both being reformist, had opposite attitudes on the issue of loan interest and influenced their followers with their respective doctrines, which later become moral principles for their adherents. According to Eric Roll, “The same divergences existed even among the leaders of the Reformation, in spite of the fact that Protestant teaching was in general more advanced and, therefore, more in harmony with the economic trends of the time. Luther held views which were not very different from those of the canonists. With regard to trade, he still believed in the “just price,” and his condemnation of usury was as strong as that of any of the schoolmen. Calvin, on the other hand, in a celebrated letter written in 1574, denied that the taking of payment for the use of money was in itself sinful. He repudiated the Aristotelian doctrine that money was infertile and pointed out that money could be used to procure those things which would bear a revenue. He nevertheless distinguished instances in which the taking of interest would become sinful usury, as in the case of needy borrowers oppressed by calamity.”<sup>11</sup>

From this it appears that people’s judgment on loan interest is linked to particular beliefs or ethical principles and not necessarily directly connected to changes in economy and technology. Otherwise, it’s hard to explain why, on the issue of interest

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<sup>9</sup> See J. W. Thompson [8, p. 323].

<sup>10</sup> See Henri Pirenne [4, p. 13].

<sup>11</sup> See Eric Roll [9, pp. 50–51].

charging, there should be divergence of opinion between the Lutheran Church and Calvinist Church and why two different moral principles formed among their respective followers.

The moral basis of efficiency is independent of its material and technology basis, and for this reason, change to it is positive in nature. But change in the material and technology basis may to some extent produce change in the moral basis. Changed attitudes toward consuming are a case in point: When new kinds of consumer products appear, because of their scarcity and high price, they are affordable to just a few elite families, but such luxuries are beyond the reach of ordinary families. Then common people will regard consuming luxuries as degenerate behavior rather than virtuous. For example, when tea was first imported to Britain by the East India Company, it was undoubtedly a luxury item, but as tea imports increased, by the mid-eighteenth century, it had become a popular beverage among ordinary people too. When coffee first came to Britain, it was drunk only by wealthy families, and the London coffee houses were the exclusive preserve of gentlemen; it was not until the 1830s that cafés for the general public appeared and even later that working people started drinking coffee. As to smoking, it was originally seen as an upper class indulgence in Europe and took a long time to spread to the lower social classes. There are countless similar cases. In *The Theory of the Leisure Class*, T. Veblen wrote: "It frequently happens that an element of the standard of living which set out with being primarily wasteful ends with becoming, in the apprehension of the consumer, a necessary of life; and it may in this way become as indispensable as any other item of the consumer's habitual expenditure. As items which sometimes fall under this head, and are therefore available as illustrations of the manner in which this principle applies, may be cited carpets ...waiter's services, silk hats....The indispensability of these things after the habit and the convention have been formed, however, has little to say in the classification of expenditures as waste or not waste in the technical meaning of the word."<sup>12</sup> This explains why consumers' judgment on the rights and wrongs of consumption behavior changes as the economic and technological situation changes, and, obviously, the latter will lead to changes in people's ethical values.

In conclusion, the moral basis of efficiency is independent of but capable of being influenced by changes in its material and technology counterpart. The former will react to changes in the latter, producing corresponding changes. This is adaptive change in the moral basis of efficiency.

### ***2.4.3 Potential for Efficiency Increase and Supranormal Efficiency***

Since efficiency has a dual basis, the next questions to be posed are: Where does potential for efficiency increase lie? Where does supranormal efficiency come from? Which of the two bases makes the greater contribution to efficiency?

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<sup>12</sup> See T. Veblen [10, p. 74].

The supranormal efficiency of migrant societies in history has always interested scholars. In ancient China, for example, wars and chaos drove the Hakka people away from the Central Plains of China to Guangdong and Fujian in the southeast, where they blazed trails and drained the land for agriculture, totally changing the wild landscape. More recently, people from Shandong and Hebei provinces moved to northeast China and cultivated large tracts of land into fertile arable fields, making the region a huge granary of China. In Europe, from the twelfth century on, migrants started to reclaim wasteland in the north of the Netherlands. They built water conservancy projects, developed agriculture and animal husbandry, and formed autonomous organizations such as village associations for water conservancy, turning what had been deserted wasteland into bountiful fertile fields. In North America, wave after wave of European migrants came and built new communities and then spread westward, opening up vast areas of land. These are examples of high efficiency. Strictly speaking, they are supranormal, that is, to say, they are rarely seen outside nonmigrant societies. With crude tools, inadequate man power, and harsh conditions, how could such supranormal efficiency keep coming? During the course of migration and in the considerable period after the formation of an immigrant community, in the absence of regulation by market and government, what power was it that made people so enthusiastic and produced such high efficiency? We are drawn to the inevitable conclusion that it was the effect of moral factors, of cohesion and of creativity.

We may also conclude as follows: Migrants in history completed their mission of reclaiming wasteland with supranormal subjective powers in supranormal objective circumstances and even their social organizations were supranormal. They can be seen as miracles of human history. Without a corresponding moral basis, supranormal immigrant organizations and individual subjective power would be impossible, as would supranormal efficiency.

The many examples of supranormal efficiency demonstrate the potential for increased efficiency. To develop this potential, the main keys are the existence of a moral basis and the role of moral force. There are many further examples to illustrate how moral force, belief, or faith can inspire man's resolution and capability: heroic resistance to invaders regardless of personal danger, selfless efforts in fighting natural disasters, and in safeguarding the targets and honor of a group (e.g., family, clan, religious organization, nation). This is how supranormal efficiency comes about. Does the material and technology basis also contribute to supranormal efficiency? Of course, efficiency increase is always inseparable from material and technological conditions: for example, in the case of migrants opening up uncultivated land, irrespective of their levels of energy and enthusiasm, certain means of production were essential, and the same goes for combating natural disasters. But we should be aware that without the effect of moral force, belief, or faith and with reliance on materials and technology alone, the best one could hope for would be normal efficiency; supranormal efficiency would be unachievable.

The contentious academic debate about the conflict between the efficiency standard and morality standard has actually been settled in our discussion of supranormal efficiency. The so-called conflict between the two standards usually refers to the existence of two different standards for judging economic behavior,

namely, efficiency-oriented standard and morality-oriented standard. Under the first, efficiency increase is regarded as good and decrease as bad. Under the second, conformity to ethical principles is regarded as good and violation of them as bad. It is said that the two standards are often at odds, because sometimes efficiency increase is not consistent with ethical principles and sometimes what is consistent with them may result in reduced efficiency. This is an age-old conundrum: the intractable difficulty being that one's judgment of what is right and wrong depends on one's perspective.

Efficiency standard and efficiency judgment are both research topics of economics, but moral standard and moral judgment are not. But when the question involves the relation between moral standard and efficiency standard or whether moral judgment and efficiency judgment are identical, then it enters the sphere of economic debate. In *Economics and Political Science of Socialism*, I make the following statement on this topic: "Moral judgment on economic behaviors must be integrated with testing in practice. Otherwise, ethical principles in economy will be elusive... We can use 'workers' maximum interests' as a moral standard of economic behavior. That is to say, anything meeting the requirement of 'workers' maximum interests' is 'right' or 'good' and whatever does not is 'wrong' or 'bad'."<sup>13</sup>

This is one way of coordinating efficiency standard and moral standard and also a reference for judging certain economic behaviors. However, in judging other economic behaviors, conflict between the two standards persists, something that has long troubled economists. From the phenomenon of supranormal efficiency, we may well find that efficiency standard is actually at one with moral standard. The generation of supranormal efficiency on itself means a substantial increase in efficiency, so efficiency standard is totally applicable here. But how is supranormal efficiency born? As discussed above, it is directly linked to the effect of moral force. Without its influence, supranormal efficiency would not appear in migrant communities, in wartime resistance, or in combating natural disasters. Therefore, using moral standard as our measure, we can say the birth of supranormal efficiency is consistent with both efficiency standard and moral standard.

#### ***2.4.4 More Thoughts on Moral Standard in Economic Behaviors***

There are various viewpoints in society regarding moral standard in economic behaviors. For example, is it justifiable to award a huge amount of money to someone for a significant invention or for a great contribution to society? Is it justifiable to pay a very high salary for success in turning a loss-making enterprise into a highly profitable one? Responses range from "absolutely," "not entirely," to "absolutely not." How should we look at such questions? Obviously, they cannot be

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<sup>13</sup> See Li Yining [1, pp. 438–439].

discussed in the abstract, because any economic behavior should be analyzed by bringing in specific situations, without which one cannot come to a judgment.

At least one thing is clear: moral evaluation cannot be divorced from estimation of the objective effect. Judging what is morally right or wrong has to do with the objective effect of certain economic behaviors. If someone is rewarded for an invention with a huge amount of money, it is surely because that invention has produced a good objective effect and benefited society greatly. If an executive is paid a very high salary, it must be because that person has brought huge profit for the enterprise. By comparison, what the society or enterprise receives is much larger than the inventor or the executive does. In this sense, a prerequisite for getting a reward bonus or high salary is extraordinary innovation or effective management, which makes the reward justifiable.

On further analysis, we may find that the great benefit to society is not confined to the innovation itself and, similarly, it is not just effective management that benefits an enterprise: effective management not only benefits the enterprise itself, but the society at large shares in it. This is because the reward has an exemplary effect in society.

A huge reward for a great innovation is public declaration that rewards are forthcoming for important innovations. The hope is that more people will devote themselves to science and technology and produce innovations. In the final analysis, the society will be the biggest beneficiary.

Similarly, paying a high salary for success in helping make a loss-making enterprise profitable is a declaration to all executives that rewards await those who can emulate such achievement. The hope is that executives will be spurred on to greater things and that capable talents will be attracted to the enterprise. Moreover, other enterprises may be inspired by such economic behavior and its objective effect: to pay capable managers a high salary will make the enterprise the biggest beneficiary. When many enterprises follow this example, thereby improving their performance and profit, is society at large not the biggest beneficiary?

This makes it possible to assert that in economic behaviors such as rewarding innovators or capable executives, efficiency standard and moral standard are not in conflict; rather they are organically combined, internally unified. Efficiency is measured according to the objective effect of a behavior, i.e., whether the behavior can benefit the society and to what extent. Similarly, judgment on morality is inseparable from measuring the objective effect of a behavior, i.e., whether it can benefit society and to what extent.

We may shift to a new vantage point to examine the abovementioned economic behaviors.

Suppose society is indifferent to a great innovator and the huge benefits he brings to society makes no comment and bestows no reward. Suppose it is generally believed that what the innovator has done is no more than duty and no reward is necessary at all. The result of such thinking will be unhelpful to society because people will not devote themselves to science and technology or to innovation, believing that society pays it no respect and the effort will not be worthwhile. Their



enthusiasm will disappear, and efficiency decrease correspondingly. It will be the same with an enterprise if it fails to reward capable and effective executives.

Suppose society decides to reward an innovator but that person fails to go accept the prize or an executive refuses to accept the high salary the enterprise will pay him for his effective management, what would the result be? In discussing this question, let us begin with two stories in Zhang Yuyan's article "To Know What Is Righteous and Act Heroically" published in *Dushu (Reading)* magazine in July 1996.

During the Spring and Autumn Period of ancient China, the state of Lu had a law that if a man of Lu came across a fellow citizen enslaved in another state, he could pay to redeem that person and on return to Lu he could apply to the state treasury to be reimbursed. It is said that one of Confucius' disciples paid to redeem a fellow citizen in a foreign state, but he did not submit a reimbursement claim on his return to Lu; this as an expression of his determination and sincerity in pursuing "righteousness." When Confucius heard this, he took the disciple to task, saying: Your action will prevent more Lu people being rescued from slavery. You were noble, paid to save another, and asked for no return. You may be celebrated by society, but from now on, when any Lu person encounters a fellow citizen in slavery in another state, he will think: "Should I pay to free him or not? If I do, shall I get the money back when I return to Lu? If not, won't I lose a great amount of money? If I do submit a claim, will I be sneered at by others as a miser?" The most likely outcome is that if he does come across an enslaved fellow-citizen he will pretend not to see. Will your behavior not deter others from rescuing enslaved citizens of Lu?

The second story goes like this. A disciple of Confucius, seeing someone falling into the water, jumped in and rescued him. The man gave his rescuer a cow as a gesture of thanks gift and he accepted it. Confucius highly praised his action, on the grounds that a rescuer's acceptance of gift of thanks would encourage more people to take a risk and rescue others, and therefore, more people would be saved from drowning.<sup>14</sup>

In the final part of his article, Zhang comments: "People usually think 'righteousness' and 'gains' as being diametrically opposed. In the stories of Confucius and his disciples, the situation seems a little different. For Confucius, the 'great righteousness' is fulfilled by setting aside the 'lesser righteousness,' doing which will undoubtedly satisfy people's need for 'lesser gains'."<sup>15</sup> The only possible conclusion must be: "Individual behavior of 'benevolence and righteousness' may have results in opposition to the aims of society at large, whereas making 'righteousness' and 'gains' compatible may result in the needs of society being met."<sup>16</sup>

Now we come back to discuss the moral standard of economic behaviors. The previous analysis looked at rewarding innovators and paying high salaries to effective executives. If the innovator does not wish to accept the reward or the executive the salary, that depends on his own will and has to do with a spirit of dedication, a precious spirit indeed. The question would be much simpler if the majority of people had this spirit. But the reality is that they do not: most people hope to be rewarded for their

<sup>14</sup> See Zhang Yuyan [11, p. 74].

<sup>15</sup> Ibid., p. 75.

<sup>16</sup> Ibid.

efforts. Therefore, refusing rewards or high salary may lead to the following: Will it influence other great innovators to accept rewards? Will it influence other high-achieving executives to accept high payment? They might think acceptance could lay them open to being sneered at as inferior in character compared with those who refuse. The objective effect of such ambivalence, doubt, and misgiving is not conducive to socioeconomic development. In the end, it will be the society and enterprises that suffer losses. Some accept the reward and some forego it; some accept high salary and some reject it. Do any of the refusers ever wonder how such behavior might embarrass or upset others? Efficiency standard and moral standard are capable of being compatible and unified, but such behaviors make a simple situation complicated.

What is the right way to handle things? One way is simply to accept. To do so is in line with both efficiency standard and moral standard. A second option, if the amount is considered excessive, is just to take it and then donate an amount to charitable organizations, which is also in line with both standards.

There is a supplementary point here: If some dedicated people only want to work hard but don't want to take rewards or high salary, we should, on the one hand, affirm their work achievements and their choice and, on the other hand, ensure that they understand the reward or high salary to be totally justified as the society's acknowledgement to them. Moreover, such reward plays a role of encouraging more people to work harder and contribute more to society. So they should be persuaded to take the reward or high salary. In this way, both efficiency standard and morality standard have been taken into account.

There is another question which should be conscientiously explored. What are the rules determining rewards? If an enterprise hopes to reward its employees (including executives) when it makes profits, it has to follow some rules, and the rule-making must also follow certain procedures. Once the rules are set, everything should be done according to them and any subsequent revisions must go through certain procedures too. Making rules without following procedures is wrong, and as well as inhibiting the stimulatory effect of rewards, it may also lead to a variety of negative effects.

It reminds us of an ancient allocation method. Suppose a pot of food or a big pie is to be shared out so that everyone receives a portion. The fairest method is that whoever spoons out the food or cuts the pie should take the last portion. Shouldn't such a method be considered in discussing the payment or reward of senior executives of an enterprise?

#### ***2.4.5 Individual Autonomy and Harmonizing of Interpersonal Relations***

In discussing the moral basis of efficiency, we need first to explore the following questions: Is it true that the stronger an individual's autonomy, the bigger the potential efficiency will be? Or is it true that the weaker an individual's autonomy, i.e., the

closer the individual's affiliation to a group or organization, the greater the potential efficiency will be?

Why do we raise such questions? They have to do with the moral basis of efficiency. When the technology level and the objective conditions of production are certain and when the educational and technical levels of an individual producer or worker are known, if an individual has greater autonomy, his initiative and creativity will be greater, which means greater potential efficiency. In other words, the more autonomous producers or workers in the economy, the more dynamic it will be, the greater efficiency potential it will have, and the more easily that potential can be deployed. Therefore, it is incorrect to think of autonomy of producers or workers as not benefiting the economy. But seen from a different perspective, since the source of efficiency is in harmonious interpersonal relations and in individual's adaptability to group or society, when an individual subordinates himself to a group, an organization, or society as a whole, it is more likely that interpersonal relations will be harmonious and individual's adaptability to group or society will be strong. Does this not mean greater potential for efficiency increase?

In fact, the two aspects, individual autonomy on the one hand and subordination to group, organization, or society on the other, can be compatible and coexist rather than the reverse. The moral basis of efficiency encompasses both full exercise of people's initiative and creativity and coordination and adaptation in interpersonal relations. It is wrong to emphasize one and neglect the other. It's hard to imagine efficiency increasing constantly in a society where individuals subordinate themselves to group, organization, or society but are without autonomy, initiative, and creativity, nor can we imagine efficiency increase lasting long in a society where people have autonomy, initiative, and creativity but where interpersonal relations are not harmonious or inadaptability keeps on worsening. Therefore, a reasonable situation would be one in which individual autonomy coexists in a balanced way with harmonious and adaptive interpersonal relations; subordination of the individual to group, organization, or society should coexist with encouragement of individual initiative and creativity. It is coexistence that ensures constant increase of efficiency.

However, although individual autonomy is compatible and coexists with subordination to group, organization, or society, is it possible that the two have different priorities? This is another contentious question. In the history of economic theory, we have not seen extreme emphasis on either one. Rather, we see some theories focusing more on the former, some on the latter. Actually, the debates on different economic doctrines such as liberalism vs. statism, individualism vs. collectivism, etc., took place around this central question.

However, in those debates, we sometimes find the main theme distorted by one side. One manifestation is this: They represent individualism as being self-seeking and caring solely for profit; liberalism as acting on one's own will and ignoring any restriction; and statism or collectivism as a denial or obliteration of individual autonomy and pioneering spirit, an ideology that sees the nation or organization as overwhelmingly more important than individuals. Of course, this is not to claim that

no such extreme opinions have been voiced in history of economic theory, but they are not the mainstream. The mainstream still focuses on individual autonomy and subordination to group, organization, and society.

Individual autonomy should be put first, because groups, organizations, and societies are formed of individuals. An individual should have self-respect, strive for self-improvement, and be capable of using personal initiative and creativity. The group, organization, or society should respect an individual and his autonomy, which is the prerequisite of his subordination to them. For efficiency to be increased constantly and for supranormal efficiency to be produced and sustained, individual subordination must be whole hearted; it cannot be reluctant or forced. If an individual or his autonomy is not respected, how can there be any sincere allegiance to the group, organization, or society? Furthermore, to maintain harmonious interpersonal relations, in addition to having self-respect, there should be respect for others too.

Real life is like this: Anyone who lives in a society is per se a member of society and will surely be part of some group or organization. At the very least, he belongs to a family, the smallest grouping of a society. If he works for an enterprise, he is possibly in a workers' union. If he is a farmer, he may be a member of the village autonomous organization. If he is an urban resident, he belongs to the street or community where he lives. If he owns a private enterprise or is a self-employed businessman, he belongs to some trade or professional association. In short, he is both a member of society and of groups or organizations. In this sense, he has to keep good relationship with others, seeking mutual accommodation and adaptation. At the same time, he has his own aspirations and needs and his own principles in dealing with others, so he must feel autonomous before his initiative and creativity can be manifested. In other words, he is an animate creature. Autonomy is a prerequisite for his proper handling of interpersonal relations and adapting to group, organization, or society. If he has not the least autonomy, vitality, or energy, like a tool to be manipulated and ordered about by others, it will be meaningless for him to build good relations with others, let alone keep the relations harmonious and adaptive. Does this mean that individual autonomy should take precedence over harmonious interpersonal relations?

Furthermore, a society is formed of countless individuals, and in a group or organization, there are a certain number of individuals. If all of them have autonomy and dynamism, can make use of their initiative and creativity, and can conduct activities in light of their own personal aims while trying to coordinate and adjust their aims in line with those of the group or society, they will surely handle their relations with others well, which will in turn help efficiency to increase more rapidly and more widely. Is this not precisely what a group or a society hopes to see?

From the above analysis, we see that the moral basis of efficiency does objectively exist. However, efficiency increase may be realized or may just be a possibility. In order to bring this potential fully into play, one must respect individual autonomy so as to stimulate initiative and creativity. By the same token, individuals should coordinate their interpersonal relations and adapt themselves to the group, organization, or society.

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# Chapter 3

## Fairness and Identification

### 3.1 A Deeper Understanding of Fairness

#### 3.1.1 *A Rational Income Divide*

The issue of fairness has been a perennial subject of study and contention in the history of economic theory. For some, the very existence of disparity of income and property assets demonstrates unfairness. On a superficial level, this is not wrong. Since all are born equal, how does it come about that some are rich and others poor and that some have plenty and others little? The distribution gap does indeed reflect unfairness in society. But this is not the right way to look at things. If we look deeper, we must enquire: what are the causes of wealth and poverty, and how wide is the gap between them? Without clarifying these issues, judgments on what is fair and unfair will be difficult.

For example, some get rich by dint of hard work, whereas others are poor because they are too lazy to work or indulge their every whim and squander all their money. Can we call this unfair? Similarly, suppose two people work in the same place. One works hard with outstanding achievements, so he earns much money. The other is lazy, with no achievements at all, so he earns little. Is this unfair? How wide must be the income disparity before it is considered unfair, and how narrow to be considered fair? There is much to be said on the subject, and it is plain that judgment on fairness and unfairness in income distribution will not be easy.

If equality of income and property is seen as a symbol of fairness, to suppose that fairness has been achieved if everyone has the same income and property is a more serious misinterpretation and one that does great harm to economic development and efficiency. I have expressed my views on this topic in several of my books.<sup>1</sup> I outline below the main ideas about this question as set out in my writings:

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<sup>1</sup>See Li Yining [1–3].

First and foremost, fairness means equality of opportunity; i.e., in socioeconomic life everybody begins from the same starting line and objectively there is no discrimination against anyone. Equalizing income and property is a manifestation of egalitarianism, which cannot be taken as fairness without distorting the concept. It is more reasonable to understand fairness as equality of opportunity.

Can fairness be understood as coordination of income distribution? Yes, to some extent it can, but we need to remember that coordination of income is not equivalent to equalizing income. Actually, the concept of income distribution here implies a rational disparity of income, since the existence of a disparity is a form of coordinated income distribution. In addition, this understanding is compatible with seeing fairness as equality of opportunity. This is because it is only through engaging in economic activities on an equal opportunity footing that people truly get what they deserve in return for their efforts. Thus, although there is still an income gap, the size of the gap can be kept within reasonable bounds. Conversely, if there are no equal opportunities to engage in economic activities, an excessively large income divide will inevitably appear, causing uncoordinated income distribution.

This gives rise to a further question: Can equality of opportunity be realized? If not, fairness remains an empty phrase and the discussion is rendered meaningless, but to look at the question in such terms is to be too absolute. In real socioeconomic life, people have different family and educational backgrounds and live in different places, so unequal opportunity is an objective fact of life. But this does not mean we cannot draw close to equal opportunity through regulation by government. The government can do something about it, such as forbidding discrimination by law, setting up rules on fair and open competition, fixing penalties for unfair competition, etc. Even if equality of opportunity in the fullest sense cannot be realized, at least it is possible to gradually get closer, and, by and large, the conditions for equal opportunity will appear. With effective government regulation, coordinated income distribution will gradually be realized.

Since coordination of income distribution implies shrinking income disparity, i.e., keeping the gap within reasonable bounds, and since fairness can be seen as coordinated income distribution predicated on equality of opportunity, then it is essential that the gap is kept within reasonable bounds. So what constitutes a reasonable gap? How to decide whether it is reasonable or not? In my book *Ethical Issues in Economics*, I distinguish between the economic sense and the social sense the term reasonable income gap, which is a key to the meaning of fairness at a deeper level.<sup>2</sup>

In the economic sense, the rationality or otherwise of the income gap hinges on whether or not income is distributed according to the benefit principle. In a market economy situation, provided the income distribution is the result of activities of production element suppliers in the market with equal opportunity as a prerequisite and provided every supplier gets income distributed according to profit principle, then, irrespective of the size of the gap, the primary distribution can be regarded as reasonable and coordinated. If the government, from its policy and target considerations,

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<sup>2</sup> See Li Yining [4, pp. 27–35].

deems it necessary to adjust the result of the first round distribution, it can reduce the gap by such measures as individual income tax and inheritance tax or by means of poverty relief, subsidies, etc. The result of regulation by government or secondary income distribution, however, does not negate the reasonable nature of the gap in the primary distribution, i.e., the distribution focusing on economic results. What the government adjustment of income distribution focuses on is whether or not the distribution is reasonable in the social sense.

Undoubtedly, to demarcate the boundary between rational and irrational income gap in the social sense is far more difficult than to do so in the economic sense. This is because:

Firstly, when coming to a judgment on whether the gap is reasonable in the economic sense, one can consider whether production element suppliers have, by and large, equal opportunities for market activities and whether their income is based on the profit principle. But in judging the disparity in its social sense, it is harder to find strict standards than it is with the economic sense.

Secondly, provided the income gap in terms of economic results is rational in the economic sense, irrespective of its size, the economic results it reflects will be efficiency increase, productivity improvement, and increase in per capita income. Therefore, we can say the existence of a gap that is rational in the economic sense will produce positive results, results that are perceptible within a short time frame.

However, if the income gap in the social sense is dramatically out of balance, it may lead to social instability, even if the gap is rational in the economic sense. But such instability cannot be perceived in the near term, since the problems accumulate over a long period, becoming more acute by the day before ultimately exploding. This shows the similar difficulty in judging the rationality of the income gap in the social sense on the basis of the results it produces. Despite this, given no other choice, one can still come to a judgment on the basis of whether it will lead to social instability.

One important aspect of making a distinction between the social and economic rationality of income gap is that it provides an objective basis for judgment on fairness, namely, the existence and size of a gap. Moreover, it also considers people's feelings, i.e., whether they feel fairly treated or unfairly in the distribution. Such feelings will influence their level of satisfaction with their income, to what degree they accept the gap, and further influence the level of social stability. In light of this, we need to shift our focus to absolute income and relative income of individuals.

### ***3.1.2 Individual Absolute Income and Relative Income***

Before delving into this topic, we should first briefly review the points made by J. A. Geschwender.<sup>3</sup>

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<sup>3</sup> See J. A. Geschwender [5].



In his analysis, scholars make five hypotheses about why a social group can become dissatisfied and revolt.

The first hypothesis is absolute deprivation: When a group feels its living conditions are worsening, it will become dissatisfied and ultimately revolt.

The second is increased aspiration: Although the living conditions of a group are improving, the group's aspirations are growing faster than the pace of the former. This leads to discontent and revolt.

The third is relative deprivation: Although the living conditions of a group are improving, it notices that living conditions of other groups are improving faster. This leads to discontent and revolt.

The fourth is rise and fall: On the heels of improvement, a group's living conditions then go into decline. Since the process is irreversible, people will be dissatisfied and rise up.

The fifth is status inconsistency: Income level and living conditions are just two of many status attributes apart from educational status, career status, racial equality status, etc. Therefore, even if a group experiences improved living conditions, if it believes its other status attributes to be inferior to those of other groups, it may still become dissatisfied and revolt.

Geschwender gave the example of the black Americans in the early 1960s. He argued that the black men's discontent and revolt could not be explained by the first hypothesis, since their living conditions were not worsening, nor could it be explained by the fourth hypothesis, since their living conditions had not declined subsequent to improvement. The second hypothesis of increased aspiration could not explain it either, since, as Geschwender pointed out, this hypothesis had neither been proven nor refuted by any data. That left us only the third and the fifth. The third hypothesis, relative deprivation, was supported by the data, which showed that black Americans were dissatisfied with the society because by comparison with white Americans, they felt their own living conditions had not improved as much. The fifth hypothesis, status inconsistency, was also proven by the data. There was a widespread sense among black Americans at that time they were not treated equally with whites in terms of education, employment, income, etc. He concluded that a combination of the third and fifth hypotheses would provide a convincing explanation for the social instability of American society at that time. In addition, in Geschwender's opinion, the two hypotheses were the same in character, except that the fifth had richer content.

Although Geschwender's discussion was about the situation of black Americans in the 1960s, it remains inspirational for studies of how changes of absolute income and relative income may cause social unrest. The question of social unrest is one of great complexity since irrational income gap is just one among many possible influencing factors and social unrest is not necessarily the result of an irrational income divide. People's living standards may rise and then fall, but even a small fall after a large rise may lead to social unrest, but this has nothing to do with the rationality or otherwise of any income gap. A more typical situation would be: Even if the income gap is constant, a decline in absolute income level across the board may lead to social unrest. However, social unrest is always to a great extent linked to

change in relative income, since people are inclined to compare themselves with those around them in terms of income, employment, benefits, promotion opportunities, etc. Few will seriously consider the real meaning of “fairness” when they make such comparisons. For the most part, people consider themselves unfairly treated on the grounds of lower income, less good careers, or fewer benefits than others. If the number of people experiencing feelings of unfairness is small, this will not generally lead to social unrest, but if a great many do or if their level of dissatisfaction grows, this may develop into trouble. It means that social unrest originates with the disappointment, complaints, and dissatisfaction of some members of society when they deem themselves unfairly treated by the society. Although the latter is the basis of the former, the two differ as regards how they influence social instability: the former is often more influential than the latter, since comparison is more likely to ignite feelings of unfairness and dissatisfaction with the society.

For instance, under the planned economy system, despite limited productivity growth, very low personal incomes, frequent product shortages, and rationing, the income divide was small and the degree of individual satisfaction with relative income was passable. The mindset of “everyone getting roughly the same” mitigated social dissatisfaction. “Leveled-down income” characterizes that time, but it did give people a sense of “fairness,” albeit a distorted one.

With the change to a market economy, productivity and incomes improved, product supplies became sufficient, and coupon rationing came to an end. However, because income improvement did not happen everywhere at the same rate, the income gap grew wider. As a result, the degree of individual’s satisfaction with relative income fell, giving a sense of “unfairness” and social discontentment among some people, which could clearly impact social stability.

Then, how are we to regard the income gap in real life? It has always been a fundamental task to develop economy and raising the absolute income level of society’s members. To achieve this goal, the government needs to employ certain adjustment measures to shrink the income gap without hampering efficiency increase, to rectify discrimination in socioeconomic life, and to create equal opportunity conditions so as to reduce the sense of “unfairness” experienced in certain parts of society. The government also needs to educate people in the true meaning of “fairness,” to clear up misunderstanding so that they will no longer mistake “egalitarianism” for “fairness.” The more that “fairness” is properly understood, the greater the benefit to social stability.

Of course, it is not always easy to help everyone correctly understand “fairness” from their own rank and situation. People with different ranks and situations surely have different feelings on the issue. It is not hard to imagine that the question of “fairness” will continue to bother people so long as there is any income gap at all, whatever the government’s efforts to regulate and to educate the public as to the real meaning of “fairness.” Moreover, there is no objective standard to judge individual satisfaction or dissatisfaction with relative income. The degree of satisfaction may actually be higher when the economy or income per capita is at a low level, since all are in the same boat. In a situation where the economy and income per capita have grown but some incomes have improved more than others, the degree of individual

satisfaction will inevitably decline and the sense of “unfairness” will increase. As a result, the society will have to work hard constantly to dispel such feelings, which, though genuinely experienced, are nevertheless a misperception.

It at least reveals one point to economists: Exploring the concept of fairness from the angle of the rationality of income gap leads only to a dead end and a new road must be opened up. In light of this, we will discuss fairness from a new angle: identification.

## **3.2 Meaning of Identification**

### ***3.2.1 Identification and Outlook on Common Fate***

A person is a member of a group and the term identification refers to the relationship between an individual and the group. As a member of a group, an individual should feel it is his/her own organization, adapting to and coordinating with the group and with other members. In other words, identification means recognizing the self and the group as one and being part of that entity.

Groups of whatever size are formed by a certain number of people. A country, ethnic group, and society are examples of big groups. A block, village, community, small enterprise, and small family are examples of small groups. A family can be big or small depending on the number of members. But whatever the size, all groups face the question of whether its members identify with it or to what extent they do so in essence, not just superficially.

An individual probably belongs to several groups. For example, a college student is firstly a member of his immediate and extended family, then of a college, a department, a class, and a team. If he joins a student association, he is an association member. Before college, he has been a member of a high school. According to his local origin, he is also a member of the association of fellow townsmen. If he has religious belief, he will be a member of a religious group and if politically active a member of a party. It goes without saying that he is a member of his motherland. Belonging to so many groups, he inevitably identifies with many, although to varying degrees.

The degree of identification reflects the level of concern a person feels for a particular group or the extent of the “oneness” experienced. The degree of group or society cohesion discussed in Chap. 2 also reflects the extent to which an individual identifies with a group or society. The extent varies among different individuals and different situations. An enterprise is a case in point: its employees, though all being members of it, have different degrees of identification with it, which means that their individual attitudes toward it differ. When the enterprise is booming, the differences are not so obvious, but when it encounters hard times, the different degrees of identification will become glaringly obvious. Employees with a low degree of identification are indifferent to the enterprise’s current and future situation, and if it gets into real difficulties, their only concern is to find a new job. Those

who identify more with the enterprise feel real concern for its troubles, regard them as their own troubles, and will do all in their power to help minimize them. In light of this, an alternative interpretation of identification is individuals regard the group as their own organization. They and the group form a community sharing a common fate, honor, and frustration—"we're all in this together." The greater the level of identification, the more obvious the belief in a common fate will be.

What makes an individual identify with a group cannot be merely summed up as "self-interest." Though this may be a consideration, on many occasions there are other considerations that transcend one's own interests. For instance, identification with a family or clan cannot be interpreted as self-interest. Some people join an academic association and greatly identify with it, not for any benefit they may derive but because of interest in the field or they respect and trust it or from a sense of duty to promote academic research. Joining a charity or public welfare organization may have nothing to do with self-interest but is motivated by a passion for such activity. Therefore, we cannot write off considerations beyond self-interest, since these factors are often more dominant in identification with a group.

Identification with a native country can better explain that self-interest is not necessarily a basis for identification, nor do people always identify with a group for this consideration.

We should bear in mind that country and government are two different concepts. Who exercises government power and whether they care about the people and protect the interests of the nation is determined by the character of those in power. Citizens might support or even oppose some governments, but this has nothing to do with how they identify with their country. China's history has given many examples of this. In some dynasties, the ruler was incompetent, the court was corrupt, and the people were opposed to the government, but they still loved their country and identified with it. Their opposition to the government was for national salvation. Although dissatisfied with or actually opposed to the government, in the face of foreign invasion, citizens would risk death in fighting to save their country. So it is plain that self-interest is an inadequate explanation for identification: patriotism, sense of national honor, society cohesion, or national cohesion trump self-interest by a mile.

### ***3.2.2 Identification and Interest Groups***

The last section elaborated that on many occasions group identification is not spurred by self-interest, but this does certainly not imply that a person's interests do not play a role. There are many different types of groups, especially in the economic world. For instance, if some investors cofound an enterprise, the relation of individual investors with the enterprise is bound to be profit oriented. There is also an interest relationship between the enterprise and the employees working for it.

We can analyze such interest-oriented relations further. Sometimes people use the term "interest group" to describe such relations, but its meaning is not very precise and there are different interpretations of the term. But a generally agreed

view is this: people who share the same or roughly the same social, political, and economic interests, and who accordingly have similar propositions and aspirations, work together to maintain and expand their interests and thus form, tangibly or intangibly, an interest group.<sup>4</sup>

In his famous work *An Economic History of Modern Britain*, J. H. Clapham illustrated the nature of interest groups by citing the examples of the West Indies interest group and that of mine workers in British history. He pointed out the long tradition of interest groups. The West Indies interest group, a lasting and powerful political group, was formed by people living in London but with links to the sugar-producing British colonies of the West Indies. As to the mine workers, in the eighteenth century, isolated from urban life, they kept some old clan traditions, refusing to marry with the outside world and seldom going to church. Even in the mid-nineteenth century when they had moved from the mine area into towns, they remained isolated and had little to do with other manual workers.<sup>5</sup>

The two interest groups in Clapham's book are similar to classes or social ranks. But both in history and in real life, some interest groups cannot be pigeonholed as class or rank groups. In his *Democratic Ideals and Reality*, H. J. Mackinder pointed out the important role of dialect and education in forming interest groups: Speakers of the same dialect were more likely to congregate, and a society with diverse dialects was likely to have different groups. The same went for education. In England, the professional and upper class and landowners went to the same schools and universities, and important men of business circle sent also their children to the same institutions.<sup>6</sup> Of course, after graduating, they belonged to the same group, a group that cannot be defined in terms of class or social rank but of interests. Sometimes interest groups have a tangible form, but in most cases they do not.

One point is certain, namely, that in analyzing individual identification with a group, we can approach it from the perspective of interests, of noninterests, or of transcendence of interests. Since an interest group does not equate to class or social rank, an individual can belong to more than one interest group. For example, take a number of privately owned food production and export enterprises in a region. In terms of export production and operation, the owners have interests in common with their business counterparts in other forms of ownership, so they can be included in the same interest group. In terms of food production and operation, the owners have common interests with other food producers and can be included in the same interest group. In terms of private ownership, they have interests in common with privately owned enterprises in other regions and can be included in the same interest group. In terms of local enterprise, they can be included in the same interest group with all other enterprises in the region. This situation is a good illustration of the point raised above that one individual may belong to several different groups and identify with all of them.

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<sup>4</sup> See Li Yining [6, pp. 233–234].

<sup>5</sup> See J. H. Clapham [7, pp. 255, 275].

<sup>6</sup> See H. J. Mackinder [8, pp. 168–169].

The different groups one belongs to are not necessarily mutually incompatible. One group's gain is not necessarily built on the loss of another group. Different interest groups do have conflicts, but they also have common interests. If the economy is developing, there is every reason to believe that all groups can benefit. In this way, the significance of identification can be further elaborated: Even if an individual belongs to different groups and identifies with them all, there is not necessarily a conflict. Even if he does act from interest considerations, it is still possible for him to identify with this or other groups.

The above analysis took a social perspective, but things might appear different when taking a historical perspective. In the course of history, the relative status of an interest group will change, rising or falling, its power waxing or waning. Especially in periods of social disturbance, some interest groups will leave the stage of history and new ones emerge. Conflicts between the old and new groups undeniably exist. Old groups feel they are less and less valued, are being overtaken by the new ones, and are losing more and more while the new ones are gaining. But is this surely to be expected as the inevitable result of social change? Not necessarily. The rise of certain interest groups and the decline of others is just one possible result of social change. The result might be that an old interest group, after some differentiation, gradually integrates with a new one and forms a different new interest group. The interests of the old and the new are both reflected in the integrated group, but with a different weighting.

Now we may discuss how people's identification changes. Membership of a group or of an interest group is not necessarily a permanent thing. Changes in an individual's income, status, outlook, and aims may alter the extent of his identification with a particular group or interest group: As this identification diminishes, he may become estranged from the old group and join a different one with which he increasingly identifies. It is understandable that such things happen, especially in periods of social change, with changes in the relative status of old and new interest groups and the likelihood that they will merge.

### ***3.2.3 Identification and Factors Beyond Interests***

We have seen that what causes an individual to identify with a group cannot be merely summed up as self-interest. Although this factor is a consideration on some occasions, on others considerations beyond one's own interest weigh more heavily. Therefore, we should explore the relationship between these latter considerations and identification.

To explain what these considerations are, we need to begin with the relationship of an individual with a group. An individual's membership of a group can be classed into four different situations: (1) non-optional; (2) optional; (3) from non-optional to optional; and (4) from optional to non-optional.

Obligatory non-optional: One belongs to a group not from free will but because there is no room for choice. For example, one cannot choose family, birthday, birth

place, and how and where he lives and studies in childhood. One's relationship with these places and groups are not subject to choice.

Optional: Having reached a certain age, a person is free to make choices regarding education, job, and life, also which groups to be part of. For example, a high school graduate can choose his/her future major, college, degree, career, and as a consequence with which groups he/she wants to be linked. He/she is free to choose a spouse and thus becomes a member of the spouse's family. The same goes for decisions on political party, social organization or religion, and the kind of people he/she wants to make friends with, therefore becoming a member of those groups.

From non-optional to optional: This is relatively unusual, but a typical case would be a change of nationality. One's nationality by birth is non-optional, but one may change it in adulthood, shifting from nation A to nation B. Correspondingly, he has a further group with which to identify, namely, nation B. For another example, in a society where careers are hereditary, it is a convention for a son to inherit the career of his father. But later on, he may change his career for some reason and it follows that the group with which he identifies will also change.

From optional to non-optional: This is even more uncommon, but a possible example would be clandestine religious sects or mysterious organizations whose members are not permitted to quit. Before joining such a group, the individual is free, but having made the choice to join, lifelong identification is obligatory and quitting is impossible.

Non-optional membership of a group has nothing to do with either interest or interest-transcendent considerations, since belonging to the group is not a choice. People consider interest or interest-transcendent factors mainly in situations where they are free to join in or leave a group. On some occasions, interest weighs heavily with them, on other occasions interest-transcendent factors are the more important, and on others both types play a role. There is nothing strange about this. After all, man is both "social man" and "economic man." So his considerations are multifaceted, and he may consider any identification with a particular group and the extent of that identification from many angles.

There are five types of interest-transcendent considerations in optional identification with a group.

One, emotion: For instance, in choosing a spouse and thus being a member and identifying with the spouse's family, emotion is often a major factor.

Two, faith or convictions: For example, when one is free to choose which religious group or political party to join, identification in these aspects plays an important role.

Three, reasoning: After careful consideration, one believes that compared with other groups, the group chosen is more suitable for practice of his/her ideals or more consistent with his/her own moral standards.

For instance, someone feeling a responsibility to develop the economy, education, and culture of his hometown or believing charitable causes beneficial to the society will choose to be part of the group he finds better suited for realizing his goals and will identify with it greatly.

Four, personal enthusiasms: This consideration may prompt someone to join an association or club.

Five, a sense of honor: One may choose to become a member of a group enjoying social prestige and respect in order to share in these things by association.

The abovementioned five interest-transcendent motivations in free-choice situations (emotion, beliefs, reasoning, personal enthusiasm, sense of honor) are not mutually exclusive: indeed they may overlap. For example, identification with a particular group might derive from one's belief, reasoning, sense of honor, or all three. In sum, in free-choice situations, interest-transcendent factors cannot be neglected when considering identification.

Having discussed the meaning of identification, we can proceed to further discuss sense of fairness with a view to a new understanding of the concept.

### **3.3 The Relationship Between Fairness and Identification**

#### ***3.3.1 Individual Sense of Fairness in a Group***

Where should we look for fairness criteria? As previously concluded, it's hard to find answers if we confine the analysis to income distribution and income gap. From the perspective of either absolute or relative income, there is no objective and standardized measurement for fairness. As for the perspective of equal opportunity, the difficulty lies in defining an equal start line, since in reality not all start from the same. Therefore, we need to approach the question of fairness from a different angle, and perhaps identification may lead us to the answer.

To put it simply, fairness is based on an individual's identification with a group. The more its members identify with the group, the greater sense of fairness they will have. Conversely, the less they identify with it, the weaker their sense of fairness will be. If members do not identify with their group but nevertheless remain part of it, they are likely to have no sense of fairness at all.

Why is there such a correlation between the level of identification and sense of fairness? Through his interpersonal relations with other group members, an individual member will get a sense of his position and other members' attitude toward him. If he gets along with others and handles those relations well, he will have greater identification with the group and stronger sense of fairness. Conversely, if he fails to maintain harmonious relations with others, always feeling being left out in the cold, marginalized, or discriminated against, he will certainly have little identification with the group, giving rise to a sense of unfairness. From the perspective of the relation between individuals and their group, the sense of fairness or otherwise reflects the degree to which the individual identifies with the group.

Groups can be big or small, comprising different numbers of individuals. We may start our analysis with small groups and work our way up.

The family is possibly the smallest group. Being a member of a family is not usually a matter of personal choice, but an individual's identification with the family is a different matter. Provided there is strong family identification, he will not quibble over differential treatment of him, for example, parents favoring a



sibling. A sense of fairness comes from identifying with the family itself. Of course, there are exceptions: people whose relations with family become strained or whose identification decreases when they find themselves less well treated than a sibling. Of course, such occasions are not very common. Generally, despite some sense of unfairness, it does not decrease his identification, and the individual still loves his family.

In an enterprise, big or small, employees' sense of fairness is directly linked to the degree of identification with this group. There may be different salaries for different people, different promotion opportunities, and different levels of labor intensity. As long as there are such differences, even though rational in an economic sense, employees may not see this rationality as fairness. What if there were no differences? Some people would probably regard the lack of differential in salaries and benefits as unfairness. Only from the angle of individual identification with the group can we get a reasonable explanation of sense of fairness.

We may say, therefore, that when employees identify highly with the enterprise and their salary differentials are economically rational, they will accept such differences and have no sense of unfairness. Even when salary differentials are not so rational and a sense of unfairness is aroused, provided employees identify with the enterprise and can voice their opinions via proper channels, this need not give rise to disharmony in employee-enterprise relations. Conversely, if employees have little or no identification with the enterprise, they will have a sense of unfairness even if the salary difference is economically rational. Staffs with low or no identification will have a strong sense of unfairness and may even go against the enterprise.

Stepping up the scale, society is a large group in which an individual is just one of the countless individual members. But irrespective of that society's size, the individual's level of identification with it will influence his judgment on whether he has had fair treatment in many areas, including income, job, education, and social status. Through comparison with other members, he will form his sense of fairness or unfairness. Assuming a high level of identification with society, he will accept rational differences in those respects and will not have a sense of unfairness, nor will he go against the society if he has channels to express his dissatisfaction with the differences. The sense of unfairness increases as social identification decreases and vice versa. In other words, the higher the social identification, the stronger one's sense of fairness and the weaker the sense of unfairness.

### ***3.3.2 Further Explanation on the Correlation Between Fairness and Identification***

Based on the above examination of the correlation between fairness and group identification, we can proceed to further explanation.

Firstly, although the above analysis has shown us that the degree of identification directly produces a cause of sense of fairness or unfairness, it does not deny the

point that income gap rationality is related to fairness nor does it deny the proposition that equal opportunity implies fairness. The latter two concepts, namely, rational income gap and equal opportunity, are useful for understanding the meaning of fairness, except that their limitations in judging fairness standards do not facilitate further exploration of the fairness issue. Therefore, we must return to the identification perspective so as to make up for what is lacking in the previous studies. In addition, as previously stated, even if the income gap is rational, if members have little identification with the group, they will still feel it unfair. Conversely, when their identification is great and they have proper channels to express their opinions, even if the income gap is not so rational, they will still accept the gap and not go against the group. This is enough to show that income gap rationality is too limited to be a criterion for fairness.

Secondly, groups can vary greatly in size. The smaller the group, the easier it is for an individual to identify with it, and the more helpful that level of identification is in showing the source of a sense of fairness or unfairness. It is a little difficult for members to identify with too large a group, and the degree of identification will be of less importance in explaining fairness or unfairness. Take the case of two different enterprises, one with tens of thousands of employees and the other with fewer than one hundred. Staff in the larger one may find group identification more difficult than those in the smaller one. Correspondingly, those employed in a small enterprise are more likely to have sense of fairness based on their high degree of identification; those employed in a large enterprise are less likely to have a sense of fairness and more likely to feel unfairness.

Thirdly, if employees find it difficult to identify with a large enterprise and producing a sense of fairness is difficult, does it not follow that citizens will find it difficult to identify with their country, this being a group much larger than an enterprise? And would it not also follow that for citizens to have sense of fairness would be difficult? But as also mentioned above, citizens' identification with their country is different from employees' identification with their enterprise, since the latter is based on interests and the former on interest-transcendent considerations. Therefore, even though a country is much bigger than an enterprise, this does not make it harder for citizens to identify with a country. Interest-transcendent considerations play an important role. If a big enterprise can cause its employees to identify with it from interest-transcendent considerations, a high degree of identification will more easily be achieved.

Fourthly, one can be member of several different groups—family, community, company, academic society, association or club, to name just a few. No matter the group, all will engender a feeling of fair or unfair treatment within the group. Therefore, a sense of fairness is multisourced, and the number of groups will determine how many kinds of fairness or unfairness the individual senses. He may feel one group to be fair, another group unfair, and other groups to have varying degrees of fairness, from minor to extreme. To an extent this is related to group size: the smaller the group, the more easily its members coordinate with each other and vice versa. On the other hand, it is linked to the nature of the group and to whether its individual members are in it for the sake of their interests. The more important to

them such considerations are, the harder it will be for the individual to identify with the group and the greater the sensitivity to fairness and its opposite. Conversely, the more important the interest-transcendent considerations, the easier group identification becomes and the less the sensitivity to issues of fairness.

Fifthly, precisely since fairness is linked to social stability, an acute sense of unfairness may lead to social instability. It will be conducive to the maintenance of social stability and reduction of destabilizing factors if the correlation between fairness and identification is clearly understood, since a sense of fairness or unfairness comes from more than just income differences (including individual absolute income level and income gap) or equal or unequal opportunities. The more a society is in tune with its members and the more its members identify with it, the easier it will be to reduce any sense of unfairness and the more stable the society will be. This is a seemingly indisputable conclusion, but achieving such social coordination and group identification so that members identify highly with the society is no easy matter. Those working in social coordination should make a particular effort to solve this problem.

Sixthly, if an individual joins a group for interest-transcendent considerations, it is very likely that this group has lofty ideals and aims and it is these factors that inspire great identification from its members. However, if the group's leaders or responsible persons do not work hard to realize these ideals, do not live up to their words, or are incompetent to achieve the goals, the members will be disappointed, seeing the truth. As the level of identification falls, the members' sense of unfairness will intensify, thinking that they have been cheated and taken for fools by those above them. They feel duped by the leaders and squeezed out or discriminated against by their followers; in consequence, their sense of unfairness grows more acute by the day.

### ***3.3.3 Identification with Fairness of Starting Point and Fairness of Outcome***

Fairness of starting point and fairness of outcome are not the same concept, but identification with the two can be unified.

The general explanation of starting point fairness is that all stand at the same starting line. Equality of opportunity implies fairness of starting line. But in reality, owing to differences of family background, place of residence, or educational level, the same starting line for one is difficult, so equality of opportunity may not necessarily be achievable.<sup>7</sup> Even so, equality of opportunity is always better than discrimination. The fact that laws do not discriminate against anyone is a major stride toward achieving a fair starting line. If jobs or trade are open to every person with the requisite qualifications and if the discrimination and exclusiveness in careers and competition

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<sup>7</sup>See Li Yining [4, pp. 10–12].

are eliminated, this will be the best form of equal opportunity we can achieve in real life. This is the only way for us to interpret starting point fairness.

The general interpretation of outcome fairness is that, as results of fair competition, jobs go to the most qualified or outstanding persons and that income in all trading is in accordance with the quantity and quality of production factors supplied. It is reasonable to see outcome fairness in this way despite differences still existing. It stands counter to the egalitarianist concept of outcome fairness, which is a serious distortion, but even so it does have its limitations in interpreting outcome fairness.

For example, it is true that jobs should go to the most qualified or outstanding candidates through competition, but why should we not ask: What is the standard for being the “most qualified or outstanding”? Is the judgment comprehensive and accurate? Are the decision makers just and disinterested? Do they have a complete grasp of the information? In other words, are the decision makers themselves proven to be the most qualified persons?

For another example, distribution based on labor was once regarded as manifesting outcome fairness, being consistent with the principle that income produced in trading activities should be distributed in accordance with the quantity and quality of production factors supplied. Distribution based on labor is at least an applicable standard for judging whether an individual’s absolute income is fair or not. But it has defects. What does “labor” exactly mean here, the qualification for income that one has achieved through one’s “labor” in the past or the “labor” one is contributing to the current work? Can we convert all kinds of “labors” into one universally accepted “labor”? Furthermore, who is the allocator of labor here? How can he do his job in a proper way? These theoretical questions still await solution. Besides, as a standard of judging outcome fairness, distribution based on labor faces many problems in operation. Who can tell which salary levels for government or enterprise employees are reasonable and consistent with this distribution principle? Since it is hard to say distribution based on labor is a manifestation of outcome fairness, it is harder to make the case for distribution based on production factors. However, pending the appearance of anything better, the principle of being “in accordance with quantity and quality of production factors supplied” is still feasible, because at least it links outcome fairness with supply of production factors and with economic outcome.

For people to accept starting point and outcomes as fair, we must first help them correctly understand the meaning of fairness, and this is by no means an easy task. Each person will understand the concept in the light of personal experience and current status, and they are bound to have different feelings about it.

A person may count the starting point as being fair only when, in addition to equality of opportunity, his starting point status, income, or financial circumstance is roughly comparable with others. Suppose he has equal opportunities but none of the other aspects are of comparable status at the starting point, he probably will feel unhappy; perhaps he can tolerate this, perhaps not. If he has generally the same social rank, etc., but not equal opportunities, he will also feel unhappy; perhaps he can tolerate this, perhaps not. If he is far behind others in social rank, etc., and moreover does not have equal opportunities, he will surely not tolerate it since he believes the starting point to be patently unfair. Therefore, we see that only when all conditions

are met—equal opportunities, roughly equal rank, equal income, and equal property status at the starting point—will people deem the starting point fair.

Acceptance of the fairness of outcomes might be more difficult to achieve. If the starting point is believed unfair, then whatever the outcome—for example, the absolute income level and income gap being within rational range—it will still be deemed insufficiently fair. If a person believes the starting point is fair, then he will make his own judgment regarding fairness of the outcome on the basis of specific circumstances: When absolute income level lies within a rational range, he might think the outcome is fair and acceptable. If he thinks the relative income level—i.e., the income gap—is not rational, he will still deem the outcome insufficiently fair. If one believes in the fairness of neither the starting point nor outcome, one is bound to regard this as unacceptable. Social stability can only deteriorate if there are increasing numbers of people who feel this way.

From the above analysis, we know that we should not only consider people's feelings about the starting point and outcome fairness but also help them to integrate the two: accepting the starting point as fair but not the outcome is not enough and neither is the converse. So how can we approach this question of integration? We shall need to return to the discussion of harmonization between individuals and the group.

If an individual has harmonized relations with the group and other members, he will more easily integrate his acceptance of fair starting point with his acceptance of fair outcome. Even if neither aspect is totally satisfactory, provided such things are quite easily pursued through proper channels, the contradiction will generally not intensify. For a large group such as a society, the more its members identify with it, the easier it is for them to integrate their acceptance of starting point fairness with outcome fairness. Just as pointed out previously, in the absence of an objective or universally accepted standard for fairness, we only have harmonious interpersonal relations to increase the sense of fairness and reduce the sense of unfairness.

### **3.4 Identification and Mutual Understanding and Accommodation**

#### ***3.4.1 Historical Overview of Correlation Between Identification and Mutual Understanding and Accommodation***

In a group, mutual understanding and accommodation are very important for harmonizing members' relations and enhancing their group identification. It is also an effective way of abating an individual's sense of unfairness within the group.

Mutual understanding and accommodation among members have been present. Without this, members or groups could hardly survive in difficult circumstances, let alone make progress. Even in favorable conditions, this spirit

is still indispensable for strengthening group cohesion, improving group efficiency, and enhancing members' identification with the group. Otherwise, friction or disharmony among members might lead to the group splitting, possibly even to its collapse and extinction.

In static society, small producers provide the most obvious illustration of mutual understanding and accommodation helping the survival and development of groups and their members. Unfortunately, when discussing small producers, it is often their conservatism, egalitarianism, and fear of reform that is emphasized, while ignoring their spirit of mutual understanding and accommodation and related attributes of tolerance, diligence, teamwork spirit, and group cohesion. In his *Mutual Aid*, Kropotkin had the following passages:

As to the social characters of the medieval guild, any guild-statute may illustrate them. Taking, for instance, the skraa of some early Danish guild, we read in it, first, a statement of the general brotherly feelings which must reign in the guild; next come the regulations relative to self-jurisdiction in cases of quarrels arising between two brothers, or a brother and a stranger; and then, the social duties of the brethren are enumerated. If a brother's house is burned, or he has lost his ship, or has suffered on a pilgrim's voyage, all the brethren must come to his aid. If a brother falls dangerously ill, two brethren must keep watch by his bed till he is out of danger, and if he dies, the brethren must bury him—a great affair in those times of pestilences—and follow him to the church and the grave. After his death they must provide for his children, if necessary; very often the widow becomes a sister to the guild.<sup>8</sup>

Mediation, as an approach for solving disputes between people, has been around for a long time, probably even longer than guilds existed in medieval Western Europe. Mediation is carried out according to custom, and moral force plays an important part too. Effective mediation relies not just on authority and prestige. If one of them refuses to compromise in the slightest, the mediation will be in trouble and reconciliation will be impossible no matter how much authority and prestige the mediator enjoys. Mutual understanding and accommodation is about how to coexist in the same group. The two parties to the argument could be members of a small group, such as two brothers in a family. They might not be in the same group, family, village, community, etc., but they are members of the society as a large group. Thus, what mutual understanding and accommodation is really about is this: In the same group and for the common interests of the group and its members, it is necessary on some occasions for parties to give ground for the sake of harmony. This applies in good times and in bad.

Mutual understanding and accommodation of members cannot be regarded as a negative force. Being negative or positive depends on how it influences socioeconomic development. In fact, it can strengthen group cohesion, raise members' identification with the group, and reduce their sense of unfairness. Isn't it helpful to group growth as well as socioeconomic development? So it's convincing to say mutual understanding and accommodation is a positive force.

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<sup>8</sup> See Kropotkin [9, pp. 158–159].

A group may be a temporary organization, but the same spirit is essential. This is clearly reflected in a record of a Hanseatic League voyage in medieval times:

When the captain of a Hanseatic League ship called a meeting of the crew and passengers on deck, according to the record of one witness, he made this announcement: “As we are now at the mercy of God and the waves,” he said, “each one must be equal to each other. And as we are surrounded by storms, high waves, pirates and other dangers, we must keep a strict order that we may bring our voyage to a good end. That is why we shall pronounce the prayer for a good wind and good success, and, according to marine law, we shall name the occupiers of the judges’ seats (Schöffstellen).” Thereupon the crew elected a Vogt and four scabini, to act as their judges. At the end of the voyage the Vogt and the scabini abdicated their functions and addressed the crew as follows: “What has happened on board ship—we must pardon to each other and consider as dead (todt und ab sein lassen). What we have judged right, was for the sake of justice. This is why we beg you all, in the name of honest justice, to forget all the animosity one may nourish against another, and to swear on bread and salt that he will not think of it in a bad spirit. If anyone, however, considers himself wronged, he must appeal to the land Vogt and ask justice from him before sunset.” On landing, the Stock with the fredfines was handed over to the Vogt of the sea-port for distribution among the poor.<sup>9</sup>

Without mutual understanding and accommodation, it’s hard to envisage crew and passengers remaining in harmony when cooped up together on the same ship for days on end, especially in the economic and technical conditions of that age. It was precisely that accommodating spirit that enabled this temporary group to overcome all the difficulties and arrive safely.

Of course, we cannot claim that tolerance and yielding has no negative influence at all on socioeconomic development. Actually, this may have extended the life of the outmoded traditional socioeconomic structures and thereby slowed down socioeconomic reforms. However, if we look at the process of economic development through history, the positive effects still predominate. Now, let’s turn to the question of how to evaluate the role of mutual understanding and accommodation in modern socioeconomic times.

### ***3.4.2 Identification and Mutual Understanding and Accommodation in Modern Socioeconomic Times***

In modern socioeconomic times, the positive influence of mutual understanding and accommodation extends beyond small groups such as family, reaching large groups such as entire societies, and moderately large groups such as enterprises. We may begin our analysis with the partnership enterprise.

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<sup>9</sup>See Kropotkin [9, p. 157].

A partnership enterprise is a group founded on mutual understanding and accommodation, and this is its distinctive feature. As we know, a partnership enterprise is established on the basis of agreement between all partners who invest, share benefits, assume risks together, and bear unlimited joint and several liabilities. Such liability in particular needs mutual trust between partners. Besides, harmonious relations and mutual respect are a premise for the sound operation and development of such an enterprise. If the partners cannot accommodate with each other or put the overall interests of the enterprise first, it's hard to imagine they will coalesce.<sup>10</sup>

Partnership is a long-standing form of enterprise. Some countries have established laws for partnership enterprises, but in the long period before those laws existed and in countries that still have no such laws, how did partners found partnership enterprises for which they bore unlimited joint and several liabilities? The answer is reliance on custom and identification on the basis of moral force. Only by such means could they establish an enterprise and ensure its survival and growth. In fact, legal provisions, though being specific in rights and obligations of partners, under what circumstances they can transfer assets, when one partner should compensate others, when a partner can withdraw from the enterprise, etc., are not exhaustive and cannot cover every detail of running an enterprise. The special feature of a partnership enterprise is "people together," in other words "people in harmony." Without mutual trust and respect, there is no harmony and no partnership enterprise. If partners quarrel fiercely over every disagreement, their business cannot go soundly. All in all, the partners are well aware that without harmonious relations, the enterprise has no chance of surviving.

Moreover, since partners are investors with unlimited joint and several liabilities, they identify themselves with the group to a high degree. Each partner is expected to feel a sense of fairness; i.e., each one thinks he has the same status as all the other partners and is treated equally. Otherwise, no partner would shoulder the liabilities. In other words, in a group like a partnership enterprise, if one partner has a sense of unfairness, he will eventually withdraw from the group. How could he be willing to carry unlimited joint and several liabilities for other partners if he thinks himself discriminated against?

In modern socioeconomic times, the limited liability company is a common form of business organization. Like a stock corporation, it is a kind of stock company, but it differs from the former in its method of stock transfer: In a stock corporation, a stockholder does not need the approval of other stockholders to transfer his stocks, but in a limited liability company, a stockholder must have the approval of the majority of stockholders before he can do this. This shows that in a limited liability company, harmonious people-to-people relations are still very important even if each investor shoulders only limited liability; i.e., each stockholder bears responsibility based on the amount of his investment and the company assumes full liability, with its total assets as pledge. With harmonious human relations, a limited liability company can be built up, survive, and grow. Without these, the company

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<sup>10</sup>For further discussion on mutual trust in enterprises, see Chap. 7, Sect. 7.5.



may be established but will not survive. Therefore, the stockholders' identification with the company and their mutual understanding and accommodation are vital and inseparable. All limited liability companies are required by law to protect the rights of investors, but the law cannot cover each and every specific issue relating to business operations. When there is dispute or disagreement among investors, only negotiation, mutual understanding, and accommodation can work to resolve the problems. Mutual understanding and accommodation functions on the premise of protecting the rights of investors; they result in better cooperation among them and smoother development of the company. An investors' sense of fairness comes from his identification with the group, i.e., the limited liability company and the shareholder committee, since he believes his status is equal to that of all other group members. A sense of fairness will in turn foster mutual understanding and accommodation, since no one thinks he will be forced to give way. Mutual understanding and accommodation and the good it does to the company will further strengthen the sense of fairness among stockholders, because they all consider themselves benefited by the company's development and their mutual understanding has deepened too.

Apart from relations between investors (partners in partnership enterprises or shareholders in limited liability companies), mutual understanding and accommodation has a positive role in building relations between employees, traders, or different interest groups. Mutual understanding and accommodation does not equate to weakness, surrender, or a deviation from principles but tells us that since there are all kinds of relations involved in the modern socioeconomic age and only with sound development can everyone benefit, if all yield a little, problems are more readily solved. This point can be seen more clearly from the perspective of human beings as "social men."

Even in a modern family, the smallest group, identification and its inseparable partner—the spirit of mutual understanding and accommodation—have positive importance. With the highly developed economy and great increase of income per capita, family size has become smaller and smaller: Once grown up, children leave their parents and form their own families. They have less and less contact with their parents, the lonely residents of the "empty nest." Consequently, within the family a feeling of *ennui* emerges or boredom with family life. In this context, it is extraordinarily important to advocate family identification and mutual understanding and accommodation among all generations of family members. It is not only an issue of restoring pleasure and confidence in family life, but one of better deploying the role of the family group.

Now, we have a new interpretation of the sense of fairness or unfairness: Identification and mutual understanding and accommodation will increase group members' sense of fairness and reduce any sense of unfairness. This is particularly so in the absence of a universally accepted standard for evaluating equality of opportunity and coordinated income distribution.

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# Chapter 4

## Law and Self-Discipline

### 4.1 Market, Government, and Law

#### *4.1.1 Regulation by Market and Regulation by Government Must Be in Accordance with Law*

In modern society, regulation by market and regulation by government must operate in accordance with law.

It is extremely important that market operation is underpinned by a sound legal system and strict legal enforcement. Markets comprise multiple traders, each one of them independent from and in competition with other traders; they are the market actors, and their behavior must be subject to standards and their competition must be carried on in the economic context of a normal market order. The lack of a complete legal system makes it hard for traders to make judgments and choices or to understand other traders' choices. We can imagine that in a market without a reliable and enforced legal system, traders will have difficulty in formulating strategic decisions.

Law can prevent illegal operation and unfair competition in trading activities and at the same time protect legal operations and fair competition. Any infringement on the legal rights of traders, namely, enterprises or individuals, will be investigated. Without law, the market will suffer from chaos and nobody wins. Even supposing some enterprises or individuals benefit from a disorderly market, there is no guarantee that it won't crash in the next round of disorderly competition. Therefore, regulation by market must be in accordance with law. Provided there is law, even incomplete law, and it is strictly followed, traders can make proper choices and their trading will be sustainable.

Regulation by government, manifested in government socioeconomic administration and control of the macroeconomy, also needs the support of a legal system. The government itself should act within the legal framework. Regulation by government

and regulation by law are not opposites and nor can one replace the other. When a government organ acts as a party in a trading activity, such as procurement, hiring new staff, or selling assets, it must be subject to law and the stipulations of the contract. As a party to the contract, out of respect for the contract and for the legal rights of the other party, the government position should be equal to that of the other party, not higher. In this way, government behavior in market economy can be normalized.

It is worth making the point that whether under regulation by market or by government, integrity and credit are principles that must be observed. In regulation by market, all competitors enjoy equal legal rights and bear equal responsibilities, and traders violating the principles of integrity and trust are subject to legal penalties. Under regulation by government, the government, in the capacity of socioeconomic manager, should also follow this principle and earn respect from the public. Without this its management will be ineffective. The government cannot circumvent the principle of integrity simply because it is not in the role of trader. When a government organ is one party of a contract and a trade, it should follow the principle of integrity and credit, so that it does not encroach on the rights of other traders. In short, government, both as manager and trader, is subject to the restricting power of law. This premise is an important guarantee of effective regulation by government.

History has proven this to be the case on countless occasions. Any government that is not bound by law, no matter how powerful the state machine or how mighty its control, would forfeit the trust of the people when trespassing beyond legal boundaries. What's worse, the loss would be huge and not quickly retrievable. Unfortunately, those governments behaving this way would mistakenly assume they were omnipotent and could succeed forever, getting deeper and deeper into this delusion and ultimately being unable to extricate themselves.

In short, the authority of law lies in its generality, equality, and openness. Law is universally applicable, rules that all see as having to be followed, and treating everyone by the same standard. At the same time, the law must be known in order for people to obey it. Such things embody the authority of law, without which it would serve no useful purpose.

The above-cited attributes of law—generality, equality, and openness—also apply to government employees. Regulation by government implies that government staff should know, obey, and handle affairs in accordance with law. This often involves the relationship between power and law and the perennial question of which one is superior. Is power subordinate to law or vice versa? We now proceed to discuss how this conflict should be handled, strict observance of law ensured, and legal violations investigated and punished.

#### ***4.1.2 Contradiction Between Power and Law in Regulation by Government***

Regulation by government is implemented by government departments and organs, whose leaders wield power proportional to their positions. They may employ their power in regulation, sometimes conducting normal and effective socioeconomic

management, but sometimes seeking private benefits for themselves or their relatives. This is what is meant by the term “abuse of power for personal gain.”

To extirpate this abuse phenomenon, the government’s management and regulation should be conducted in accordance with law. Of course, the first problem is to establish a legal system. Once a legal system is established, will things be handled according to law? Will those who have power be spared of penalties if they ignore the law? Will such people put power over law in their regulation and management? These questions are the crucial points of the law-power relation. If those who have power think law is not essential and things can be handled without following the law, if they think provided they have power they can just discard a law or change its articles, if they think law is just for restricting people other than themselves and has no personal significance, if they think provided they wield power they can interpret law according to their own will, if they think their words are law and that their authority is higher than law, etc., this is not law bestowing, restricting, and standardizing power, but power controlling and overriding law. The conflict between law and power is a millennia-old struggle that still awaits a very good solution.

This question is particularly important for developing countries undergoing the change from traditional political and socioeconomic structures to modern structures. Socialist countries are no exception. To develop their economy, developing countries must break through many barriers including the abovementioned two closely related traditional structures. The traditional political structure protects the traditional socioeconomic structure and vice versa; both are precapitalist in nature, mainly feudalist. Under a feudal political structure, no matter how the rulers have gained their power, the governments they form are autocratic in character. The power of the supreme ruler overrides everything. There is no law and even if there is, it exists in name only, being subordinate to power and interpreted at will by the ruler. In such a society, the government’s control of or intervention in socioeconomic life is direct, arbitrary, and peremptory. The conflict between power and law exists in all developing countries but to different degrees of intensity.

In some developing countries, especially in rural areas, rule by family or rule by a family elder or clan elder is part of the traditional political structure, and the same can be said of religious power in some areas. Rule by family, rule by a family elder or clan elder, or rule by religious power is usually the basis of the political structure in underdeveloped urban or rural areas. What is law to them? Family elders, clan elders, or religious power are the true authority in local life. Law is an alien concept for local people. Even if there is law, it plays no role or is subordinate to those in power locally.

In fact, an important question involved in the conflict is the relative importance of power and rights. Power is both bestowed and defined by law; rights are something safeguarded by law and defined by it too. A further manifestation is that those given with power should use it to protect the rights stipulated by law. The two aspects can be unified. Overemphasis on power to the detriment of rights is a violation of legal principles and tantamount to riding roughshod over law. When an ordinary person acts this way, it reflects a weak legal awareness, but for a ruler it is much more than that: it reflects a sense of superiority and privilege cultivated in the traditional political structure and reflects contempt for law.

The central question for law is how to guarantee rights. To emphasize power only will give insufficient prominence to this aim. In the power-rights relation, rights should take priority, and power should be regarded as a means of protecting rights. Rights should also take precedence over obligations in the rights-obligations relation. Obligations are formulated to ensure the realization of rights, so in the absence of rights, obligations become meaningless. The abuse of law or riding roughshod over law often begins with solely emphasizing citizens' obligations and neglecting their rights. Such distortion of law should be supervised so that power will be standardized and restricted by law, no power abused, and no law overstepped. In Chaps. 6 and 7, there is more detailed discussion on the question of supervision. Now let us discuss the relation between custom, morality, and law.

## 4.2 Custom, Morality, and Law

### 4.2.1 *The Role of the Third Type of Regulation Since the Birth of Law*

In Chap. 1, we defined the notion of regulation by custom and morality as the third mode of regulation, one distinct from regulation by market and regulation by government, and in the first section of this chapter, we discussed the relationship between regulation by market and regulation by government and law in modern society. In this section, we will discuss the relationship between the third-mode regulation and law.

As mentioned above, regulation by custom and morality emerged long before the other two modes. It is only after a government is formed and its rule is effective that laws are enacted and implemented. Therefore, when regulation by custom and morality or even when regulation by market was at an early stage, there was really neither government nor law. That is to say, in the absence of law, both regulation by custom and morality and regulation by market were at work.

With the appearance of law, although regulation by custom and morality continued to have a role, it must act within the boundaries defined by law and never break it. The question is: what is the relation between regulation by custom and morality and law? Can we say the former is subordinate to the latter? Apparently, we cannot reach that conclusion. To say that regulation by custom and morality must stay within legal bounds and not violate the law is not the same as saying it is subordinate to law.

We begin our discussion with the supplementary role of regulation by custom and morality following the emergence of regulation by market and by government, especially when regulation by market is the basic regulatory form. We can examine this in three aspects:

Firstly, in the market economy one must have and protect fair competition, in order to maintain normal trading order and prevent panic if trading order is at odds with traders' anticipation. How to ensure fairness of competition and allay the fears

of traders? As we know, regulation by market is a mechanism in which changes of supply and demand will cause prices to rise or fall. The price movement has nothing to do with morality: it is obeying the objective law of supply and demand. But in the market, whether one party in a trading behavior has business morality or not and whether this behavior breaks the principle of fair competition or not, they will certainly influence price. The market is not short of traders violating business ethics, cheating other parties, and making exorbitant profits; punishment for such behavior is necessary under a complete and effective legal system. But this is not enough. Since trading activities are going on at every moment of every day and countless traders are involved, even the most complete legal system has loopholes and even the strictest legal provisions cannot ensure that every law breaker gets his just deserts. It's obvious that one cannot rely purely on law to maintain fair competition, maintain trading order, and eliminate cheating behavior. Cultivating and promoting business ethics is important too. On the one hand, trading activities should be restricted and standardized by law, and violators should be punished. On the other hand, traders should be educated in law; business ethics should be inculcated, teaching how to resist behaviors inconsistent with business ethics. Traders should exercise self-discipline. The greater their self-discipline, the greater will be their likelihood of following business ethics and keeping their trading activities within the law. Consequently, regulation by market will better exercise its role as the basic form of regulation, and the role of law in maintaining fair competition and trading order will be more prominent. This is one embodiment of the supplementary role of regulation by custom and morality to regulation by market.

Secondly, enterprises and individuals are both behavioral agents in market economy. An enterprise is a group formed by a certain number of individuals and has many different person-to-person relations such as between investors and between managers. Interpersonal enterprise relations would normally include those of investor-to-manager, senior executive-to-manager, manager-to-lower-level employee, and employee-to-employee. In a market economy situation, if an enterprise harmonizes those relations well, its efficiency will be improved, an effect discussed in Chap. 2. In harmonizing those relations, improving efficiency, and fully motivating all individuals involved (investors, managers, and staff), it is essential to keep to the law, but one should not rely totally on law since it cannot reach such details as interpersonal relations. The role of law in regulating interpersonal relations boils down to putting standards on those relations so that they do not violate law and at the same time protect the rights of everyone. These relations need to be made harmonious through regulation by custom and morality, particularly when they are at odds with but not actually violating any law. This is regulation by custom and morality supplementing the role of regulation by market.

Thirdly, from the perspective of trading activity, we can regard enterprises and individuals as behavioral agents in a market economy. But as pointed out in Chap. 1, socioeconomic activity covers diverse fields, some belonging to the traded sector and others to the non-traded sector, the latter often accounting for the lion's share. Even in a developed market economy, a large portion of socioeconomic activities are non-traded in nature, and in these regulation by custom

and morality plays an important role, the law just defining the boundaries for these activities so they will not overstep them. Within these boundaries, they rely on regulation by custom and moral force. This is the third aspect of the supplementary role of regulation by custom and morality.

From these three aspects, it is evident that even in market economy, in the presence of regulation by market and government and where law is seriously enforced, regulation by custom and morality not only exists but plays a role that neither law nor the other two forms of regulation can replace. Even if its role is supplementary, it is nevertheless indispensable. With this third form of regulation, the other two forms are more effective and the role of law is better deployed.

#### ***4.2.2 Relationship Between Law and Regulation by Custom and Morality***

Since regulation by custom and morality plays an irreplaceable role in supplementing the other two forms of regulation, then in modern-day society, its relation with law is very clear. There are two aspects to this relation.

Firstly, law defines the boundaries within which all the three types of regulation must operate. Take regulation by custom and morality, for example. It can function both in a very small group (family, small village, or small enterprise) and a large group (society), but once effective law is operating, the regulation cannot overstep the boundaries defined by law. This does not mean that there is no such thing as conflict between law and regulation by custom and morality or that it does not play a role. But since this form of regulation transcends legal boundaries, there will be friction and conflict with law, accumulating, intensifying, and finally becoming an obstacle to normal order and possibly losing its original role.

Take the question of property inheritance, for example. Different places have different customs governing inheritance of family property, for example, the oldest son being the heir, the youngest son being the heir, all sons co-inheriting, all family members co-inheriting, etc. The inheritance mode is decided by many factors. Before the establishment of relevant laws on inheritance, people followed the customary ways and no one raised objections: even if there were objections, it would not change the custom at all. However, once laws on property inheritance were stipulated, such as all children, sons, and daughters alike having the right to inherit, conflict between law and regulation by custom and morality became apparent on this question. Some advocate property inheritance according to convention, but this is inconsistent with legal requirements; others advocate inheritance according to law, but this is inconsistent with convention. The result is confusion, and when regulation by custom and morality oversteps the boundaries defined by law, crisis occurs. At the very least, the convention of family property inheritance is shaken and will no longer be embraced by so many people, the fissure between law and this form of regulation will widen, and in the fullness of time, inheritance conventions are gradually replaced by legal stipulations.



The hiring of apprentices is another case in point. Small enterprises, especially manual workshops, frequently hire apprentices. In different periods of historical and different places, different conventions have been applied in the hiring of apprentices. There were situations where apprentices received no payment at all, received very low pay, or paid to become apprenticed. There were similar variations concerning whether masters or bosses had the right to inflict physical punishment on their apprentices. In some places, apprentices were even required to sign a disclaimer of warranty. Apprenticeship periods also differed from place to place, lasting 3 years in some and 7 years in others. The way apprentices were hired was determined by many factors, not just on the say-so of the master or boss. The conventional ways were followed by local people for many years without any objections raised, because this was how things were always done. Apprentices had to work in excess of 10 h a day, not only doing productive labor but domestic service for the master or boss. However, with the setting of legal rules on hiring apprentices, the clash between custom and law would become evident. For example, law might set the maximum daily or weekly working hours of apprentices, their minimum age, and minimum wage and prevent employers from meting out physical punishments or getting them to sign lifelong contracts. The customary modes of apprenticeship were unreasonable in many places and the legal rules aiming to rectify these shortcomings were to protect the apprentices. However, since these conventions have been accepted for a very long time, the clash between law and convention may not be correctly understood by all. Consequently, the retreat of customary apprenticeship from the stage of history will be a slow one, and the process of making convention subject to law will be a long one.

On the other hand, there are other situations in the relation between law and regulation by custom and morality. On some occasions, certain aspects of custom and morality or some of its regulatory methods could be adopted and written into law, becoming permanent legal articles. This is a quite normal phenomenon since the laws of a society are always a reflection of its values and concepts, and one function of law is to regulate the interests of all sides. Hence, in enacting laws certain moral principles have to form the basis for regulating these interests. If certain specifics of regulation by custom and morality are inconsistent with law, then the friction or clash between law and this mode of regulation will intensify. Although the clash will persist for a rather long period, regulation by custom and morality will gradually draw close to law and finally become subject to it. If some ways of regulation by custom and morality confirm to law, it is entirely possible that they will be absorbed into law.

One example of this is the autonomous organizations that have existed and evolved in various forms in rural areas. In many places, under the chronic influence of feudal rule, the autonomous organizations of rural residents were autonomous in form only, mere appendages to power-wielding clans, with a strong tinge of feudalism and superstition. But, undeniably, in some places, despite the feudal influence, since the autonomous organizations are of a mass character, they still have a certain function in mediating disputes between residents, in initiating social programs, and in promoting mutual aid among residents; hence, they are supported and trusted by local people. This helps to account for the longevity of such autonomous organizations of rural residents. Here the role of law is, in line

with ethical principles: to discard the unhealthy and irrational content of those organizations and their activities and to introduce things consistent with the aims of law into the legal articles on autonomous organizations, so that the majority interests of residents will be protected. If this can be realized, regulation by custom and morality will not weaken; instead, its role will become more important.

For another example, nongovernmental associations have been around for a very long time. Formed on people's own initiative and in accordance with custom, they have their own objects, activity modes, and discipline. They regulate the custom and morality of their members within a certain scope. As they evolve through history, some associations gradually fall apart and disappear; others change their properties. These are all normal phenomena and show that it is impossible to prohibit nongovernmental organizations. Governments usually deal with them in three ways: to ban those that are harmful for achieving social targets; to let them run their own course, neither banning them nor acknowledging their legality; and to set up rules and bring those conforming to the rules into the scope of legal restriction and protection. The third of these entails establishing law on associations and absorbing into law relevant aspects of regulation by custom and morality. In this way, regulation and law can be unified. Of course, there is no conflict between the third way and the first. In other words, government can admit the legal status of associations that conform to the rules and ban those that do not.

### ***4.2.3 The Relation Between Law and Self-Discipline***

Self-discipline is a manifest effect of regulation by custom and morality. The fact of some aspects being absorbed into law does not mean this mode of regulation itself has lost importance; it means these aspects now have a legal basis and can play their role better within the scope of law. Furthermore, these aspects account only for a small part of regulation by custom and morality.

Whether adopted as part of the law or not, regulation by custom and morality will still play a role according to their own nature, because they regulate people's behavior and define their behavioral and social norms, i.e., principles all members of society should follow in their daily activities and life. Individuals may have various activities and lifestyles motivated by their own will, interests, hobby, sense of responsibility, public spirit, or pursuit of personal advantage. But all behaviors should conform to social norms; otherwise, they will be harmful to the society, to others, and to the individual personally. As one of the countless individuals of a society, an individual should not seek advantage or pursue aims at the cost of other peoples' advantage and aims. If harm transpires, the rationality of such aims and behavior should be questioned. What seems reasonable to one person may not seem so to another, and social norms, i.e., the principles that are required to be followed, can be the only standard for judging the rationality of the behavior. If a person's behavior does not conform to social norms, in other words if his aims and his way of realizing them violate these principles, he should have restrictions imposed—by society and by himself. If law reflects social norms or social norms have been

absorbed into law, a society's restriction on individual aims and way of achieving them is tantamount to legal restriction and self-restriction amounts to being law-abiding and self-disciplined. Self-discipline amounts to spontaneous observance of social norms.

It is important to point out the significance of self-discipline in circumstances when law is in effect. In market economy, the role of law lies in maintaining market order and guaranteeing the legal rights of traders or every behavioral agent in the market. No matter what his occupation, if an individual can always and everywhere restrict himself with social norms, the effect of regulation by market and government will be evident and socioeconomic order will become normal. Law requires self-discipline on the part of individuals for it to operate more effectively.

Self-discipline means following a certain code of conduct established by regulation, by custom, and by morality, a code that defines what an individual in a society "should" and "should not" do, "how to do," and "how not to do." As repeatedly stated in the previous chapters, individual behavior is not driven just by personal interests. Otherwise, it would be difficult to account for their sense of social responsibility, public spirit, their awareness, and protection of public interests and goals. But it would also be off the mark to say individual behavior is driven by public interests and goals, since for most individuals, their initiative and motivation is not separate from their personal interests. In other words, you cannot set up a code of conduct for people without considering their own benefits. In an economy, an individual's self-discipline is based on an awareness of both public and personal interests and goals, and such self-discipline is consistent with legal rules.

The consistency can be explained as follows: How an individual considers public interests and goals is influenced both by legal rules and by regulation by custom and morality; the same goes for his personal interests and goals. Since an individual belongs to and identifies with one or several groups, he must participate in group activities within the boundaries defined by law. At the same time, under regulation by custom and morality, his concern for and identification with the group equates to concern for and identification with the public interests represented by the group. His personal interests are connected with his group identification as well as whether he obeys law. Therefore, his self-discipline, from the perspective of observing the law and identifying with group interests and goals, includes consideration of his personal interests and goals.

## **4.3 Further Discussion on Self-Discipline**

### ***4.3.1 Self-Discipline and the Heidegger Controversy***

We have clarified the nature and meaning of self-discipline, so now let us discuss this question further. Traders are required to follow business ethics and administrators to follow professional ethics. That is to say, people in all walks of life, businessmen, enterprise, government employees, etc., should be self-disciplined. But self-discipline

is more than business or professional ethics. It also means law observance and the restriction of moral factors on people's behavior.

In the intellectual world, the meaning of self-discipline might be broader. One feature of this community is that intellectuals involve in social, political, and economic activities not only by action but by expressing their thoughts and opinions on those fields. Any government that hopes to realize its goals must rely on the support of intellectuals and their knowledge and technology. Their academic status, influence, and reputation serve as a standard and demonstration for the public. Therefore, intellectuals face bigger tests than other social groups, since in their view they face a severe choice between the so-called truth and power.

The actions, words, and writings of scholars in relation to the Nazi regime provide a good example of the extreme and necessary self-discipline exercised by intellectuals in that period. The prominent German philosopher Martin Heidegger (1889–1976) was regarded as “perhaps the most influential philosopher of this century...whose thought shook the world of philosophy,”<sup>1</sup> but that did not prevent him from being a controversial figure. He was elected rector of the University of Freiburg in April 1933, just 3 months after Hitler took office as Chancellor. His predecessor had been dismissed for forbidding pro-Nazi students to stick up anti-Jewish posters. The predecessor and some professors supported Heidegger for the rectorship, believing his international reputation would help preserve academic freedom and stop the most destructive behavior of the Nazis. Heidegger agreed to stand and the school board passed the proposal unanimously.<sup>2</sup> In his inaugural address on May 27 “The Self-assertion of the German University,” he expressed his support of Nazism, and many of his proposals were exactly in tune with the Nazi propaganda. But in February 1934, he resigned the rectorship and refused to attend the ceremony handing over to the incoming Nazi rector. His lectures about Nietzsche starting in 1936 marked his separation from the Nazi movement, and thereafter, he was subjected to Nazi surveillance and persecution. In summer 1944, he was drafted to dig trenches on the west bank of the River Rhine, the oldest of the enlisted teachers, because he was not on the list of the 500 most prominent scholars, scientists, and artists exempted from hard labor. After Germany was liberated by the Allies, Heidegger was forbidden to teach because of his Nazi connections, and the ban was not lifted until 1951, shortly before he retired.<sup>3</sup> The words, actions, and thoughts of such a scholar with a short record of Nazi cooperation left commentators many topics to explore. In his book *Introduction to Heidegger's Philosophy*, Chen Jiaying comments: “Heidegger's involvement in the Nazi Movement was no mistake or accident. He always detested civilian politics and longed for elite rule. Even in his twilight years, he made clear his distrust of democracy. He probably still sympathized with Nazism, even if disappointed with it. Scholars have long been aware that even though Heidegger cut his connection with Nazism later, he never directly condemned the Nazis for their crime against humanity.”<sup>4</sup> In an intellectual's academic viewpoint and standpoint, what he approves and opposes is

<sup>1</sup> See Thomas J. Sheehan [1, p. 1].

<sup>2</sup> See Chen Jiaying [2, pp. 11–12].

<sup>3</sup> Ibid., pp. 14–15, 19.

<sup>4</sup> Ibid., p. 17.

one thing; his political attitude, particularly if he yields to and cooperates with a dark force even for a very short period, is quite another. It is his self-discipline in his political attitude that is germane to our discussion.

In his article “Don’t Let Bygones Be Bygones: On the Heidegger Controversy,” Zhang Rulun commented: “If intellectuals do not act in defense of the truth and justice they claim to believe in and advocate, what is the value of justice and truth? And what indeed is the value of intellectuals? Not every intellectual has the courage of Bruno, but at the very least they should not tell lies if they cannot tell the truth; even if they are not strong enough to resist the Devil, they should never sell their souls to him.”<sup>5</sup> He also made the point: “In modern society, an intellectual should be the inheritor and creator of culture, the critic of reality and represent the conscience of society. He should be both pro-science and pro-democracy. A convincing example is the contrast between the great scientist Albert Einstein and the philosopher Martin Heidegger. Both thinkers exerted important influence on human culture, but when justice was being trampled on, Einstein stood up to safeguard the conscience and justice of humanity, whereas Heidegger compromised with the Devil, fancying it could produce good. So, Einstein became the perfect role model for modern intellectuals whereas Heidegger has a stain on his character that can never be washed clean even if his great academic achievements were the greater.”<sup>6</sup>

Let us further analyze some of Zhang’s comments, bringing in specific times and places. “Even if they are not strong enough to resist the Devil, they should never sell their souls to him” is the right attitude to have on whatever occasion. An intellectual’s self-discipline, indeed any person’s self-discipline, should encompass this. “At the very least they should not tell lies if they cannot tell the truth” is correct too. But there are lies and lies: In circumstances where one has no choice and where even silence is not permitted, the insincere parroting of a formula, going through the motions, such lies are pardonable. But Heidegger’s lies in his cooperation with the Nazis clearly do not fall into this category. They were either the truth, i.e., his opinions were in line with Nazism, or a different sort of lie, i.e., he did not agree with the behavior of the Nazis, but he flattered them for his personal purposes. This is why Heidegger has been blamed in German academic circles for so long. Even though his cooperation with the Nazis was of short duration, the stain on his character is indelible. The Heidegger controversy tells us how essential self-discipline is for intellectuals.

### ***4.3.2 More on the Relation Between Observing Law and Self-Discipline***

Above we discussed the relation between observing law and self-discipline, but since this question involves how intellectuals could exercise self-discipline in the context of Nazi Germany, it is necessary to go deeper into the issue of observing law.

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<sup>5</sup> See Zhang Rulun [3, pp. 105–106].

<sup>6</sup> Ibid.

Normally, observance of law goes hand in hand with following moral standards. We often say an individual who does not observe law does not follow moral standards or the generally recognized code of conduct either. However, this statement makes the assumption that the law is consistent with moral standards and embodies the generally recognized code of conduct. The questions are: Who makes the law? Who interprets and enforces it? Without law, the question of abiding by law is meaningless; moreover, in its absence no one knows where the boundaries of individual behavior lie, and moral restriction will replace legal restriction. However, if law is made, interpreted, and enforced by a tyrannical regime, how can it be in tune with moral standards or the generally recognized code of conduct? Must people at any time in history and in any country unconditionally accept laws made in their times? Clearly not. But are all laws created in conformity with legal procedure and voted through by representatives consistent with public interests and goals? Not necessarily. Nazi Germany is a case in point. As we know, Hitler came into power, not through a military coup, but by due process of German law, in the sense that he was voted into by the majority of the German people. The electorate chose him because they were misled by the guiding principles of his party, were attracted by his personal charisma, or pinned all their hopes on him, believing he could rescue the German nation from crisis. That majority included many German intellectuals. Of course, at the time of that election, they might have not foreseen the dramatic change of politics, a change that would take the German people into the abyss. But surely they could see the possible disaster when Hitler enacted measures immediately after assuming power? Surely, violence against Jews on city streets would waken them to the danger? This brings us to the question of intellectual self-discipline, without which, black can be seen as white in terms of legal issues.

When an autocratic government uses laws it brought or interprets as it will in order to strangle truth and justice, it isn't hard to tell the character of such laws. But why do some people retreat in the face of morality? Why does the spirit of self-discipline fall apart? It undeniably has to do with personal interest. In other words, they do so either in defense of or to increase their individual interests. One might ask, since the government issued the laws, should they surely abide by them? What's wrong with that? Under Nazi rule, how could German intellectuals not obey law as they had always done since there were laws to obey? This is actually self-deception. As previously pointed out, as soon as Hitler took office, the injustice of the policies he implemented was plain for all to see. An individual might not have the power to resist such government and rule, but at least he could keep silent. Isn't silence also a form of observing law? Couldn't such famous scholar, professor, and philosopher as Heidegger keep silent if he had self-discipline? And if remaining silent was not permitted, could he not have uttered a few empty phrases? Why did he have to cooperate even for a short time with the Nazis? Why did he defend and even praise them? The answer is he lacked self-discipline. Therefore, he ended in retreating and falling apart in the face of morality.

Let us subject individual interest to further analysis. On the assumption that motivation comes from individual material interest, individual behavior is controlled by this, and the term material interest usually refers to the increase of individual income

or property. We also assume that individual behavior is controlled by material as well as nonmaterial interests such as getting more honors, spiritual fulfillment, etc. As individual income increases, nonmaterial interest accounts for an ever greater proportion of individual interest in the broad sense. On the assumption that motivation comes from not only personal interest (including material and nonmaterial interest) but also from factors beyond interest (concern for public interests and targets, etc.), it follows that individual behavioral standards are actually influenced by two coexisting factors, namely, personal interest and public interest. Law and self-discipline play a positive role in both factors. Whether striving in one's own or the public interest, individuals should never overstep legal boundaries. Self-discipline means abiding by law. Individuals striving to achieve public interests and targets are usually inspired by morality. In drawing up personal goals, in evaluating personal gains, and especially in striving to achieve them, individuals should restrict themselves with the moral standard that they should not fight for what is not worthwhile and abandon measures that are not proper. Self-discipline is shown as moral restriction.

Self-discipline is probably an individual's last line of defense: it is through this that moral strength is fully displayed. Why is keeping to the law not the last line? It is because, as discussed above, before following the law, we need to judge what kind of law it is, who makes it, who interprets it, and who executes it. Under tyrannical regimes, are the laws consistent with moral principles? In circumstances where "one cannot tell the truth but should not utter lies," to remain silent is to observe law, but more important is self-discipline. Suppose a ruler, in the name of law, violates moral standards and does as he pleases, then strictly self-disciplined people will never be his blind followers or try to win his favor. Strict self-discipline will cause them to keep silent even in the most dreadful circumstances and safeguard their last line of defense—their moral standard.

Thus, we learn that since individual behavior is influenced by both private and public factors, an individual's code of conduct too is influenced by these things and individual behavior is restricted by moral standards; therefore, in judging a person's behavior, we should not forget the public interest principle, one that comes above private interests and should be followed by all. Although individual behavior differs between members of the society, provided such behavior does not harm the public interest, this is a normal and reasonable thing to happen. Self-discipline makes us safeguard our last line of moral standard, namely, not going against the public interest.

### ***4.3.3 Fairness of Punishment and Limitations of Self-Discipline***

Since self-discipline is an embodiment of regulation by custom and morality, we must ask: In practicing self-discipline, what are the criteria for judging between good and bad? For regulation by custom and morality, such criteria do really exist, not criteria drafted by the minority that wields power but gradually formed and

accepted by the majority. We can take public interests and targets as the criteria, which people will accept. So, by what criteria do we judge public interests and targets when, as we know, public interests and targets have been used as a pretext for many shameful and immoral actions in history? And are there not many different interpretations of public interests and targets? Sometimes, they are used as a fig leaf, covering up all kinds of disgraceful deals. Even among dark forces have “martyrs to the cause” who disregard their personal interests, but can we say such people are without self-discipline? We cannot. Though the aims of the dark forces are unworthy of protection and practice, they see them as public targets. This shows self-discipline has its limitations, in that when there is no precise knowledge of what constitutes public interests and targets, self-discipline can lead individuals along a dark road counter to public interests and targets. In such situations, the greater one’s self-discipline, the deeper and more inextricable the pit one may dig for oneself.

Let us take fairness or justice as the basis for judging right and wrong in self-discipline. Then what is fairness and what is justice? In Richard T. Nolan’s *Living Issues in Ethics*, there is a passage to this effect: Since Aristotle, people have usually divided fairness into retributive fairness and distributive fairness. Retributive fairness means to punish those who violate other people’s rights or to restore enjoyment of a right. Distributive fairness means to ensure, on the basis of proper differences, fair allocation of rights and privileges among members of society.<sup>7</sup> In Chap. 3, we discussed fairness of distribution. Now we will discuss the issue of fairness of retribution, which involves whether justice can be upheld. Fair retribution means, as a Chinese folk saying puts it, “bad deeds, as well as good, may rebound upon the doer. If it hasn’t rebounded, it is because it is not yet the time.” Unfair retribution means not distinguishing evil from good, turning good and bad on their head; the good cannot get a good outcome; and the bad escape their due punishment. When moral force exerts its effect, even if a person cannot change the perverse situation, he can at least by self-discipline tell right from wrong and refuse to do or support evil but despise and condemn it. However, self-discipline cannot realize fair retribution or punish the bad.

It is quite plain that since the emergence of governments, fair retribution has never been realized through the self-discipline of individuals. “Bad things redounding on the bad” cannot be brought about by self-discipline. Fair retribution must rely on fair legal verdicts, and if law cannot produce them, other means are needed to bring law onto the road of upholding justice, and people’s self-discipline is not one of them. This illustrates the limitations of self-discipline.

Therefore, to uphold fairness and ensure that it lasts depends on the joint functioning of law and self-discipline. Law can do things that self-discipline cannot, and the self-discipline of the makers and enforcers of law can ensure its fairness. In other words, in terms of fairness, if more people in the society have self-discipline and constrain themselves with moral standards, bad things will greatly decrease; in terms of law, it ensures that the good are protected and the bad are punished, thereby achieving fair retribution.

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<sup>7</sup> See Nolan et al. [4, pp. 406–407].



In life we often come across the following situation: the legislators are fair and the laws are fair, but because the enforcers of law do not follow the law, citizens' rights, though guaranteed by law, come to nothing, for example, law enforcers' arbitrary arrest and detention of citizens, random body searches, constraints on citizens' freedom, and even siding with offenders. Retributive fairness cannot be realized at all in such situations. Of course, the above violations of law and justice cannot happen if law enforcers are self-disciplined. But what if they are not? Self-discipline on the part of others is no substitute for law enforcers' self-discipline, nor can it rectify the lack. Only law can do that job, rectifying the behavior of law enforcers and punishing all offenders including the law enforcers.

#### ***4.3.4 Self-Restriction in Abnormal Situations***

Ever since the emergence of governments, corruption of government employees, bribery, and other such problems have been present. At times when supervision departments had tighter control, corrupt practices would decrease or be more covert; when control was looser, such practices would increase greatly and even be more flagrant. But corruption in the supervision department itself was an even tougher problem to eradicate.

In a market economy, the market needs fair competition and normal trading order. Normal trading order in turn helps market mechanism play its regulating role to good effect and helps to prevent corruption in socioeconomic life, because the breeding and spreading of corruption are connected with market disorder and unfair competition based on power, and this in turn is connected with unsupervised and unchecked abuse of power. Those who abuse their power support unfair competition and get benefits from it, and traders who try to gain benefits by unfair competition always count on those in power and their abuse of power to achieve this. So, inevitably, embezzlement, bribery, and other corrupt practices grow and spread. In general, the joint effect of law and self-discipline includes not just the maintenance of market and trading order and prevention of corruption but also restraining those in power and preventing abuse of power.

In this sense, for government employees, self-discipline has at least two aspects: One, they should expect the very best of themselves, not violate professional ethics under any circumstances particularly when the market is in disorder, obey law, and perform their duties well; two, they should be careful in using power at their disposal, not abusing power in their private interest, or applying it according to their own likes and dislikes. The self-discipline required of government employees is to protect social justice. Any casual and arbitrary use of power and deciding policy is a violation of social justice. The law forbids such behaviors, and self-disciplined government employees should keep their distance from them, prevent them, and expose people who act this way. Detachment from, prevention, and exposure of wrongdoing are manifestations of moral constraint; they are the results of the influence of moral force.

The great importance of stronger self-discipline on the part of government employees can be more clearly seen through further analysis of the abnormal situations that actually exist on a large scale in reality. In normal situations, the legal system is complete, law enforcement is strict, and lawsuits follow formal procedures. Abnormal situations are characterized by incomplete legal system, haphazard law enforcement, and lawsuits not following formal procedures. In normal situations, all actions have legal basis, boundaries and responsibilities are clearly defined, and people are allowed to express their opinions on and appeal against government actions. In abnormal situations, the basis of law is absent, boundaries and responsibilities are unclear, people are without freedom of speech and thought, etc. The most worrisome thing for enterprises is to operate in abnormal situations, and what individuals fear the most is to work and live in such an environment. In both cases, this is because they don't know what to do: in the absence of traffic rules, with no one on traffic duty and no traffic lights, drivers don't know how to drive and any action on the part of a driver faces a high possibility of penalty, without the possibility of appeal. How could the driver not worry?

Abnormal situations give the best opportunity for government employees with no self-discipline to abuse their power to further their own interests, or to attack anyone they dislike. They are also a breeding ground for all manner of corrupt phenomena in socioeconomic life. In abnormal situations, there are either no game rules at all or they have ceased to be effective; they are increasingly likely to be interpreted at will or not followed at all. Given such a situation and add to this government employees without self-discipline, then deterioration in the socioeconomic order is quite conceivable. It should be pointed out that in abnormal situations, supervision of government employees is often ineffective; even worse, some employees under inspection actually use the supervisors to work in their service. When government employees are not self-disciplined, can legal restriction have any effect on them? It is a question worth further study and needs to be solved. It is discussed further in Chap. 6.

## **4.4 Moral Inspiration**

### ***4.4.1 Source of Enduring Initiative and Positivity in Individuals***

Self-discipline is usually regarded as a kind of voluntary moral restraint, but this is a rather narrow understanding of the concept. Self-discipline also has positive and enterprising aspects: Whatever the profession or occupation pursued, an individual should be dedicated and enterprising and should work hard to make achievements. The spiritual motivation is important, so moral inspiration can be regarded as another aspect of self-discipline, one that complements moral restraint.

Concerning the relation between one's moral inspiration and the spirit of dedication and of enterprise, we could do worse than start by discussing the driving force

of economic life. In economic analysis, the assumption that motive comes from personal material benefits has its limitations since personal interests are not just material gains. Man is “social man,” whose interests range wider than purely material or economic considerations. Therefore, we make the assumption that motivation does not completely lie with interests. At any income level, individual behavior will be influenced by factors other than this, and when personal income rises, noninterest considerations come increasingly to the fore. That is to say, when a person’s income reaches a certain level, his initiative and positivity will become less driven by material considerations, his perspective will increasingly consider nonmaterial benefits, and these may become a bigger, or perhaps the biggest, source of initiative and enthusiasm in his economic activities.

Precisely because some motivation comes from noninterest factors, a person’s motivation in economic activities is less likely to diminish. Diminished motivation is the phenomenon in which an individual’s initiative and positivity weakens as his economic activities go on and his income increases. When motivation has its only source in material benefit, diminished motivation may well occur, since income is no longer the spur it once was. Here we come to the substitution relationship between getting income and the effort expended in order to get that income. When an individual’s income has increased, he will consider whether it is worth continuing to invest the same effort in order to get a certain income, as time and energy are now possibly more important to him. This is how income and material interests lose their incentivizing power. However, when factors other than material benefits take a more and more important part in a person’s economic activities, it does not necessarily follow that his motivation drops off as his income rises. On the contrary, he may be as active and positive as ever and perhaps even more so, because he no longer has economic worries and can invest most of his time and energy in non-benefit-driven causes.

From this perspective the limitations of the premise that motivation has its source in personal material benefits become plain, and we can now proceed to further explore the source of lasting initiative and positivity in an individual’s socioeconomic activities.

Of course, in considering this topic, we should not solely take the individuals’ perspective: analysis of objective conditions is equally necessary. Personal effort is undoubtedly important for lasting initiative and positivity, but equally important is the capacity of the enterprise to inspire these qualities among its employees. If it neglects such things, it will be hard for an employee to sustain initiative and positivity. An enterprise’s attention to these things is very closely linked to the economic system operating. For example, when market mechanism has replaced the plan and control mechanism, when fair competition has replaced differential treatment, and when sole responsibility for enterprise financial performance has replaced state-unified revenue and expenditure, an enterprise has no choice but to stimulate the initiative and enthusiasm of its employees.

So, supposing economic and enterprise mechanisms are consistent with the requirements of a market economy, how is personal initiative and positivity generated and made long lasting? This question leads us to the issue of moral inspiration, because of its connection to the source of lasting initiative and positivity among individuals.

#### ***4.4.2 Compatibility of Morally Inspired and Interest-Driven Motivation***

Is it possible for a person's own moral inspiration to be compatible with his benefit-oriented motivation? To discuss this question, we cannot simply say that the moral inspiration will disappear once he is benefit oriented nor can we refuse to admit that he is still influenced to a certain degree by benefit even though he has formed lasting initiative and enthusiasm because of moral inspiration. The qualities under discussion may be motivated partially by interest and inspired partially by personal morality. The same can be said about the enduring character of these qualities, except that moral inspiration plays a bigger part here. Furthermore, when one's activities are interest driven, one still needs to be dedicated and trustworthy in dealing with others, which is also an aspect of moral inspiration.

Most people in the society probably take personal benefit as their target while also wanting the public targets to be achieved, since they do not consider the two as contradictory. For example, an entrepreneur may believe that if he succeeds and his enterprise booms, his personal gains will increase and society will benefit too, and this surely helps the achieving of public targets. An employee believes if he does well in his job, he can improve the living conditions of his family as well as help improve the enterprise's results, which will in turn benefit the society. In this way, the motivation of personal benefit and public targets is unified in that individual. Granted, every period in history has had totally selfless individuals considering only public targets, but they are very few indeed.

For anyone valuing personal benefits and public targets, it is a big challenge to make a choice between the two considerations when they clash. Most of the time, for most people personal benefits and public targets are a single, combined consideration, which means they need not choose between them, since achieving the former will benefit the latter and vice versa. However, when it is compulsory to choose one, no means everyone can make the right decision. On these occasions, moral force comes into full play. Those who choose private interest over public targets obviously have shrunk back before moral force. History and modern life is full of such cases. Nevertheless, many people still put public targets ahead of their own interests, a result of their self-discipline. Self-discipline means they are both constrained and inspired by morality. Their personal restraint causes them to guard the defense line of moral standards, doing nothing injurious to public interests and targets. Meanwhile, if they are forced to choose between private interest and public targets, they will not sacrifice the latter for the former. Moral inspiration will drive their enthusiasm and concern for public interests and targets, causing them to put public targets ahead of private interest if ever the two should clash. In general, morality-inspired restraint and inspiration are equally important.

The concept of personal morality inspiring one's socioeconomic activities is sometimes misunderstood: it is believed wherever there is an element of interest

motivation in an individual's socioeconomic activities and he gains benefits, then he is seen as acting from his private concerns only. Self-imposed moral restraint exists but moral inspiration does not and has no role. According to this analysis, we can make the following judgment. Such misunderstanding is based on the premise that moral inspiration is incompatible with benefit-oriented motivation. According to the above analysis, we can infer as follows:

When a person does not need to choose between private interest and public targets, the two things seem mutually compatible, and both are helped by personal moral inspiration. Here, moral inspiration and private interest motivation are in line with each other because, inspired by his spirit of dedication and principle of integrity, an individual will do a better job to realize his private interest goals and his products and services will be better received in society.

When an individual has to make a decisive choice between his private interest and public targets, whether he chooses the former and gives up the latter or vice versa, he will feel the conflict of the two. If he opts to follow his private interest over public targets, then clearly moral inspiration has not had an effect or his moral inspiration is not in line with his private interest motivation. If he chooses public targets, this shows that moral inspiration is at work and that moral inspiration is compatible with his private interest motivation. Consequently, he is making the right choice. Therefore, whether he strives for one's personal interest without harming public interests and targets or chooses to give up his own interests if they conflict with public targets, both choices demonstrate that moral inspiration is at work in him and that this is not incompatible with private interest motivation. This compatibility is based on the recognition that public targets encompass personal benefits.

From this we see that moral inspiration and private interest motivation can be compatible, but not necessarily in each and every case. If an individual must choose between his private interest and public targets and opts for the former at the expense of the latter, the incompatibility of the two motivating forces is exposed.

#### ***4.4.3 Self-Discipline as the Unification of Moral Self-Restraint and Inspiration***

Previous analysis shows the undoubted importance of one's own moral restraint and moral inspiration. In socioeconomic life, if individuals have the former but not the latter, society may lose its vitality and enterprising spirit and its people are likely to be ultracautious, concerned only not to make a mistake. If there is only individual moral inspiration and no moral restraint, people might let slip their standards of behavior and possibly fail to safeguard the moral standard defense line. Only when these two driving forces work together can a society be energized and give due

attention to both public targets and individuals' benefits. A producer or worker with strict self-discipline is likely to be a dedicated and enterprising person, one whose income constantly rises. This dedication, enterprising spirit, career success, and increasing income are all linked to his own moral inspiration and restraint.

In abnormal situations it is even more necessary for an individual to have his own moral restraint and moral inspiration. Just in terms of modern-day life, in order to live in society, man must survive, develop, and adapt to all kinds of living and working environments. Apart from the ability to survive and progress in normal situations, he needs such abilities to face the challenges of abnormal situations, for without them, he will be too fragile to survive or to endure any frustration or attack. The often used term "adaptability" means more than just an ability to adapt to normal situations: It means an ability to adapt to the abnormal. An important standard for judging a person's ability and vitality is whether he can survive and progress in abnormal situations and whether he can adapt to various adverse circumstances.

But, given the same abnormal situation, why do some people get depressed while others remain enthusiastic? Why do some go to the bad while others rise above things? It is the joint effect of personal moral restraint and inspiration. The reason for an individual's ability to maintain enthusiasm and morale in abnormal situations should be sought in attitude of spirit, in particular the effect of moral inspiration. Having moral inspiration in the service of his convictions, ideals, and goals allows an individual to squarely face and overcome difficulties, treating the hard environment as character building. Moral inspiration helps him adapt to abnormal situations and develop his capabilities. In this sense, the worse the situation, the greater the need for moral inspiration and the more obvious the role of moral strength.

No matter who the person, on occasion, apathy can be a problem and a restraint on action. How can it be overcome? We need to depend on the formation and influence of a good social ethos on the one hand and on unflagging individual moral inspiration on the other. Under the influence of the former, when those around can overcome apathy and remain creative and enterprising, it is more likely that the apathetic person can shake off this feeling. But personal moral inspiration is more important in such circumstances for this reason: Irrespective of the morale of those around, provided the individual draws on moral inspiration to try hard, he will not only overcome his own apathy but also influence others, giving them the resolve to emulate him.

To sum up, as a unified manifestation of personal moral restraint and inspiration, it goes without saying that self-discipline is highly valued by society. Moral restraint requires people to be strict with themselves in socioeconomic activities and to do nothing that violates moral standard or harms public interests and targets. Moral inspiration requires people to be enterprising and dedicated, qualities that enable them to defeat apathy, overcome difficulties, and achieve more in their work even if conditions are adverse.

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# Chapter 5

## The Third Distribution

### 5.1 Overview of the Third Distribution

#### 5.1.1 *Definition of the Third Distribution*

In Chap. 4, we discussed moral inspiration, a concept that involves dedication, enterprising spirit, adaptability to abnormal situations, ability to overcome apathy and determination to overcome adversity, etc. All the foregoing can have a positive impact in the area of production and thereby stimulate efficiency and national wealth to a great extent. Now, let us turn our attention to the field of distribution. Through the following analysis, we may conclude that regulation by custom and morality, including moral restraint and inspiration, exerts considerable influence on income distribution.

In the market economy, income distribution via the market is usually called the first distribution and that via government the second distribution. The first distribution is conducted according to the economic results of the market. All suppliers of production factors get income corresponding to the quality and quantity of the production factors they provide and through examination and endorsement by the market. The basic principle of the first distribution is the higher the economic returns, the higher the income; no returns, no income. That is to say, in a market economy, we cannot just use the supply of production factors to judge whether there is income, and if so how much, because it involves examination and recognition by the market. Market is ruthless. If the production factors supplied are not endorsed by the market, cannot stand up to its examination, or cannot produce economic returns, then there will be no income. The second distribution is conducted by the government. The government has its own targets and can adopt various regulatory tools to realize them. For example, on the one hand, it collects personal income tax from those whose income reaches a certain threshold and collects legacy tax, gift tax, property transfer tax, etc. On the other hand, it provides subsidies or allowances to the needy



so as to coordinate income distribution. In works about economics, personal income after tax is called disposable personal income, income that can be used in consumption or be saved.

So, is there a third distribution following the first two; if so what is its nature? In my book *The Share-holding System and Modern Market Economy*, I made a preliminary discussion on the third distribution: “Besides the two distributions, there is a third distribution, a kind of income distribution based on moral belief.”<sup>1</sup> It shows that the first distribution is the effect of regulation by market, the second the effect of regulation by government, and the third the effect of regulation by custom and morality.

The third distribution is transfer of private income. “Under the influence of morality, the transfer of private income, voluntary payments and donations may happen across a broad range. For example, an individual may be willing to donate to his hometown, to disabled welfare organizations, to disaster-stricken areas, and to various cultural, sports, educational, healthcare and religious groups. These are not compulsory actions, but made under the influence of morality.”<sup>2</sup> In other words, “The third distribution, or distribution under the influence of morality, has to do with personal belief, sense of social responsibility or a feeling for particular causes. Government regulation or compulsion is not involved here. That is to say, it is a voluntary transferring of some of one’s private income to others.”<sup>3</sup>

Income distribution out of personal faith, sense of social responsibility, or feeling for particular causes (e.g., education, arts, charity, religion, etc.) is actually a behavior resulting from moral inspiration. People are under no outside pressure to donate. If they do not, they are breaking no law or group rule (assuming they belong to the group). So why do they donate of their own accord? They do so under the influence of their own moral inspiration, because they see making a donation as their social responsibility or contribution to society. Some people possibly do so from religious enthusiasm, from humanist considerations, or from compassion and are all based on moral inspiration, since they are very likely to see donating as a way of moral improvement.

With moral inspiration, many people work hard to create new business, increase income, accumulate wealth, and then donate again. The increase of private property always accompanies the increase of private donation. The former can stimulate the latter, and the latter can encourage people to keep on working hard and accumulating wealth. Such cases are not rare both in history and today. As I pointed in *The Share-holding System and Modern Market Economy*: “The greater the number of people with such belief, sense of social responsibility or feeling for particular causes, the greater the amount of money they volunteer to pay or to donate, the more prominent becomes the role of morality in narrowing the income gap. At the present stage, the number of people willing to transfer part of their

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<sup>1</sup> Li Yining [1, p. 77].

<sup>2</sup> Ibid., p. 78.

<sup>3</sup> Ibid., p. 79.

income to others is very small and so the narrowing influence is small, but in the long term, the role of morality in narrowing the income gap, is becoming increasingly important, albeit slowly.”<sup>4</sup>

### ***5.1.2 Several Points on the Third Distribution***

Having defined the third distribution, we need to elaborate a few things.

Firstly, suppose a society has no first or second distribution, how is its distribution conducted?

This brings us once more to the “gap-filling” role of regulation by custom and morality. In the long period following the appearance of market and government, distribution of means of subsistence at the early stage of human society was conducted on the principle of custom and morality. Otherwise, old people and children could not survive. After tribes were formed, for a long time, the distribution within the tribe, including the distribution of means of production and means of subsistence, was regulated by custom and morality. At that time, there was no distribution regulation by market or second distribution regulated by government. Later, even with the advent of market and government, in remote villages or in times of great social chaos without market or government regulation of income distribution, it was the role of regulation by custom and morality in income distribution that ensured normal socioeconomic operation.

History makes it very plain that distribution in light of regulation by custom and morality not only existed but played its due role. However, it is only when regulation by market and by government have a role in income distribution that distribution under regulation by custom and morality can be called the third distribution. When neither regulation by market nor by government operates, distribution under regulation by custom and morality is the sole mode of distribution.

Secondly, following the appearance of market and government, the role of the third distribution became supplementary. The degree of its influence on income distribution depends on the amount of income put into the third distribution, which in turn depends on the amount of gross income, the amount net of government taxes, and the extent to which morality can influence behavior.

If we merely recognize the first and the second distributions by market and by government, respectively, while neglecting the third distribution which is beyond regulation by either of these, it is actually to oversimplify socioeconomic activity and to deny the fact that human beings as the main body of economic activities have different targets and that income distribution is influenced by moral inspiration. Without the third distribution, the economy can still run normally because of the effect of the first and second distributions. But with it, income distribution in society can become more coordinated and the economy runs more smoothly. Furthermore,

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<sup>4</sup>Ibid.

under the influence of morality, the third distribution can help promote cultural and public welfare causes, etc.

Thirdly, the third distribution happens more frequently in smaller groups. The smaller the group, the more common third distribution among its members will be. The bigger a group, the rarer the distribution will be.

The family is the smallest group, and within a family, the individual members have different earning capacities and different income levels. One embodiment of mutual help among family members is income transfer, and this has nothing to do with market or government regulation but is purely a result of regulation by custom and morality.

The clan is also a small group, although larger than the family. Under the market economy, it is no longer common in urban areas that people from the same family voluntarily transfer their income inside the clan. But in rural areas, it is still quite a common phenomenon, especially when natural disasters strike or at weddings, funerals, or ceremonies for celebrating newborn babies. One important reflection of mutual help among clan members is still income transfer.

When it comes to a very large group with many members, such as a city, province, or country, income transfer among members cannot possibly be common, but influenced by custom and morality factors, some members still volunteer to donate part of their income to help others.

Generally speaking, the donors either give directly to group members in need or via intermediary organizations (charity organizations, public institutions, etc.). The bigger a group is, the more commendable is the income transfer taking place under the influence of regulation by custom and morality and the more strongly the power of morality is displayed.

Fourthly, income distribution regulated by custom and morality can be classified into two types. The first type is voluntary personal donation after the first and the second distributions and is motivated by individual belief, sense of social responsibility, feeling for particular causes, etc. This voluntary giving is called the third distribution because it is a further distribution following the first and second ones. It is a manifestation of individual moral inspiration. The second type is a mode of distribution operating in the absence of regulation by market or government or when both have ceased to have effect, and it relies on regulation by custom and morality. The reason it is called the third distribution is because it results from factors of custom and morality.

However, the main distinction between the two types of distribution is the extent to which they are voluntary. The first type, under regulation by custom and morality, is totally a voluntary donation. None are forced to donate, but they do so anyway. For the second type, because there is no regulation by market or by government on income distribution, the distribution is conducted in light of customs and group rules based on those customs. Therefore, the degree of members' identification with the group, with its customs and rules, and with the distribution outcomes will influence how willingly people conduct such distribution. If a member identifies highly with those things, he will be more likely to follow and accept the distribution rule of

the group. Conversely, if his identification with these things is poor, he will be less willing to support this kind of distribution despite still observing group rules and customs. Whether his disagreement on distribution within the group is openly expressed or not, he will inevitably feel estranged from the group and other members. If the majority of group members have low identification with their income distribution based on customs and if their disagreements increase, they will drift apart from the group, and crisis may result.

In such situations, there will be two possible results: First, the group accepts the different views of its members and makes some adjustment to the custom-based mode of distribution so as to increase the members' identification with the group. Second, the divergence inside the group continues to grow until the group falls apart or ceases to exist except in name. Such cases are not rare, neither in the past nor in the present.

Fifthly, income distribution regulated by custom and morality after the first distribution by market and second distribution by government is obviously a kind of voluntary or non-compulsory income transfer, but it is not totally disconnected with market or government. For example, if the government has drawn up measures on collecting inheritance tax, including a rule that donations to charity or public welfare can be deducted from the value of the inheritance and therefore not subject to tax, it will encourage people to donate or make a will leaving part of or all their income to charity or public welfare. It is true that donating is voluntary, non-compulsory behavior, and directly connected with the donor's own moral inspiration, but we cannot deny that measures on inheritance tax collection also act as a stimulus.

For another example, under regulation by market, the quality and quantity of production factors supplied have a bearing on economic results and consequently with income. Suppose an investor starts an enterprise in an underdeveloped county or town and at the same time donates toward building a school or hospital. The former investment is market behavior prompted by market considerations, whereas the latter is a behavior for public welfare and prompted by moral considerations. But the two aspects are related to some extent: (1) A school will help raise the educational level of the local people and improve labor qualification, which will in turn benefit the donor's enterprise. Similarly, a hospital will help to improve local healthcare conditions, make the workers stronger, reduce diseases and improve attendance rate, which will also in turn benefit the donor's enterprise. (2) With a school, a hospital, and a stable labor force, the enterprise will attract more talents, which is beneficial for the long-term development of the enterprise. (3) An investor who starts an enterprise and at the same time builds a school and a hospital will gain a reputation among local people, which means the enterprise will enjoy good public relations. In spite of this, we should remember that a donation toward building a school and hospital is not a market behavior but an outcome of regulation by custom and morality and belongs to the third distribution, since the donor is not forced to do it.

## 5.2 The Role of the Third Distribution in Coordinated Social Development

### 5.2.1 *The Gap Left by the First and Second Distributions*

The role of the second distribution by government in harmonizing social development in a market economy has had plenty of academic attention and research. On the other hand, the role of the third distribution under regulation by custom and morality has not even had academic notice, let alone research. This is an undeniable gap in income distribution studies.

The basic principle of the first distribution is to distribute according to economic results, which will encourage suppliers of production factors to pay more attention to the quality of their products and the extent of market demand for them so that they can adjust their supply accordingly. At the same time, those requiring the various production factors will pay more attention to their usage of them, increase the utilization efficiency, and reduce the situations that production factors are used irrationally or are set aside. In this way, gross national income will increase, which is in turn an essential condition for harmonious and coordinated social development. Therefore, the three aspects, distribution according to economic results, increase of national income, and harmonious social development, are consistent. However, based on the experience of China's economic reform and development in the last 20 years, researchers recognize that fairness should also be considered even in the first distribution. This is because, in the transformation of economic system, the original status of production factor owners was different; i.e., their starting points were unequal. In the first distribution, some people have privileges and some (in particular large numbers of farmers) are disadvantaged, leading to a rather large income disparity that can only increase with the passage of time. Therefore, it is necessary for the government to pay attention to fairness in the first distribution and ensure that the proportion of labor income in the first distribution will increase appropriately rather than continue falling.

In the second distribution, the government should follow the principle of joint consideration to efficiency and fairness. Neglect of fairness will stretch the income gap even wider and make it hard to realize harmonious social development. Neglect of efficiency will impede the growth of national income and thus have a negative effect on social development. Therefore, to consider both efficiency and fairness in the second distribution will promote coordinated social development.

However, both distributions have some limitations in this regard, mainly because the market economy principle of distributing according to economic results itself has limitations. Since human beings are not only economic beings but social beings too, nonmaterial benefits will play a more important role once per capita income has risen to a certain level. People's outlook values will also change with it, and the importance of the economic results principle to national income increase might progressively decrease. The government, by second distribution and through regulating measures such as taxation and poverty relief, may make social development more

harmonious than before the second distribution, but it is not so easy for a government to give joint consideration to efficiency and fairness all the time. When its regulating measures are effective, the two goals may both command attention, but most of the time, there is lack of balance, sometimes efficiency being overemphasized at the expense of fairness, sometimes too much weight is put on fairness, and the result is less than ideal efficiency improvement. If government regulation is not working well or its measures are seriously flawed, then neither efficiency nor fairness will materialize. The two main reasons for this are as follows: one, inappropriate government policies and systems that are unable to produce a balance of efficiency and fairness and two, the absence of necessary supervision systems in the implementation of policies, resulting in the systems or policies going off course. To address these problems, the government needs to rectify weaknesses in its policies and systems, while also beefing up supervision of how they are implemented, and improve the qualification of relevant government departments and employees.

The above analysis shows that following the first and the second distributions, there is still a space for development of social coordination. When the first and second distributions are correct, the gap will be smaller, and when the two, in particular the second, are not right, the gap will be bigger. Whether the gap is small or big, more needs to be done for harmonized social development.

Hence, from the perspective of income distribution, the importance of the third distribution becomes more obvious. Since it is a form of voluntary donation, its influence is far-reaching, and the fields it can affect are beyond those of regulation by market or government. Moreover, since the third distribution is a result of regulation by custom and morality, it is a kind of income transfer with compassion, unlike the first distribution regulated by the indifferent market. It is also a kind of non-compulsory and nonutilitarian income transfer, unlike the second distribution regulated by government, which is usually compulsory and utilitarian. In light of this, the third distribution can play a better role in filling the space for coordinated social development.

### ***5.2.2 Interpretations of Coordinated Social Development and the Role of the Third Distribution***

Before discussing the role of income distribution (all three types) in coordinated social development, we should first clarify what is meant by that term. In my book *Transformational Development Theory*, I explain it in three ways.<sup>5</sup>

One: coordination of income distribution, i.e., the income gap between regions and families, should be appropriate rather than excessive.

Two: harmonized development of all social sectors. Apart from economic development, sectors such as culture, education, health, environmental protection, welfare,

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<sup>5</sup> See Li Yining [2, pp. 186–187].

public service, etc., should also develop correspondingly so as to meet the multifaceted needs of the society's members.

Three: improving life quality. Only when people's life quality is in line with the requirements of modern society can we say coordinated social development has been achieved.

The three explanations, as reflections of the content of coordinated social development from different perspectives, all have their basis, and using them we can better discuss the role of the third distribution in promoting coordinated development. But first it needs observing that no matter how coordinated social development is interpreted, it could not be achieved under the planned economy system. In planned economy, the policy is to put the lid on conflicts. Ostensibly, there is problem-free social development when in fact discord is getting more acute by the day, conflicts accumulate, and the situation worsens, until ultimately there is an explosive social crisis. For example, in planned economy, peasants are enclosed in small areas, toiling hard for miniscule incomes. Their mobility is severely restricted. It is against the way of harmonious development. For another example, also under the planned economy, people cannot choose their own careers and their strengths cannot be used to the full. As the economy is underdeveloped, real jobs are limited, but there is overstaffing in government offices, and there are many in disguised unemployment. This cannot be called coordinated social development, either. And again, in planned economy, productivity is low with few consumer goods on the market, and supply in exchange for tokens is extremely unreasonable, excluding peasants from the consumer market. Such things, supply-by-token or shortage of goods, mean great lack of coordination, rather than signaling harmonized social development. In short, the planned economy system must be abandoned in order to achieve coordinated social development. This is a basic premise.

Now, with reference to the three points made above, we will discuss the role of the third distribution in promoting coordinated social development.

### **5.2.2.1 The Third Distribution and Coordination of Income Distribution**

Point one: coordinated social development means the coordination of income distribution.

Under regulation by market, all kinds of production factors are supplied to the society at a certain quantity and quality according to market demand. Because income distribution is conducted according to economic results, the income gap is bound to exist and to be of long duration.

Moreover, in this situation the gap in income distribution may very well get wider because, from a dynamic view, the income situation of the earlier stage will influence that of the later stage. Suppose there are two different groups of market participants, and leaving aside any differences in their talent, the first group is superior to the second in terms of family background and living area, so it has more advantages and higher income level than the second, which is in an inferior position

and has lower income level. This can be regarded as the result of first-round market competition. Then the second round follows right on. In the market, those already advantaged will continue to be so, and those in an inferior position will continue to be disadvantaged. After rounds and rounds of development, the income gap between them will keep on growing. This reflects the limitations or shortcomings of income distribution on the principle of economic results under market regulation.

As to the limitations of the second distribution by the government, it has been pointed out above that whether or not the government regulating measures are right, there are just four situations that can ensue: (1) both efficiency and fairness are achieved, (2) efficiency is achieved but fairness is low, (3) fairness is realized but efficiency is low, and (4) neither efficiency nor fairness is achieved. The first result would obviously be the best and the hardest outcome to achieve. The other three will leave a distribution gap, one waiting to be filled by the third distribution, i.e., narrowed down by people's voluntary giving. This will on the one hand make social development more harmonized and on the other hand, under the impact of moral force, help to strengthen society cohesion, ease interpersonal friction, and improve efficiency. Even if that happy outcome is realized, this does not mean the third distribution is unnecessary: this is because there is still potential for efficiency improvement, and the realization of fairness to a great extent hinges on identification with fairness. Thus, the third distribution can still play a role in harmonizing social development.

We should not or need not ask about the motivation of those who voluntarily donate part of their income to low-income families or public welfare causes: to do so would only make things more complicated. We cannot deny that there are differences between one person and the next: different people have different considerations and even the same person may think differently about donating on different occasions. Many donate from a certain ideal, belief, or sense of responsibility, and others do so out of sympathy, some for self-fulfillment, regarding donation as a symbol of career success or as another form of career; for others it is for spiritual consolation or to redeem a pledge along the lines of promising to donate part of one's property to society if surviving a catastrophe. Some possibly donate in order to get free of mental burden, believing themselves to be undeserving of this income or property and that giving will make them feel better. In general, donors may differ in what and why they give, but we do not need to know their motivation. All we need know is that voluntary donation can help narrow the income gap and promote harmonized social development.

### **5.2.2.2 The Third Distribution and the Coordinated Development of Various Social Sectors**

Point two: Coordinated social development means the coordinated development of all social sectors including economy, culture, education, health, environmental protection, welfare, public service, etc.



Under regulation by market, culture, education, and health, although socially highly beneficial, are of low economic interest. Therefore, they often face the problem of inadequate investment, which has hindered their normal development. This is a reflection of the limitation of regulation by market on harmonized development of the social sectors. Under government regulation, if government has enough funds and effective measures, it is possible to effect improvement in the uncoordinated structure of those sectors. But without the right funds and measures, the condition will be made worse rather than improved.

Thus, after regulation by market and by government, a gap is left for the harmonized development of these sectors, a gap that needs to be filled up by the third distribution. Some people donate because of their ideals, belief, sense of social responsibility, or a passion for causes such as education, health, environmental protection, public welfare, public service, etc. A society may create various groups like foundations to receive such donations and to work for the development of those causes. These are bound to promote harmonized social development.

The influence of the third distribution on the development of those sectors is sometimes direct and sometimes indirect. Direct influence is: after some people donate part of their income or property directly to culture, education, health, environmental protection, etc. or to foundations working for the development of those sectors, those sectors will have rather rapid and harmonious development. Indirect influence is: when people use part of their income or property to help develop poor areas or to help its inhabitants out of poverty, the per capita income in those areas will improve which will in turn stimulate local development in culture, education, health, environmental protection, etc., and thus promote the harmonized development of those sectors.

### **5.2.2.3 The Third Distribution and Improved Quality of Life**

Point three: harmonized social development means improved quality of life, a concept that generally includes but is not limited to the following issues: To what degree can people's basic living needs be satisfied? To what degree can people's dwelling conditions be improved? How much can be provided in terms of education, health, culture, and entertainment services? How much leisure time can people spend? In what kind of environment can people work and live? Improved life quality is an indicator of social development heading in the direction of harmony.

Since improved life quality depends on both economic growth and how much society can invest in it, the role of regulation by market and government in promoting such improvement is still evident. Under regulation by market, economic growth will continue, which creates a favorable condition for improvement. Under regulation by government, apart from maintaining continuous economic growth, the government can also adjust the amount of investment into improvement and thus help improve life quality as well as promote coordinated social development.

It should be noted that regulation by market and by government has at least three limitations in improving life quality. Firstly, the investment of the market or

government in this aspect is limited, so nongovernmental investment is needed. Secondly, good life quality also includes good social atmosphere, harmonious interpersonal relations, and more concern and better care for the elderly, the weak, the sick, and the disabled, things that cannot be realized by the power of market or government only. Thirdly, good life quality includes people's being able to spend their leisure time reasonably, change outlook on spending pattern, etc., which also cannot be achieved solely by market or government. It is evident that, after regulation by market and government, a gap is left for life quality improvement, a gap that the third distribution and regulation by moral factors can fill.

If there is a third distribution after the first and second distributions, i.e., donations from members of the society that are used to develop sectors bearing on life quality (such as culture, education, health, environmental protection, public welfare, and public service), these sectors will develop more rapidly. Moreover, through the third distribution and the effect of moral factors, the social ethos will change for the better, and the public will have more concern and better care for the elderly, the weak, the sick, and the disabled. In this way, coordinated social development will be achieved more smoothly. As to how people will spend their leisure time reasonably or how they will correctly treat consumption behavior and pattern, such things are not directly connected with the third distribution. However, when more and more people care about life quality and are willing to devote themselves to its improvement, when they invest their time, energy, and some of their disposable income in it, they actually do know how to spend their leisure and consume rationally. This too is conducive to coordinated social development.

## **5.3 The Third Distribution and the Relation Between Generations**

### ***5.3.1 "Life Hopes" and the Third Distribution***

For a clan, especially a family, the relation between generations is inevitably involved in individual transfer of disposable income. When an individual volunteers to donate part of his income or property, he will have less left for his children or other relatives, which might cause some conflict between custom and morality. The conflict forms in this way: It is a tradition, a convention, a custom, or even a moral recognition that a person should leave one's property to one's children or junior relatives. However, the decision, prompted by one's ideals, sense of responsibility, etc., to donate to families, nonfamilies, public welfare, or charity organizations is one made mainly under the influence of moral factors. It may have some connection with custom, but to a minor degree.

To further explain this question, let us begin by discussing "life hopes."

All members of the society hope for gradual improvement in their own lives and that their children will have better lives than their own generation. This is what we mean by "life hopes," and the drive for economic development across society comes

from the same source. Those despairing of their lives or believing that irrespective of their efforts a better life will elude them have no such drive. From another perspective, having life hopes for oneself and the next generation actually implies a certain dissatisfaction with the current situation; dissatisfaction will generate drive and make people try all kinds of means to realize their life hopes. It is so for individuals, families, clans, and the whole society: a society that is not satisfied does not lack drive for progress.

A family or clan usually uses the standard of another family or clan enjoying a better life as a spur to reach that standard as early as possible, and once this goal is reached, it is spurred on by a new standard, a higher one. Life hopes are thus realized step by step. Why does a family or clan aspire to a life one step up? The main reason is because the next step up is achievable through hard work in the foreseeable future. No one wants life standard lower than the existing one, and a standard wildly higher than the current one is not a realistic goal for the near future. Therefore, a family or clan usually compares its own life with life one level higher.

For a family or clan, the standard of living they currently enjoy encourages them to prevent any falloff in life quality and to strive for something even better. In normal circumstances, what is meant by their life goals means pursuit of something rather better than they currently enjoy. "Life hopes" encompass such pursuit but also imply the hope that this goal can be made reality for the next generation and the current one too.

However, in the eyes of most family or clan members, that group has a dual role. On the one hand, they hope it can help them improve their life or at the very least not obstruct this: on the other hand, they take it as an insurance institution, one on which they can rely for help (specifically financial help) if in a desperate plight. Public opinion often sympathizes with the underdog, so if a family or clan refuses, without good reason, the request of a member for help or shelter, it will be condemned by public opinion. This is particularly common in Eastern cultures.

People hope that the next generation of their family will have a better life, but their outlook on the next generation is gradually changing. That is to say, with economic and social development, parents' opinions about their children are undergoing constant change. For example, in Western society where market competition is intense, parents may find having children an obstacle to improving their quality of life and the expenditure on children a heavy burden on family finances. They do not count on their children making a contribution to the family or shouldering any responsibility for the family in the future. In Eastern cultures, this change in outlook is much slower, but a similar trend is discernible.

The fact that parents hope their children's lives will be an improvement on their own is not the same thing as and should not be confused with the fact that parents expect a material return from their children or that they can contribute something to the family. If the life quality of a family keeps on improving, children will become more and more a comfort or even a treasure for the family. Moreover, having children will become a family goal, and parents will not place hope of material return on their offspring: the family's only aspiration will be that the next generation gets

as many development opportunities as possible. This sentiment will influence the pattern of family expenditure. One influence is in order to create more opportunities for the younger generation, parents may spend more on their education, so educational spending will take up an increasingly large share of family income. Another influence is since parents do not count on their children to keep them in their old age nor do they expect any material return from their offspring, they are likely to put aside more money for their retirement. When a considerable part of individual savings is for this purpose, it too will influence the pattern of family expenditure.

The third influence is parents might not give much consideration about how much to leave to their children. If the parents die before the children reach adulthood, they might leave enough for their children to complete higher education and start their own families. If the parents die when the children are self-supporting adults, there is no need to leave all of their property to them. Such influences are not difficult to understand.

Thus, we can see how the change of parents' outlook on offspring can influence the third distribution. Since the third distribution refers to voluntary transfer of individual disposable income, including donation to public welfare, charity, or a favorite cause, the above influences on family spending pattern will consequently affect the third distribution. The degree of influence differs between high-income families and average-income families.

(1) When educational spending accounts for an increasing share of family income.

In average-income families, when educational spending from their disposable income increases, there is a corresponding decrease in what they can save as assets; consequently, less of their assets will be available for the third distribution. High-income families might increase their donation to the cause of education.

(2) When parents put aside more money for their retirement.

In average-income families, when more of their disposable income is saved for retirement, their assets available for the third distribution will decrease. High-income families might donate more for building welfare facilities for the elderly.

(3) Parents may not leave much for their children, apart from sufficient funds for their non-adult children to finish higher education and start their own families.

In average-income families, this consideration does not have evident influence on the third distribution. High-income families may increase their donations to various public welfare and charity causes.

In general, the change in outlook on offspring will have considerable influence on the third distribution by high-income families. It is not contradictory with the wishes of most families (including the rich ones) for realizing life hopes. As mentioned above, the fact that parents hope their children's lives will be an improvement on their own is not the same as expecting a material return or contribution from their children nor is this wish the same thing as the third distribution (mainly from high-income families) increasing with economic and social development.

### 5.3.2 *The Third Distribution and Family Conflict*

As mentioned above, the change of parents' outlook on offspring will influence their attitude toward the third distribution (mainly from high-income families). But their attitude may not be the same as their children's, and this may give rise to conflicts between family members or between generations. To explain this point, it must take the issue of "life hopes" as our starting point once more.

Compared with past expectations, children are not as burdened with the mission of making the family richer in the future, but neither this nor changes in parental attitude mean that "life hopes" have ceased to be the driver of a family's development. The wider the gap in life quality between different families, the more dissatisfied many families will be when they compare themselves with families a step up from themselves and the stronger their drive for a better standard of life. If there are any obstacles to this, the main one is the limited horizon of the family itself. For example, if some family members do not identify "life hopes" with increase of family income or a better living standard, are satisfied with an impoverished life, make a virtue out of asceticism, or believe any effort to increase family income is futile and it is best to be content with one's lot, etc., then they are unlikely to work hard to improve the family income and its standard of living.

The psychological factors hindering the achievement of higher family income are also expressed as being risk-averse, fearing little gain and great loss, fear of appearing different, fear of competition, etc. When the system allows people to become rich by dint of hard work, the obstacles to increasing family income, in addition to lack of technical skills, include lack of enterprise, insufficient competitive sense, lack of confidence, and lack of resolve to change one's situation by hard work. Such inertia is a negative factor for the development of any family.

Such things have a bearing on the attitude taken by the younger generations of different families to the property left by their parents. The issue is not how much the grown-up children own, but their mental dependence on their parents, how content they are with the status quo, and whether they fear risk and competition. If they depend little on the family mentally, have strong enterprising spirit and competitive sense, and will take risks, then even with few assets and little income, they will not quibble about their parents' morality-inspired donations nor about how much their parents will leave them. Conversely, if they are seriously mentally dependent on the family and lack enterprise, competitive sense, and willingness to take risks, then even if they own a lot or have a high income, they will still quibble about their parents' charitable giving and how much their parents will leave them. In such a situation, conflict between custom and morality will be evident. In other words, the third distribution will meet much more resistance in the second situation than in the first.

Thorstein Veblen pointed: What is known as living standard is in essence a custom, an accustomed standard and pattern in response to certain spurs. It is usually difficult to fall back from an accustomed level, i.e., to break the custom. Since an individual's current living standard is integrated into his lifestyle, he will stubbornly believe this standard to be right, and since his living standard is known to those around, he believes he will be looked down on and excluded if he doesn't keep to this standard.<sup>6</sup> Veblen's opinion is enlightening for discussing the third distribution and the relation between generations. For the younger generation of a family, since the current living standard has become a custom, they must follow it in order to have the respect of those around: they cannot fall back from it. For most families, when donations by parents will impact the living standards of their offspring, it is totally understandable if tension materializes between the generations and if resistance from family members strengthens. This is perhaps an internal checking mechanism of the third distribution.

In discussing how the relation between generations is linked to the third distribution, there is another point worth making: The younger generation will to a great extent shuffle off the influence of traditional values and thus change greatly their views on family property and personal future. Generally speaking, the more a region or a country is influenced by market economy, the larger it strides toward modernization, the greater its marketization and modernization, and the more the younger generation notions of family will change. We can imagine that more and more young people will realize that a rich life comes mainly from personal industry, not from legacies from the parents' generation. The main task of the older generation is to provide proper condition and opportunities for their development, and the younger generation must improve their living standard through their own efforts. Without hard work it is impossible to raise one's living standard no matter how excellent the conditions are or how many opportunities are provided. The older generation's enthusiasm for and donations to public welfare causes and charities and their sense of social responsibility and beliefs will set a good example to the younger generation.

In the study of the third distribution or of legacy amounts, we cannot deny the problem of generational conflict within a family, but the general trend is that with the gradual change of the younger generation's values, the conflict will ease. As I pointed out in *Ethical Issues in Economics*: "Whether it is the current or the next generation, they should both help toward creating a social ethos along the following lines: Give more consideration to other people and to the next generation. There will always be self-indulgent pleasure seekers who greedily consume resources. But they are not likely to be in the majority. Most are still hard working and social development depends on their efforts. Even if some of the younger generation think only of pleasure, they are nevertheless in the minority."<sup>7</sup>

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<sup>6</sup> See Thorstein Veblen [3, p. 82].

<sup>7</sup> See Li Yining [4, p. 216].

## 5.4 Trend of the Third Distribution

### 5.4.1 *How People Understand Quality of Life*

What is the trend of the third distribution? The question was brought up at the end of the previous section, so let us now explore it further, bringing in how people understand quality of life.

In any society, production is not an end in itself, because people are not put on this earth purely as a labor force. Production is for people, not people for production: it is for improving their life and providing better care and nurture. If more and more goods are produced but living standards or educational levels do not improve, this is at odds with the purpose of production. Based on this simple reason, we know that for every member of the society, the important thing is not by how much output value increases but how to use that increased value to improve and enrich their lives and to make and provide better education, care, and nurture.

If the purpose of production is to deliver a better material and cultural life, then how do people understand quality of life? Does it only mean having enough to fill your belly and clothe your back? If quality of life can be expressed as “happiness,” then what does “happiness” mean?

In the traditional outlook, “happiness” is always connected with high income. It seems that happiness and income rise in tandem, but as economic development and incomes grow, “happiness” takes on new connotations, as does quality of life. In fact, the more abundant the material goods, the higher the demand for cultural life becomes. People need more than just material comfort but a good environment, good health, and spiritual enjoyment too. As they become richer in material things, people’s attitude to time starts changing also: In the past, property was seen as the most important, but now time is more precious to them than money. Money can be saved, but time cannot. A more worthwhile use of time will bring people more happiness.

This means that the understanding of quality of life will become deeper as the economy develops and incomes rise generally. This kind of change is related to the trend of the third distribution: On the one hand, with deeper understanding of quality of life, people will pay greater attention to the development of culture, education, health, environment, public welfare and public service, etc., and they will donate to those causes so as to improve quality of life in the society as a whole. At the same time, as incomes rise and charitable giving takes up a bigger share of their disposable income, people will come to a new understanding of the meaning of life and will care more about its quality, about society, and the future.

On this issue, an important question is how to get people in the process of economic development to discard their “old notions” and change their ideas. By “old notions” we are mainly referring to two long influential concepts, namely, “warm clothes and a full stomach: don’t ask for more” and “charity begins at home.” These notions prevent a correct understanding of the meaning of life and have a negative impact on the third distribution.

Some people, especially farmers in underdeveloped regions, are often content with the status quo, having adequate food and clothing but still on a low income. Their ambitions stretch no further than these important things. The influence of attitudes such as “warm clothes and a full stomach: don’t ask for more” plus a lack of enterprise, competitive sense, technical skills, and market information accounts for this. With such old notions, the economy and income will stagnate; consequently, there will be no prospect of pursuing a better quality of life, and the amount of income available for the third distribution will be very modest indeed.

The “charity begins at home” notion is bound to hinder the development of public welfare and charitable causes, and its influence prevents the potential of the third distribution being brought into play. Moreover, since socioeconomic development needs better communication and cooperation between people, if this notion spreads, further economic development will be blocked. As a result, it will be hard for the amount of income available for the third distribution to increase.

Therefore, a society must help people in the process of economic development toward a deeper understanding of the meaning of life, so as to gradually dispel old attitudes regarding higher income and public welfare and charitable causes.

### ***5.4.2 From the Material Approach to Making People the Key***

To understand the trend of the third distribution, we should analyze from the perspective of socioeconomic development strategy, which leads us to the vital question: which is more important, man or material?

When material goods become plentiful, the driver of socioeconomic development will be not just meeting people’s material needs but also meeting their spiritual needs, and there can be many ways of understanding the latter.

For some, doing something oneself is a spiritual enjoyment, for example, once an individual gets rich, preferring to do the housework in person, regarding it as a distraction, spiritual pleasure, and satisfaction of a “spiritual need.”

For some, spending more on culture, arts, sports, travel, etc., is a spiritual enjoyment and a satisfaction of spiritual needs.

Some believe donating to public welfare and charities is more in line with their inclinations and satisfies their “spiritual needs.”

It should be pointed out that there is no conflict between these things—doing things for oneself; spending more on culture, arts, etc.; and charitable giving—and that one person might do all three. Although charitable giving is still the behavior of just some people, their numbers will increase as material goods become more plentiful and income level rises.

Whether it is self-service, spending more on culture, arts, etc., or it is donating for public welfare and charity, all three behaviors should be seen as countering the traditional approach of putting the material first and people second, since all of the behaviors imply prioritizing people and putting greater emphasis on improving life quality than on supplying material goods. From the perspective of



socioeconomic development strategy, if a society can shift its focus onto making people the key, it amounts to a change of development strategy, which will in turn greatly influence the role of the third distribution in income distribution. This is because the third distribution is born out of morality, convictions, sense of social responsibility, sympathy, etc.: in other words, it proceeds from a concern for the care and nurture of others. With such a change, the trend of social development will be roughly in line with the trend of the third distribution. The more a society cares about people, the greater the role of the third distribution in the changed socioeconomic development strategy. When the number of donors increases, the role of morality in social income distribution will be more important, as will be the influence of the third distribution.

When a society changes its orientation from prioritizing the material to making people the key, this does not equate to ceasing to put effort into increasing production of material goods nor that it will concern itself only with people's spiritual needs to the exclusion of their material needs. The fact is that the society will keep on producing more and more material goods and will engage with satisfying people's increasing spiritual needs but with a greater focus than before on improving life quality. Such a situation cannot correctly be formulated as "prioritizing people at the expense of material considerations." It might also give equal weight to both elements. To emphasize people means making their care and nurture the priority, one that takes precedence over output increase. Just as pointed out above, people are not for production, production is for people and for providing better care and nurture. The connotations of focusing on the material are: Without solid economic and material foundations, it would be impossible to improve the quality of life, let alone provide better care and nurture. Therefore, the reason behind proposing a material focus was ultimately to focus on people. The view that a material focus sees only this as important and gives scant regard to people's care and nurture is a distortion of the conception. In this sense, society must change its traditional development strategy, shifting its center of gravity to making people the key.

Basically speaking, making people the key is not just a development strategy. More importantly, it should be established by society as a basic principle to be strictly followed. Moreover, it should not only find expression in income distribution; it should be an unwavering principle in economics, politics, and culture too.

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# Chapter 6

## Moral Checks and Balances in Socioeconomic Operation

### 6.1 Restriction and Oversight Mechanism

#### 6.1.1 *Uniting Mechanisms for Screening, Guarantee and Incentive, and Restriction and Oversight*

In Chap. 4, we discussed law and self-discipline. In this chapter, we discuss the relation between moral regulation and society's checks and balances in socioeconomic operation via an analysis of these check-and-balance factors.

Whatever the country, government employees should be empowered as necessary to help realize government targets, but they should also be subject to restriction and oversight to prevent them from abusing their power, failing in or neglecting their duties. In ancient China, systems of reviewing and supervising government officials were established and at the same time "proper salaries were paid to officials to keep a clean government." In modern times, some countries have established quite complete systems for reviewing and supervising officials, and in addition, as a way of preventing official corruption, they also "give a high salary to encourage integrity." The ancient system and the modern one both had reasonable measures for preventing corruption in public service. Without decent conditions of service, the government will struggle to attract and keep outstanding persons; moreover, poor remuneration might cause corruption among some officials, such as abuse of their powers or seeking personal benefits. However, the high salary approach has limitations. Therefore, to keep a clean government, three types of mechanism are needed: screening, guarantee and incentive, and restriction and oversight, all of which are discussed in my book *Transformational Development Theory*.<sup>1</sup>

Screening: All appointments and promotions of civil servants should be conducted by competition, which is in effect a selection mechanism. All vacancies are open, as

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<sup>1</sup>See Li Yining [1, p. 291].

is the competition. With such a mechanism, anyone with the right qualifications has the chance to be appointed or promoted.

**Guarantee and incentive:** In order to keep a stable team of civil servants and solve any living concerns, when a person is employed by the government, his employment terms should not be inferior to those of people with the same level of education and working experience employed in other institutions. Also, once in service, there is a regular review system for deciding promotions and salary increases.

**Restriction and oversight:** The behavior and working attitude of civil servants should be supervised from every angle. They must follow the code of practice for civil servants and be punished for any violation of it. They should also specially be self-disciplined and expect very high standards of themselves.

The three mechanisms should be unified. The lack of any one will undermine the stability of the civil service, make it difficult for their initiative to come into play, and make it harder to root out corrupt practices.

From this we can further explore the sources of government employee power. According to *Comparative Economic Systems* co-authored by Egon Neuberger and William J. Duffy,<sup>2</sup> power has four basic sources: tradition, force, ownership, and information. They are not necessarily incompatible and the decision makers can get power from more than one source.

**Tradition** Tradition is custom, the earliest base and source of power. Before countries were established, tribes or similar organizations ruled, their power coming from tradition and custom. After countries took shape, community-level institutions probably still relied on tradition for their power.

**Force** Force is also violence. Rule of government relies on force and its power is also built on this foundation. Under an autocratic regime, government power is certainly based on force or violence, but even democratic government needs force or violence to take power. The difference between the two is whether, when wielding the force or violence, the government must follow a certain procedure and whether there are restrictions on the government before and after using force or violence.

**Ownership** Ownership is possession of economic power. Without economic power as its base or without clear ownership of scarce production factors, a government may either not get power or lose the power it once had. This is particularly obvious in a market economy.

**Information** Information is a special kind of resource. Those who have it will be in a more advantageous position than those without it and thus win power.

The analysis of power sources drives home the need to build a restriction and oversight mechanism for government employees. Since power might come from tradition or custom, we should really know the nature of the tradition or custom and

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<sup>2</sup> See Egon Neuberger and William J. Duffy [2, pp. 34–35].

how rational they are. Citing tradition or custom when taking power similarly needs restriction and oversight; even more important is restriction and oversight when power comes from the force mechanism, including restriction and oversight. This is because the “force-to-power-to-force” situation can be divided into two parts. The first is “force-to-power,” i.e., winning power through violence; the second is “power-to-force,” i.e., using force or violence once in power. If restriction and oversight applies not to the getting of power but only to the procedures and circumstances for government use of force, this is both woefully inadequate and neglects an important duty of restriction and oversight.

Restriction and oversight is of great importance in the areas of ownership, control of information, and the exercise of power. This is a base from which the government can exercise its power on the economy. If we want to restrict and supervise the exercise of power by government employees, it is necessary to increase transparency and keep the public informed about the extent of government ownership, information resources, and monopoly.

This openness will benefit efficiency in restriction and oversight. A further point is that oversight by public opinion is also a counter to abuse of power. Power should be exercised in line with the government code of conduct, and the key to oversight by public opinion lies in checking whether the government and its employees behave in conformity with the code of conduct.

It is not by moral norms, but by law, that power is bestowed on the government and its employees. Abuse of power is firstly a violation of law and then a violation of moral norms. Therefore, to restrict and supervise the behavior of the government and its employees, both law and self-discipline are indispensable. At a time when old systems are being replaced by new, because of over-rapid political change or because economic activity leaps ahead while legal construction lags, a policy or legal vacuum appears, and there may be no legal base for restriction and supervision of the government and its employees. In this situation, restriction by moral norms and supervision by public opinion become exceptionally important.

### ***6.1.2 Moral Restriction and Limiting of Power***

Limiting the powers of the government and its employees means that anyone in a government post should exercise power under restriction and oversight, in order to prevent abuse of power or exploiting it for personal gain. To do this, the exercise of power should be standardized and transparent. For example, procedures should be strict and open to public scrutiny. All should be handled in line with procedures, not creating new rules or delays, not sitting on hands. In this way, it will be possible to reduce the incidence of exceeding powers.

From a broader view, the exercise of power is inseparable from a certain macro-environment and organization. The famous philosopher Bertrand Russell

expounded in his influential book *Power: A New Social Analysis*<sup>3</sup> that power must be exercised within an orderly structure and in an organized manner. Deng Yong, summarizing Russell's argument, said that all power relies on orderly structure and must be run within this structure. This orderly structure is what we call organization. When organization falls apart, it leaves the scattered individuals with no power to speak of. Where there is organization, power can emerge. According to Russell, an organization is a group of people who gather together and act for the same goals; therefore, the birth of power must be connected with this grouping for the same purpose. He makes the distinction between traditional power and newly won power: the former has the force of tradition behind it and is therefore more dependent on public opinion; the latter, including power won by arms, is a power united around a particular new doctrine, manifesto, or sentiment. Its salient feature is that a new faith replaces an old one.<sup>4</sup> Deng's conclusion of Russell's argument clearly reflects this point: since power comes from and resides in organization, restriction and oversight of power is inseparable from restriction and oversight of the organization by the society and that of its members by the organization itself.

The restriction and oversight of organizations by society means since an organization is a group of people gathered for the same goals, society should have restriction and oversight on how the organizations are formed, what power they possess, and how they exercise it, lest they harm public interests for the sake of their group interests in this process. Restriction and oversight of its members by an organization means since those who exercise power are members of an organization, the organization should have restriction and oversight on how they exercise that power, lest its members' personal interests harm those of the organization as a whole. Neither aspect of restriction and oversight should be neglected.

Now let's discuss the relation between abuse of power and information as a special resource. Possession of information is hugely significant. If the person concerned is given sufficient information, it helps reduce risk in his conduct and may help him gain by it. The value of information lies in accuracy, timeliness, and usability. Those in power enjoy a special and even monopolistic position of getting and giving information, so their privileged access may allow them to profit by having such information or by providing it to others. Monopoly on information creates opportunities for abuse of power. That is to say, abuse of power often occurs when competition is forbidden or when the terms of competition are unfair. In a certain sense, competition is an effective counter to the abuse of power. This illustrates the necessity of the open competition mechanism in restricting and supervising the exercise of power.

Restriction and oversight can be prevented from playing its role effectively by factors such as confused concepts, muddled standards of right and wrong, mistaken values, and distorted mentality. Such phenomena are closely linked to the long

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<sup>3</sup> See Bertrand Russell [3].

<sup>4</sup> See Deng Yong [4, p. 19].

existing official-oriented outlook and reality, as illustrated in such folk sayings as “high official with absolute control over those below,” “no matter how high your rank, direct control is best,” “use your power before it expires.” These comments have deep social roots: they tell us that it is far from enough to rely purely on establishing a mechanism for restriction and oversight of government employees. To make the mechanism effective, we need to explore more deeply in search of a social method of checks and balances.

It is undoubtedly essential to punish whoever abuses power, but it is similarly essential to establish a compensation system for victims of the abuse. This would amount to a restriction on power, since potential power abusers would probably refrain when considering the possible penalties, including economic compensation payable to the victim out of their own pockets. Although the punishment (including compensation) would still have limitations in practice, such a mechanism is better than not having it. Oversight of government employees should include supervision of how the compensation system is put into practice.

After these discussions, we can return to the topic of regulation by morality. Government employees need moral restriction and inspiration. As discussed previously, moral restriction is manifested in self-discipline, while moral inspiration is displayed as sticking to and promoting the spirit of devotion, serving the public, and dedication. Now we need to discuss several questions: Since power relies on organization and the macro-environment, how then to get morality to play a role in the inner workings of an organization and make restriction and oversight on the organization and its members more effective? How to make morality play a role in the macro-environment so that more people will be concerned with the issue of checks on power and so that the issue of restricting and supervising the exercise of power becomes a focus of public opinion?

Those questions go beyond the self-discipline of government employees; they pertain to the self-discipline of an organization on which power is based. According to Russell, an organization is a group of people acting for the same goals. The self-discipline of an organization means its individual members should exercise restraint on themselves in order to achieve their common purpose and no member should be allowed to hinder it by abusing power. Self-discipline of an organization is equally important as individual self-discipline. The organization should behave itself and its behavior should never conflict with its purpose. This is a manifestation of moral restriction. The existence of norms for an organization’s conduct and its behavior conforming to a certain code constitute the premise and guarantee of normalizing the behavior of its members. For them, dismissal from the organization for abuse of power terminates their road to power.

From the macro-environment perspective, to prevent government employees from abusing power or using it for personal gain, the public’s involvement in oversight is necessary. But can the public be free of fear from those in power and their possible revenge? Can they speak boldly in defense of justice? Dare they take on those who abuse power? This can be seen as a question of the national caliber as a whole. There are always people in the society who, motivated by the public interest, reveal abuses of power by government employees, but if this is an act of just one

person with a grievance, it is not enough to constitute public oversight. The person is likely to become isolated since many would keep their distance despite admiring him at heart. If more and more people, in the public interest, take on government employees who abuse power, this would reflect an improvement of national caliber as a whole. Only when this happens can public oversight be effective. Therefore, we cannot neglect the role of morality in improving national caliber or its role in making effective public supervision over those with power.

In discussing the role of morality in the restriction and supervision of power (including the self-discipline of those exercising power and, in the public interests, the public's oversight on them), there is another question to be clarified, namely, even if the government is the manager of social order and regulator of the market, does this mean it can place itself above the society? It must be said, it's not right to regard the government as a manager in a superior position to society. If such is the prevailing opinion, building a mechanism of public restriction and oversight of government behavior becomes problematical. A society is formed by the public and the public needs social order. As the keeper of social order, the government is responsible for setting standards of behavior for all (including government employees) in accordance with law, established procedures, and the protection of people's legitimate rights. But this does not mean it can set itself above society. If it thinks itself so or is regarded as so, this can only lead to abuse of power and damage to socioeconomic order.

## **6.2 Selection and Competition**

### ***6.2.1 Psychological Factors in Selection and Competition***

In socioeconomic life, without selection or competition, it would be hard to give play to people's initiative and enterprise; apathy could not be overcome, society would stagnate, and malpractices such as abuse of power and wanton conduct would remain unexposed and uncontested. Public involvement in supervision is inseparable from enthusiasm for achieving public targets and public interests. It's hard to imagine someone with no concern for the public interest or enterprising spirit having any enthusiasm for getting involved in oversight of power.

The checks and balances in socioeconomic life firstly rely on law and then on the self-discipline of every member of the society. Self-discipline means being both restricted and inspired by a code of conduct based on moral standards. Law depends on people to make and to enforce it, and a code of conduct needs people to identify with it, accept it, and observe it. Social restriction and supervision applies not only to those in power and those exercising power but to every member of the society. Even for those who don't have power, individual behavior needs to be restricted and supervised, including oversight by public opinion.

The effectiveness of restriction and oversight depends on national caliber as a whole, and the function of selection and competition is to ensure improvement in this

regard. However, selection must be based on equality of opportunity and on free, fair, and open competition. Free competition means no human factors interfering with or restricting the competition process. Fair competition means all competitors have equal opportunities, with no individual having monopolistic or exclusive qualification. Open competition means the competition rules and relevant notices should be announced to all competitors. In general, in selection and competition, all principles should be universally applicable, no major factor should be excluded in advance of the competition, and no selection should be conducted behind closed doors. To do otherwise is grossly unfair and can do only harm to social checks and balances.

In discussing the importance of selection and competition to society's checks and balances, we should note the particular significance of equal employment opportunities and fair competition for vacancies. Restrictions and exclusivity in occupations will cause frustration and economic stagnation. Actually, this is by no means a recent problem: In feudal times, aristocrats occupied the highest ranks, and the hereditary right system was universal in appointing officials. So as to hang on their privileges and wealth, officials employed all manner of stratagems including political marriage, etc. The result was deeper conflict between the upper class and the middle and lower classes; it also made enmity and conflict among upper class families inevitable. Whether in China or in Europe, the hereditary nature of appointment and career was socially and economically detrimental, and both took measures to break its power. In China, perhaps the best known example is the imperial examination system. In medieval Europe, the churches had enormous power, and to prevent this power being hereditary, Pope Gregory VII (1073–1085) enforced celibacy for the priesthood. As Russell observed, "When priests were married, they naturally tried to pass on Church property to their sons. They could do this legally if their sons became priests...Therefore clerical celibacy is essential to the moral authority of the Church."<sup>5</sup> Pope Gregory's decision was supported by the public, and as Russell noted, "Lay people craved for their priests to live the single life. Gregory incited them to riot against married priests, their wives and children, and clergy couples often suffered orchestrated ill-treatment."<sup>6</sup> The public's hatred of church property becoming hereditary and absorbed into families reflected a desire for fair and open selection and competition.

Increased social mobility, including both horizontal and vertical mobility, is an important measure for opening up job opportunities and breaking down career restriction. Horizontal mobility means that people may choose among regions, sectors, and enterprises for occupations and positions that play to their strengths and can best stir their enthusiasm. Social mobility is often inseparable from competition: competition gives rise to mobility, and where there is mobility, there is competition. In this way, career restriction will gradually be broken down. Vertical mobility can help break free from restriction on occupational ranks and counter attempts at appointment by right of heritage. Apart from functioning to

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<sup>5</sup> See B. Russell [5, pp. 501–502].

<sup>6</sup> *Ibid.*, pp. 506–570



arouse enthusiasm, vertical mobility challenges those who occupy high government positions by virtue of inheritance and social rank. In China's imperial examination system and the European Church, personnel promotion regardless of family background helped account for the longevity of those institutions in their respective historical conditions. It was an important breakthrough for social vertical mobility.

The cancellation of career restriction and open and fair appointment competition are undoubtedly beneficial to checks and balances in society. However, once competition is instituted, there will be winners and losers, usually a very few winners but many losers. The losers may not see the winners as better in every aspect than themselves; they may think the selection is unfair to some extent and complain that competition is still strewn with obstacles. Their complaints are not always unfounded. However, even if one loses, at least one knows that even imperfect selection and competition is way better than none at all and that the conditions are being created for improving competition and realizing true fairness. From the complaints of the losers, we may discover that in addition to the obstacles in selection and competition, people's psychological barriers cannot be overlooked either. Such barriers mainly present as lack of enterprise and competitive sense, apathy, or will. Something else to bear in mind is that systemic obstacles may make people pessimistic and disappointed, aggravating their mental burdens. This is because when people experience unreasonable restriction on selection and competition, they will feel that hard work will bring little reward. As a result, the enterprise and competitive sense they once had will dwindle almost to nothing; apathy will increase and even end up as fatalism. The difficulty in selection and competition should get attention. To those competing for employment, equal opportunity may seem simply a promise for the future. For example, according to law, occupations should be open to anyone suitably qualified, any unwarranted exclusivity is forbidden, as is any career or job monopoly created by the privileged. The law cannot guarantee that a particular position will go to the best qualified candidate, but what it can guarantee is that it will not go to an unqualified person. Law can make rules on unfair competition, but it cannot guarantee the accuracy of selection. Selection, after all, has a rather high degree of freedom, which consequently leaves room for regulation by morality.

Set procedures should be drawn up for the opening up of occupational opportunities, selection, and competition. To act according to established process is very important for removing systemic and psychological barriers in selection and competition. Open selection and putting competition on a procedural footing call for the following: The job description and requirements should be made public in advance so candidates can apply on this basis; the competition process should be open and fair; the selectors should have no bias for or against any candidate, choosing the most suitable person on the basis of the original criteria. All of the above should be subject to oversight. Provided selection and competition are put on a procedural footing and are monitored, the selection will produce better results and the psychological barriers will gradually be erased.

### 6.2.2 *Legal and Moral Constraints in Selection and Competition*

Now let's go a little deeper into the issue of selection and competition.

To make selection and competition fair and orderly, it is necessary to legislate on the rules of selection and competition and on monitoring the execution of these rules. Law is used to constrain those who would abuse their power and damage the rules, as well as to constrain the candidates and selectors. But as mentioned above, law is only able to prevent the exclusion of qualified candidates from competition: it cannot guarantee that a particular post will go to the most qualified persons, which boils down to the fact that, in selection and competition, legal constraint is necessary but not enough by itself.

An enterprise will serve as an example. For ongoing efficiency increase and development progress, an enterprise must bring its outstanding personnel to the fore. Law cannot guarantee it. Managers can make all manner of rules to govern personnel selection, recruitment, dismissal, etc. They are undoubtedly useful but cannot guarantee that the best personnel are appointed to important positions. Why should this be so? It is because in daily life, including that of enterprises, the phenomenon of "mediocrity rising to the top" is not uncommon. In other words, the excellent do not stay long whereas the mediocrities stay. This is incompatible with fair competition. It causes society to lose its vigor and enterprises to become moribund and inefficient, and it may lead to disunity and discord. On top of this, promotion of mediocrities means that social operations lack element for check and balance, undermining the effectiveness of restriction and oversight.

Why is it that the mediocre rises to the top in some workplaces? I looked at this issue in *Transformational Development Theory*.<sup>7</sup> Generally speaking, the phenomenon has to do with the incompleteness of mechanisms for competition and mobility. The less complete these things are, the more serious and intractable the problem will be. Therefore, it would be worthwhile to do broader and deeper studies on how to conduct effective personnel selection; how to bring excellent talents to the fore rather than allowing them to be overlooked, excluded, driven out, or attacked; and on how to fully deploy the competition mechanism in selecting and appointing personnel.

To make sure that more people obtain work more suited to their talents through fair competition and that all can use their abilities to the full inside an enterprise, recruiters have to know more about their potential employees, and job hunters and job changers have to understand the vacancy and relevant duties in greater detail. On this matter the law seems impotent, because it only creates fair and open conditions for selection and competition and defines the boundaries within which selection and competition activities must remain, but it cannot ensure that employers will select the most suitable persons, nor can it guarantee that those competing will find the most suitable employers. It only tells both sides of the selection process

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<sup>7</sup>See Li Yining [1, pp. 279–282].

that they should understand and obey the law and have a duty to resist and disclose any violation, but it cannot guarantee that those selecting will get the most suitable people or that job candidates will find the most suitable employers. Regulation by morality is the only thing that can fill the gap, and its role in selection and competition is truly multifaceted.

Firstly, we will discuss the existence of moral restriction and the necessity for it. In selecting talented people, moral restraint applies to selectors and candidates alike. The selectors should follow norms recognized by the society, behave with justice, appoint on the basis of merit, and never be swayed by selfish interests. Candidates should also follow the norms, be honest, and be trustworthy, not resorting to deception. In other words, both sides should be self-disciplined in the process of selection and competition to guarantee its effectiveness and orderliness. Although this guarantee is not compulsory, provided all concerned can restrain themselves according to moral standards, the abuses and shortcomings of this process will diminish and ultimately disappear. Regulation by morality is also reflected in the selectors' and candidates' own moral inspiration. As mentioned above, self-discipline encompasses personal moral restriction and moral inspiration. Since the selection and appointment of talented personnel are highly pertinent to the future efficiency and prospects of the enterprise, then the selectors should approach their task with a sense of responsibility and dedicated spirit and thereby do a good and conscientious recruitment job. The dedicated spirit will allow selectors to do a better job and better meet the needs of the enterprise. As for the competing candidates, they also need their moral inspiration. Since they see the process as an opportunity to find a suitable enterprise, they should treasure it, display their enterprise and down-to-earth spirit, be unafraid of challenges, and not be fixated on ephemeral reputations. If they have these qualities, even if they lose out more than once, they will not lose heart and give up; they will keep on going.

Corporate culture in the workplace is very important for harmonious interpersonal relations, but its role may be even more important in selection and hiring, increasing understanding between people and promoting communication and trust between selectors and aspirants. It cannot totally eradicate the rise of the mediocre, but it can help an enterprise find talented people, know everyone's strengths and weaknesses, keep the management tier in the picture as to how things stand below, and thereby reduce the rise of the mediocre. Building corporate culture is a product of regulation by morality.

In selection and competition, "unreasonable but not illegal" conduct is frequent. It is impossible to punish such conduct since there is no legal basis to do so. That does not mean they are not subject to moral judgment nor does it make it unnecessary to use regulation by morality to improve personnel selection and appointment in the enterprise. The role of regulation by morality in this respect cannot be replaced by law. If we look at the issue from the higher vantage point of building check-and-balance mechanisms for socioeconomic life, then we will have a deeper understanding of the significance of an enterprise's corporate culture.

## 6.3 Belief and Social Check and Balance

### 6.3.1 *Understanding Belief*

Checks and balance in social and economic running also involves the issue of belief. This is both an important component of moral regulation and an important factor for effective regulation. It is inseparable from politics and from economic development.

In some senses, belief is a question of loyalty, but it doesn't mean a person with belief must be loyal to a specific person, family, or clan. In feudal society, the loyalty of a subject to the monarch and his family or clan, that of a subject to his lord and his family or clan, and that of a servant to his master might or might not have something to do with belief. Loyalty in those situations was basically a consequence of control by power, involving some political or economic benefits, and might also involve a ritual or pledge. However, in this analysis of social checks and balances, the loyalty we refer to is closely linked to belief and basically does not involve control by power or personal benefits. Belief means loyalty to an ideal, a principle of how to conduct oneself and treat others, a moral principle, etc. For a person to abandon his original belief and loyalty is to abandon long-held ideals, principles, and morality.

Belief-linked loyalty is a product of personal volition and thus can be called loyalty to one's own belief. Talking about Confucian culture, Du Weiming remarked, "Unfortunately, what has actually affected China's politics and culture is not the concept of 'be a saint to be a king,' but that of 'be a king to be saint.' The two are completely opposite. In the former, only those of outstanding morality and dignity were qualified to be political leaders. In the latter, after becoming a political leader, having won power through political struggle, uprising or violence, he does not require democratic loyalty, but loyalty in politics and morality...I believe that if morality and politics are combined and used well, it will be obvious which one has precedence. Of course, morality comes first and politics second. If the order is reversed an extremely harsh method of control is likely to emerge."<sup>8</sup> This passage reflects a fact: There is first belief based on one's own volition and moral loyalty, and after that comes political loyalty; this is, after all, consistent with the humanistic Confucian tradition. If loyalty to politics based on force comes first and then unity of thinking and loyalty to morality, this not only goes against the humanistic Confucian tradition, it is a form of tyranny. Such loyalty is the total opposite of the social checks and balances under discussion.

Setting aside the topic of Confucian culture, let us now discuss how belief and loyalty to a faith are related to social checks and balances. Generally speaking, a belief based on some ideal, principle, or morality is always connected to corresponding behaviors. A person with belief will act in some way to show his belief, which will develop into a spiritual drive for socioeconomic development. A person is more likely to be optimistic and enterprising, more composed, and braver in the

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<sup>8</sup> See Du Weiming [6, p. 97].

face of challenges. Inspired by his belief, he believes his ideals, principles, and morality are bound to win and the victory will benefit the society. This is the spiritual power that gives courage to people of different regions, occupations, and classes and those dedicated to the public interest to resist authorities whose conduct they deem at odds with moral standards. Without their belief or loyalty to it, they would perhaps not risk offending those authorities.

Therefore, moral checks and balances in socioeconomic life firstly mean that those who are loyal to their beliefs will, from their commitment to their ideals, principles, and morality, and based on self-restriction, resist and fight authorities that go against moral standards. Such resistance and fight will greatly strengthen society's restriction and oversight mechanism. The belief we are talking about here includes religious faith but it is more than that. It also includes adhering to a certain social ideal or political belief, demanding change in unreasonable social and political structures and insisting on certain principles or morality, etc. For those who have belief, belief and practice are mutually constraining and intermingled. Belief encourages practice, which in turn justifies and enriches belief. Without belief, practice will lack spiritual support, lose its purpose, and not endure. Without practice, belief will remain just that and finally become empty and illusory. Society is not short of people who practice a lot but have no belief, and vice versa, but there are still many who have both. They care about the public interest and participate in public political life, and this adds an element of moral checks and balances into socioeconomic life.

There is a broader understanding of belief, one that draws in some life philosophy. Such belief might be combined with religious faith; i.e., someone with a particular life philosophy might simultaneously be a pious follower of a religion. Or a person might not follow a particular religion but, simply in the belief that his life philosophy is right, will conduct himself and treat others in light of that conviction. Whether he is a religious person or not, as long as he believes in this life philosophy, he will have spiritual drive and confidence, determination, and courage in life, which is also beneficial for social checks and balances.

### ***6.3.2 The Role of Belief in Social Checks and Balances***

The conclusion that belief is beneficial for checks and balances in socioeconomic operation is not drawn only from an individual perspective. From such a perspective, if a person acts according to his belief, he will use that belief as his yardstick for deciding right and wrong: he will make demands of himself and judge others by it. This brings an element of check and balance into socioeconomic life. It is possibly a strengthening of self-discipline and possibly resisting and fighting abuse of power. We can describe this as social moral check and balance, i.e., producing social check and balance by relying on moral force. Moreover, when the law stipulates that abuse of power is a violation punishable under law, moral check and balance might prompt law to pay greater heed to the exposed abuse of power and to whether those

responsible for restriction and oversight have dealt with it according to law. In this way, moral check and balance is combined with legal check and balance (i.e., legally based check and balance). Thus, we can see that analysis from the individual perspective is useful and can be indispensable.

But the role of belief in social check and balance goes further than this. We need also to explore this question from a group perspective.

As frequently reiterated, an individual is a member of one or several groups. His identification with the group(s) will, as a moral factor or spiritual support, play a bigger role in socioeconomic life. We can discuss the question by separating religious belief from nonreligious belief.

Religious people form a group or, more precisely, religious people join an existing religious organization. They are influenced by this group in terms of ideals, principles, and morality, and their judgment of right and wrong follows the group's standards. At the same time, they have influence, albeit perhaps very weak, on group behavior. The question is all religious groups require the believers to be self-disciplined, not to do anything against the group's moral standard, and to resist any behavior detrimental to it. If a member violates that moral standard, there would be no forgiveness, because this would adversely affect realization of group ideals and damage its image. Under such influence, the believers will be more self-disciplined and more willing to follow the guidance of common ideals, principles, and morality, to resist and fight abuse of power or any behavior against moral standards. This will consequently help the social check and balance mechanism play a more effective role.

A person with belief of a nonreligious nature may join an existing group or form a new group of people with common ideals, principles, and morality. Once a member, his/her belief and behavior will influence those of other members and his in turn will be influenced by theirs. Thus, group belief and individual belief become virtually indivisible. Although in a nonreligious group, the extent to which members identify with the group will vary among them, this will not prevent them, under the guidance of common ideals, principles, and morality, from strengthening self-discipline and resisting any behavior counter to the group's ideals, principles, and morality. Therefore, group belief and behavior play a bigger role in check and balance in socioeconomic life than do individual belief and behavior.

A society whose members have no beliefs is a society without hope. Such a society will fall into disorder, and there will be no social check and balance to speak of. Belief, whether of the religious or nonreligious variety, is always a loyalty to some established ideal, principle, or morality, a restriction on the believers themselves, an oversight on others, and check and balance for society. This is the summation of the role of belief in socioeconomic operation.

Even in an individualistic society, a group still has obvious influence on its individual members. For example, the sense of responsibility a member feels for the group and the group's concern for individual members are both based on a shared belief. Only with the common belief can they identify with each other. Within a group, individuals' rights coexist with their obligations. Among individuals, a set of interpersonal relations is formed, and if the members only demand rights and

shirk obligations, if they expect the group to care about them but have no sense of group responsibility in return, then the sooner they will leave it, or the group will ultimately cease to exist even in name. The relationship between the individual and the group forms a foundation from which belief plays an important role in check and balance in socioeconomic life. Since the precondition of the existence and activities of a group is shared belief and this implies the existence of order, it follows that the relation between members and group is also built on state of order. Each and every group has its own purpose, target, or mission, which, major or minor, always represents a certain belief and ideal. That is to say, the effectiveness and orderliness of group activities are ultimately built on the beliefs of its members. Check and balance in socioeconomic life is carried out in the process of various groups practicing their beliefs and ideals. Sometimes, a group also depends on the efforts or even dedication of its members to resist activities that damage social order. In practicing their beliefs and ideals, a group or its members might not be aware of its role in promoting social order, but it is nevertheless the case.

### **6.3.3 Reason and Belief**

Groups come in many shapes and sizes. Is it true that every group has an ideal or principle? Is it true that people become members of a group because they are attracted by its ideals or principles? Is it true that every member in every group will be in step with the group in belief, be loyal to the belief, and therefore be willing to work hard to realize its ideals or principles? These are complicated questions. Actually, it is not just groups that are diversified; individuals join groups for different reasons: some volunteer to join a group after careful thought, some join because they have no option, and some join without careful prior consideration and just remain for some reason even though they are not completely at one with the group's ideals or principles. All this reflects the complexity of the situation. In some groups, members are loosely connected, not by a definite ideal or principle, but by leisure interests. When this is the case, it cannot be said that there is unanimity of belief within the group. Such groups can be excluded from this discussion.

Generally speaking, most groups have their ideals or principles. At the very least, they will take continuous development of their group as an ideal and protecting its interests as a principle. As long as its members identify with this, they can be in step with the group and the power of belief will be born. For example, every individual is a member of a small group such as a family, a small village, and a city street. A family always aspires for prosperity, and a village or city street wishes to be a peaceful and happy place to live. Individual members feel the same way as their family, village, or street. Groups such as political parties, religious organizations, and social organizations have more definite ideals or principles, and provided group members identify with these, they will be in step. The role of check and balance in socioeconomic life is connected with such identification and the

group behavior that stems from this. But, irrespective of group size, does belief come first for its members, or is it reason?

In fact the two situations coexist. When belief comes before reason, it may result in greater spontaneity, whereas reason may make belief play a bigger role in practice. When reason comes before belief, belief may become conscious and help to deepen reason. On some occasions, belief tends to come before reason; on others the reverse situation is the case. The same variance of priorities is seen in people too: it depends on the actual situation.

Whether “belief comes before reason” or vice versa, it shows that belief and reason can be combined. But in daily life, we may come across “belief beyond reason” or “non-reasonable belief,” situations that have no benefit for social check and balance or can even drain vitality from the society and economy and cause both to stagnate. Let us take an illustration from China’s planned economy for a considerable period. Individual rights and freedom were strictly restricted. People, in common with means of production, were allocated under a centralized plan. They had no right of free choice as regards career, home, where they lived, or how they lived. Their conduct was totally subject to government arrangement. In this situation, the government took sole charge of economic risk. “Everything is arranged” meant individuals did not need to make choices or shoulder any risk. The living standard was very low, and both unemployment and inflation were kept hidden. Despite being called the “sharing a big pot” system, people actually did not eat from the same pot: there were “different levels of pot.”<sup>9</sup> Even so, there was actually a pot to eat from. The term “iron bowl” did not mean that people need no longer worry about losing their food “bowls” any more but that they would have a “bowl” provided they accepted the planned economy arrangement. Conversely, it would result in having no “bowl,” having the “bowl” taken away, or being dismissed from office.<sup>10</sup> But in the eyes of those accepting, the planned economy arrangement they did, after all, have “iron bowls,” and the situation gave people the impression that the planned economy system was superior; it even gave rise to the idea that “sharing a big pot” and “iron bowl” equated to a socialist society. Thus was born a belief beyond or without reason. Such belief can also produce a spiritual drive, such as striving hard to safeguard the “sharing a big pot” and “iron bowl” system. But this was an unsustainable belief, being so far divorced from reality. It could not play a social check and balance role since the system it upheld was at odds with reality and hindered

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<sup>9</sup>In my book *The Shareholding System and Modern Market Economy*, I wrote: “‘Sharing a big pot’ was undoubtedly egalitarianism, but in reality it never meant ‘eating from the same pot.’ If you are curious enough, please read the novel *Outlaws of the Marsh*. Among the rebels gathered on Lianshan there were two big pots. Each pot meant egalitarianism, and two pots meant egalitarianism at two levels. Which pot you ate from depended on the level you belonged to” (see Li Yining [7, p. 69]).

<sup>10</sup>“Under the planned economy, citizens actually stood in a subject-master relationship to administrators. Both the nature and place of work for individuals was fixed by labor or personnel departments without reference to personal preference. To resist the arrangement was to forfeit the chance of a job” (See Li Yining [7, p. 446]).



social productivity. It resulted in individual abilities atrophying for lack of use, the loss of willingness to take risk, and absence of personal enterprise. Society lost its vitality. More serious still, under the planned economy, those who carried out the plan quotas wielded great power: the system was itself a source of power abuse. They could use their power to attack anyone trying to slip the bounds of the system. Even so, given such belief in the system, however unjustified, there was a submissive rather than resistant attitude to such abuse, blind following rather than doubt. No social check and balance mechanism could possibly take shape in circumstances like these.

To repeat, a society whose members have no belief is a society without hope. We can fill out this point: A society whose members have belief beyond or without reason is not just without hope: it is a society in despair.

## **6.4 Safety Valves in Social and Economic Operation**

### ***6.4.1 Limitations of Government in Easing Social Contradictions***

By the expression “safety valves in social and economic operation,” it is meant that there should be an outlet for channeling conflicts and dissatisfaction before such sentiments become intensified or accumulate to the point that they can no longer be contained. That is to say, contradictions should be solved rather than allowed to build up, and discontent should be channeled rather than blocked. Society should possess internal buffering and channeling mechanisms for this purpose—in other words, safety valves.

Here, we need to explain the limitations of regulation by the government on easing social contradictions and channeling feelings of discontent. Although the government has the initiative in regulation, regulating when it thinks necessary and vice versa, this does not mean that the government is necessarily able to regulate in an ideal manner and the result is not bound to be ideal. Regulation by the government is reality focused rather than perfect. Generally speaking, the limitation lies in the following: restricted by some subjective and objective conditions, the government does not possess all the necessary facts, and thus, its decisions are based on incomplete information. Moreover, from the perspective of relations between the government and the general public, the former takes an ideal view of its actions, whereas the latter assesses the reality and the possibilities on the basis of its past experience, making its own judgment and preparing countermeasures. Thus, the actual situation cannot be as perfect as assumed by the government and neither will the outcome live up to its expectations. Furthermore, there is just one government but very many enterprises and people. The former, on which all eyes are focused, cannot itself focus on every enterprise and person. Government behavior can be easily known by the public but the converse is not the case. In light of this, it is an undeniable fact that regulation by the government is not in every sense ideal.

For a long time in the past, some people had the wrong idea about regulation by the government. It seemed to them that whenever the government tried to indoctrinate the public with a particular thought, they would accept it and the regulation would go smoothly. This view was based on two false premises: one, that the public trusts the government totally, accepting any government measure as correct and in line with their interests, so whatever the government says is fine by them, and two, the public has no choice but to accept the government's indoctrination. That is to say, to do otherwise is not allowed, that any disagreement with government regulating measures is forbidden. So, ready or not, the public must accept the indoctrination. Obviously, these are false premises, even in the planned economy situation. Overestimating the effect of indoctrination can only get the government intoxicated with itself and fall deeper and deeper in idealized delusion. It is true that the government needs to explain things fully to the public before implementing its regulatory measures: Explanation of policies is a condition for making them more effective, since adequate explanation beforehand and dispelling people's doubts will indubitably help the regulatory program. However, explanation is not the same as indoctrination, which is applicable only to those whose belief in government behavior is not one based on reason. Actually, for people already in that category, indoctrination will be superfluous. Even without it they will still believe that the government is omnipotent and always right.

The side effects of indoctrination are plain for all to see. When the public are treated as passive receivers, information flows only in a top-down direction with little upstream feedback. Moreover, the information source is unitary, i.e., the public gets information from its sole provider, namely, the government. In this situation, individuals only exist as subjects of government departments. Although rather many people will not or dare not resist government measures openly, at the least they will still resist them secretly or find ways around them. As a result, the effects of government regulation will decrease.

Having understood the various limitations of regulation by the government, let us specifically discuss its limitations in easing social conflicts and channeling feelings of dissatisfaction. There are three different scenarios to discuss: (1) the government is unaware of and gets little information about the reality of social conflicts and dissatisfaction; (2) the government knows something about the reality and decides to take alleviating measures, but the wrong ones; and (3) the government knows the situation and decides on alleviating measures, and these are apposite.

1. The government is unaware of and gets little information about the reality of social conflicts and dissatisfaction. If the government knows nothing about the problems and believes all is normal in society, it will not believe there is easing and channeling to do, and hence no need to build an internal social buffer. But since conflicts and dissatisfaction do exist, they may build up, grow, and end up causing great social disturbance and even social and political crisis. This situation is not unknown in history.

2. The government knows something about the reality and decides to take alleviating measures, but the wrong ones. We can liken the situation to a doctor treating a patient. The doctor finds the patient to be seriously ill but prescribes the wrong treatment, producing only slight improvement in his condition, but no cure. The illness

may also be aggravated because of the doctor's delay or wrong prescription. Similarly, in dealing with conflicts and dissatisfaction in society, even if the government knows how serious they are but takes the wrong countermeasures, the problems will continue to exist and even intensify. This is because the government receives inadequate information, overestimates the efficacy of its measures and underestimates the side effects, fails to adjust its measures according to changing situations, etc. All the foregoing illustrates the shortcomings of regulation by the government.

3. The government knows the situation and decides on alleviating measures, and these are apposite. In the normal course of events, government measures should be effective in this situation. However, many past incidents illustrate that those regulating measures had limitations and were not always in line with government wishes. On the one hand, all social conflicts spring from two sides being out of harmony. Each side believes itself in the right and to have suffered loss of income, jobs, welfare, living standard, etc. It's often hard to sort out which side is correct and which is not. Such disputes and arguments are unlikely to be eased through government arbitration as an administrative agency. The government might come up with the correct decision, but it might not satisfy both sides. Such problems can only be solved through nongovernmental harmonization, on the basis of a spirit of mutual forgiveness and mutual reconciliation, which is beyond the reach of the government as the administrative agency. It is not always necessary to decide who is right and who is wrong. Pragmatic "smoothing over" is a common folk solution to such problems and is not always a bad idea. But government regulation is unlikely to adopt the "smoothing things over" approach. The government measures may be theoretically correct; however, they often appear impotent in solving social conflicts and dispelling dissatisfaction. On the other hand, many of these problems have been a long time forming and getting more intense. If they can be eased or channeled while still in their infancy, the measures might be very effective. However, as an administrative agency, the government has its established working procedures, and the information it gets is not always timely or complete; by the time the government gets involved, the conflicts and dissatisfaction are well past the infancy stage and the impact of regulation will thus decrease to a great extent even if the measures taken are correct. This is a limitation of regulation by the government. Therefore, to ease social conflicts and channel dissatisfaction, it is necessary to build an internal social buffer other than regulation by the government. Again, the role of regulation by custom and morality makes its presence felt.

#### ***6.4.2 Building Buffering and Channeling Mechanisms into Society***

So, looking further, let us ask where, in non-idealized government regulation, should we look for safety valves in social and economic life? How does one go about building buffering and channeling mechanisms into society? Taking a perspective other than regulation by the government, we can say that producing a new balancing power in the society will be conducive to setting up such mechanisms.

The new balancing power referred to involves neither the market nor the government. The market is a kind of balancing power that brings about the effective distribution of resources through the mechanism of supply and demand and maintains a balance among the providers of various production factors; i.e., suppliers can get income according to the quality and quantity of the production factors they supply, factors that have stood the test of the market. Meanwhile, the market also maintains a balance between the trading parties; i.e., it coordinates their relations according to the principle of fair competition. It is a traditional balancing power, but it has two obvious limitations at least. Firstly, its balancing power is not applicable to activities and relations in the non-traded sector, because here trade is not conducted according to market principles. Secondly, even in the traded sector, the balancing power of the market is still limited because regulation by market only takes into account economic benefits rather than a raft of noneconomic considerations. However, since man is more than “economic man” but also “social man,” in handling relations between people, market power alone is not enough.

The government is another balancing force, with a role that cannot be replaced by market in coordinating income distribution, region-to-region or sector-to-sector relations, and the relation between economic growth and social development. However, as mentioned above, apart from its imperfections, the government has another characteristic: when addressing people-to-people relations, it appears as an administrative organ superior to individuals, so it is difficult to satisfy both sides in disputes. That is to say, the disputes or conflicts among people cannot be eased purely through administrative intervention. Moreover, with socioeconomic development and technological progress, it has become harder and harder for the government to play a role in balancing people-to-people relations. Take the relations between an enterprise and its employees for example. If the government intervenes when a dispute occurs, the enterprise, being mostly concerned about profits and economic results, often feels that what the government is trying to safeguard is something remote, something the enterprise can only partly enjoy but will entail paying higher costs (more tax, higher spending on employee welfare, increased wages, etc.). Therefore, the enterprise is often dissatisfied with government behavior but does not always say so. But sometimes the employees feel the enterprise is what the government cares about more, especially when their job, wage, and welfare demands are not met. Their feeling of discontent will grow, and usually, unlike the enterprise, they will not keep it to themselves but express it. The government intervention may sometimes ease the conflict, but it can sometimes intensify or deepen it.

Where, at the end of the day, should we look for a new social balancing power? If it does exist, how would it work, how important would its role be, and would it surely have some limitations? These questions deserve exploration. In my book *The 20th Century British Economy: A Study of “the British Disease,”* I made the following point: The general public is a new balancing power.<sup>11</sup> The public is not a single homogenous entity but comprises several different classes or ranks. Take the scenario of a three-sided conflict involving the government, enterprise, and employees: when the

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<sup>11</sup> See Luo Zhiru and Li Yining [8, pp. 461–462].

government seems impotent, the enterprise helpless, and the employees angry, the balancing power of the general public comes into play. The public, as members of society and citizens, make their own demands. What they want is normal social order, guarantee of citizens' legal rights, and a peaceful living and working environment. Suppose that normal life in a city is affected by strikes or parades and demonstrations: students cannot get to school, buses and subways stop running, airports are shut down, garbage piles up uncollected on the streets, milk supplies dry up, hospitals turn away patients, even water, electricity, and gas supplies are cut, etc. The public will start to see these actions as destructive of order and a violation of law and, far from supporting the strikers and demonstrators, will begin feeling less sympathy with them than they did previously. When this point is reached, even the wives of strikers and demonstrators will start complaining to their husbands, and then children, relatives, friends, and neighbors will come out to blame them. The strikers or demonstrators may feel isolated from the public and ask themselves whether there might be some problem with the organizers, planners, and decision makers of this action, whether things have gone too far, and whether they should quit while ahead. Thus, we can see the public as a new balancing force in socioeconomic life. It is taking effect quietly and gradually in easing social conflicts.

Similarly, if an enterprise pollutes the environment, putting at risk and harming its neighbors, conflict between the enterprise and the residents around will be exacerbated. The government might then put pressure on the enterprise, ordering it to suspend production or shut down, but this might mean laying off employees, who then petition the government for reemployment, which puts it between a rock and a hard place: nobody involved—the enterprise, its workforce, the local residents—feels satisfied with the government. If the government shows partiality to any side, it will cause the others to complain against it. In a situation like this, the public will play a role as a balancing force in harmonizing relations between the three. What enables the public to play such a role is that it always considers things from the perspective of maintaining social order, and public targets and interests are their top consideration. The residents whose living environment is polluted are part of the public, as are the employees of the polluting enterprise; the government is elected by representatives of the public and subject to the check of the public; the enterprise's management tier or decision makers are also part of the public, and their behavior is also subject to the check of the public. In this way, social conflicts arising from environmental pollution can be solved through talks and negotiations, lest the situation goes to extremes. The role of the public as a social balancing force is intangible; neither regulation by the market nor by the government can substitute for it.

So, objectively, does an inbuilt social buffering and channeling mechanism actually exist, and if so where and how was it built? We may draw the following conclusions: It does indeed exist, and it exists in the public's concern for and participation in social affairs. The more the public cares about and involves itself actively in social affairs, the more important its harmonizing role as a social balancing force will be and the more helpful it will be in easing social contradictions. However, the public's concern for and participation in social affairs is based on

the premise that they put high value on social order, public targets, and interests and are willing to work hard for these things. Therefore, the greater the public's sense of responsibility toward society, public interest, and social affairs, the greater its social balancing role will become. Conversely, if the majority of the public care only about themselves rather than social order, public targets, and interest and have no enthusiasm for participating in social affairs, the public will have no social balancing power at all, which will make it very hard to create inbuilt social buffering and channeling mechanisms.

While the public is playing its role as a balancing force, its individual members are in the course of adapting to the changing society and building new concepts that suit the changes. For good or bad, individuals influence each other: if many people concern themselves public targets and interests and act positively to promote social harmony, that will influence more and more people to care about social affairs, and the social balancing role of the general public will grow. This is the positive side of mutual influence. On the negative side, if the majority cares only for itself rather than society, such influence will encourage indifference to social affairs among more people. Thus, we can see how an individual's enthusiasm or indifference toward social affairs is influenced by those around. The more adaptive the individual to changing society and the more receptive to new notions that suit the changes, the more easily will he change his traditional attitude to interpersonal relations and become an active participant in social affairs, which is to say, although some people remain indifferent to social affairs, this does not alter the general trends that people increasingly care about social affairs and that the public's role as a balancing power is gradually getting stronger.

### ***6.4.3 Tangible and Intangible Social Safety Valves***

Now, armed with a deeper understanding of social buffers and channels, we can proceed to discuss psychological factors pertaining to the creation of social safety valves.

Social safety valves are sometimes tangible and sometimes not. We have mentioned that the public as a new balancing power can ease social conflicts and channel feelings of discontent; this belongs to the category of intangible social safety valve. The term tangible social safety valve mainly refers to the existence of a resource that can ease social conflicts, an organization that can channel dissatisfied sentiments, etc.

History is rife with examples of migrant settlement and development of large tracts of virgin land beyond existing borders functioning as a social safety valve. Cohorts of people who were capable but could not make use of their talent in their current circumstances could take over such available land to produce and operate, consequently easing social contradictions. The existence of such territories allowed a chance for the discontented to seek their fortune there, thereby reducing their dissatisfaction level. Both when North America was a British colony and after

American Independence, the territory gradually expanded westward; it was this huge land that attracted a great number of immigrants from Europe. They hailed from different European countries, from cities, and from villages; their numbers embraced rich and poor, noble, and humble alike. But in all cases, their leaving of their place of origin had the effect of easing social contradictions there. North America therefore became a social safety valve for Europe, a situation that lasted for at least two or three centuries.<sup>12</sup> We can find quite a few parallels in Chinese history: Northeast China received a great number of pioneers from Shandong and Hebei provinces; people from Guangdong and Fujian provinces migrated to Southeast Asia and started new businesses there. Such migrations undoubtedly eased social contradictions in their places of origin. We cannot say migration would eliminate local contradictions, i.e., we should not overestimate the role of migration in solving social contradictions in the place of origin, but at least it relieved the pressure of population, employment, and land and reduced discontent there. In this sense, the existence of land at home or abroad for immigration and development is a social safety valve that will last for a long period. We should also acknowledge that the development of social relief undertakings and the existence and function of social relief organizations and agencies can also be tangible social safety valves. Social relief can be roughly grouped into three classes: government relief, community relief, and nongovernmental charity relief. Their commonalities are as follows: through using social relief funds, disaster victims can be helped through catastrophe, to survive hunger and cold; impoverished families can be helped to figure out more ways to make a living; the lives of the disabled and those without family support can be improved. The more developed the relief undertakings, the greater the role they will play and the more easily social contradictions will be eased. Therefore, the role of social relief undertakings and organizations as social safety valves is plain for all to see.

Autonomous mass organizations of urban or rural residents could be another kind of social safety valve for easing social conflicts and channeling dissatisfaction. The word “could” is a deliberate choice: it depends whether the nature of such organizations has changed or not. Those that have changed their nature, no longer being autonomous or mass oriented, cannot ease social conflicts; indeed, under the control of certain people, they become bullies and would make conflicts more acute. If they have remained true to their nature, then they can represent the will and interests of the masses and will negotiate with them on everything pertaining to their interests. Consequently, they can play a role in easing social conflicts and channeling dissatisfaction.

Migration to undeveloped land, social relief organizations, and autonomous mass organizations are three examples of tangible social safety valves. For these valves to function effectively, we cannot ignore the importance of moral factors. As pioneers, immigrants need strong cohesion and enterprising spirit in order to overcome numerous hardships and for their migration to achieve things. The development and work of social

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<sup>12</sup> See F. J. Turner [9, pp. 259–260].

relief organizations depend, in addition to their staff's strong sense of responsibility and compassion, on the generous donations of those supporting charitable and public welfare causes. For an autonomous mass organization, what keeps it true to its nature, really representing the interests of and working for the masses, is that its leaders exercise strict self-discipline, live up to the expectations of the masses, and are honest and responsible. On the other hand, the masses have sense of responsibility toward the organization, stick to their principles, and contest behaviors that go against mass interests. Thus, we can see that it is moral force that backs up tangible social safety valves, and without its support, they could hardly play their due role.

Turning to intangible social safety valves, it should be pointed that the psycho-spiritual safety valve is more effective than those of a tangible nature. It can both dissolve social contradictions and guide the trend of thoughts. To be specific, the psycho-spiritual safety valve refers to people's identification with society, their confidence in how society and their lives will develop in the future; i.e., the belief that as long as they work hard together, social development targets can be realized, living conditions improved, and their abilities used to the full. Identification with the society is also manifested as follows: If there are various things in life that are not totally perfect, this is not too serious, because these imperfections can be reduced or eliminated through reform, adjustment, or the establishment and improvement of social check and balance mechanisms. With a psycho-spiritual safety valve, social contradictions can be dissolved and the trend of thought can be guided in a right direction. It is something that cannot be replaced by market or government regulation.

For any society, there is nothing more fearsome than the existence within it of a group of despairing people. History shows us situations where some people, because of poverty and ill luck, lived lives without hope, having completely lost confidence in their future. Having despaired of people and of society, identification with society would be out of the question. Those in despair may have a destructive social influence in the sense that they may break laws and social order and they could have a depressing influence on the emotions of those around, thereby reducing social vitality. If such people are very few, they will not greatly impede socioeconomic development. But if they are more than just a handful and constitute a fairly large social segment, that may very well create social problems and conflicts that will cost the society a great deal of time and energy to resolve. Therefore, the need to reduce, perhaps to nothing, the number of people in despair can lead us to a better understanding of why social safety valves are so important.

Changed outlook is hugely important to the formation of a psycho-spiritual safety valve. As mentioned many times above, the role of moral force is not just to shape people's behavior through standards and restrictions but to inspire and encourage them to improve themselves. The speed and the degree of economic development are important criteria, but from the social development perspective, we should also adopt the criterion of whether people can enjoy society's care, respect, and nurture. This is because even if society neglects such things, the economy can still grow rapidly for a short period. What's worse, it will intensify and increase social conflicts and dissatisfaction, perhaps leading to social unrest as more and more



people feel devoid of hope. One important aspect of changed outlook is to take care, respect, and nurture people as a social development target and judgment criterion. Only in this way can regulation by morality function to the full and a psycho-spiritual safety valve smoothly take shape.

#### ***6.4.4 Transition from Old Balance to New Balance***

Societies always follow a cycle of moving from control to confusion, back to control, and returning to confusion, but in different periods of history and amid different contexts, the degree of control/confusion is different: great, average, or little control might be the case, as might great, average, or little confusion. What we term control is the maintaining of equilibrium; the term confusion means disequilibrium once balance has been destroyed. The “control-confusion-control” cycle means the original long-sustained balance is first broken and later replaced by a newly formed balance. In some sense, social safety valves are helpful in maintaining balance and, should it be broken, in establishing a new one. This is because social safety valves, tangible or not, can dissolve contradictions before they become intensified and go out of control.

This brings us to an important question, namely, how to understand such terms as reconciliation, compromise, and mediation? In some books or conversations, “mediation” and “compromise” often seem to be derogatory terms, especially when the suffix “-ism” is attached. In fact, whether it is mediation or compromise, they both contain the wisdom that “it is better to dissolve conflicts rather than create them,” so does the term “reconciliation.”

How is a new balance formed and maintained? Not necessarily by one side defeating another: that might be the case in some situations, but in others situations, it might be the product of reconciliation. Reconciliation means each side steps back a little, puts aside minor differences, and seeks common ground so as to form a new balance. Compromise, mediation, and reconciliation are similar in their meaning. Even if one side defeats or actually crushes the other, does it mean a new balance can form smoothly and be sustainable? Not necessarily so. The victory of one side is just one precondition for forming and maintaining a new equilibrium: reconciliation, compromise, and mediation are also necessary; otherwise relations between people would be inordinately tense and the new equilibrium would be of short duration. Therefore, after one side defeats or crushes another, reconciliation, compromise, and mediation will often follow. Only thus can the new balance be sustained.

There is an opinion that reconciliation implies weakness and betrayal, as if only uncompromising and continuous resistance would not mean these things. Obviously, this opinion is a gross oversimplification of an intricate and complicated social environment. A society is diverse, as are the interests and targets of its individuals and groups. We live in a complex world where absolute black and absolute white do not exist, except in the theoretical models of some idealists. As well as these extremes, the world has yellow, red, green, gray, and many other shades. Mediation is important

because it means a way toward harmony. Compromise is necessary because it tells us the in-between state does exist. Reconciliation is necessary because it reflects the possibility of various options. These concepts do not equate to “weakness” and “betrayal” and cannot be mixed up with them.

Are we justified in coming to the following conclusions? A society without safety valves is one that struggles to maintain stability and is replete with potential for crisis; when a society’s mode of thinking and behavior is centered on fighting and resistance rather than reconciliation, compromise, and mediation, then it will find it hard to develop effective safety valves to eliminate potential social crises. Fighting and resistance are indeed necessary and inevitable, but a society also needs reconciliation, compromise, and mediation. We can even say the three are normal and even ubiquitous. Without them, social safety valves could not be established nor could social equilibrium be maintained.

Those who look down on reconciliation as timidity are themselves timid, since their fear of facing the complexity and challenges of reality drives them to escape into such simplifications, retreating into an unrealistic world of their own design.

Those who contemptuously regard reconciliation as betrayal are in fact mocking themselves. Who has never resisted? Who has never compromised? Fighting and reconciliation are both inevitable. People should fight when necessary and reconcile when necessary. There is no exception in reality, even for those who scorn reconciliation as betrayal.

Betrayal should of course be condemned, but reconciliation should never be confused with it. The result of such confusion is socially damaging. Such an unreasonable opinion should surely carry no weight: no one, I believe, would agree with its untenable conclusion.

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# Chapter 7

## Moral Renewal and Socioeconomic Development

### 7.1 Introducing Max Weber's Thesis

In discussing the role of regulation by morality and custom in socioeconomic development, it is necessary to explore the theories of Max Weber, the prominent German historian, sociologist, and economist. Weber wrote on a wide range of subjects, and his work *The Protestant Ethic and the Spirit of Capitalism*<sup>1</sup> has been globally influential. On publication in the early twentieth century, it attracted the notice of academics, but not the general public; however, after World War II, especially since the 1960s, a surge of interest in Weber swept around the world. Why such interest in Weber the man and his arguments? Why did this vogue appear long after his demise? The reason lies in the arguments themselves and the postwar situation of the world.

Weber's thesis concerns the spiritual drive in economic development. He gives material factors their due importance in economic development but gives greater weight to spiritual factors. He believes that spiritual drive comes from ethical notions, and these are often linked to religious ethics. With spiritual drive, economic development will be faster. According to Weber, the spirit of capitalism is a prerequisite for the production of capitalist society. For example, in Western Europe, without the Protestant ethic, there would have been no spiritual drive for the development of capitalism, *ergo* no capitalist society. His analysis goes as follows: Why did capitalism emerge first in Western Europe rather than in Southern Europe? After all, economic development in Southern Europe started earlier in history: by the fourteenth to fifteenth centuries, prosperous commercial cities with manual workshops had already emerged in Italy. But the economy of Southern Europe was never able to break away from feudalism and cross the threshold into capitalism. In Weber's opinion, the answer must be sought from the perspective of religious ethics.

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<sup>1</sup>See Max Weber [1].

Catholicism ruled in Southern Europe and influenced every corner of its society. According to its dogma, man is the servant of God and is born with original sin. What to do? One way was to atone for their sins through penances and abstinence; another way was to atone by donating money to the Church. At that time, the Church sold indulgences to people. "They were total or partial remissions for such sins as yet unpunished, without which they would be punished both in this life and in Hell, even if the sinner tried hard to win absolution through severe penance and sacrament and had got remission. Getting Divine mercy was a prerequisite. In addition, the Church required men to pray, fast and restrain themselves, to practice acts of charity, such as donation and benefaction, worship at various churches, pay for masses, and to initiate philanthropic and public welfare causes such as building churches, bridges, roads and dyke-dams, etc. Those measures were intended to help the development of religion, but they actually became just one of many techniques that the Church had for ruthlessly exploiting people."<sup>2</sup>

In Weber's opinion, penance, abstinence, and donation to the Church could not help promote economic development and the emergence of capitalism. Catholicism could not give birth to the spirit of capitalism and was thus incapable of leading society to the capitalist age. According to Weber, although commerce brought economic prosperity to Southern Europe for a while, it was still medieval Roman Catholic morality that dominated society. St. Thomas characterized the desire for gain as *turpitude* (which term even included unavoidable and hence ethically justified profit making), which was considered genuine.<sup>3</sup> In places where such doctrine ruled minds, even when businessmen did amass money, they still could not slip the shackles of the old teachings. "Their life-work was, so long as they clung to the tradition of the Church, at best something morally indifferent. It was tolerated, but was still, even if only on account of the continual danger of collision with the Church's doctrine on usury, somewhat dangerous to salvation. Quite considerable sums, as the sources show, went at the death of rich people to religious institutions as conscience money, at times even back to former debtors as *usura* which had been unjustly taken from them."<sup>4</sup> "Medieval ethics not only tolerated begging but actually glorified it in the mendicant orders. Even secular beggars, since they gave the person of means opportunity for good works through giving alms, were sometimes considered an estate and treated as such."<sup>5</sup> How could such ethical values promote the emergence and development of capitalism?

While the economy of Southern Europe was booming, in the East, in China especially, the economy was probably even more vigorous. So why did capitalism not emerge in China? Weber attributes this to religious ethics, considering that Oriental and Chinese religious ethics were not suitable for producing capitalism. He cites the example of Buddhist monks valuing lives to come not the current one, but since the afterlife is vague and reincarnation unbelievable, the emphasis on afterlife could never result in capitalism. Taoism suggests noninvolvement and returning to

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<sup>2</sup> *The New Cambridge Modern History*, Vol. 1, China Social Sciences Press, 122.

<sup>3</sup> See Max Weber [1, p. 53].

<sup>4</sup> *Ibid.*, p. 54.

<sup>5</sup> *Ibid.*, p. 139.

the simple state, a concept clearly inimical to the engendering of capitalism. Later, Taoism changed: the upper class followed it for longevity and personal enjoyment, whereas insurrectionary peasants followed it for egalitarian purposes. Neither provided suitable soil for capitalism to take root.

Weber called Confucian thought Confucianism, a system of ideas with great influence in the East, especially in China. But Confucianism emphasizes self-cultivation, pursues perfection of moral character, and hopes to replace pursuit of material benefits with spiritual satisfaction. Later when Confucianism became the orthodoxy in China's feudal society, it advocated loyalty to the monarch and self-sacrifice while despising commerce and wealth. Here again, an ethical outlook that provides no fertile soil for cultivating capitalism. The influence of these ethics made it easier for the ordinary folk of China to endure a life of poverty and hardships. As a result, the agriculture-based status quo was taken as the natural order, the pursuit of commercial gain was despised, and aspiration and drive to amass wealth and develop the economy were hugely enfeebled. Therefore, although China had been prosperous in the past, capitalism was still an impossibility. Being so dominated by Confucian thinking, China could never manage to cross the threshold to capitalism.<sup>6</sup>

So why did capitalism emerge in Western European countries such as the Netherlands and Britain during the sixteenth and seventeenth centuries? In Weber's view, it was because both were Protestant countries, and it was Protestantism that fostered capitalism. According to Protestant ethics, men are servants of God, and all are sinners and must redeem themselves. But how? By dint of hard work, thrift, and amassing wealth. To work was to work for God, so man must be diligent and not fear hardships. To live thriftily was for accumulating fortune, which in turn was for enlarging the scale of the undertaking and ultimately for God. The greater their achievements, the better the work they were seen as doing in the service of God. Consumption was inferior to accumulation. Puritans always dressed simply and shunned extravagance. Some Puritan groups displayed their resolve by willingly committing to a lifetime of frugality and hard work. But such commitment and behavior were different from both the ascetic practices of the Catholic Church and the behavior of Confucianists in China who were satisfied with a poor but clean life. The ascetics of the Old Church redeemed their sins by ascetic practice: they did not start undertakings, still less amass wealth. Confucian followers were content to be poor in order to perfect their morality. What they upheld and pursued was to be an official of integrity and competence, loyal to the monarch, and looking after the populace rather than starting an undertaking and amassing wealth. The Protestant ethic was: Hard work, thrift and amassing wealth are the best ways to salvation. Hard work and thrift are helpful for starting undertakings and amassing wealth. A lifetime of thrift and hard work will result in more and more wealth and correspondingly greater achievements.

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<sup>6</sup>For a detailed discussion of the origin of capitalism and why feudalism existed so long in China, see my book *Origin of Capitalism: Comparative Studies on Economic History* (The Commercial Press, 2003).

In Weber's opinion, capitalism in Western Europe was born and developed under the guidance of the Protestant ethic. He asserts, "For if that God, whose hand the Puritan sees in all the occurrences of life, shows one of His elect a chance of profit, he must do it with a purpose. Hence the faithful Christian must follow the call by taking advantage of the opportunity. If God show you a way in which you may lawfully get more than in another way (without wrong to your soul or to any other), if you refuse this, and choose the less gainful way, you cross one of the ends of your calling, and you refuse to be God's steward, and to accept His gifts and use them for Him when He requireth it..."<sup>7</sup> This passage fully reflects the Protestantism ethic of "working hard and amassing wealth in the service of God."

The Puritan understanding of poverty may explain the issue better. "To wish to be poor was, it was often argued, the same as wishing to be unhealthy; it is objectionable as a glorification of works and derogatory to the glory of God. Especially begging, on the part of one able to work, is not only the sin of slothfulness, but a violation of the duty of brotherly love according to the Apostle's own word."<sup>8</sup> This is what distinguishes the Protestant ethic from those of Catholicism and the Orient.

### ***7.1.1 The Reason for "Weber Fever"***

How do we evaluate Weber's thesis? There are various explanations on the origin of capitalism, and Weber's differs from those of other scholars, because of his emphasis on ethical factors, i.e., cultural factors.

According to Weber, the Roman Catholic ethic was incompatible with the spirit of capitalism, making it hard for capitalist economy to develop in Catholic countries. But people with a different view might argue: France is a Catholic country, isn't it? So why did its economy grow so fast later? How come French capitalism was not inferior to the capitalism of Protestant countries? The rapid development of the French economy might be attributable first and foremost to political factors, the fact that the revolution of 1789 severely hit its old systems and cleared the path for a capitalist economy. Therefore, overemphasis on ethical factors is perhaps not a correct interpretation.

According to Weber, in countries of the Orient, the influence of religious ethics made it hard for capitalism to develop, citing Confucianism as hardly compatible with the spirit of capitalism. But a contrary argument might be put: History demonstrates that the rapid development of capitalist economy is not limited to Protestant countries, since Eastern countries like Japan, South Korea, and Singapore have their own cultural traditions but have also experienced rapid development of a capitalist economy. Therefore, capitalism can be compatible with both Protestant and Confucian ethics. It's even possible for the combination of capitalism with Confucianism ethics to create greater miracles.

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<sup>7</sup> See Max Weber [1, p. 127].

<sup>8</sup> Ibid.

Nevertheless, Weber's thesis is still considered valuable by academics, and even dissenting voices acknowledge that the thesis is very enlightening. The role of ethical and cultural factors emphasized by Weber is actually a mode by which multiple factors stimulate system change and economic development. In other words, only in combination with social, political, and economic factors can ethical and cultural factors result in the emergence and development of capitalism. It thus discards the theory on the origin of capitalism that regards economy and politics as the only decisive factors.

The "Weber fever" that took hold around the world after World War II relates to the world's political situation at the time and with Weber's emphasis on ethics and culture. In the aftermath of war, the defeated nations of Japan and Germany faced the urgent task of rebuilding their countries, and newly independent countries in Asia and Africa needed to advance toward modernization by way of faster economic development. The inspiration that people derived from Weber's works is this: Spiritual drive is necessary for economic development. Without it, economic development will struggle. Of course this spiritual drive is not limited to the Protestant ethic discussed by Weber, but possibly it is an ethical outlook adaptive to the cultural tradition of a nation. But in the Protestant ethic, we can find some correspondences, among them the concept of "the calling." It meant: all have a moral obligation to be diligent in and dedicated to their work. Even though the work is in a secular environment, they have a duty to do it well, because they are working for God. This is what the Protestant ethic taught people, but what do non-Protestant ethics teach? Whether or not they use the specific concept of "calling," there are correspondences: they don't say working for God but say working for the country, the nation, and society, and it is everyone's obligation to make the country strong and wealthy, revitalize the nation, and make society prosperous. To work with dedication is to do one's duty for the country, the nation, and society. For economic development, there must be a spiritual drive, and this is it.

In the Protestant ethic, for an individual to amass wealth was not a matter for reproach. The amassed wealth itself was no sin, unless used for frivolous personal extravagance. If the wealth was used for the welfare of human beings, it could be regarded as a dedication to God. Protestant ethics also had the notion that wealth could and should be accumulated provided it was by just means, and, moreover, if the accumulation benefited economic development, it could be regarded as a dedication to society. Thus, although non-Protestant ethics are different in form from the Protestant ethic, their essence is the same, and this both inspired interest in Weber's works and made people feel they could learn something useful from them.

### ***7.1.2 Weber's Thesis and the Rationality of Historical Process***

In studies of modernization, scholars often raise the questions: Why did industrial revolutions develop to different degrees in different countries and regions? What factors stimulated industrial revolutions in this country or that one? What were the

most important factors? Researchers come up with different answers to this last question according to their different perspectives, since Weber's thesis is one among a number of theories about modernization. One of its main lessons is this: for a nation, even if the requisite material and technical conditions are present, industrial revolution will be hard if the right ideological and moral conditions are absent or if there is no spiritual drive for revolution or modernization. Even if it has started its modernization, the process will still be hindered or even interrupted. In other words, Weber's thesis tells us that behind industrial revolution and modernization, there is a kind of invisible spiritual power leading people to strive hard for economic fruits and encouraging them to pioneer and operate unflinchingly, to make profit, to amass, and to start new undertakings.

According to Weber's thesis, since capitalism represents a spirit and an outlook that will encourage people to pioneer and progress, then an internal contradiction appears, namely, this: On what grounds did he assert that capitalism was a phenomenon specific to Western Protestant culture? He could at most draw the following conclusion: Capitalism was born in Western Europe between the sixteenth and seventeenth centuries, but this is only the first historical example to illustrate the importance of ethics to economic development. It is not proof that only the Protestant ethic could produce capitalism and promote modernization. The Catholic ethic could change or be interpreted from a new angle. Specifically, the medieval buying of indulgences and ascetic practices in penance for sins could be abandoned. Did the vast majority of Catholics not do so later? To interpret and understand Catholic ethics from a new angle, did capitalism not develop rapidly in Catholic countries also? This reasoning can also account for the relation between Confucianism and economic development in countries of the East. This became a hot academic issue from the middle of the last century.

According to Weber, the process of industrial development is also a process of adjustment of relationships, pre-industrialization relations such as hierarchy, hereditary system, clan rule, and personal bondage not being conducive to industrial development. Therefore, if capitalism is to play a dominant role in a country and if its industry is to develop greatly, its interpersonal relations should also change correspondingly, a change often accompanied by a change in ethical outlook. Weber's penetrating analysis posits a close link between socioeconomic development and change in interpersonal relations and ethical outlook. That is, behind every great historical event, there is an intangible spiritual force. Without it, a nation's economy will be moribund, but with such a force, there is hope of rapid growth. Any country hoping to develop its economy rapidly should nurture such spiritual force. Non-Protestant regions such as the newly independent countries of Asia and Africa post-World War II would develop very slowly if they could not find a spiritual counterpart to the Protestant ethic, but by fostering such a power, they could hope to catch up with the developed countries.

Another important lesson from Weber is this: deepening the study of modernization demands a broader discussion in the areas of society, economy, culture, ethics, politics, etc., and a discussion limited to politics or economy is far from enough. In the Chinese academic community, among those with an interest in Weber's work,



there is virtually unanimous acceptance of this point. In their opinion, the value for China's modernization studies lies more in Weber's method of analyzing historical process than in Weber's thesis itself.

From Weber's thesis, it is possible to draw out an important issue, namely, understanding the rationality of the historical process. What is meant by this? According to Weber, it means that the behavior of people or society has changed from being emotional to being rational. People originally had no clear goals nor, accordingly, did primitive societies. At that time, simple survival was enough, avoiding death from hunger, cold, or wild beasts, but these could not be counted as definite goals. Later, although society was developing and economy was getting active, people's goals were still to survive and multiply. An individual's lifespan was finite but that of the clan infinite, so the survival of generation after generation became a goal for all traditional society. But it was still not a specific goal. Only after a society had passed through its traditional stage into the modern civilization stage did the rational nature of the historical process appear. For example, according to the Protestant ethic, people should be hard working and thrifty, amass wealth, and start undertakings, so as to fulfill their "calling"—in other words the rationalization of behavioral goals. Human society always moves in the same direction—from being without clear goals toward having clear goals—and the rationality of historical process always becomes more and more clearer. This is a law of historical development.

What does Weber's thesis tell us? It can be encapsulated thus: The rationality of historical process is displayed as human and social behavior having clearer and clearer goals rather than being limited to survival and multiplication. In the absence of spiritual power and ethics at the heart of the rational goals, a society could not possibly achieve sustainable progress.

## **7.2 The Urgency of Moral Renewal**

### ***7.2.1 Old Culture and Ethics Replaced by New***

Now let us shift our focus from Weber to the issue of China's modernization.

At the present stage, China faces an urgent task of moral renewal. This is actually a question of how to replace the old culture and ethics with new ones. At the heart of the old culture were deities and officials, in contrast with our people-centered new culture. The former emphasized worship, authority, and bondage in contrast to the latter's stress on science, knowledge, independence, and self-esteem. The old ethic protected the old culture and order, whereas the new ethic safeguards the new.

Due to its emphasis on worship, power, and bondage, old culture was intrinsically a deity-and-official-oriented culture. New culture is bound to center on people, science, and knowledge because of its emphasis on science, knowledge, independence, and self-esteem. In this lies the biggest distinction between the old culture and the new.

Looking at the political dimension, we can take the year 1949 as the dividing line between old and new. But culturally, the line is far from clear, since the old culture existed for a long time before 1949 and did not disappear after that, although some of it took on new forms. Both pre-1949 culture and new forms of old culture shared the common ground of superstition and worship of power rather than proceeding from science and centering on people. This was because old culture had dominated China for so long, had a solid economic base, and was deeply, deeply rooted in the soil of feudalism. Therefore, even post-1949, apart from stubbornly surviving, it reappeared in different guises. In my book *Whither China's Economy*, I labeled pre-1949 old culture “the standard old culture” and old culture in new forms “old culture in new clothes.”<sup>9</sup> What actually survived in China from the 1950s to the end of the 1970s were two versions of old culture. The “Cultural Revolution” (1966–1976) was a classic period when the two old culture versions coexisted and dovetailed. Such a situation has also appeared in some historical stages in some other countries, but it was most conspicuous in China from the 1960s to 1970s.

The old culture needed to be cleared away, but how? It is often claimed that economic development is vital and higher per capita income indispensable and that once such aims are realized old culture will be more easily uprooted since the poverty that fostered it is a thing of the past. Such thinking does make sense, but it has a major flaw. We cannot root out old culture purely by economic development and increasing per capita income. Compared with 1949, mid-1960s China had experienced economic development and increase of income per capita, but the old culture still survived and remained influential. The “standard old culture” had by no means left the stage when “old culture in new clothes” made its entrance. This is surely worth some consideration.

The old culture denies the status of people as the main body of society and is characterized by ignorance, blind obedience, and superstition, so in order to really get rid of it and develop new culture, the most important task is to reform the system from which old culture draws its lifeblood, in particular the system that fostered “the standard old culture” and “old culture in new dress.” System reform is more important than economic development. On the foundation of system reform, with educational and economic development progressing in tandem and per capita income increasing along with rising educational level, old culture can be more effectively eradicated. Moreover, the purpose of education goes further than imparting knowledge and skills. More important is to improve the national caliber via education and to take “making people the key” and “modernization of people” as major tasks. Without these, there can be no modernization of society, economy, science, and technology, still less the introduction of new culture and ethics to replace the old.

Apart from relying on ignorance, blind obedience, and superstition, old culture and ethics were also sustained by a hierarchical estate system and rank relationships, visible or invisible. These constituted a component part of the old system. The countryside is a case in point: it is here that “the standard old culture” has most

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<sup>9</sup>See Li Yining [2, p. 124].

stubbornly cling to life and where rank relations are at their strictest. Rank relations are closely connected to traditional values and ethics. Why is the power of deities, the gentry, clans, and husbands hard to break? It has to do with the rank relations sustained by the traditional values and ethics. In rural areas, “the standard old culture” will exist forever if the traditional values and ethics and the long-existing rank relations are not expunged. In the cities, the estate system and the rank relations are usually invisible, but they too cause people to be constrained by traditional values and ethics. Being invisible, the estate system and rank relations in urban areas are not easily detectable; indeed, some people tacitly accept them, not daring or wanting to stir them up. In system reform, a prolonged conflict is most likely to occur in the area of values and ethics. “Making people the key” and “modernizing people” mean abandoning the estate system and rank relations, establishing new individual-to-group relations, including identification, cooperative, and contractual relations. Once this is understood, we can understand the profound and far-reaching significance of moral renewal.

Old systems will not collapse of their own volition; neither will old traditions and powers dissolve by themselves. Old culture and ethics may reappear in new garb. In the 1960s, young Chinese joined in the “Cultural Revolution” in the name of “smashing the four olds,” but this generation was fooled and cheated. The so-called smashing the four olds turned out to be safeguarding old culture, especially “old culture in new clothes.” Ignorance, blind obedience, superstition, and extremism made them guardians of old culture and destroyers of the new. Fortunately, most of them woke up fairly soon to the harsh reality and a realization that they had become victims of the old culture. Such is history, cold, and neutral. Every Chinese should surely draw a lesson from the freakish phenomenon of “old culture in new clothes” after 1949, including how it was conceived, born, and raised.

What must happen for the old culture and ethics to be replaced by new? Apart from system reform, economic, and educational development, people also need to realize the harm of the old cultures, both versions. The young intellectuals sent down to the countryside during the “Cultural Revolution,” fooled and hoodwinked by old culture, would later be among those harboring the most bitter hatred for it. Is this not a convincing proof?

However, replacing of the old culture and ethics by the new is far from easy. It involves the issue of moral renewal, a mission impossible to complete in a generation or two.

### **7.2.2 Moral Renewal and “Relaunch”**

No one can deny the great achievements made in economic construction since the founding of New China in 1949. For a long time after 1949, China’s culture seemed a mishmash of good and bad. On one hand, the “standard old culture” continued to exist and exert influence, while the “old culture in new clothes” grew rapidly, with its influence increasing. On the other hand, the new culture that represented the

*zeitgeist* grew and exerted ever greater influence on people as well. For this period, the growing influence of new culture was indispensable to China's achievements in economic construction.

To be specific, after long years of wars and chaos, the Chinese people warmly embraced the new regime; yearning for a prosperous revitalized China, they were ready to create a better future through their toil, enterprise, and dedication. Their enthusiasm was undoubtedly a manifestation of the growing new culture and new ethics. Borrowing from Weber's thesis, we can say that a concept similar to Weber's "calling" now existed in Chinese society of that time. For the sake of national prosperity and better lives for more and more people, many people volunteered to relocate to border regions, remote areas, and harsh environments where they worked hard, regardless of return. For them, it was their "calling" to do so. We may call such spirit the "start-up spirit." It animated and was essential to "start-up practice" and to the successes of economic construction.

Why was the "start-up spirit" so short-lived? The reasons are many, but in terms of system, the planned economy strangled individual initiative and creativity, giving birth and nurture to egalitarianism. Importantly, ideological campaigns such as the "anti-rightist" and "anti-right deviation" movements and the "Cultural Revolution" put a dead hand on people's spirits, and any enterprise or creative enthusiasm ebbed away. During the "Cultural Revolution" when black was called white and all sense of judgment was lost, people could hardly be expected to throw themselves into economic development. As it became more and more common to trample creativity and stifle enterprise, only disappointment and despair remained, so how could people still have any passion to selflessly give their all for economic construction? The spiritual trauma was not something quickly healed. By the later stage of the "Cultural Revolution," many people were spiritually void and inert, seemingly indifferent to anything and everything. Its aftermath of nihilism, listlessness, and negativity still exists to a degree. After the "Cultural Revolution" ended and as China entered the market economy with reform and opening-up, some people went from one extreme to the other. Driven by the spur of economic gain, such people disregarded commercial and professional ethics, earned indecent money, or openly declared their living creed that individual benefit was paramount, that money came first, and that there was nothing money couldn't achieve. Neither extreme is aligned to the goals of modern development. In such context, it is urgent to raise the issue of "relaunching" and cultivating a "relaunch spirit." To go on developing our economy, there must be a spiritual drive; we must inculcate in society the notion of striving hard for China's prosperity and modernization. Of the lessons we can draw from Weber's thesis, the most important is this: without spiritual drive, breakthroughs in economic development will not come easily.

This brings us to the question of moral bankruptcy, a frequent talking point in recent years. In looking at the underlying reasons, rational analysis is more useful than emotional judgment. Morally damaged and unscrupulous people are produced by any age or time; it is just the numbers that vary. The reasons for moral bankruptcy are complex and arise from different circumstances, so we must use a holistic analysis rather than a single-element approach. What we need to clarify is this: Why, after a period of benign social ethos post-1949, should so much terrible and

amoral behavior have emerged in China? How does one account for the gradual disappearance of the fine social ethos? In this context, the question of moral renewal has been raised. When people become hypocritical, they will lie and hide the truth and wear a mask in dealing with others, thereby distorting morality. But why do people become hypocritical? There is spontaneous hypocrisy and forced hypocrisy. Spontaneous hypocrites are the minority: most people only resort to hypocrisy under duress, but there are some who fall somewhere between the two types. Forced hypocrisy for reasons of self-protection without any wish to harm others can be called “moral distortion.” Spontaneous hypocrisy is different, not for self-protection but motivated by the prospect of personal benefit, and this deserves to be called moral bankruptcy. Whether forced by pressure of circumstances or spontaneous, springing from selfishness and greed, hypocrisy is always a betrayal of man’s nature. Of course, even in the hardest circumstances, there are still non-hypocrites: but in the prevailing moral climate, they could do little to prevent the good social ethos ebbing away, since most people had been forced into hypocrisy.

A classic example is how people saw the domestic political and economic situation in the later stage of the “Cultural Revolution.” Those who spoke the truth were toppled. Some people lied because they had to for the sake of self-protection and so as not to meet the same fate as the truth tellers. They saw telling a lie as expedient, figuring perhaps that to speak the truth now could lose them any chance of speaking anything at all in future. In circumstances like this, forced lying was completely forgivable, even though it contributed to the ebbing away of a good social ethos. The willing liars did so not to protect themselves but to flatter and fawn on those with power for their own personal gain. In full knowledge that China’s economic situation was a mess, they would come up with fantasies such as “the situation is peaceful and the masses are all happy” and “history has never known times as good as these.” Some were actually proud of their ability to concoct facts and frame others in order to achieve their own purpose. Those willing hypocrites bear the greater blame for the waning of the good social ethos. Even worse, when they got their way and were rewarded for their hypocrisy, this had a very bad demonstration effect on society and accelerated its moral corruption.

The question of moral renewal was raised after almost 20 years of political purges and campaigns culminating in the “Cultural Revolution” caused grave moral distortion in society; it was also raised when China started out on the road of reform and opening-up, as people began to feel the urgency and necessity of “relaunching” and establishing the “relaunch spirit” to drive it forward.

## **7.3 The Long-Term Nature of Moral Renewal**

### ***7.3.1 Moral Renewal and Improvement of National Caliber***

From the foregoing analysis, we learn that the urgency of moral renewal right now has to do with the stubborn persistence of old cultures and their serious social impact and also with the negative feelings in society such as emptiness, depression,

suspicion, and helplessness. Moral renewal means building new culture and ethics to replace the old, to foster and establish the “relaunch spirit,” and to raise the national caliber, so as to engender a spiritual drive in the modernization process.

Although new culture and new ethics will eventually be established and developed on the foundation of economic growth, the task of moral renewal cannot wait. The only way appropriate to China’s realities is to set about the task on the basis of real life, to constantly improve the national caliber, and to put effort into practicing moral renewal. Certainly, moral renewal and the replacement of old culture and ethics with new ones are a long-term process and cannot be completed within a short period, but that does not mean we cannot do or achieve anything in moral renewal at the present stage. The urgency of the task tells us we must start on it right away.

Passive waiting is not the right attitude, but it is equally wrong to rush at the job. The replacement of old culture and ethics with new is a historical trend and cannot be realized so quickly. The victory of new culture means society has made the transition from the “material age” to the “age of man.” New culture discovers and respects man’s value and puts man at the center of things rather than the material, and this can only be achieved via a long process. For China, the victory of new culture will be much harder won than we imagined, since feudalism dominated social ideology and people’s lives for over a thousand years and survived in the planned economy as “old culture in new clothes,” the costume change fooling many people for a while that it was a brand new culture. In China’s moral renewal process, even more important than renewing people-to-people and people-to-material relations is the need to instill in people the belief that only a new understanding of the value and significance of life will make it possible to “liberate” oneself, have internal moral inspiration, and restraint and have strong enterprising and creative spirit.

Here it is necessary to discuss the question of moral standards, of which there are usually two in life—internal and external. Concerning the differentiation, we may refer to passages in Max Weber’s *General Economic History*, in which he wrote: “Furthermore we find everywhere else a primitive, strictly integrated internal economy such that there is no question of any freedom of economic action between members of the same tribe or clan, associated with absolute freedom externally.”<sup>10</sup> This means that, in a group, even a primitive tribe, there might be an internal moral standard for internal affairs and an external moral standard for external affairs. Behavior is regulated by two different standards. He continues, “In contrast with this, the second characteristic of western capitalism is the lifting of the barrier between internal economy and external economy, between internal and external ethics, and the entry of the commercial principle into the internal economy, with the organization of labor on this basis.”<sup>11</sup> This passage is instructive for an understanding of the moral renewal’s long-term nature.

The erasing of the demarcation between external and internal moral standards has a direct bearing on the openness of a society or a group. The more open the society, the more readily the two standards merge. The development of capitalist

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<sup>10</sup> See Max Weber [3, p. 265].

<sup>11</sup> Ibid.

society testifies to this fact. The same is true of groups, too. In a closed group, the demarcation will always be definite no matter what the group's nature is. Its internal standard will probably be unsuitable for dealing with external matters and vice versa. Only when it becomes less closed will the boundary gradually fade away.

China is in transition between the planned economy and the market economy. Under the former, it basically adopted the closed society model, and for members of that society, the demarcation between two moral standards was very clear-cut. The same behavior was thought a violation of moral standard if directed internally but thought permissible in external affairs. The same speech was deemed permissible internally but a violation of moral standard externally. Over many years, the Chinese became accustomed to the differences, so the contradiction itself and its potential impact on the social ethos went unconsidered. In plain terms, people identified with the dual standard as a custom, when it was actually a distortion of morality: utilitarianism won out over judgment of right and wrong, and moral standards were subordinated to political and economic needs.

The problem did not stop there. As previously discussed, in an environment inimical to truth telling, the majority were forced to lie and be hypocritical for reasons of self-protection, while a minority did so willingly for their own benefit. The forced hypocrisy can be called "moral distortion" and spontaneous hypocrisy "moral bankruptcy." All in all, the question becomes more complicated when talking about a situation in which people could not treat each other sincerely, behave with integrity, or regulate their behavior according to an inbuilt moral standard, added to which there was a clear-cut demarcation between external and internal moral standards. This is because the demarcation already constituted a moral distortion, one made more acute by forced hypocrisy. If some were spontaneously hypocritical for personal benefit, this constitutes moral bankruptcy on top of moral distortion. As a result, the dual standard became a multiple moral standard or a moral standard expressed in several forms. Truth and falsehood become impossible to judge, the two being so messed up and mixed. This was the reality China had to face in the early stage of reform and opening-up. Only by admitting the reality can we have a deep understanding of the mental state of the Chinese under the impact of one political campaign after another—the "anti-rightist" and "anti-right deviation" movements and the "Cultural Revolution." Only then can we truly appreciate the long-term nature and difficulty of moral renewal.

### ***7.3.2 Moral Renewal: Fantasy and Reality***

Max Weber cited the pioneering process of Puritans in New England to illustrate the role of Protestantism in promoting the emergence and development of capitalism and to demonstrate the importance of establishing a moral standard. To our previous examples of insights from Weber's thesis, we can now add one more: there was an element of fantasy contained in the Puritan notion of "the calling" and their ethic, although this in no way prevented the Protestant ethic playing a positive role in

economic development. Daniel J. Boorstin wrote in *The Americans: the Colonial Experience*: “IF THERE WAS ever a people whose intellectual baggage equipped them for a journey into Utopia it was the New England Puritans. In their Bible they had a blueprint for the Good Society; their costly expedition to America gave them a vested interest in believing it possible to build Zion on this earth.”<sup>12</sup> At that time, New England was a colony of Britain, and the migrants had to accept British law to protect their own interests, a reality that diluted the tinge of fantasy, but this does not negate the fact that they crossed the ocean and came to North America with the fantasy of building their “kingdom of heaven” on the earth.

It should be noted that despite the fantasy element in the migrants’ aspirations, their moral inspiration and restraint were always real. Today, in its “relaunch,” China has taken moral renewal as a mission, but it is not comparable with the situation of the Pilgrim Fathers because of the differences in terms of character, conditions, mission, and goals. In China, if we can achieve moral renewal, both moral inspiration and restriction will be realistic, and the development goals will be reachable ones. To put it simply, moral renewal and improving the national caliber are not fantasy aspirations: our development goal is not to create an ideal “paradise,” and modern society is not a Utopian one. The approach to moral renewal and improving caliber should proceed from real life and have realistic steps and goals. As for abhorrence of old culture in its many forms, we cannot afford a purely emotional or purely theoretical awareness. The nurturing of a good social ethos should start from reality, relying on everyone’s effort in regulating personal behavior. Only thus can achievements in moral renewal stop being one-off, and accidental phenomena and good social ethos will no longer be a vague abstraction.

There is another significant aspect to removing the fantasy element from moral renewal, namely, to design an “ideal society” but without divorcing it from reality. In the past, all designs for an “ideal society” were on paper or in the mind only, hard to put into practice. Such experiments that did get off the ground were limited in scope and ended in failure within a couple of generations. Theoretical constructs cannot stand up the test of practice. It is worth noting that if a politician wants to turn a large-scale design for an “ideal society” into a policy and impose it by force, what may emerge will not be paradise, it could well be socially catastrophic.

Friedrich Hayek looked at this question. According to him, in history idealist politicians had put forward various guidelines or proposals for achieving an “ideal society” and expended a lifetime of effort for this goal. However, judging from the results, those idealists frequently delivered disaster rather than happiness. Convinced of the loftiness of their ideals, they went to any lengths, regardless of the consequences, resorting to unscrupulous tactics with a clear conscience. The greater their allegiance to their ideals and goals, more zealous they were in promoting their ideas. The more interventionist and destructive their actions against the invisible and spontaneous force controlling socioeconomic life, the more dire were the consequences for society.<sup>13</sup>

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<sup>12</sup> See Daniel J. Boorstin [4, p. 32].

<sup>13</sup> See F. A. Hayek [5, pp. 100–101, 6, p. 142].



What is the invisible and spontaneous power controlling socioeconomic life that Hayek talked about? It is usually thought of as the market mechanism. According to Hayek, regulation by market as an “invisible hand” spontaneously takes a role wherever there is trading activity. But this seems a narrow interpretation: aside from market mechanism, the force of custom and morality constitutes another invisible and spontaneous power dominating socioeconomic life. It existed before the appearance of regulation by market and afterward too, being particularly apparent in the non-traded sector. The reforms implemented by the idealist politicians in order to make their “ideal society” reality not only destroyed the market mechanism but damaged the invisible and spontaneous power of regulation by custom and morality, thus destroying the cultural traditions shaped by custom and morality. They only trusted in individual strength and government strength and relied only on the latter. So they forced through the program that they espoused, producing breakdown of social order, leading to deaths from hunger and cold, people being compelled to leave their native places, becoming homeless and vagrant. Such tragedies are not rare, neither in the past nor the present, neither in China or abroad.

Why should things go this way? In Hayek’s view, the politicians made a common theoretical mistake: namely, seeing their own will as more elevated than anything else; they thought of themselves as saviors of the world, in other words God; and their actions were “enforcing justice on behalf of Heaven.” They regarded it as an unquestionable moral imperative to transform the world according to their vision. Aside from this, they made the mistake of regarding regulation by government as omnipotent and government measures as a panacea for any “social malady” (some of them not actually “maladies” at all). In their view, provided their plans were followed to the letter and with strict policies strictly enforced, they could bring people a better life and lead them into “paradise.” However, although they promised a better life, they were unaware that society would have to pay a very heavy price for nothing but a multitude of aftereffects and a dire social legacy. This is because with the abandonment of market mechanism and regulation by custom and morality, what awaited society was a “worse life” and disaster. As mentioned above, socioeconomic life is usually comprised of the traded sector and the non-traded sector. When the market mechanism is abandoned, the traded sector ceases to exist in actuality, because they have become distorted and changed into the non-traded sector. When regulation by custom and morality is abandoned, the various relations in the non-traded sector are also distorted and become false and hypocritical relations. Is this not a disaster?

It is because an “ideal society” contains elements of fantasy, and its forcible implementation by idealist politicians often brings unforeseen social catastrophes that, when proposing moral renewal and nurture and establishing a good social ethos, we should do so from the standpoint of realistic analysis: it is better to see the problems as hard and complex rather than oversimplify them; better to have a long-term, incremental plan than to act with undue haste; and better to focus on normalizing behavior through laws, enlightening people by education, making more people realize wholeheartedly the necessity of following social morality than attempting to unify minds and normalize behavior through administrative measures. It is especially

important that we should make constant progress in raising people's material living standards while satisfying their spiritual needs, but we should not define every detail for our future society. Two passages in *Socialist Politics and Economics* are of significance here.

"Every generation has its own historic mission. This generation of scholars of economic theory should focus on the problems of socialist economy in its developing stage."<sup>14</sup> "If we bite off more than we can chew, worry about several generations further down the line, design details for future social and economic development, then later generations will only see us as a joke."<sup>15</sup>

## 7.4 Rule of Law, Democracy, and Moral Renewal

### 7.4.1 Rule of Law and Its Opposite

In discussing moral renewal in the real world, the argument between rule of law and rule of man immediately confronts us. Let us begin by asking what the essential nature of this argument is.

What is the opposite of rule of law: rule of man or rule of morality? Both positions have their proponents, and both have arguments to justify their stance.

The argument of those who take the opposite to rule of law as being rule of man goes as follows: Under rule of law, everything goes by law, law is above everything, people are equal before law, law should be strictly followed, and violations of it must be punished. Under the rule of man, man's words are more powerful than law, and man is superior to law. Therefore, what we need is rule of law and not rule of man, which is its antithesis.

Those who think that the opposite of rule of law is rule of morality argue thus: rule of law proceeds from the thesis that "man's nature is evil," whereas the basis of rule of morality is that "man's nature is good." Rule of law emphasizes deterrence and punishment, without which society cannot be peaceful and orderly. Therefore, under rule of law, law should be strictly followed, and violations of law must be punished. Rule of morality emphasizes moral influence and education. It values giving methodical and patient guidance and being tireless in teaching others so as to bring about social peace and order. Moreover, it can help every member of society become a person of high moral character. Hence, rule of law and rule of morality are opposites.

How, then, are we to view the arguments on rule of law, rule of man, and rule of morality? Both positions have some sense to them, but careful scrutiny will reveal that both are partial and fail to make clear what the opposite of rule of law is.

To put it simply, the opposite of rule of law is actually non-rule of law. If rule of law requires law strict observance of law, punishment of violations, and equality of

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<sup>14</sup> See Li Yining [7, pp. 455, 457].

<sup>15</sup> Ibid.

all before law, then non-rule of law means law need not be observed, violations can remain unpunished, and there is no equality before law. If there is something that tramples law, then it is nothing else but non-rule of law.

Let us turn now to rule of man. Those who take rule of man as the opposite of rule of law actually treat rule of man as non-rule of law. The feature of non-rule of law is arbitrary rule, a feature it shares with rule of man. In this sense, it is not at all inappropriate to take rule of man as the opposite of rule of law. However, there can be another interpretation of rule of man, namely: law is determined by and executed by man. If rule of man is not regarded as arbitrary rule or as trampling on law but as man determining and executing law and carrying out rule of law, then it is consistent with rule of law, not opposite to it. Those who disagree that rule of man is the opposite of rule of law interpret rule of man from this perspective precisely. They do not advocate arbitrary rule or replacing law by man's will; what they do emphasize is that rule of law cannot be implemented without man and that man's caliber is very significant to rule of law. Since there are two different understandings of rule of man, the argument over rule of law and rule of man will be interminable. If we define rule of man as non-rule of law, i.e., that rule of man is arbitrary rule and tramples on law, then there can be no more argument.

Now let's discuss the understanding of rule of morality. The question of whether man's nature is evil or good has never been settled, and we can leave it aside here. It is partial to see rule of morality as the opposite of rule of law, because advocates of rule of law have never denied the role of moral education, and neither have they denied the significance of legal restriction and punishment.

The argument over rule of law and rule of morality boils down to an argument over which of the two is "fundamental." The idea that "rule of law is fundamental" does not deny the role of moral education, so "rule of law is fundamental" actually means "rule of law is major and rule of morality is supplementary." "Rule of morality is fundamental" means "rule of morality is major and rule of law is supplementary." Since the argument boils down to which one is major and which supplementary, then the two cannot be called opposites.

In light of this, it is more realistic and convincing to take non-rule of law as the opposite of rule of law.

The long period of feudal rule in Chinese history was less rule of man than non-rule of law. The term non-rule of law can best reflect the nature of feudal rule. The imperial power was supreme, absolute, and not to be profaned—a classic example of non-rule of law. If we insist that it was rule of man, this is the only way to interpret it: the so-called rule of man was no more than a cover for "rule of emperor" or "rule of monarch." In other words, only law that can restrict imperial power or the behavior of emperors themselves counts as law consistent with rule of law. More importantly, true rule of law that is worthy of the name means that law for restricting the highest authorities, and the makers of law can be really carried out.

There is a specious argument to the effect that what Shang Yang, the famous reformer of ancient China, espoused was rule of law to replace rule of man, and that what the first emperor, Qinshihuang, implemented was also rule of law. Such argument is clearly wrong. In the state of Qin and the later Qin Dynasty and in an age when imperial power was paramount, how could they change the general situation

of “rule of emperor” or “rule of monarch”? And was not “rule of emperor” or “rule of monarch” essentially rule of man? Considering Shang Yang’s words and actions, without “rule of monarch” what could he achieve at that time? The so-called rule of law under imperial power or rule of law under the rule of monarch is far from same as true rule of law. In my opinion, this is proven by the history of the state of Qin and later the Qin Dynasty, and there is no point in wasting more words on it.

In feudal society, since rule of man means “rule of emperor” or “rule of monarch,” then there was inevitably “rule of officials under imperial power.” The officials ruled for the monarch, and if there was law to cite, the officials executed it on monarch’s behalf. However, although law was made and executed by officials, since it was all done under the “rule of emperor,” it was not something you could call “rule of law.”

All in all, the concept of rule of man is itself somewhat hazy. The point that imperial power is supreme and greater than law puts it in the category of non-rule of law rather than rule of man (unless rule of man is seen as synonymous with non-rule of law). After 1949, what existed in China, dominated by “old culture in new clothes,” was not rule of man but non-rule of law. There can be no more accurate term than non-rule of law to describe the various arbitrary and law-trampling phenomena, such as the “anti-rightist” and “anti-right deviation” movements and the “Cultural Revolution.” This being the case, why not just propose that “China should go from non-rule of law to rule of law” or “China must replace non-rule of law with rule of law”? Is this not more easily acceptable to the public than “going from rule of man to rule of law” or “replacing rule of man with rule of law”? Would that not cause less controversy or indeed none at all?

#### ***7.4.2 Not Every Legal Act Equates to Rule of Law***

It is necessary to go deeper into rule of law.

In real life, the authority of law should be established, and everything should be subordinated to law. But does any act done according to law equate to rule of law? Although we have discussed this question previously, we need to return to it. For example, in the 1930s, Hitler’s coming to power was completely in line with the German constitution, and once in charge he won unlimited powers, all of them legal. In the name of law, he could and did have arrested, tried, and convicted anyone opposed to him, anyone not supporting Nazi rule or anyone he simply disliked. In terms of law itself, at least in the mid- and late-1930s, Hitler’s behavior was still legal because he did it according to law. But does this allow the verdict that Germany practiced rule of law after Hitler took power? Clearly, we cannot draw the equals sign between legal and rule of law or between acting according to law and rule of law.

Wearing the hat of legality, some people can exploit existing law as a tool for autocracy or strongman politics. If there is no such law in reality, then it can be immediately made, passed, and put into effect. Therefore, when there is legal basis

to cite, autocracy or strongman politics can most definitely be dressed up in a cloak of legality. As to constitutional or legal articles unhelpful to autocracy or strongman politics, these can be amended through so-called legal procedures, thereby removing any contradiction with the principle of acting according to law. This shows autocratic rule may present itself as legal rule and strongman politics as law-based politics, both consistent with the principle of acting according to law. Instances of this are not rare at any time in history or in any country.

It becomes necessary, therefore, to elaborate on the true meaning of “rule of law” in a scientific way. An essential point is that law should be the product of democracy and also its guarantee. We should start by analyzing the essence of law. Only law as a product and guarantee of democracy can be used as the basis of rule of law. In situations when democracy is stripped away, even though law exists, there can be no rule of law worthy of the name. Therefore, in discussing what rule of law is, we must note: laws themselves must be consistent with the democratic spirit and be made under the condition of democracy, and their execution must have democratic supervision. Otherwise, although law does exist and affairs are handled according to law, it does not necessarily constitute rule of law

Some might contend that since democracy is in a continual process of development and perfection and law is always made and executed in this process, it follows that there can never be such a thing as totally perfect law. As the situation changes and democracy improves, law will be amended, enriched, and added to. And surely will this not influence the rule of law? As we know, even if democracy is an ongoing, developing, and imperfect process, in a certain periods and under certain conditions, law still can be the product and guarantee of democracy, which is a different thing entirely from destroying democracy and providing a cloak of legality for autocracy and strongman politics. The amending, enriching, and supplementing of law can be conducted on the basis of democracy, which is something totally different from the autocratic behavior of forcible revision of law heedless of democracy.

Opinions such as “anything goes provided there’s no law against it” are simply mocking rule of law and whitewashing autocracy and strongman politics in legal form. In China, this is very likely the residual influence of feudalism in the political area. At the end of the 1980s, there was a wave of “new authoritarianism,” which amounts to no more than a pirated version of “open absolutism.” It took the cover of legality and brandished the banner of rule of law, but what it actually pushed forward was an improved version of autocracy, namely, “new authoritarianism.” Its appearance and the fact that it was actually commended by some at that time make us more alert to the need for democratic and legal construction and the relation between democracy and rule of law.

Democracy is a manifestation of the existence of order. It will never mean disorder. Rule of law is inseparable from democracy, and without democracy there will be no rule of law. Under rule of law, no behavior of autocratic rule or so-called open absolutism that waves the banner of legality is allowed to exist. When “new authoritarianism” first appeared at the end of the 1980s, one pretext advanced by its proponents was that the current administrative organs were not efficient and the neo-authoritarian approach would improve efficiency. The excuse did not have a leg

to stand on. One might ask how low efficiency in administration came about. It was the inevitable outcome of lack of democracy, lack of rule of law, and lack of restriction and oversight mechanism on government stretching back for years. With no check-and-balance power on administrative organs, no inner self-restriction mechanism, and with government servants lacking self-discipline, the result is bound to be low or even negative efficiency. Therefore, in trying to improve administrative efficiency, we can never resort to methods destructive to democracy and rule of law, which is to say, the methods espoused by “new authoritarianism.” Resort to such methods might seem to improve efficiency with the speed of lightening, but democracy, the basis of rule of law, will be destroyed. The seemingly high efficiency will be short-lived. Furthermore, the arbitrary, nondemocratic, and unscientific decision-making process will result in more serious loss of efficiency. For China at the present stage, democracy and rule of law are works in progress, gradually advancing, not halting, still less retreating. But what “new absolutism” advocated was “going into reverse,” a movement against the tide of the age. It claimed to accelerate modernization, but if we were to follow it, modernization would remain beyond our reach. With democracy destroyed, rule of law could not be achieved, and we would be farther, not closer, from the goal of modernization.

### ***7.4.3 Moral Renewal and the Building of Democracy***

The formulation and execution of law cannot be separated from the role of people. If legislators lack democratic thinking and law executors lack democratic style, it will be hard to achieve rule of law, so we cannot underestimate the role of people. Moreover, the public also needs democratic thinking so they can understand the need to safeguard the dignity of law and the importance of observing it and so they can supervise those who execute law. A precondition for realizing rule of law is public oversight. The extent of the role of the public in building democracy will be determined by how strong their awareness of rule of law and democracy is. The traditional idea of local officials being “parent officials” is a display of “standard old culture” and a mainstay of that culture’s persistence.

Given the millennia-long dominance of feudal thinking and the tenacity of old culture, it is unsurprising that cultivating democratic consciousness among the public is an uphill task in China. Another factor militating against realization of rule of law is the long-nurtured mentality of dependence on officials. The long-standing mindset reflects the long-enduring minor status of the public. For example, when an ordinary citizen is wronged by some administrative agency, he always hopes there will be an “impartial official” to uphold justice on his behalf, rehabilitate his reputation, and punish the corrupt officials or those abusing law for personal benefit. Of course, one has to acknowledge that in the absence of democracy, ordinary citizens had no choice, and they cannot be blamed for having such a mindset. What should be held responsible is the system that made the public so insignificant.

Building democracy is a question of systems. To build a democratic system, there needs be effective reform of the political system, making the public real

masters able to exercise their rights rather than being masters in name only. This goal cannot be realized overnight, but it is something we must strive hard toward. In this process, the public's democratic consciousness will gradually strengthen, and their dependency on officials will eventually be overcome or eliminated. This brings us to an important task in moral renewal: moral renewal should include the building of democratic thought. More specifically, all should know how to exercise their rights, how to elect suitable persons as representatives of the people and be leaders of government agencies, how to remove incompetent representatives and leaders from office, and how to view and comment on politics, government measures, and the capability and achievements of government officials. Moral renewal can be complete and adequate only if such things come into its scope. How individuals nurture creativity and enterprise, how to build group consciousness; how to be self-disciplined; how to safeguard social, commercial, and professional ethics; how to stand up for right, etc., are all necessary, but if the scope of moral renewal went no further than this, it would not be helpful for building democracy, for promoting rule of law on the basis of democracy, let alone for turning a society or a whole country into one where rule of law holds sway.

As discussed above, the opposite of rule of law is non-rule of law, the features of which are monarchs and officials being higher than law, their behaviors contemptuous of law and the trampling of law. If moral renewal does not encompass the building of democratic thought or awareness of exercising one's rights, non-rule of law will not exit the stage of history of its own volition. Even in a society of non-rule of law, people might also have enterprise and creativity (albeit often frustrated), have self-discipline, know the importance of social ethics, stand up for right, and enjoy helping others, but these cannot help realize rule of law. This tells us that an all-round understanding of moral renewal is necessary, one that does not exclude the building of democratic thought. When people have enterprise, creativity, and dedication to the public weal, as well as democratic consciousness, courage to participate in and review government affairs and courage to exercise their right of supervision over government officials, the task of moral renewal shall be completed. All in all, in the environment of rule of law, law is not only the means for guaranteeing people's rights but also the basis for restricting the power of the authorities.

## **7.5 Rebuilding Social Trust**

### ***7.5.1 The Need to Rebuild Social Trust: From the Perspective of Enterprise Survival and Development***

In a market economy, enterprises of all types of ownership (private, state owned, or whatever form) are the blood cells of the economy and should be based on integrity: no enterprise can survive or develop without the trust of its investors, clients, and other enterprises in the same trade.

In the traded sector, every enterprise has the status of a trader. The enterprise-to-enterprise relation is one of trader to trader, as is that between enterprise and

clients. Even the enterprise-to-investor relation can be seen as trader to trader. When the credibility of an enterprise is gone or weakened, this relationship may loosen to breaking point. A classic example could be found in a long-existing partnership business. In this organizational form, partners shoulder unlimited and joint liability, so there must be complete trust between them. Otherwise, who would be willing to shoulder the other partners' liabilities? Without this trust, partnership enterprises would hardly survive. For the widely existing limited liability companies or corporations, credibility is also very important. Whether the shareholders trust the corporation depends on whether the board exercises its right to examine the corporation's operation performance and profit allocation plan and all its important actions such as capital growth, issuing of shares, mergers, staff movement and dismissal, liquidation, etc. Top executives of limited liability companies or corporations must earn the trust of shareholders in order to stay in post, and companies must earn the trust of investors in order to enjoy sound growth.

In a day-to-day business, a credibility crisis might arise for many different reasons: the producing or selling of shoddy or fake products will make clients lose confidence in the enterprise; late payment for goods or services or tardy repayment of bank loans will damage its credibility; and unilaterally scrapping a contract to the detriment of the other party will result in collaborators and clients losing trust in the enterprise. Such practices as false accounting, misleading advertising, or release of inaccurate information will cause an enterprise's credibility to fall and to stir up opposition from other businesses in the same line. An enterprise with a bad reputation will lose potential for growth.

According to modern economics, for an enterprise to survive and grow, it needs material, human, and social capital. Material capital includes factory buildings, machinery equipment, raw materials, spares and accessories, energy supply, etc. Human capital is embodied in the skills, knowledge, wisdom, experience, and perseverance of the workers and management. Social capital refers to social relations, interpersonal communications, brands, and reputation that are conducive to the survival and growth of an enterprise. Social relations and interpersonal communication are built on a foundation of mutual trust. If an enterprise has a good reputation and trustworthy people at the top, other enterprises will be willing to trade or work with it. Without social capital, an enterprise will find it hard to grow, even if its material capital is plentiful and of good quality. Such an enterprise will be isolated in the commercial world; business opportunities and new markets will come hard.

Some enterprises or their top executives are actually aware that their lack of credibility will lead to the enterprise getting into dire trouble and damage to their personal reputation, so why do they persist in producing shoddy or even fake products, delay payments owed, make empty advertising claims, and cheat customers? One reason is the temptation of personal gain, and the other is the "trusting to luck mentality." The former is the basic reason, whereas the latter encourages risk taking in the belief that things will remain undiscovered and the pay-off is worth the gamble. This mindset is dangerous and can lead into serious error.

In fact, every enterprise and every enterprise leader face a legal bottom line and a moral bottom line, neither of which can be overstepped. Overstepping a legal



bottom line is not allowed by the law, and doing so makes the enterprise and its leaders legally liable for the consequences. Similarly, the moral bottom line cannot be ignored. On some occasions, they may overstep both, but on others, perhaps they engage in “edge ball,” only overstepping the moral line while staying within the law. This is not right either. An enterprise and its leaders must be aware that they must violate neither the legal bottom line nor the moral one. Things that legal provisions do not allow are definitely forbidden, and crossing the moral bottom line should similarly be forbidden. They should remember that observing these coexisting restraints is the only way to maintain credibility and win public trust. In the Ming and Qing dynasties, one of the most important reasons for the enduring prosperity of merchants from Anhui and Shanxi was their ability to discipline themselves with Confucian teachings, thus remaining trustworthy and honest in business.

Such transgressions as outlined above are not the monopoly of private enterprises or their leaders: state-owned enterprises and their leaders have been known to take such risks. The temptation of personal benefit refers not only to monetary gain but also to promotion and increased salary and other rewards. Promotion is especially attractive for leaders of state-owned enterprises. Lured by such prospects, they may manage to increase the output value and profit of the enterprises even at the cost of their credibility. In other words, some state-owned enterprises will also risk breaking legal and moral restrictions and doing things that are injurious to their reputation.

One reason for this “taking a chance and trusting to luck” is the belief that their behavior will remain undiscovered and unexposed. The second reason is that even if they are exposed and punished, the punishment is usually very light, so, calculating that “the benefits outweigh the costs,” the enterprises think the risk worthwhile. In other words, if their violation of rules and laws succeeds, they gain a great deal personally, and if their wrongdoing is discovered and punished, they pay too small a price, and so such violation goes on despite being forbidden. What’s worse, in the case of leaders of state-owned enterprises, the fine is usually paid by the enterprises, so the leaders don’t consider themselves as actually having a real loss.

What the foregoing tells us is that “the benefits outweigh the cost” situation must be eliminated and that punishment should be severe; moreover, the punishment should fall specifically and personally on those responsible, so they will no longer take irresponsible chances.

To build trust between enterprises in the same line, we must strengthen the role of industry associations. Apart from guiding production and operation and coordinating mutual help between enterprises, an industry association should play a bigger role in promoting self-discipline and mutual discipline among its member enterprises. Both forms of discipline are means by which the association can help enterprises raise their legal and moral awareness. Only by enterprises practicing self- and mutual discipline, reminding, stimulating, and supervising other enterprises in the same line can the overall credibility of that industry keep on growing. Within the scope of an industry association, all its member enterprises are equal regardless of ownership type, scale, capitalization, or length of time in business.

This facilitates the practice of mutual discipline. Self-discipline, including legal and moral restriction, of every member enterprise is voluntary, but whether and to what degree an enterprise has self-discipline is supervised by the industry association and other enterprises of the same trade. Oversight will help an enterprise to be more self-disciplined.

It should be pointed out that the social responsibility borne by an enterprise does not stop at supplying quality products and services, being progressive and innovative, and creating wealth and jobs: it also includes caring about public welfare, being ready to help the poor and adhering to the principle of trust, and treating the clients, public, and traders in honest fashion. An enterprise that betrays society's trust, destroying its own credibility or even causing a crisis of social credibility, cannot be said to be socially responsible.

Therefore, it is of real importance to propose “the necessity of rebuilding social trust from the perspective of the survival and development of enterprises.” From the perspective of international economy, the subprime lending crisis that hit the USA in 2007–2008 and the consequent global financial crisis were intrinsically deep and broad credit crises and crises of social credibility. The long-term low bank interest rate caused investors to endlessly expand their profit-seeking behavior. The unchecked spread of financial derivatives made the financial bubble more and more fragile and the quality of loans worsened by the day. Under the impact of company bankruptcies and bank failures, the credit system collapsed. People lost their belief in banks and other financial bodies; neither did they trust agreements and contracts with trading partners. For those reasons, as the global financial crisis continued, its impact on the real economy became more and more evident; it even started to influence consumer attitudes and behavior in the West, which in turn may have far-reaching influence on Western society. The exposure of problems in powdered milk, liquor, rice, pork, soy sauce, duck eggs, salt, etc. has caused worries over food safety. For example, although only a few brands of milk powder were actually involved, the exposure influenced the reputations and sales of all milk powder enterprises in China, and there was a scramble to buy imported brands. If the government had taken no countermeasures, the crisis of credibility would have continued to deteriorate. Thus, we can see the importance and urgency of reconstructing social trust.

Market order is maintained by social trust. An enterprise is supported by its own credibility. Consumers vote for an enterprise on the basis of their trust in its products. Aren't these persuasive enough arguments for the importance of self-discipline, mutual discipline, and moral and legal restriction to the fate of enterprises and market prosperity?

### ***7.5.2 The Need to Rebuild Social Trust: From the Perspective of Harmonious Interpersonal Relations***

Everyone belongs to at least one group, and, however large or small, it always consists of more than one person, and relations between people always involve the issue of trust. Trust is essential to the survival of a group or the maintenance of

interpersonal relations. Without trust, there will be no harmonious interpersonal relations, no social organizations, or even no society.

Trading activities can only be launched on the premise of trust. Everything that happens between traders—the buying and selling of goods and services, hiring and being hired, the lending of money, renting or transfer of real estate, extending credit, insurance, entrusted agency, etc.—start from the premise of mutual trust. Similarly, mutual trust is a precondition for cooperation between traders, such as coinvesting to establish or purchase an enterprise, joint research, and development of a project; discussing segmentation and coordination of market share, distribution of benefits, and united action against another trader; or employees preparing united action to demand more from employers. Only with trust can they reach an agreement or a tacit understanding. If they doubt each other, their cooperation or trade will struggle to continue.

As previously stated, in social life, the non-traded sector is often much larger than the traded sector. In the non-traded sector, relations such as ties among families, clansmen, neighbors, townsmen, schoolmates, or teachers and students are not based on trading rules, but trust is essential here too. Without it, these relationships will be harmed. For the basic order and stable life of a group as small as a family, a village, or a residential block, the building of social trust is essential. Money is also involved between neighbors, townsmen, or schoolmates, but, unlike the market, it does not follow rules of trade. For example, if someone urgently needs to borrow money from neighbors, relatives, or friends, must they first negotiate, write an IOU, fix a rate of interest, and make pledges? This is usually not the case, because they rely on mutual trust. If there is no mutual trust between a childless couple, how long will their marriage last? A couple without trust will break up sooner or later.

Interpersonal relations should be harmonious, and harmony must be based on mutual trust. People need to cooperate, and cooperative relations are not purely about benefits: they are first and foremost a requirement of social exchange, i.e., everyone is willing to cooperate with others in the interest of survival, overcoming difficulties, and common development. You want to cooperate with others and them with you. Seen in this light, trust is an intrinsic need: it comes from within.

So we can distinguish two different scenarios: cooperation based on trust and trust based on cooperation. The former is the more important.

Let's start with the life and work of the earliest human beings. In remote antiquity, people had to trust each other in order to survive. Without market and government, people gathered and formed a group with the same aim: to survive in the extremely hard environment. "You survive, I survive, and we all survive" was the moral foundation that gave birth to trust. Otherwise how could an individual find enough food by himself or defend himself against wild beasts? How could he survive cold winters, snowstorms, forest fires, and floods? Just take hunting, for example. Without working together, what success could be expected? Cooperation was indispensable: once there was trust, there could be trust-based cooperation.

As humans made more and more contact over a greater range of activities, groups became more populous, and group-to-group contacts became more frequent, as did communications between individuals. We cannot say mutual trust had emerged between the members of one group and those of another or between their respective

leaders, but the need for cooperation between groups did emerge naturally. For instance, if one's own group was attacked by another coming to steal property, abduct people, and occupy land, it had to cooperate with other groups to resist the enemy. In such cases, the need for cooperation was usually put first. But in such cases, perhaps their cooperation was based on preexisting mutual trust, built up in the course of previous dealings. An alternative is that there had been little previous contact, and the groups had not built up any mutual trust, but that this emerged gradually, resulting from their necessary cooperation to resist the incursions. This is cooperation-based trust.

As interpersonal relations expand over a wider field, there is a concomitant increase in people-to-people contact and cooperation in non-traded sector. It is not possible to confine one's dealings and cooperation to old friends: such things will inevitably involve new people. Therefore trust-based cooperation and cooperation-based trust actually coexist. Trust is absolutely essential to both. Without it, there can be no cooperation, and even if there has been in the past, it will be short-lived.

In a group, big or small, organized or non-organized, consultation and election among members complement each other; this is a precondition for the stability and development of the group. Election is a form of democracy and consultation implies democracy. To recognize electoral democracy but deny consultative democracy is not right, but nor is the converse. In the development of human society, consultative democracy has a much longer history than electoral. In remote antiquity, it was the first form of democracy, and with the subsequent emergence of election, both forms were used. The consultative form could better ease the atmosphere and enable all sides to fully exchange ideas in search of a generally acceptable solution while retaining mutual trust and understanding. The use of election can be regarded as a result of consultation. Of course, this is not to discount the advantages and significance of election: but if there was only electoral democracy and nothing else, the results, on the principle of "the minority subordinate to the majority," might be less satisfactory than those combining the two types.

We have learned that in history, in the handling of group internal affairs and external dealings with other groups, the main principle was consultation. Election was used only when it was necessary to make, modify, or abolish regulations and conventions in a group, when it was to elect or dismiss a leader or a major functionary of a group, when a group was to sign or end a contract with other groups, or when it was to leave an organization formed with one or more other groups. But usually in such cases, consultative and electoral democracies were used in tandem.

In handling interpersonal relations, both these democratic forms are products of civilization passed down over thousands and thousands of years. Each historical period had its own particularities, and each nationality and country used both, as determined by its own customs. There was no uniformity, but the common foundation was mutual trust. That the group and its members should have a moral bottom line was a necessary condition for the normal running of consultative and electoral democracy.

Actually, interpersonal relations in the non-traded sector encompass much more than consultation and election. Trust is also a basic element for forming harmonious

interpersonal relations in these sectors. For example, within a family, if a child is forced by the parents to marry someone against his or her personal choice, he or she may leave home and perhaps even commit suicide. Trust in the parents has been lost. In a clan, if bullying elders hog common clan properties or take advantage of the weak, the clan members will rise in resistance, no longer trusting the elders. If someone, disregarding honor, cheats, extorts, or entraps others, he will cut himself off from his friends, colleagues, and neighbors, who will find him loathsome. If someone inside an academic group is exposed for plagiarism or faking data, he will be ostracized, because no one trusts him anymore; if the academic group allows such things to go unchecked, its reputation will be seriously damaged, and fewer people will want to join in it. Clearly, the importance of trust or mutual trust in non-traded sector and the consequences of their loss are no less considerable than in the traded sector.

In conclusion, the issue of social trust crops up everywhere. In the traded sector, if society has lost trust, the market will be in disorder, the traders will not be sure of their goals, cash trading will replace trading on credit, barter trade may even replace trade by cash, and human society will go back to the primitive stage. This is not to be contemplated. The consequences would be even more pronounced in the non-traded sector. If society no longer had trust, no one would trust or be trusted. All interpersonal relations would fall apart and all social organizations collapse. Could such a society still enjoy stability and development?

### ***7.5.3 The Need to Improve Government Credibility***

The building of social trust is a process, one in which interpersonal contacts and enterprise-to-enterprise trading activities are begun and expanded through the constant accumulation of trust. As a behavioral agent, government has contact with the public and enterprises at every moment, which also involves issues of mutual trust: the general public and enterprises trust the government and vice versa. Such mutual trust accumulates with time. If the behavioral agents, including the government, do not trust each other, society will be in disorder, and the social ethos will deteriorate. Once again, we may analyze from the perspectives of the traded and the non-traded sectors.

Once people enter the traded sector, they act in the capacity as traders and according to the rules of these sectors while never crossing the legal and moral bottom lines. Government, as one of the behavioral agents, is no exception. For example, as a purchaser, government needs to buy all kinds of products and service from enterprises. Government and the enterprise, as buyer and seller, respectively, should trade in accordance with relevant laws, rules, and regulations and on the principle of trust. To give a further example, in land transactions, there is a supply-demand relationship between the government (the supply party) and the realtor (the demand party). The latter gets land by following certain laws, rules, and regulations. Trust between the two parties is, as ever, the norm to be observed. There is

no exception for government. In the traded sector, sellers and purchasers are equal, and whether it is buyer or seller, government cannot ride roughshod over the other party. Only when both sides are equal and both follow the rules of these sectors can they build mutual trust.

In the non-traded sector, the situation is somewhat more complex. In addition to person-to-person contact, clan-to-clan contact, and relations within clans or within various social groups, there are also relations between government and communities, social groups, clans, families, and individuals. For example, when an individual pays tax to government or its affiliated department, this is not a trading relation between the seller and purchaser. Nor is it a trading relation when the government and its affiliated departments are required to aid natural disaster victims, orphans, and low-income families. As to the role performed by legislation and security departments in handling disputes among the public, this is even less of a trading relationship. In spite of this, government or its affiliated departments must be trustworthy, build mutual trust with the people concerned, and never violate laws, rules, or regulations in the course of their duties.

Then how does government win trust from the public and enterprises in traded as well as non-traded sector? How is mutual trust between them established? Such questions exist even in autocratic societies. When China was under autocratic rule, imperial power was paramount, and subjects were absolutely subordinate to the royal court. But it is evident from the importance attached to the imperial examination system during the Ming and Qing dynasties and the severe punishment meted out to violators of the system that imperial power of that time always tried to ensure the fairness and impartiality of the examination. Why so? It was to safeguard credibility of the imperial power among the public. If this was diminished, the strength of imperial power would be threatened. For another example: why did Chinese imperial power throughout the ages always honor “clean officials”? This too was for strengthening popular trust in the royal court, because for the common people, a “clean official” was a measure of imperial credibility. Under democratic systems in capitalist and socialist countries alike, society is turning more attention on popular trust in government. An important distinction between democratic and autocratic systems is that under the former, the public and enterprises have many more free choices: If unrequired in one place, they can go elsewhere; they can migrate between cities and even between countries; they can change occupations; investors can withdraw their investment or switch it to a different sector. The general public and enterprises also have more channels for complaint or expressing a personal view, criticizing the behavior of responsible departments, including exposing bribery and perversion of justice among government organs and staff. So, for government to maintain popular credibility is a tougher task than in the past. The forcefully executed measures habitually resorted to under autocratic systems such as blocking information or suppressing public opinion and have already lost their base under democratic systems.

In other words, under a democratic system, because the public and enterprises have freedom to choose, the government has to find more ways to increase its

credibility to suit the new situation. This is exactly what distinguishes a society with rule of law from a non-rule of law society. For example, in the traded sector, whether the government engages in the capacity of seller, purchaser, or joint investor, it must observe laws, rules, and contracts. Only thus can it be trusted by the other party to the trade or the coinvestor. At precontract stage, the other party can take into account the government's track record in fulfilling commitments and on the basis of this decide whether to sign the contract or to withdraw. If the contract has been signed and the trade is underway to the detriment of the other party, then, once bitten twice shy, it will not cooperate with government again. If the government does not comply with the contract or fulfill its promises, it is destroying its own credibility and will hardly be trusted by the public and enterprises. In the traded sector, both parties are equal: both parties are free agents in the choice, and neither should cross the legal and moral bottom lines.

In the non-traded sector, the role of the government is special: It usually appears in the capacity of manager and servant of public affairs and not as a trader. In such cases, to keep and improve its public credibility, the foremost issue is positioning itself correctly, not the observance of trading rules or similar. In traded sector, although the government can be a trading party or a joint investor, it is at the same time the manager and servant of public affairs. Irrespective of whether both or just one of the trading parties are enterprises, the government still plays that public affairs role. Therefore, in the non-traded sector, if the government wants to maintain and improve its credibility, its priority should be to fulfill that role in a way that wins it public trust. If government staff abuse their power, show partiality to some and treat others unfairly, engage in cover-ups, and cheat the public and if they exploit their positions of authority, break the law, and cross legal and moral bottom lines for personal gain, this will drag down public trust in the government.

In both sectors under discussion, government credibility is something that builds up gradually but can be destroyed in an instant. Just like a big dam, it has to be built, maintained, and reinforced over a long time, but it is vulnerable to sudden collapse after a huge storm and deluge. The government should keep alert to this, be vigilant, and never let such disaster strike its credibility.

To improve government credibility with the public, these four aspects will need to be tackled:

1. Although laws, regulations, and policies are not necessarily perfect in their newborn form, they are still better than none at all. A situation devoid of laws and policies will make government staff more casual in managing public affairs, and thus government credibility will decrease. Of course, laws, regulations, and policies should be made as scientific and rational as possible and take into account the opinions of experts, scholars, experienced civil servants, and representatives of the public. Once put into effect, the government should try by various methods to monitor how they are being implemented, discover problems and defects, and revise them according to official procedures. But before revising, one should protect the stability of laws, regulations, and policies and not change them casually; such an approach will damage government credibility.

2. Government staff must become more integrity conscious. This is because they directly handle public affairs and, being at the interface of public and government, represent its image. Low credibility is in many cases caused by government staff failing to handle affairs according to law, ignoring policies, or being untrustworthy. And corrupt behaviors gaining personal benefits by abusing power receiving and even extorting bribes are even more deadly to government credibility. Therefore, there must be a mechanism to supervise government staff and to keep them clean and just, so as to safeguard their own image and that of the government.

3. In a time when China is still in transition between the planned and the market economy and further reform is needed, it is necessary to combine efforts to raise government credibility with efforts to deepen system reform, since measures for handling public affairs under the planned system are not suitable for the market economy. In the traded sector, once power gets involved in trade, there will be rent seeking, a phenomenon very liable to emerge in the economic transition. This is because the formulation and allocation of quotas, prevalent under the planned system, often came about through the manipulation of power and provided a hotbed for rent seeking. In the transitional period, the quota system lingers on in some industries, so the double-track system becomes a feature of this period, one that can also give rise to rent seeking. All these make the public more suspicious of government. In the non-traded sector, because the supply of some public products often does not meet demand, when supply and demand are under stress, the competent departments and government staff may use their power to intervene. Some recent frequent examples in China are parents competing for places at the choicest kindergarten, primary and middle schools for their children, patients competing for their preferred hospitals and doctors, applicants for affordable housing demanding decent locations, etc. Thus, deeper system reform is necessary in the traded and the non-traded sector alike. The persistence in the traded sector of quotas, government procurement, and double-track and industrial monopoly systems has a great deal to do with to the imperfections of system reform. In the non-traded sector, the question of fairness in supply and distribution of public goods can be resolved only through deeper system reform. In light of this, system reform is very pertinent to government credibility.

4. Since modern economy is a credit economy, government as one of its behavioral agents must be credible and trustworthy both in the trade and non-traded sector. However, a modern economic system as a credit-based system cannot be perfected with sole reliance on a certain kind of behavioral agent. In this kind of social credit system, the government is not only a trader but an administrator and servant of public affairs. As such, it is responsible for helping advance the establishment of social credit, which will in turn help improve mutual trust between the government, the public, and enterprises. In other words, building a social credit system is a measure for improving government credibility.

What is a social credit system, how does one build it, and where can government play a role? We will discuss these questions in the next part.



### ***7.5.4 Building a Social Credit System***

There are three main aspects of social credit: individual credit, intermediary agency credit, and enterprise credit. Individual credit means: In a credit society and credit economy, the credit of an individual as a member of society and trader in the market should be known by others and the intermediary agencies before he can have dealings with others or be accepted by other parties to the trade. To build a social credit system, a suitable individual credit rating system and the compiling of individual credit records are both necessary.

Credit of intermediary agency credit: Intermediary agencies engaged in credit surveys, credit collection, credit information, credit evaluation, credit guarantee, etc., and also face questions of credibility. Are they themselves credible, fair, and just, are their ratings authoritative, and are their responsibilities as important as their powers? If banks, insurance companies, securities companies, or loan and trust companies have departments for collecting data on individual or enterprise credit, they should come under the intermediary agency credit system.

Enterprise credit: Apart from intermediary agency credit, all enterprises including insurance companies, securities companies, and loan and trust companies face questions of credibility. As regards an enterprise, the true situation of its assets, balance sheet, ability to repay, profitability, reputation, and credit management is all of concern to society. Financial enterprises face special issues in addition to the above-listed questions of credibility, for example, bank risk in lending to enterprises, in issuing credit cards, of granting personal loans, the possible impact of international finance, and risk resilience. All of the above concern society.

Therefore, a social credit system is actually a tripartite one that comprises individual credit system, intermediary agency credit system, and enterprise credit system. One opinion holds that the scope of the intermediary agency credit system should be expanded to encompass asset evaluation agencies, accounting firms, auditing offices, law firms, etc., since their business also involves credit evaluation and one of their outputs is to clearly show society the credit status of some individuals and enterprises. Therefore, the credibility of these agencies themselves is very important. Otherwise, how much trust can one have in the output of an intermediary agency that is itself non-credible?

So, what should be the government role in building a social credit system? Should the credit of the government itself be included? These are questions of a different order, and we shall discuss them separately.

The first question: What should be the government role in building a social credit system? There are four aspects to this: Firstly, it is expected to provide a sound legal environment for the building of this system, so that individual, intermediary agency, and enterprise credit systems all have laws or rules to follow. Secondly, it is expected to provide technical support for the building of such a system. In particular, the building of a credit database should be accelerated with government support. That is to say, it is far from enough for the intermediary credit agencies alone to concern themselves with the building of a credit database, so government must play a leading

role and help to realize the sharing of information resources by the whole society. Thirdly, the government should be a role model, improving the credibility of its staff and itself, spurring all practitioners of credit business to improve their own credibility and stick to legal and moral bottom lines, thereby increasing mutual trust between themselves and the public. Fourthly, the government should put more effort into the administration of social credit, especially the credit status of intermediary credit agencies and of enterprises. The role of the government in this respect is irreplaceable by any social group (including industry associations), because the credit information relating to an enterprise is widely dispersed among banks, tax, customs, quality supervision, justice, business administration departments, etc. It is hard to learn or to make a realistic evaluation of an enterprise's credit standing without combining the information from all departments and making a holistic analysis. No intermediary credit agency has the same competency as government to undertake such a role. After all, the credit status of such agencies is also under the administration of relevant government departments.

The next question: Should the credit of the government itself be included in this system? We will approach it from two angles.

One angle is: The credit of the government is the credit of the country. To maintain the country's credit, the government must have the trust of its own people plus the trust of other countries and international organizations. But these things are not what the social credit system is intended to solve. In terms of technology, we can rely on intermediary credit agencies to assess the credit of enterprises; we can rely on government departments to integrate information and administer the credit status of enterprises and evaluations by intermediary agencies; we can also evaluate the credit status of enterprises and intermediary credit agencies on the basis of certain criteria. But how are we to rate government credit? Are intermediary credit agencies competent to do this job? What criteria can they adopt as quantitative measures? Would their evaluation have any validity? This is a tough and as yet unsolved question that requires further study. If foreign rating agencies produced evaluations of China's national credit, what degree of credibility would the results show?

The other angle is this: the credit of individual government staff cannot be taken as representative of the whole country nor can the credit of a local government be taken as representative of the country and the central government. The reason is simple: individual government employees conduct themselves differently—some are honest and clean in performance of their official duties, whereas some violate laws and regulations, take bribes, or are derelict in their duties. The latter types will be deemed as harming the government image, and if they work in agencies relating to foreign affairs, they will be deemed as harming the national image, but this is not the same thing as the credit status of a country or a government. Furthermore, the behaviors of local governments (from provincial and municipal to county and town) such as breaking contracts, refusing to repay debts, etc., will harm the image of these governments. If those behaviors involve the interests of foreign businessmen, they will harm the national image: but they do not equate to the credit status of a country, either, since the credit of any local government cannot be taken as representing that of the central government and the whole country.

Of course, the behavior of government employees should be checked and supervised so that they will not do anything injurious to the government image. Local government behaviors such as renegeing on promises to domestic and foreign enterprises should be given due attention and addressed according to law lest they harm the image of the government and the country. This is essential if government credibility and the national image are to be improved. If foreign businessmen dealing with specific government employees or negotiating with specific local governments encounter violations of law, untrustworthy behaviors, and attempts to extort bribes, how can this not be detrimental to the national image?

Finally, one must analyze the role of trade associations in building a social credit system. Trade associations and chambers of commerce are intermediary organizations and can play a larger role in building a social credit system, such as promoting self-discipline and self-management of the trade; launching activities among enterprises in the same line involving mutual trust, mutual discipline, mutual protection and mutual loaning, etc.; actively taking over some functions transferred from government; and filling the gap left after the government role changes. When some or the majority of enterprises in a particular trade face losing credit for various reasons, the trade association or chamber of commerce can appeal on behalf of the trade and its members to protect their rights. At the same time, the rather rapid development of a trade and the constant emergence of new trades will encourage the establishment of new trade associations and chambers of commerce. The founding should be based on the principles of voluntary start-up, independent election of presidents, collection of funds, and hiring of staff. All in all, by increasing the self-discipline of enterprises, supporting and encouraging the development of private enterprises, and improving the caliber of private entrepreneurs, trade associations can play a rather important role in building a complete social credit system.

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# Conclusion

I believe, on the basis of the foregoing, most researchers will agree that regulation by custom and morality should be a focus of academic study in economics research.

Normally, morality and ethics are not in themselves the objects of economic studies, since the main issue of concern to economics is allocation of resources. The efficacy of resource allocation directly influences the degree and fluctuation of efficiency, which in turn has a bearing on normal social and economic operation and improvement or decline in living standards. Therefore, for a long time academic economists have focused on the following questions:

1. In certain productivity conditions, what kind of economic system or mechanism can bring about more effective resource allocation, more regular social and economic operation and faster improvement in living standards?
2. Under a certain economic system or mechanism, what means of regulation can bring about more effective resource allocation, more regular social and economic operation and faster improvement in living standards?
3. In certain productivity conditions, how to make the existing economic system or mechanism transit to a system or mechanism capable of bringing about more effective resource allocation, more regular social and economic operation and faster improvement in living standards?
4. Under a certain economic system or mechanism, how to make existing means of regulation transform into means capable of bringing about more effective resource allocation, more regular social and economic operation and faster improvement in living standards?

Those questions of interest to economists are beyond the sphere of scholars in other fields including that of ethics. Each discipline has its own specific research subject and topics.

However, as expounded in this book, what effects resource allocation, socio-economic operations and living standards is not just the power of market or government, but that of custom and morality, not only regulation by market and government,

but regulation by custom and morality. Thus, it is impossible for economists to exclude from their research the economic role of regulation by custom and morality. In this sense, research on regulation by custom and morality, like that on regulation by market and government, will bring greater depth, thoroughness and realism to study of resource allocation, socioeconomic operation and living standards. Obviously, such study can be taken as a task of economists or at least a common task of economists and scholars of ethics.

The important role of regulation by custom and morality in resource allocation, socioeconomic operation and living standards is reason enough for economists to include it in their research. For further understanding, we can examine the question from two more perspectives, namely, the mission of economics and the levels of economics research.

Let us first talk about the mission of economics. In *Economics and Political Science of Socialism*, I have a paragraph: “Having studied economics, one should know what ‘is worth aiming for,’ what ‘ought to be fought for,’ what ‘is not worth aiming for’ and what ‘ought not to be fought for’ in economy. To be specific, to study economics is for telling right from wrong in economy and for defining what one should approve and what one should deny. Only in this way can one have direction and a sense of right and wrong. This is the social instruction function of economics....Having studied economics and knowing what ‘is worth aiming for’ and what ‘ought to be fought for,’ one should further learn how to go about making those aspirations reality as soon as possible. This is the social design function of economics.”<sup>1</sup>

Therefore, we define economics as a science of social instruction and social design. Proceeding from this definition, we are clear that things such as moral norms, ethical standards and criteria for judging right and wrong play important roles not only in economic life but in economics research too. As we know, both prescriptive research and empirical research are indispensable for economics. And each method has its application scope. But in economics, prescriptive research is different from empirical research in the fact that the former only involves the judgment of right and wrong, whereas the judgment of right and wrong is the precondition of the latter. If prescriptive research has ascertained whether certain economic behaviors should be affirmed or condemned from a moral standpoint, then the empirical research on such economic behaviors will be very meaningful. That is to say, only when there are established criteria for judging right and wrong can economics combine these two kinds of research and play its due role of social instruction and social design.

From a macro perspective, economics as a science of social instruction tells us how to evaluate a system or mechanism, how to formulate and realize social development targets, including how to mobilize initiative and creativity so that people will spontaneously work hard for these targets. The role of moral factors finds full embodiment in such spontaneous effort. As a science of social design, economics tells us how to make reality of the goals that ought to be fought for and how to work out feasible

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<sup>1</sup> See Li Yining [1, p. 532].

measures. Here the judgment of economic right and wrong is still indispensable: what meaning could such measures have if we cannot explain what social development targets we should be striving for?

Now, let us analyze the levels of economics research and explain why we must give weight to moral factors in economic research.

On this question, I refer readers to what I said in *System, Target & People: Challenges of Economics*: “The reason we call the three research levels of system, target and people the key research topic of our time is because, from the perspective of the rapid development of science and technology, each level reflects a specific aspect of the relation between science and technology and socio-economic change and each level has a direct bearing on the development of science and technology. Take research on ‘system’ as a case in point. What kind of economic system can effectively allocate resources and spur the development of science and technology? What new requirements will non-stop development of science and technology make on their economic system? In the course of developing science and technology, in which direction will economic mechanisms evolve? ...Now take research on ‘target.’ When considering the development of science and technology, how does one integrate economic demands with social demands when drawing up development targets? How to be more realistic when drawing up enterprise targets and suit them to actual state of development of science and technology? ...Take the research on ‘people’ for example. When science and technology are developing all the time, how will the connotations of welfare change? How are we to understand quality of life? How to ensure that development of science and technology benefits rather than sacrifices the development of people? ...”<sup>2</sup>

Of these three research levels, the “people” level is seen as the highest. For many years post-1949, when “standard old culture” still existed and the “old culture in new clothes” dominated behavior and distorted minds, all research on “people” was forbidden, as was any discussion on the subject. Referring once more to *System, Target & People: Challenges of Economics*, I ask: “Is ‘not starving to death’ the meaning of ‘welfare’? If people have consumer goods that can maintain the lowest living standard, is that enough? Should workers be satisfied with their life and never ask for better, provided that life now compares favorably with pre-Liberation times when people survived on chaff? What kind of logic is that? Asceticism should never be taken as the moral standard of socialist society. The basic living standard should not be a frontier that people can never cross. In those unprecedented times, many acts violating the interests of the people and of the revolution were performed ‘in the name of the people’ and ‘in the name of revolution.’ The formula ‘in the name of the people,’ so righteous and convincing, spread asceticism among workers and required them to be self-restrained, while people spending the country’s wealth so lavishly ‘in the name of revolution’ always seemingly so justified and at ease. Your enduring hardship is ‘in the interests of the people,’ and his unrestrained indulgence is ‘in the interests of the people’ too. For making things like this seem reasonable,

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<sup>2</sup> See Li Yining [2, p. 12].

obscurantist policy was essential. Under the rule of such ideology, it is meaningless to talk about improving living standards or realizing socialist production targets.”<sup>3</sup>

In view of this, economics research must foreground the question of concern for, respect for and cultivation of people. In economics, many questions of a fundamental nature can be explained only when they are examined at the level of “people.” We should also remember that economic research is conducted by “people,” and that they are subjects as well as objects of such study. In other words, economics research is “people-on-people” research, the former being the subjects carrying it out and the latter the objects. But both people are “social people,” who live in reality, have their own ideas, aspirations and sentiments and their own judgment of right and wrong, their own choices, experience and lessons. At the same time, people always live as members of one or more groups, and must coordinate with the group, co-exist with people around and work hard to realize group target on the basis of their identification with the group. In this process, moral factors keep on influencing them both as subjects and objects, adjusting their attitudes and actions. Without studying the role of moral factors in economics, it is obviously not easy to clarify “people-level” questions, nor will it be easy to correct and penetrative explanations to questions at the other two levels—“system” and “target.” It follows that economics research cannot avoid going into morality and ethics.

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<sup>3</sup> *Ibid.*: 314–315.

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