

CHAPTER 1

INTRODUCTION

A. Definition of concept of "Capitalism", "Communism" and "Democracy"

Capitalism

Capitalism is an economic system in which capital goods are owned, operated and traded chiefly by private individuals or corporations for the purpose of profit, with the state confined in providing some public goods and infrastructure.¹ In a capitalist system, private control of these productive enterprises is protected by the rule of law and a regulatory framework. A capitalist state in democratic political system protects the exchange and distribution, between legal regulations and private persons (private companies)², which is driven by competition and profit-maximization, and where investments, distribution, income, production and pricing of goods, commodities and services are predominantly determined through the operation of a market economy in which anyone can participate in supply and demand and form contracts with anyone else, rather than by central economic planning. Human labor power is for sale in the market as one of the many commodities. In capitalist systems,

¹ *Encyclopaedia Britannica Online*, s.v. "Capitalism,"
<http://www.answers.com/topic/capitalism> (accessed October 15, 2009).

² *Black Crayon Library Dictionary*, s.v. "capitalism,"
<http://www.blackcrayon.com/library/dictionary/?term=capitalism> (accessed November 4, 2009).

goods and services, including those regarding the most basic necessities of life, are produced for profitable exchange.

Capitalism can be defined as a pattern of production, where it is characterized by predominantly private ownership of the means of production, distribution and exchange in a mainly market economy. According to Marx's analysis, Capitalism can be described to a core requirement of a capitalist society is that a large portion of the population must not possess sources of self-sustainment that would allow them to be independent, and must instead be compelled, in order to survive, to sell their labor for a living wage.³ Capitalism is usually considered to involve the right of individuals and businesses to trade, incorporate, and employ workers, in goods, services (including finance), labor and land. In modern "capitalist states", legislative action is confined to defining and enforcing the basic rules of the market though the state may provide some public goods and infrastructure.

During the centuries of 16th and 19th, the Capitalist economic practices became institutionalized in Europe, especially in England. Although some features of capitalist organization existed in the ancient world, and early forms of merchant capitalism flourished during the middle Ages. Since the end of Feudalism era, the Capitalism has been foremost in the Western countries. Commencing with Britain, it gradually spread throughout Europe, across political and cultural frontiers. Later during in the 19th and 20th, the capitalism explained the core but not exclusive, means of industrialization throughout much of the world. The consequence is because

³ *Wikipedia Free Encyclopedia*, s.v. "Capitalism," <http://en.wikipedia.org/wiki/Capitalism> (accessed November 15, 2009).

all large economies today have a mixture of private and public ownership and control, and some feel that the term "mixed economies" more precisely describes most contemporary economies.⁴ It can be seen that the capitalist combined economy is the main capitalist system, where the state intervenes in market activity and provides some services. Other systems include laissez-faire, where the state plays a minimal role and anarchy-capitalism where the market and private enterprise are completely free from the state which is nonexistent. The capitalism has often been contradicted with centrally planned economies during the last of century.

The capitalism concept has developed as dynamic system, with later thinkers often building on the analysis of earlier thinkers. Furthermore, the element concepts used in defining capitalism — such as private ownership, markets and investment — have evolved along with changes in theory, in law, and in practice. Elements of capitalism long predate the actual rise of capitalism itself. Also, the private ownership of production has existed at least in a small degree since the invention of agriculture. Market economies have likewise existed since the rise of the first states over 5,000 years ago.⁵

An expert in economic history, named as Peter Temin, argues that the economic stage as in the Early Roman Empire was similar to the most advanced world economies before the Industrial Revolution, particularly the economies of 18th

⁴ *Wikipedia Free Encyclopedia*, s.v. "Capitalism".

⁵ Joseph Schumpeter, *Capitalism, Socialism and Democracy* (London: Allen and Unwin, 1976), p. 200-260.

century in England and 17th century in Netherlands.⁶ At the time, there were markets for every type of good, for land, for cargo ships; there was even an insurance market.

In the earliest stages of merchant capitalism further to the Caliphate during the 9th - 12th centuries has been mentioned by some writers⁷, that it can be comparable as a vigorous monetary market economy, which was created on the basis of the expanding levels of circulation of a stable high-value currency (the dinar) and the integration of monetary areas that were previously independent. As well as, the techniques of innovative new business and forms of business organization were introduced by economists, merchants and traders during this time. For instance, innovations included trading companies, bills of exchange, contracts, long-distance trade, big businesses, the first forms of partnership (*mufawada* in Arabic) such as limited partnerships (*mudaraba*) (*mufawada* partnership possessed features similar to those of the early medieval family *compagnia* in Europe), and the concepts of credit, profit, capital (*al-mal*) and capital accumulation (*nama al-mal*). Several of these early capitalist ideas were further advanced in medieval Europe from the 13th century onwards.⁸

However, Some writers see medieval guilds as predecessors of the modern capitalist concern (especially through using apprentices as a kind of paid laborer); but economic activity was bound by customs and controls which, along with the rule of

⁶ Fareed Zakaria, "The Rise of Illiberal Democracy," *Foreign Affairs* 76, no. 6 (November/ December 1997): 22-42.

⁷ Baogang He, *The Democratization of China* (London and New York: Routledge, 1996), 101-150.

⁸ Wei Pan, "Toward a Consultative Rule of Law Regime in China," *Journal of Contemporary China* 12, no. 34 (2003): 3-43.

the aristocracy which would expropriate wealth through arbitrary fines, taxes and enforced loans, meant that profits were difficult to accumulate.⁹

However, these barriers to profit were overcome in the 18th century, and capitalism became the dominant economic system of the United Kingdom and by the 19th century Western Europe.¹⁰

The institution of private property was brought into existence in the full, legal meaning of the term in between the period of the late 15th century and the late 18th century. Important contribution to the theory of property is found in the work of John Locke, who argued that the right to private property is a natural right. Many countries in Europe underwent a thorough economic transformation associated with the rise of capitalism during the Industrial Revolution. Also, the levels of wealth and economic output in the Western world have risen dramatically since that time. Truly, it is seen to be effective for feudalism which began to lay some of the foundations necessary for the development of a capitalist system.

Mostly, the Feudalism expanded over Europe and lasted from the medieval period up through the 16th century. Besides, many Feudal manors were almost completely self sufficient, and hence limited the role of the market. This suffocated the growth of capitalism. The relatively unexpected emergence of new technologies and discoveries, especially in the industries of agriculture and exploration, revitalized

⁹ Larry Diamond, "Economic Development and Democracy Reconsidered," *American Behavioral Scientist* 35, no4/5(March 1992): 450-499.

¹⁰ Adam Przeworski and Fernando Limongi, "Modernization: Theories and Facts," *World Politics* 49, no. 2 (1997): 155-183.

the growth of capitalism. This can be explained that the most important advancement at the end of Feudalism was the emergence of “the dichotomy between wage earners and capitalist merchants”. With capitalism, the emulative nature means there are always winners and losers, and this is distinctly evident as feudalism modified into mercantilism.

The control and direction of large areas of industry came into the hands of financiers in the late of 19th century. This period has been defined as "finance capitalism,"¹¹ characterized by the subordination of processes of production to the accumulation of money profits in a financial system. Also, the major features of capitalism in this term included the foundation of large industrial cartels or monopolies; the possession and management of industry by financiers divorced from the production process; and the growth of a complex system of banking, an equity market, and corporate holdings of capital through stock ownership. In addition, the large industries and land became increasingly the subject of profit and loss by financial speculators.

During the late of 19th and early 20th century, the Capitalism has also been defined as an era of "*monopoly capitalism*," mentioned by movement from laissez-faire ideology and as well as, the government policies to the concentration of capital into large monopolistic or oligopolistic holdings by banks and financiers, and characterized by the growth of large corporations and a division of labor separating

¹¹ *Wikipedia Free Encyclopedia*, s.v. “Finance capitalism and monopoly capitalism,” http://en.wikipedia.org/wiki/User:172/Capitalism#Finance_capitalism_and_monopoly_capitalism (accessed January 30, 2010).

shareholders, owners, managers, and actual laborers.¹² Even through, the monopoly capitalism has a concept as initiated among Marxist theorists; non-Marxist economic historians have also given lots of comments on the rise of monopolies and trusts in the period. An expert, named as Murray Rothbard, affirming that the large cartels could not arise on the free market in the late of 19th century, argued that the "state monopoly capitalism" of the period was the outcome of interventionist policies marked by governments, like tariffs, quotas, licenses, and partnership between state and large size of business.¹³

In the last quarter of the 19th century, the development of huge industrial trusts had provoked legislation in the United States of America to decrease the monopolistic tendencies of that time. The U.S. federal government played dramatically a larger and larger role in passing antitrust laws and regulation of industrial standards for key industries of special public affect. Nevertheless, contemporary, non-bourgeois economic historians have trust these new laws were in fact designed to aid large corporations at the expense of smaller competitors.

During the end of the 19th century, economic recessions and flourish and run business cycles had become a recurring obstacles, even if such problems were most likely consequence of government intervention (according to the bourgeoisie of the time)¹⁴, not failures in free markets.¹⁵ In particular, the Long Depression of the 1870s

¹² Wikipedia Free Encyclopedia, s.v. "Finance capitalism and monopoly capitalism".

¹³ Murray N. Rothbard, ed., *Conceived In Liberty*, vol. 1, *A New Land, A New People: The American Colonies in the Seventeenth Century* (Alabama, USA: Arlinton House, 1999), 56-78, <http://www.scribd.com/doc/7396592/Conceived-in-Liberty-Vol-1-by-Murray-Rothbard> (accessed January 30, 2010).

¹⁴ Ayn Rand, *Capitalism: The Unknown Ideal* (New York: Signet, 1967), 22-55.

and 1880s and the Great Depression of the 1930s affected almost the entire capitalist world, and generated discussion about capitalism's long-term survival prospects. In the early 20th century, a succession of U.S. Presidents, beginning with Warren Harding's "Return to Normalcy," advocated laissez-faire capitalism.¹⁶ This allowed for the prosperity of "The Roaring Twenties," but later was largely responsible for the Great Depression. During the 1930s, Marxist commentators often posited the possibility of capitalism's decline or demise, often in alleged contrast to the ability of the Soviet Union to avoid suffering the effects of the global depression, despite the fact that the Soviet Union represented a nationalist dictatorship rather than a Marxist state.

Communism

The definition of Communism is a socioeconomic structure and political ideology that promotes the settlement of an egalitarian, a classless society based on common ownership and control of the definition of production and property in basic. The communism expert, like Karl Marx, a revolutionary communist¹⁷, pointed out that the communism could be occurred in the last stage of human society. Then it can

¹⁵ Thomas L. Friedman, *The World Is Flat: A Brief History of the Twenty-First Century* (London: Penguin, 2006), 110-222.

¹⁶ John C. Bogle, *The Little Book of Common Sense Investing: The Only Way to Guarantee Your Fair Share of Stock Market Returns* (Hoboken, NJ: John Wiley, 2007), 42-51.

¹⁷ *Wikipedia Free Encyclopedia*, s.v. "Karl Heinrich Marx," http://en.wikipedia.org/wiki/Karl_Marx (accessed January 30, 2010).

be following by a socialist stage, which would be achieved through a proletarian revolution.¹⁸

Also, "Pure communism" in the Marxian sense refers to a classless, stateless and oppression-free society where decisions on what to produce and what policies to track are made democratically, allowing every member of society to participate in the decision-making process in both the political and economic spheres of life.¹⁹

In addition, in the term of political ideology, it is often counted Communism to be a branch of socialism; a group of political and economic philosophies that pointed on the several intellectual movements and as well as political with origins in the work of theorists of the Industrial Revolution and the French Revolution. Communism attempts to offer an alternative to the problems with the capitalist market economy and the legacy of imperialism and nationalism. Besides, Marx describes that the solely method to solve these problems is the group of working classes or proletariat, that in the point of Marx are exploited by the Capitalist-class (bourgeoisie), to replace the bourgeoisie as the ruling class in order to establish a free society, without class or racial divisions and also are the core producers of wealth in society as well.²⁰

¹⁸ Paul Hawken, Amory B. Lovins and L. Hunter Lovins, *Natural Capitalism: Creating the Next Industrial Revolution* (London: Earthscan, 1999), 375- 415.

¹⁹ *AbsoluteAstronomy Encyclopedia*, s.v. "Social Hierachy," http://www.absoluteastronomy.com/topics/Social_hierarchy (accessed January 30, 2010).

²⁰ *Ibid.*

The outstanding structures of communism, for instance Leninism, Stalinism, Maoism and Trotskyism are referred to Marxism, but non-Marxist versions of communism, like Anarcho-communism and Christian communism also exist. Moreover, Karl Marx never granted any details for description as how communism would practice as an economic process, except it is accepted that a communist economy would compose of general ownership of the means of production, and finally the negation of the concept of private ownership, which is not to be confused with personal possessions. With different from Socialism, which is compatible with a communist economy and a market economy, consists of local or communal democratic planning.

Democracy

Democracy is a form of government in which power is held by people under a free electoral system. It is derived from the Greek *δημοκρατία* ([*dimokratia*]), "popular government" which was coined from *δήμος* (*dēmos*), "people" and *κράτος* (*kratos*), "rule, strength" in the middle of the 5th-4th century BC to denote the political systems then existing in some Greek city-states, notably Athens following a popular uprising in 508 BC.²¹ For the political theory, *democracy* can be defined as a small number of related forms of a political philosophy and government as well. Although there is no internationally agreed on the concept of '*democracy*', there are

²¹ *Wikipedia Free Encyclopedia*, s.v. "Democracy," http://wiki.answers.com/Q/What_nation_first_practiced_democracy (accessed January 30, 2010).

two principles that any definition of democracy includes. Firstly, it is totally members of the society that have equal access to power and secondly, every member relish universally recognized freedoms and liberties.²²

Generally, there are varieties of Democracy characteristics, including providing better delegation and more freedoms for their own citizens than others. Notwithstanding, in case that any democracy is not heedlessly legislated to avoid an irregular distribution of political power with balances, like the separation of powers, then a branch of the system of rule is able to accumulate power in a way that is harmful to democracy itself. The "majority rule" is often explained as a characteristic appearance of democracy, but without responsible government it is possible for the rights of a minority to be abused by the "tyranny of the majority".²³ The most important as essential process in representative democracies are competitive elections that are fair both substantively and procedurally.

Moreover, freedom of political expression, freedom of speech and freedom of the press are essential so that citizens are informed and able to vote in their personal interests. Popular sovereignty is common but not a universal motivating philosophy for establishing a democracy. (Quote from wikipedia.org) However, the democracy is based on the philosophical principle of equal rights in some another countries. Mostly, the word "democracy" often uses in a term of shorthand for liberal democracy, that may include additional elements such as equality before the law, political pluralism,

²² *AbsoluteAstronomy Encyclopedia*, s.v. "Social Hierachy".

²³ *Wikipedia Free Encyclopedia*, s.v. "Democracy"

due process, the right to petition elected officials for redress of grievances, human rights, elements of civil society outside the government and civil liberties.

In addition, the power separation is always referred as a supporting attribute in the United States, except in other countries, for example the United Kingdom, which the outstanding philosophy is parliamentary sovereignty (though in practice judicial independence is generally maintained). For another meaning, the "democracy" is familiar to direct democracy. Even though "democracy" also referred that it is regularly used in the article of the principles are also suitable to private organizations, a political state and other groups.

The origin of Democracy is in ancient greece. In addition, other cultures have essentially provided the evolution of democracy such as Ancient Rome, Ancient India, North and South America and Europe. Beside, Democracy has been named the "last form of government"²⁴ and has spread considerably across the world. Suffrage, the right to vote, has been enlarged in many jurisdictions from comparatively narrow groups of people, such as wealthy men of a particular ethnic group, except it still remains a controvertible topic, regarding to areas with significant immigration, disputed territories and countries that except the certain demographic groups.

²⁴ *Wikipedia Free Encyclopedia*, s.v. "Democracy".

B. Economic Development Model of China:

Socialism with the Chinese Characteristic

In the first of October, 1949, the People's Republic of China was officially launched its national capital in Beijing. "The Chinese people have stood up!" declared Mao as he announced the established of a "people's democratic dictatorship regime."²⁵

The people were described as a solidification of four social classes: the workers, the petite bourgeoisie, the peasants, and the national-capitalists.²⁶ These four classes were to be led by the CCP, as the vanguard of the working class. In that period, the CCP declared a membership of 4.5 million, of which members of rustic origin accounted for nearly about 90 percent.²⁷ Beside, the party was under Mao's chairmanship, and the government was leaded by Zhou Enlai as premier of the State Administrative Council (the predecessor of the State Council). The Soviet Union recognized the People's Republic on October 2, 1949. Then Mao had proclaimed his policy of "leaning to one side" as a commitment to the socialist bloc in the same year.

After passing the month of negotiation, China and the Soviet Union signed the Treaty of Friendship in February 1950, Alliance, and Mutual Assistance, valid in until

²⁵ Maoist Documentation Project, "Smash Chiang Kai-shek's Offensive by a War of Self-Defence," *Selected Works of Mao Tsetung*, vol. IV (Peking, China: Foreign Language Press, 1946).

²⁶ Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, 2nd ed., trans. Talcott Parsons, intr. Anthony Giddens (Boston : Unwin Hyman, 1930; repr., London: Routledge, 2001), 44-71.

²⁷ Maoist Documentation Project, "Smash Chiang Kai-shek's".

1980. The accord was also intended to counter Japan or any power's joining Japan for the purpose of aggression as well.

At the beginning, it can be explained that Chinese government had found the light as it reached what they had expected for, instead of massive military opposition, within its territory. With highly discipline of the new leadership, and having experience on wartime administrative to lead the way, he was able to engage on a program of national integration and reform. The moderate social and economic policies were implemented with skill and effectiveness in the first year of Communist administration. Also, it can be seen that the leadership realized that the multitudinous task and overwhelming of economic reconstruction and social stability as well as the achievement of political required the goodwill and cooperation of all people classes. The outcomes were impressive by any standard, and popular support was widespread.²⁸

Reform, dubbed China's "Second Revolution", was one of the most common terms in political Chinese vocabulary in the 1980s. Reform of the Chinese Communist Party and its political activities, reform of government organization, reform of the economy, military reforms, cultural and artistic reforms, China's post-Mao Zedong leaders called for reform of every part of Chinese society. Besides, the leaders of the People's Republic of China understood that the reform as the way to

²⁸ Weber, *The Protestant Ethic and the Spirit of Capitalism*, 215-320.

realize the broad goal of the Four Modernizations and to bring China into the community of advanced industrial nations by the start of the new millennium.²⁹

Similarly, Chinese history had antecedents of the reform movement, as in Han (206 B.C.-A.D. 220), Song (960-1279), and Qing (1644-1911) dynasties, which performed hard efforts to bring the new fundamental dynamic into the administrative methods, at the same time of remaining overall institutional framework unchanged.³⁰

Thus, it can be explained that the reform movement of the 80s, which mostly has been characteristics, including insights and decision, of Deng Xiaoping (the most important one in the post of Mao Zedong leadership) which expanded its place broadly on the Chinese history. As with previous reform movements, history will measure this one's success.

²⁹ Parris H. Chang, *Power and Policy in China* (University Park: Pennsylvania State University Press, 1975), 187-276.

³⁰ Jean Chesneaux, *China: The People's Republic, 1949-1976*, trans. Paul Auster and Lydia Davis (New York: Pantheon, 1979), 111-255.