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.1

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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1 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-quicking 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.²

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

²See 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.\(^3\)

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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\(^3\) 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.4

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.5 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

4 See Henri Pirenne [4, p. 156].
5 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.6

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.7 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?

6 See Carlo M. Cipolla [6, pp. 63–64, 278–279].
7 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 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.8

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

8 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.”

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.”

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.”

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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9 See J. W. Thompson [8, p. 323].
10 See Henri Pirenne [4, p. 13].
11 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 indispensible 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.”12 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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12 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 manpower, 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’.”

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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13 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.14

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.’”15 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.”16

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

14 See Zhang Yuyan [11, p. 74].
15 Ibid., p. 75.
16 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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