

Weber, Isabella M.: How China Escaped Shock Therapy: The Market Reform Debate

1ST EDITION, LONDON AND NEW YORK: ROUTLEDGE, 2021, 342 PAGES, 978-1-138-59219-3

RUDOLF FÜRST

Institute of International Relations Prague, Czech Republic

E-MAIL

furst@iir.cz

DOI

<https://doi.org/10.32422/cjir.790>

Before the People's Republic of China's fascinating economic growth became a common topic, China was one of the poorest countries in the world, having been severely disrupted by the failed *Great Leap Forward* campaign (1958–1962) and the subsequent political chaos of Mao Zedong's *Great Proletarian Cultural Revolution* (1966–1976). This is not a miracle but an evidently successful upturn from the bottom of poverty to modern prosperity, and it is explained at length in this extraordinary monograph by Isabella Weber, whose deep insight into the global political economy as well as the Chinese modern statecraft synthesizes the fields of global economic economy and history.

Weber disrupts stereotypical expectations of the supremacy of ideology over practice in China while avoiding the Western disregard for the traditional intellectual legacy of the Chinese civilization. In the same manner, she shows China's historical openness to global economic expertise, which includes a major connection to Central and East Europe (CEE). Of course, her book mainly contributes to the scholarship on the history of China's economic expertise and contemporary economic model of state capitalism. However, it also sheds more light on the still surprising transnational history of how CEE (post)socialist experts co-shaped the variegated rise of neoliberal globalization both at home ^(KOPEČEK 2019) and globally ^(MARK ET AL. 2019).

Let's start with addressing the history of Chinese economic expertise. Weber uses a case study of the Chinese economic reform process in the 1970s and 1980s as a contribution to the never-ending discussion between market (neo)liberals and their Keynesian opponents. Her way of doing this is a *long-durée* perspective which allows the readers to understand the very socio-historical roots of the Chinese approach to this West-centered global debate; that is, she puts it in the centuries-long context of a dynastic era theory. This reveals a dynamic interaction between the state bureaucracy measures and the spontaneity of regional politics and market forces as a never-ending tension. The second context Weber applies is a more immediate 20th-century context. Weber explains the economic and political collapse of the Chinese Republic in the aftermath of World War II, and then critiques the Soviet-based Maoist model of economic management.

The main focus of the book and the center of Chinese economic development is the politics of inflation as a key to understanding the debate on the appropriate path to market reform in the 1970s and 1980s. Only the abovementioned contexts allow one to understand why and how the post-war communist government faced the imperative of creating a functioning market with state-controlled prices. In connection with this, Weber takes us on a historical hair-raising journey of a Chinese modern historical catastrophe in which inflation plays the main role. The inflation destroyed the Kuomintang political system in the late 1940s and thus paved the way to the communist takeover. Since the onset of the reform process in the 1970s, the Communists targeted inflation as part of avoiding the risk of repeating the previous state economic collapse.

The reconstruction of the post-war economy based on a tight price regulation and the state-led creation of a market was thus a temporary success for the People's Republic of China (PRC). The first three chapters trace the long origins of this post-war state interventionism by pointing to parallels between it and the early tradition of Chinese political economy during the *Warring States* period (770-476 B.C.). This period is when the main schools of Chinese social theory originated. Weber then refers to the Chinese tradition of dynastic economic policies and their state price regulation interventions, looking at how they regulated basic commodities, monopolies, and taxation in times of crop failure and a shortage of strategic supplies. Behind this process, the Song dynasty (960–1279) philosopher, politician, and reformer Wang Anshi (1021–1086) was a key figure who helped inspire a state intervention into the market and social stabilization (pp. 34–35). This was a kind of “Keynesianism” in a historically, culturally and geographically very distant context.

While the post-World War II regime succeeded in reining in the inflation, its state bureaucratic system failed, however, in delivering on the regime's main promise, which was to lift the mass of the Chinese population from poverty. Even the USA and the UK had to resort to price controls and state intervention in the market supply during World War II, which partially persisted during their gradual return to a full market economy. In China, the inflationary catastrophe in the late 1940s was eventually averted, the goods supply was restored, the new currency, the Renminbi (Yuan), was introduced and stabilized, and the new tax system provided

the state with income. The Communist Party rule was thus partially legitimized, but at a high cost: the majority of the 800 million rural population remained stuck at a low standard of living in a system oriented towards industrialization and urbanization. The state control became recognized as a burden that had to be counteracted. Twenty years of communist revolutionary reforms did not lift the PRC from the position of one of the poorest countries in the world.

What was done about this and how it was done is the topic of chapters 4–7. This is also where the CEE experts enter the story as an intellectual force of inspiration for the Chinese academics and liberal-minded party leaders. After Mao's death in 1976, in accordance with the Chinese tradition, there was a demand for heretical debates on market-oriented liberal theories against state interventionism as tools of averting the threats of inflation and political crisis. The post-Maoist rise of the pragmatic party faction was also connected with a desire for a new economic science and paradigm. This movement, during its origins, was led by the younger generation of the party leadership, which increasingly engaged with neoliberalism, the new international vogue at the turn of the 1970s and 1980s.

At that time, in the communist states of the world, including China, the new ideas at the “origins” of the then expected market-oriented reform correlated with the establishment of new economic “think-tanks”, such as the *Financial Research Institute* in Budapest (Fabry 2018) or the *Forecasting Institute* in Prague (SOMMER 2015). In China, such a think-tank was the *Chinese Academy of Social Sciences* (CASS), which was established in 1977 and became the center of the economic reform and the internationalizing of the domestic discussion. In this transnational translation of global neoliberalism, World Bank experts, reform economists who were emigrants from CEE, and also some prominent Western economists served as intermediaries. Their ideas resonated with the new generation's push for market restoration and price liberalization.

The prominent figures among these experts included the West German ordoliberal Armin Gutowski and Wolfram Engels, and the Central European former émigré or dissident economists Włodzimierz Brus, Ota Šik, Péter Kende, Juliusz Strumiński, and János Kornai. These foreign experts became lecturers and consultants in the CASS, participating in

conferences where the scenarios of price reform and introducing a free market were discussed. This was a diverse group advocating for scenarios ranging from a radical *big bang* or *shock therapy* through a rapid abandoning of the price control to a more structured and gradual reform process, namely one that would entail the state dividing commodity price categories into groups by their relevance in domestic supply chains.

Ota Šik was one of the prominent advisors whose footprint on price reform resonated with the Chinese academic circles (pp. 131–135). Being formerly one of the intellectual leaders of the economic reform during the suppressed Czechoslovak liberalization in the 1960s, he argued, together with Brus, that liberal economic reforms would fail if they were not paralleled by a corresponding political change. Even though both theorists still supported the model of socialism with a partially liberalized economy, any challenge to the Communist Party was a taboo in China. Šik immediately lost political support after his interview for West German media, where the Czechoslovak emigrant mentioned that a liberal economy without abandoning the party dictatorship was impossible and pointed out that liberal changes to the economy would inevitably “*undermine their [the Communist Party’s] position*” (p. 137).

Although he was then no longer invited to give lectures, Šik’s contribution to the theoretical debate remained relevant. His prophetic vision of the political consequences of economic liberalization came true in the whole Eastern Bloc, including the Soviet Union. Unlike most CEE dissidents, who found a market transition incompatible with preserving socialism, Šik proposed a reform concept which would replace state planning with market mechanisms without dismantling the socialist system. His market socialism would rely on state-owned enterprises in the key industries, while the other sectors would be privatized in order to produce competitive markets. The state’s role in this system would be to protect fair competition by suppressing monopolies. The key reform step would be the change to the price system. This would happen through a classification of commodities into three groups according to input-output calculation and their relevance for economic stability. Consumer goods prices would be left floating, while energy, basic food and short supply goods would remain under state regulation. In this sense, Šik stood against the shock therapy ideologues such as Milton Friedman, who also lectured at the CASS.

Experimental gradualism eventually prevailed among the Chinese reformers (pp. 135–146). Although World Bank consultants and many CEE dissident theorists influenced the Chinese domestic interest in price reform, their advice on either shock therapy or a planned gradual liberalization gave way to a more cautious strategy. In this sense, the *long durée* Chinese approach partially trumped the international advice, although both remained in constant interaction with each other. Weber explains the experimental gradualism through the metaphor of “tower rebuilding” (p. 179). The international advice would suggest destroying the tower and building a new and better one, and in extreme shock-therapy cases, this would be done regardless of the pains of the destruction. Meanwhile, the Chinese approach of price stabilization and economic reform focused on experimentally removing parts of the tower one by one while carefully watching the building’s statics and rather preventing it from collapsing.

As Weber’s analysis traces the first market reforms (Chapter 6), it shows that while the market reform paradigm achieved general acceptance, the scenarios leading to this objective nevertheless remained disputed. Such reforms predictably started as experiments at the regional level (typically in the countryside – they were not nationwide) with the backing of some reform-minded party leaders. For example, the rural reform was implemented through a system of farm households contracting land, which introduced a dual price regime and a quantitative quota. Farmers were free to choose the sort of planting, while the mandatory production was up to the state quota for state set prices, and the selling of above-quota crops was set for free and higher market prices. This dual system soon achieved a sufficient food supply, a sufficient price stability, and rising living standards while still assuring the state’s regulative role. Following this, the Chinese Communist Party’s Central Committee adopted the program *Decision on Reform of the Structure*, which integrated the market strategy with the dual-track price system. Encouraged by the rapid success of the rural reforms and the partial progress in light industries, the government pushed for a speeding up of the market reforms through a “big bang”.

Amidst the opinion split in the Communist Party and academic circles, Deng Xiaoping¹ gave a strong personal endorsement to the speeding up of the reform. He voiced it in the *People’s Daily* as “*Long-term pain is worse than short-term pain*” (p. 250). This meant rejecting the so far still

running dual-price system, and instead, taking the risk of an immediate large scale price liberalization. As a result, the inflation peaked at 25 percent, the highest number for it since the 1940s. A buying panic, a run on banks, and rising local unrests followed, upon which the shock therapy was immediately cancelled in 1988. The temporary economic chaos and massive corruption turned into a serious political crisis. The June 4th, 1989 Tiananmen massacre is reflected upon in the author's summary of information gained from her interviews. As she exposes the "imported" shock therapy as its *economic* cause, she debunks the Western liberal narrative wherein the Tiananmen massacre had to do solely with the *political* protest against the Party.

Sure, *How China Escaped Shock Therapy* neglects some aspects of the political context such as the rising tensions in the Tibet Autonomous Region and the split on media freedom within the Communist Party (DITTMER 1990). However, the book's final review of the late 1980s Chinese economic structural and fiscal landscape provides great insight into China's internal debate between liberals and conservatives on economic affairs (pp. 225–258). Western literature has so far hardly captured so specifically the Chinese clash of conservatism and modernism and their difficult search for a political consensus, wherein elements of an unusually open exchange of views are mixed with strict authoritarianism. What is more, the paradox of the 1988 top-down attempt at a drastic reform and its swift reversal teaches us one other lesson. Combined with the 1989 ousting of the Party First Secretary Zhao Ziyang, who was accused of something he did not commit himself, the story of the market reform is an instructive story for understanding the peculiarity of contemporary China's political milieu.

The book complements many fields. As the rising profile of Isabela Weber as a highly influential economic expert on fighting today's inflation shows, the book is very topical. The only question is how much her study of the Chinese fight against inflation informs her own intellectual interventions into the West's contemporary debate. First, the abundant Chinese resources used in the monograph are accompanied by a final list and biographies of about forty key Chinese reform economists who were introduced in the book. The double-digit GDP growth since the 1990s has overshadowed the disputes over accelerating reforms in the late 1980s. Weber's account corrects this, and thus reminds the reader that

the political economy discussions on China's or CEE's economic model in a global perspective must take the individual social forces and ideas involved, and not just the institutions, into account (NÖLKE ET AL. 2015). Second, the book completes the very transnational history of (post)socialist transitions. It is an account that confirms CEE's experience (MYANT - DRAHOKOUPIL 2011). In both CEE and Central Asia, the shock therapy backfired and led to unnecessary and painful transition crises. Those countries such as Poland (KING - SZNAJDER 2006), which just like China learned this lesson early on and gradually switched to a more state-led and gradualist alternative, are the most successful transition cases in the end.

ENDNOTES

- 1 At that time, Deng Xiaoping no longer held any official top state executive position; nevertheless, he continued to maintain his position in the Party and state hierarchy as the “Paramount Leader”, which meant that he stood above the level of the Party’s first secretary and the prime minister. Formally, he was a member of the Politburo until 1987, the Chairman of the Advisory Committee until November 1989 and, more importantly, the Chairman of the Central Military Commission until November 1989.

REFERENCES

- D Dittmer, Lowell (1990): China in 1989: The Crisis of Incomplete Reform. *Asian Survey*, Vol. 30, No. 1, pp. 25–41.
- F Fabry, Adam (2018): The Origins of Neoliberalism in Late “Socialist” Hungary: The Case of the Financial Research Institute and “Turnabout and Reform.” *Capital & Class*, Vol. 42, No. 1, pp. 77–107, <<https://doi.org/10.1177/0309816817692125>>.
- K King, Lawrence P. – Sznajder, Aleksandra (2006): The State-Led Transition to Liberal Capitalism: Neoliberal, Organizational, World-Systems, and Social Structural Explanations of Poland’s Economic Success. *American Journal of Sociology*, Vol. 112, No. 3, pp. 751–801, <<https://doi.org/10.1086/507851>>.
- Kopeček, Michal (ed.) (2019): *Architekti dlouhé změny: expertní kořeny postsocialismu v Československu*. Prague: Argo, FF UK, ÚSD AV ČR.
- M Mark, James – Iacob, Bogdan C. – Spaskovska, Ljubica (2019): *1989: A Global History of Eastern Europe*. Cambridge: Cambridge University Press.
- Myant, M. R. – Drahokoupil, Jan (2011): *Transition Economies: Political Economy in Russia, Eastern Europe, and Central Asia*. Hoboken, NJ: Wiley.
- N Nölke, Andreas – Ten Brink, Tobias – May, Christian (2015): Domestic Structures, Foreign Economic Policies and Global Economic Order: Implications from the Rise of Large Emerging Economies. *European Journal of International Relations*, Vol. 21, No. 3, pp. 538–567, <<https://doi.org/10.1177/1354066114553682>>.
- S Sommer, Vítězslav (2015): Forecasting the Post-Socialist Future: Prognostika in Late Socialist Czechoslovakia, 1970–1989. In: Andersson, Jenny – Rindzevičiūtė, Eglė (eds.): *The Struggle for the Long-Term in Transnational Science and Politics: Forging the Future*. Routledge, pp. 144–168, <<https://doi.org/10.4324/9781315717920>>.

AUTHOR BIOGRAPHY

Rudolf Fürst is a Senior Non-resident Fellow at the Institute of International Relations Prague. His field of research and publications cover contemporary Chinese affairs, Sino-European relations, relations of Central and East European states with China, post-communist transformation, and soft power.