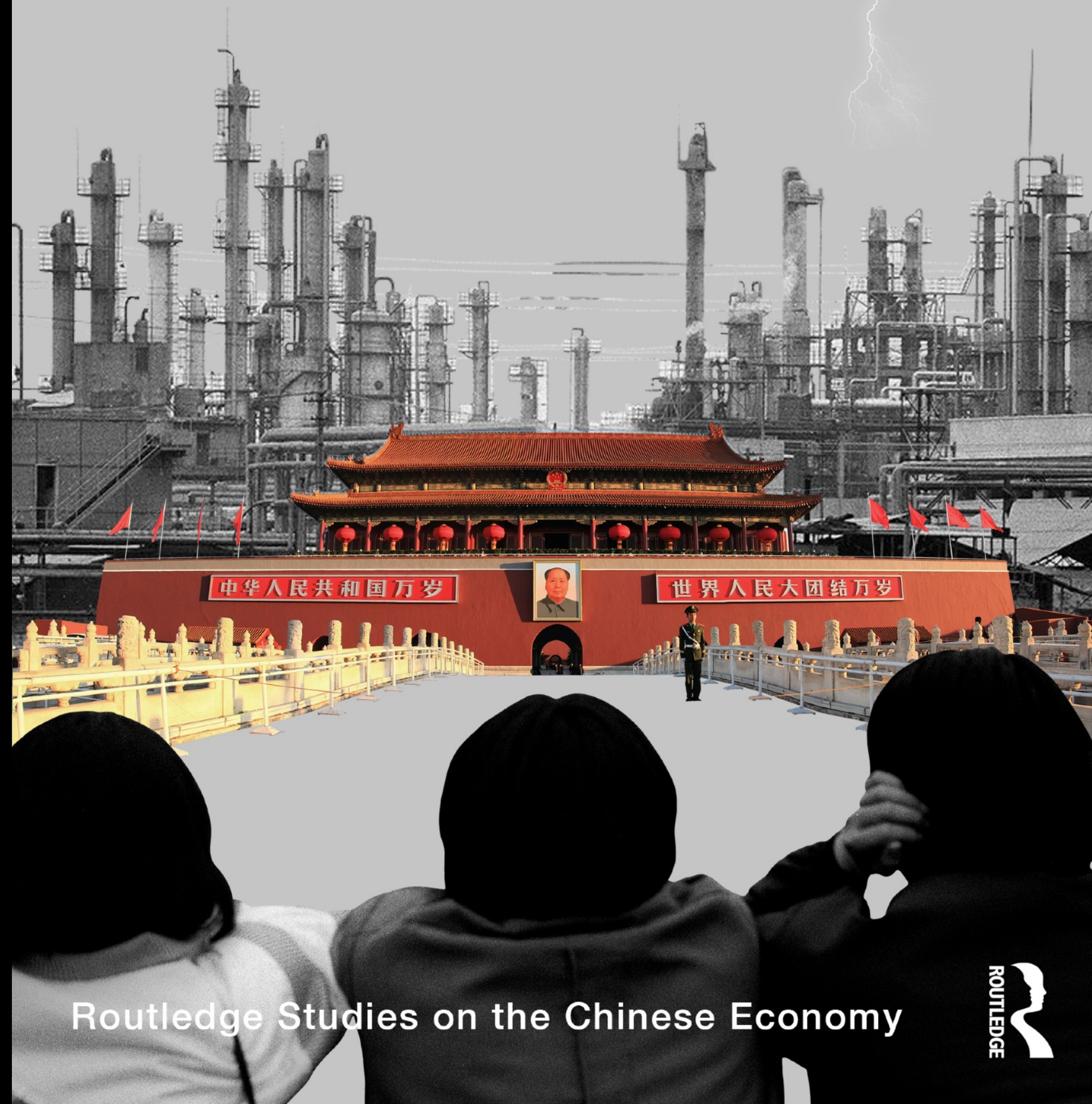


ISABELLA M. WEBER

# HOW CHINA ESCAPED SHOCK THERAPY

The Market Reform Debate



Routledge Studies on the Chinese Economy



...and why would it matter for a  
socio-ecological transition?

#25FMM

Hotel Steglitz International  
October 29, 2021

Isabella Weber  
University of Massachusetts, Amherst

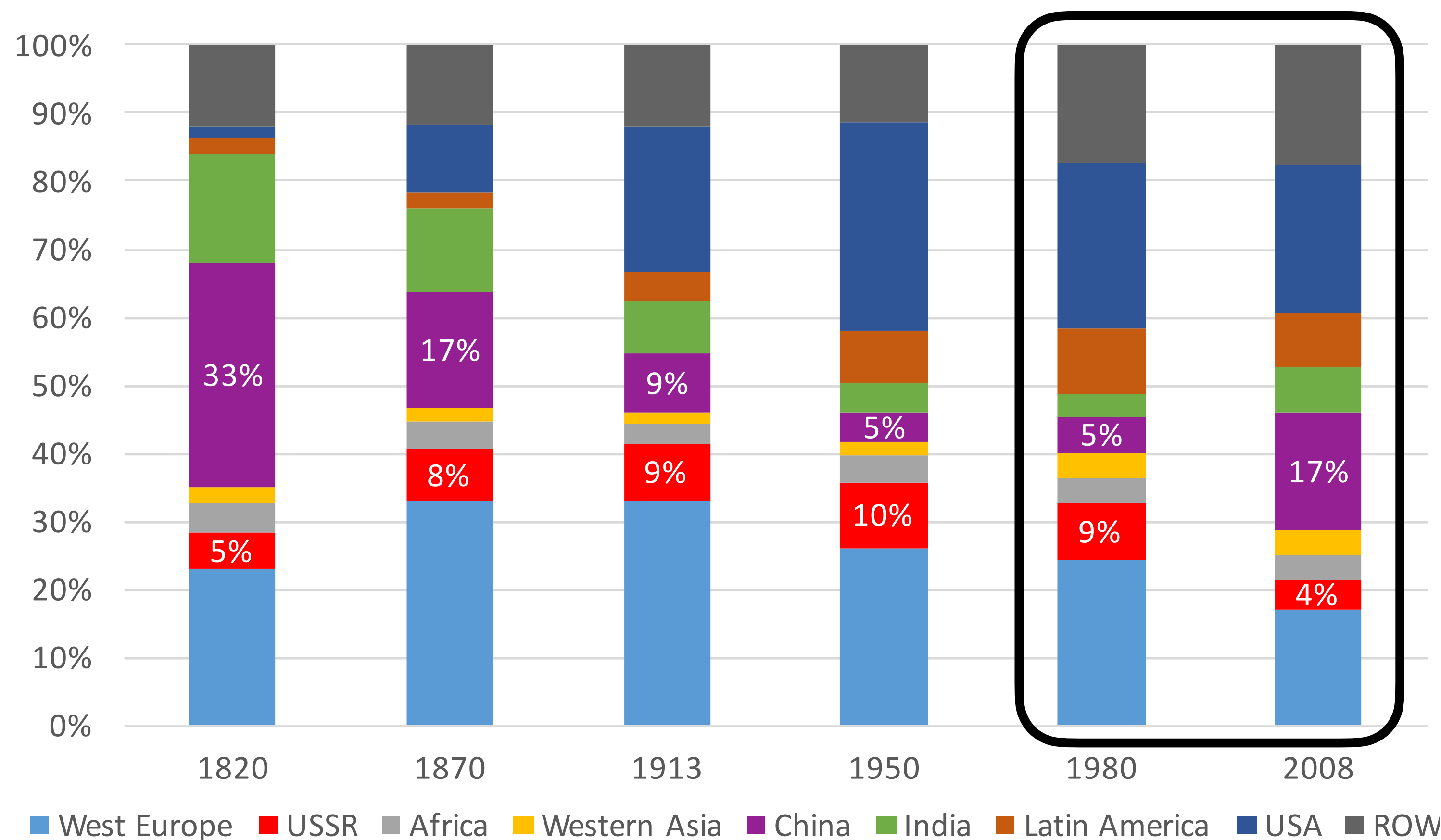
# 1980s AS CROSSROADS IN GLOBAL ECONOMY

- Beginning of China's **economic convergence** with the West but **no wholesale institutional assimilation despite marketization**
- **Divergence** between Russia's fall and China's rise linked to difference in approach to market reforms



# A NEW GREAT DIVERGENCE?

SHARES OF WORLD GDP IN PERCENTAGE, 1820-2008



Data source: Maddison 2014

# SHOCK THERAPY

- Liberalisation of all prices
- Macroeconomic austerity to control the general price level
- Trade liberalisation
- Privatisation

**Big Bang!**





WHAT ARE THE INTELLECTUAL  
FOUNDATIONS OF CHINA'S  
REFORM APPROACH?

# THE URGE FOR REFORM

*People's Daily, October 2, 1949 on the ambition of the revolution "to gradually change this backward agricultural country into a civilized and progressive, industrial one"*

It has been almost 30 years since the founding of the People's Republic of China, but there are still beggars, how can this be the case? ... If this problem [of having enough to eat] is not solved, the peasants might rise in rebellion and be led to the cities by local party leaders demanding food.

*(Chen Yun to 1978 CCP Work Conference)*

# THE URGE FOR REFORM

“Saying that the market is limited to capitalism is wrong. Why can’t socialism practice market economics?”  
(Deng Xiaoping 1979)

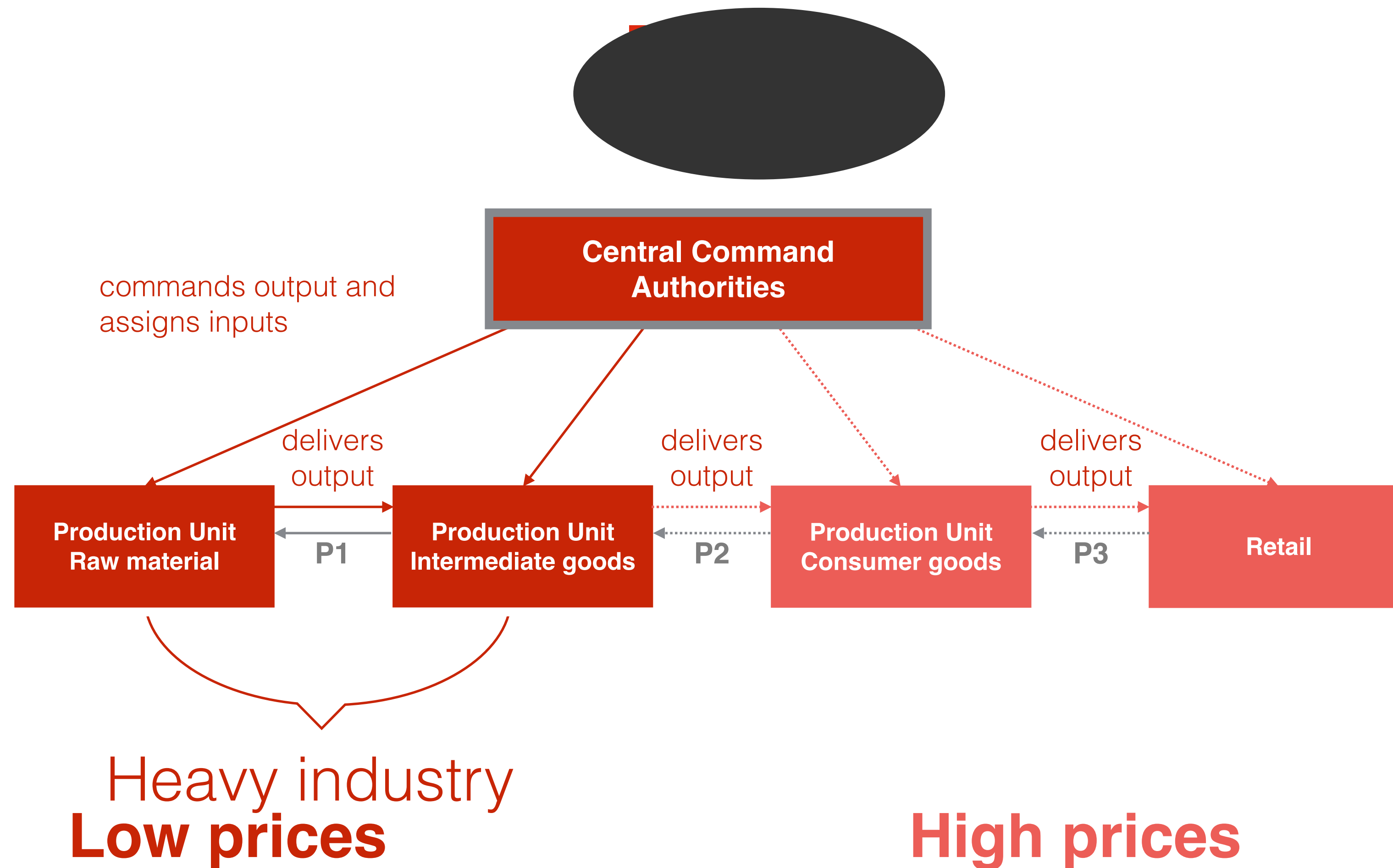
But how to introduce market mechanisms into a command economy?





# HEART OF THE INDUSTRIAL COMMAND ECONOMY

## The Ideal of One Big National Workshop



# ECONOMICS IN COMMAND?

Deng Xiaoping, January 1980

“The Present Situation and the Tasks before Us”

“A good number of comrades who were shunted aside for many years and haven’t been back in their original posts for very long, have lost touch with the situation; even those who stayed at their posts all through are confronted with new problems they find hard to grasp immediately.”

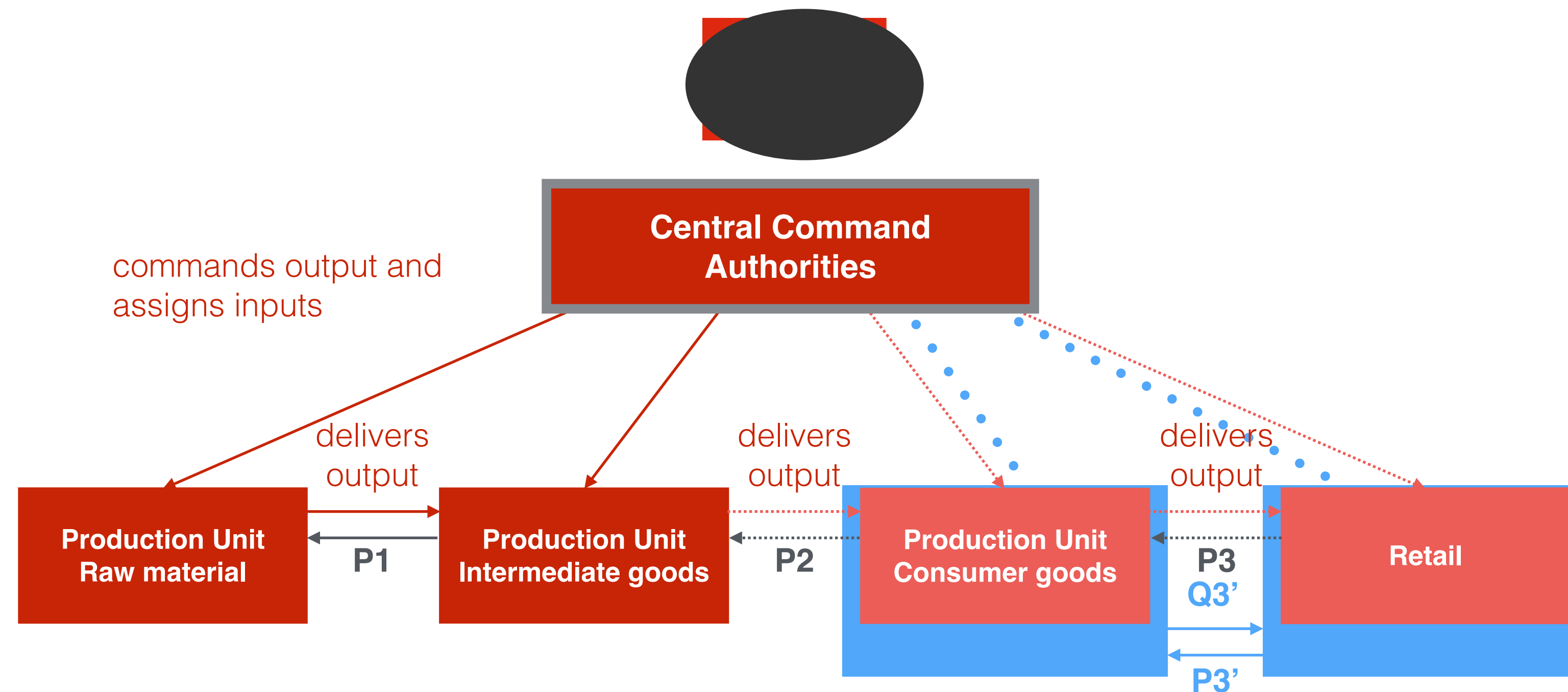
# DUAL-TRACK MARKET REFORM



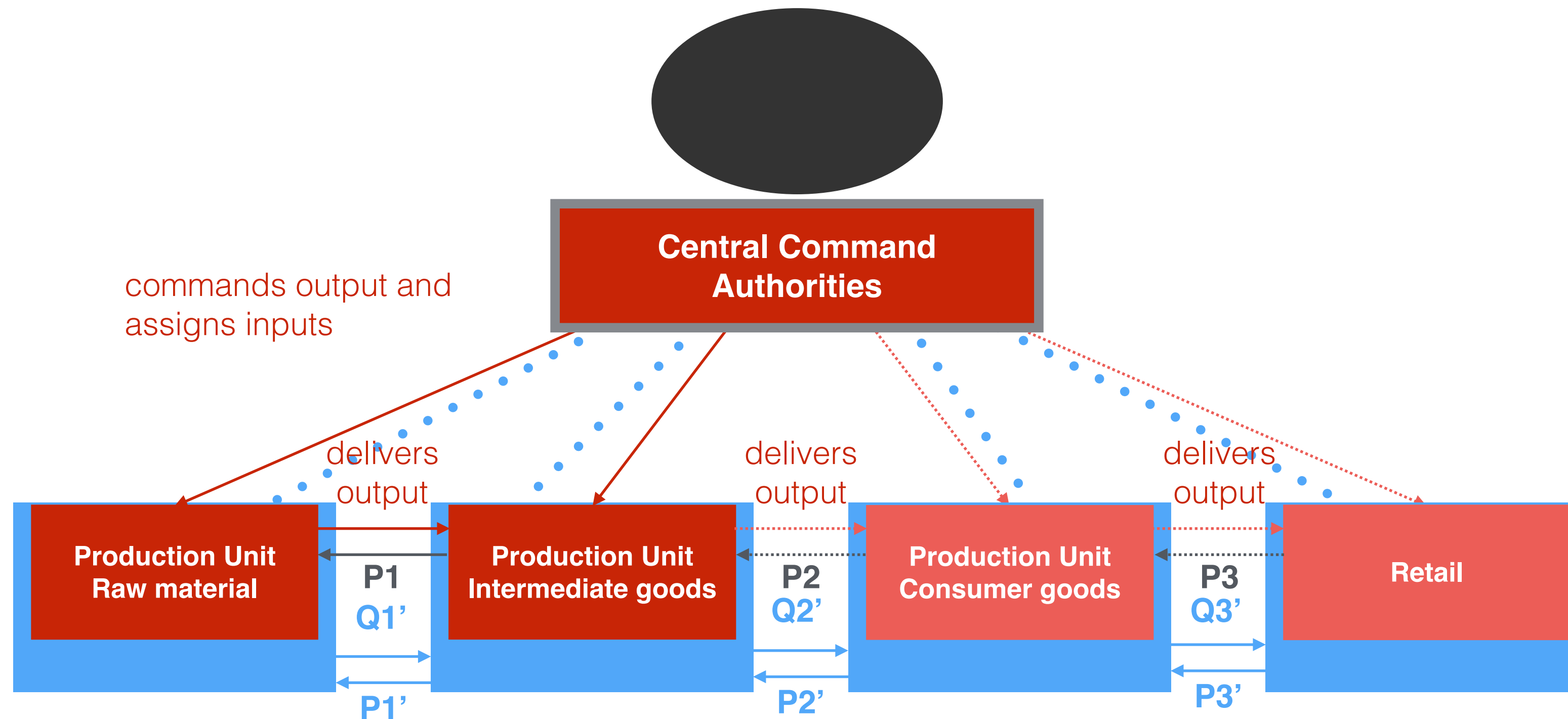
<b>Members</b>	young reform intellectuals backed by older generation leaders and emerged in agricultural reform
<b>Educational background</b>	self-trained in Marxist classics, Maoism, Western social sciences; political economy of agriculture
<b>Intellectual inspiration</b>	empirical studies in China, Hungary and Yugoslavia as well as post-war German and UK price reform



# THE DUAL-TRACK REFORM: GROWING INTO THE MARKET



# THE DUAL-TRACK REFORM: GROWING INTO THE MARKET



# THE DUAL-TRACK BECOMES NATIONAL POLICY 1985

Zhao Ziyang to local cadres:

1. **Letting go (放)** of “small” commodities
2. **Reforming (改)** the price management system
3. **Adjusting (调)** important prices in small steps
4. **Participating (参)**: “after having enlivened prices by letting them go, the state had to **participate in the market to regulate the prices**” as in the **first years after liberation**
  - for sectors **where prices were allowed to fluctuate on the market the range of the fluctuations should be limited by market participation**
  - state should have stocks to be able to add supplies to the market when the price was rising too high and purchase when the price was falling too low; imports as emergency balancing;

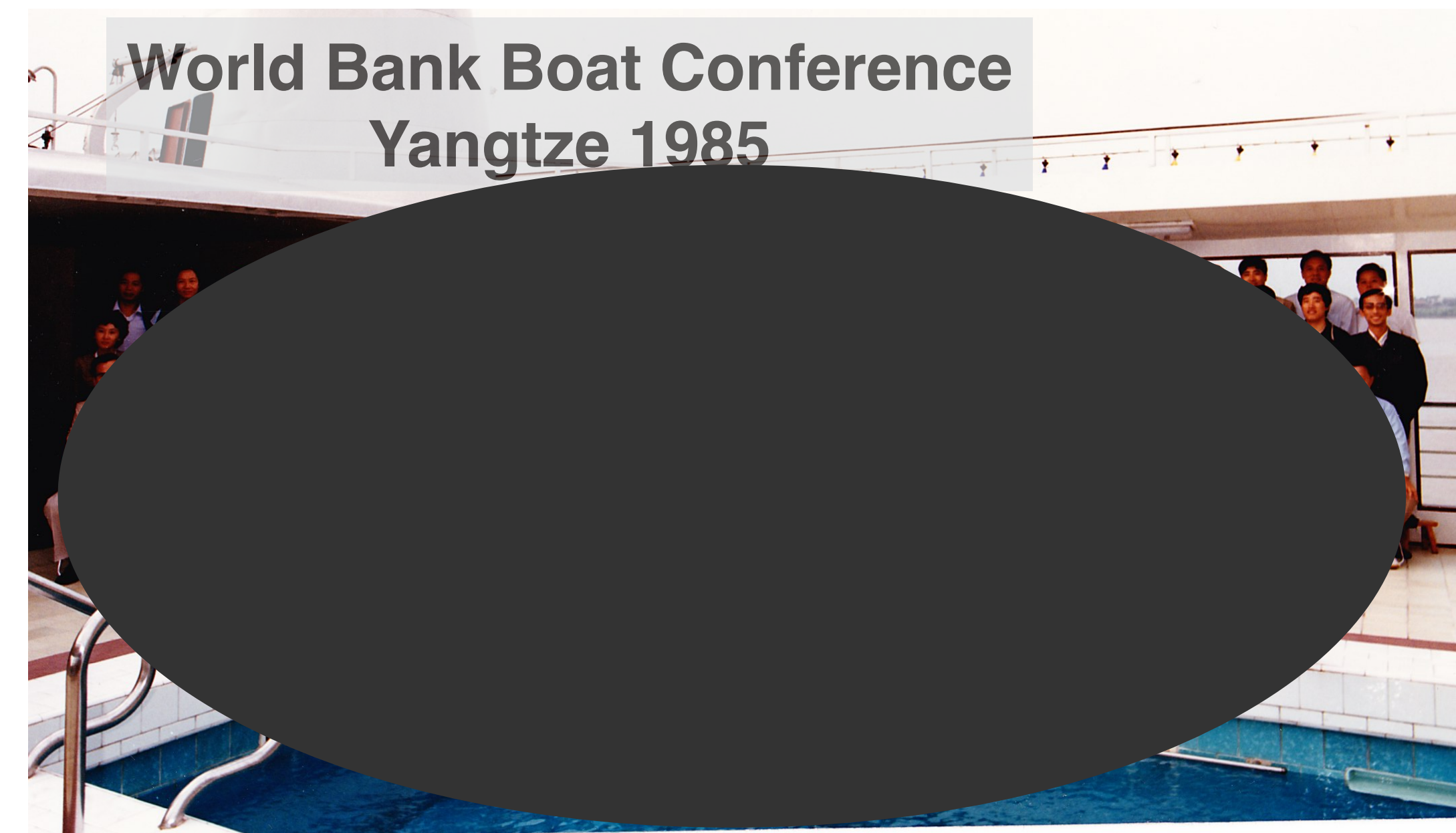


# “PACKAGE” PRICE REFORM

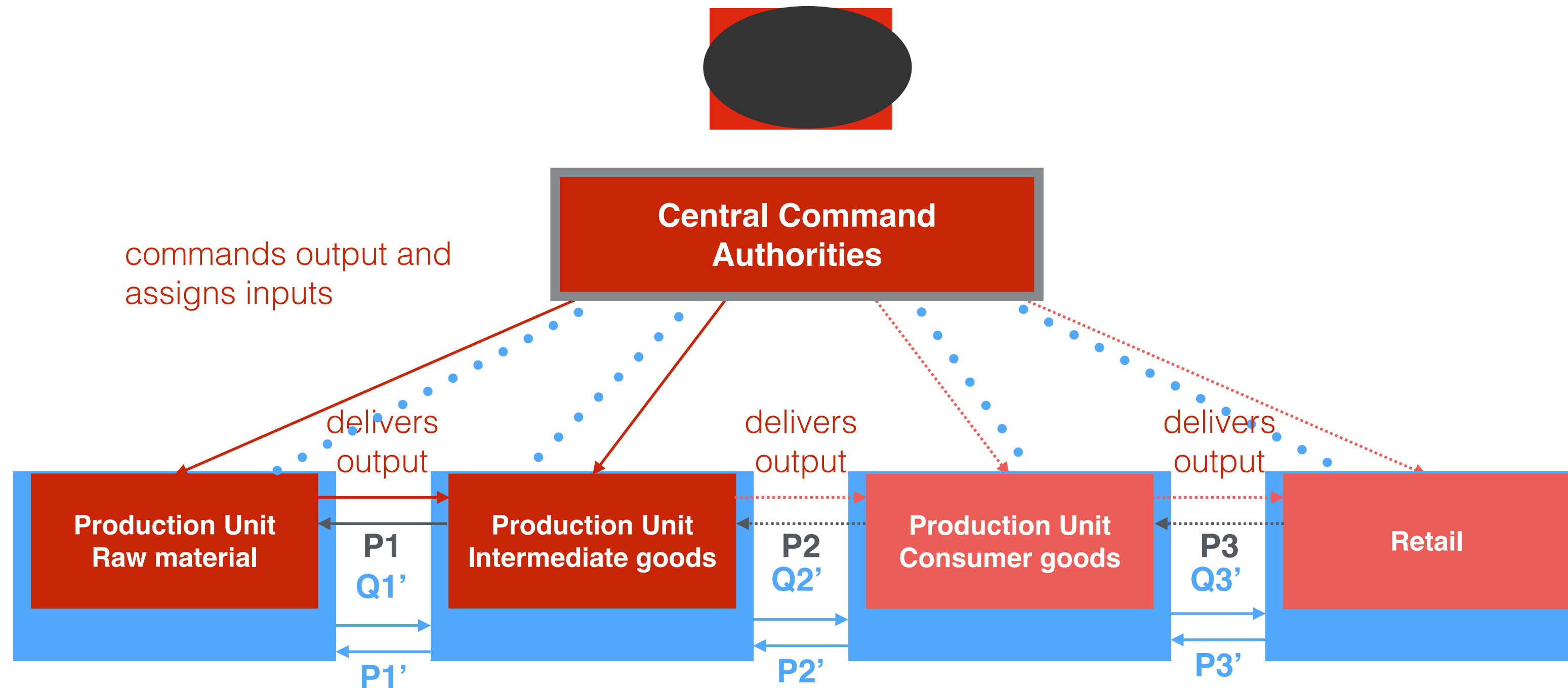
Wu Jinglian  
Yale 1983



<b>Members</b>	middle age established intellectuals; young academics
<b>Educational background</b>	orthodox socialist training and first to study modern economics in the US and England; engineers
<b>Intellectual inspiration</b>	Socialist Calculation Debate, Eastern European émigré economists (Brus, Šik & Kornai), monetarists (Friedman, Chow), “Erhard Miracle”

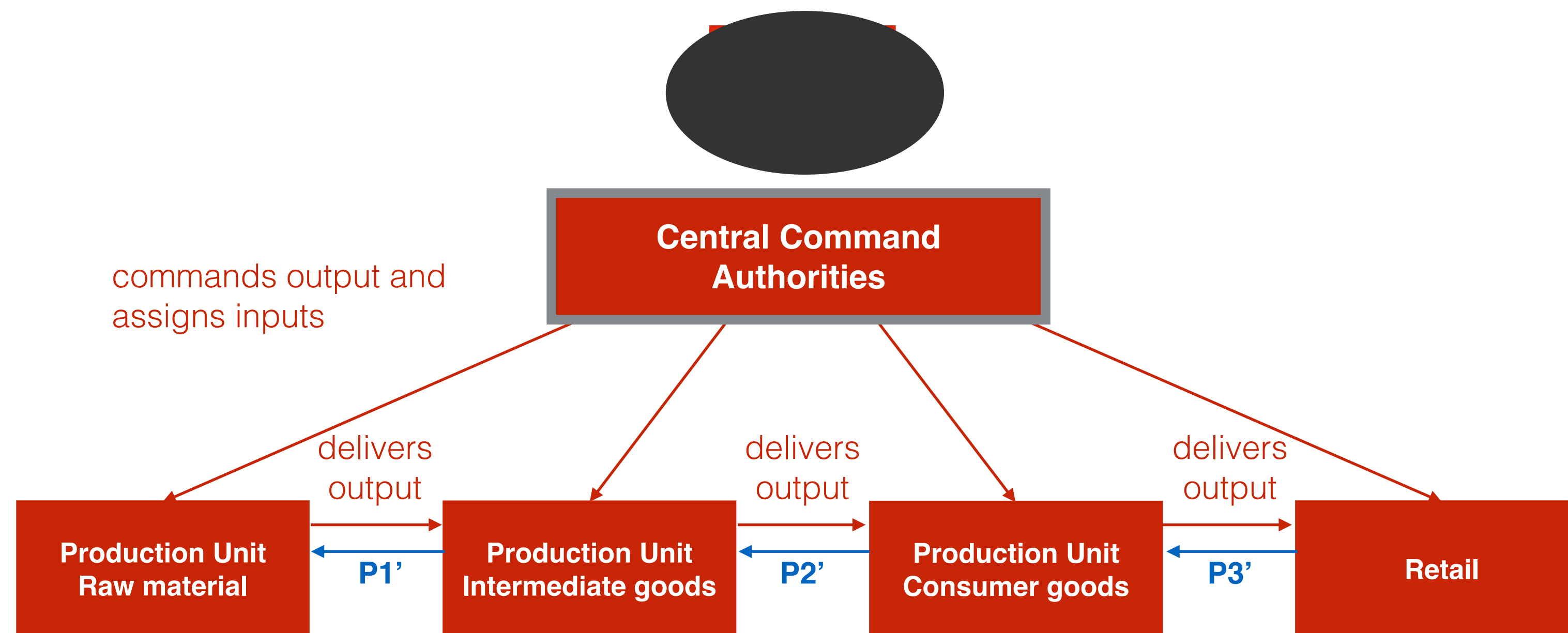


# CRITIQUE OF THE DUAL-TRACK SYSTEM



- friction and contradiction in irrational dual-track system
- inherent rent-seeking and corruption

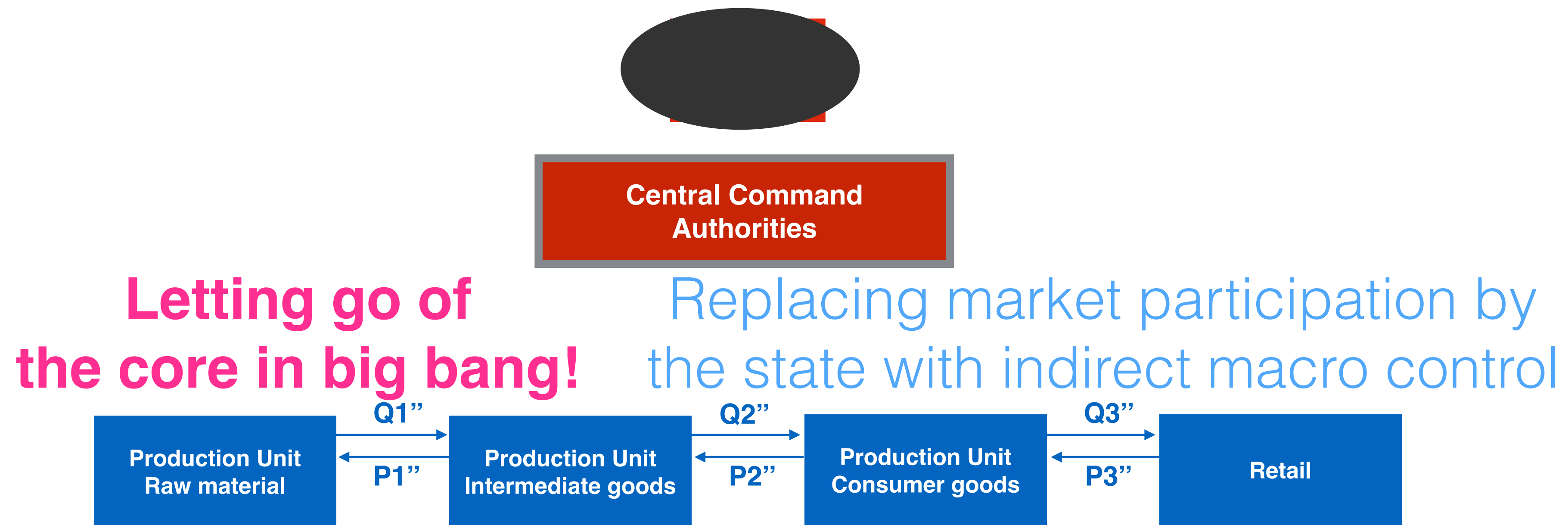
# PRICE ADJUSTMENT AND RE-UNIFICATION OF DUAL-TRACK



+ tight fiscal and monetary control

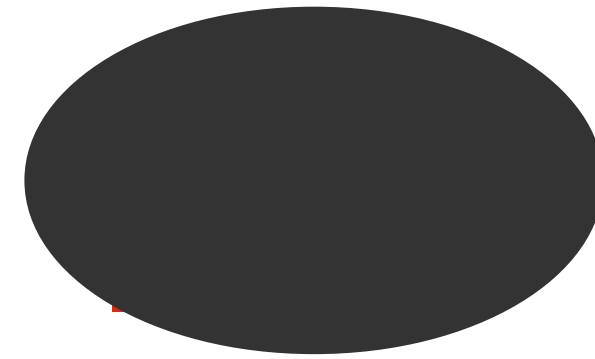


# THE BIG BANG



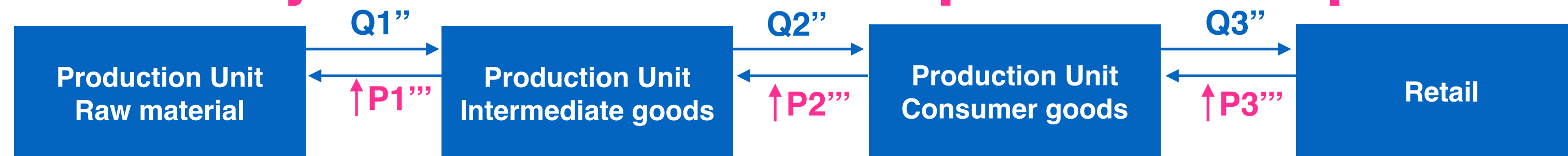
+ tight fiscal and monetary control  
+ wage and tax reform

# CRITIQUE OF THE BIG BANG



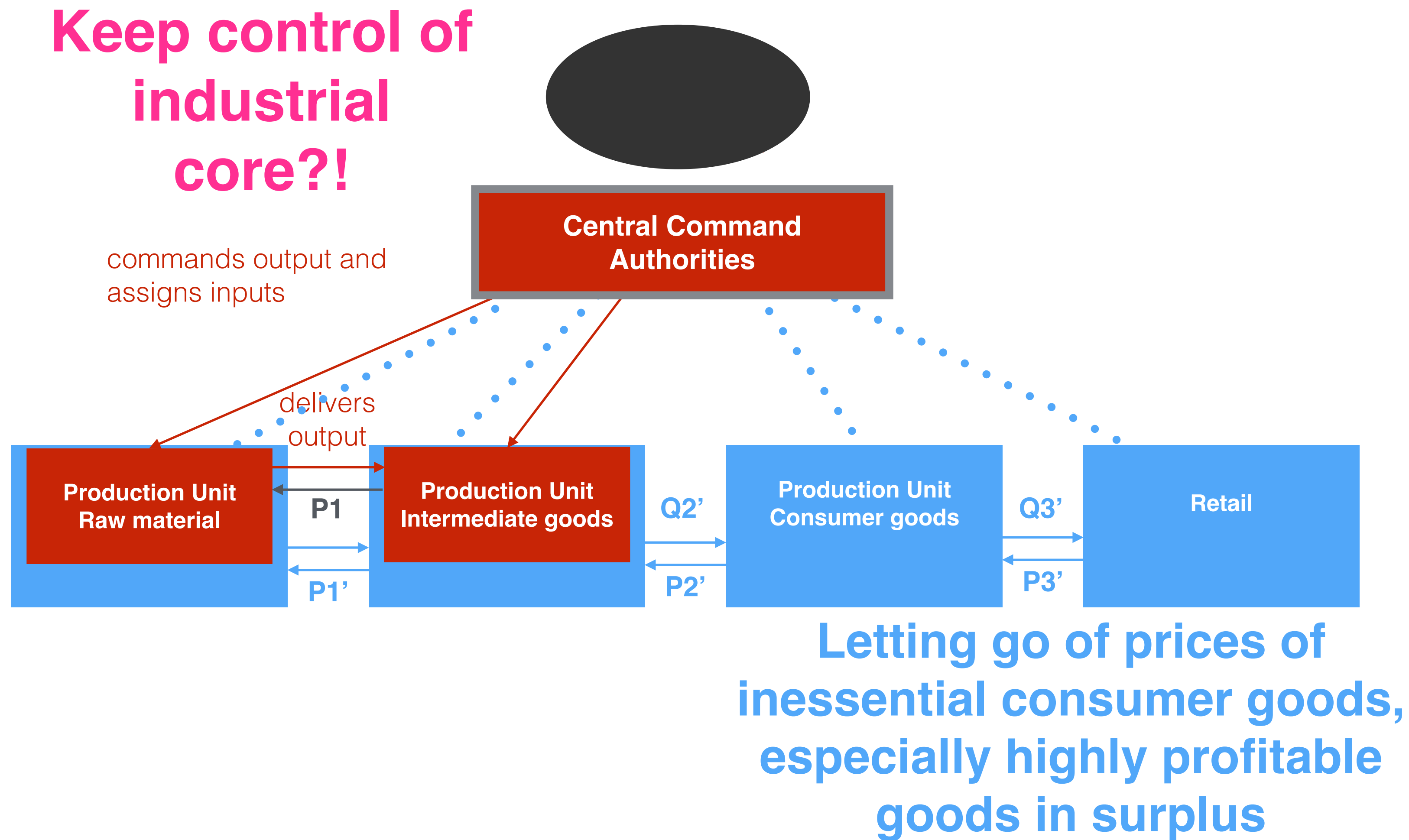
Central Command  
Authorities

**Big bang causes cost-push inflation  
without adjustment in relative prices and quantities!**

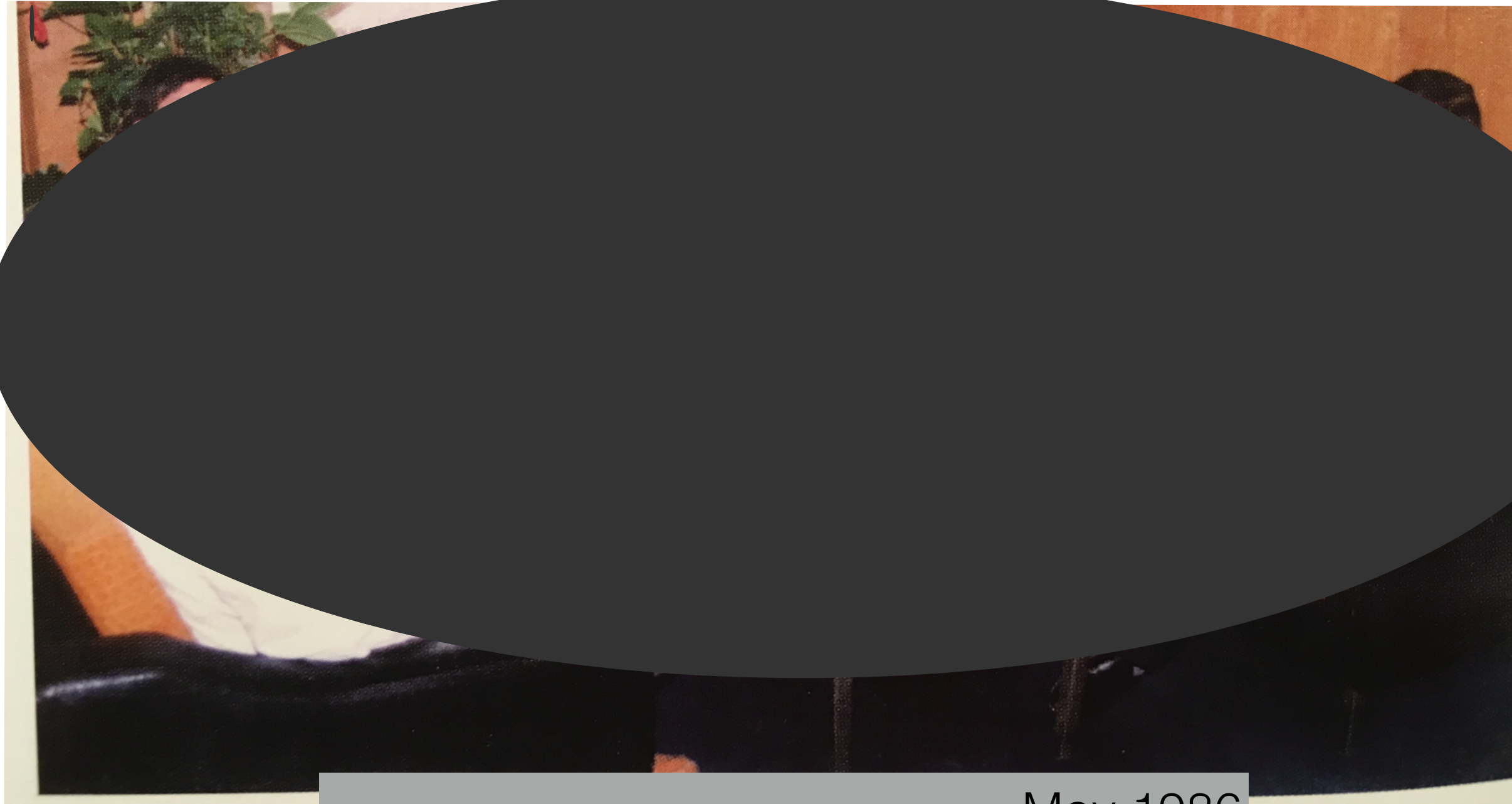


+ cannot be contained by macro control **upward spiral  
in wages**

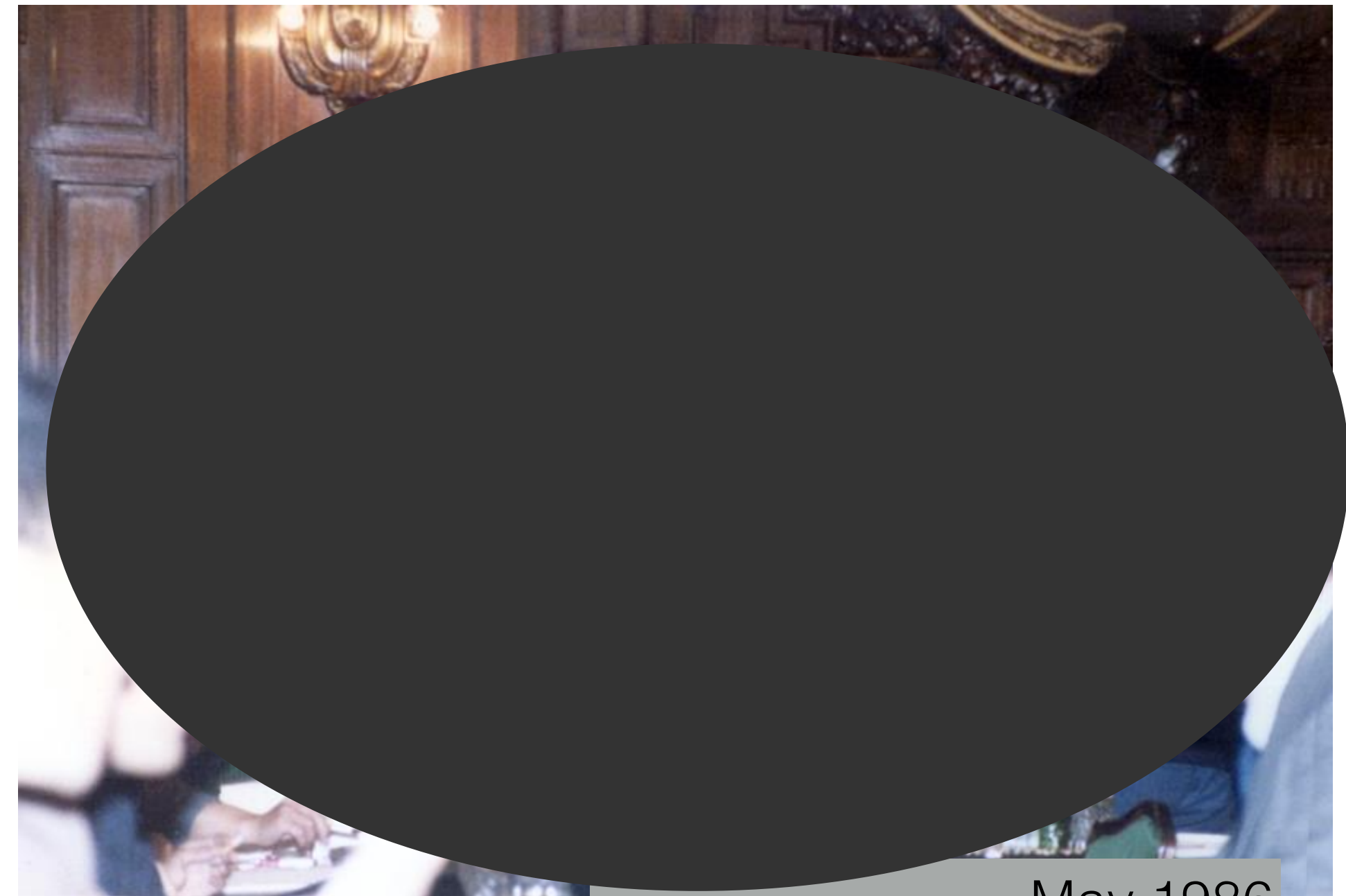
# THE CORE OF THE DEBATE



# ESCAPE FROM THE BIG BANG IN 1986



May 1986  
Meeting with Hungarian Finance Minister



May 1986  
Meeting with George Soros



# ESCAPE FROM 'BIG BANG'

## PRICE LIBERALISATION IN 1988

Deng Xiaoping to North Korean Delegation, 19 May 1988:

“Only once prices have been straightened out, will we be able to step up reform. ...Doesn't China have the tale of Lord Guan 'Slaying Six Generals to Force Through Five Passes'? ...To force a pass is not at all easy and requires taking great risk. ... But **we cannot not carry out price reform, we have to face the risks and difficulties head-on**. ...I always tell my comrades **we must not be afraid of risks and be even more courageous**.”



<b>Logic of Big Bang</b>	<b>Logic of Dual-Track System</b>
Comparative statics: stylized model of the old system and theoretically derived target model with reform as shock to transition	Analysis of prevailing economic forces and institutions to identify ways to create reform dynamics at the margins and reindustrialise without undermining social stability
Complete market as reform target to be achieved by destroying plan	Market forces as means in larger transformation process guided by the state

**...and why would it matter for a  
socio-ecological transition?**



# Development for the Many

Deng Yingtao, Nan Huaijin, Wang Xiaoqiang

**Wang Xiaoqiang**

“In China we used to talk about ‘over-taking the UK and catching up with America’. But there you were, insisting that there is no ‘overtaking’, no ‘catching up’. We can’t do what the West does. ...You were a very lonely voice amid all the hype of reform.”

**Deng Yingtao**

“I started thinking then that modernization should not be the same as westernization. So is there another model; a mode of resources, production and lifestyle, which would allow the many to modernize, not just the few? The classic model of Western modernization is: I modernize, you don’t. We can’t choose that model.”

A NEW DEVELOPMENT MODEL  
AND CHINA’S FUTURE

Deng Yingtao

Translated by Nicky Harman, with a foreword by Peter Nolan

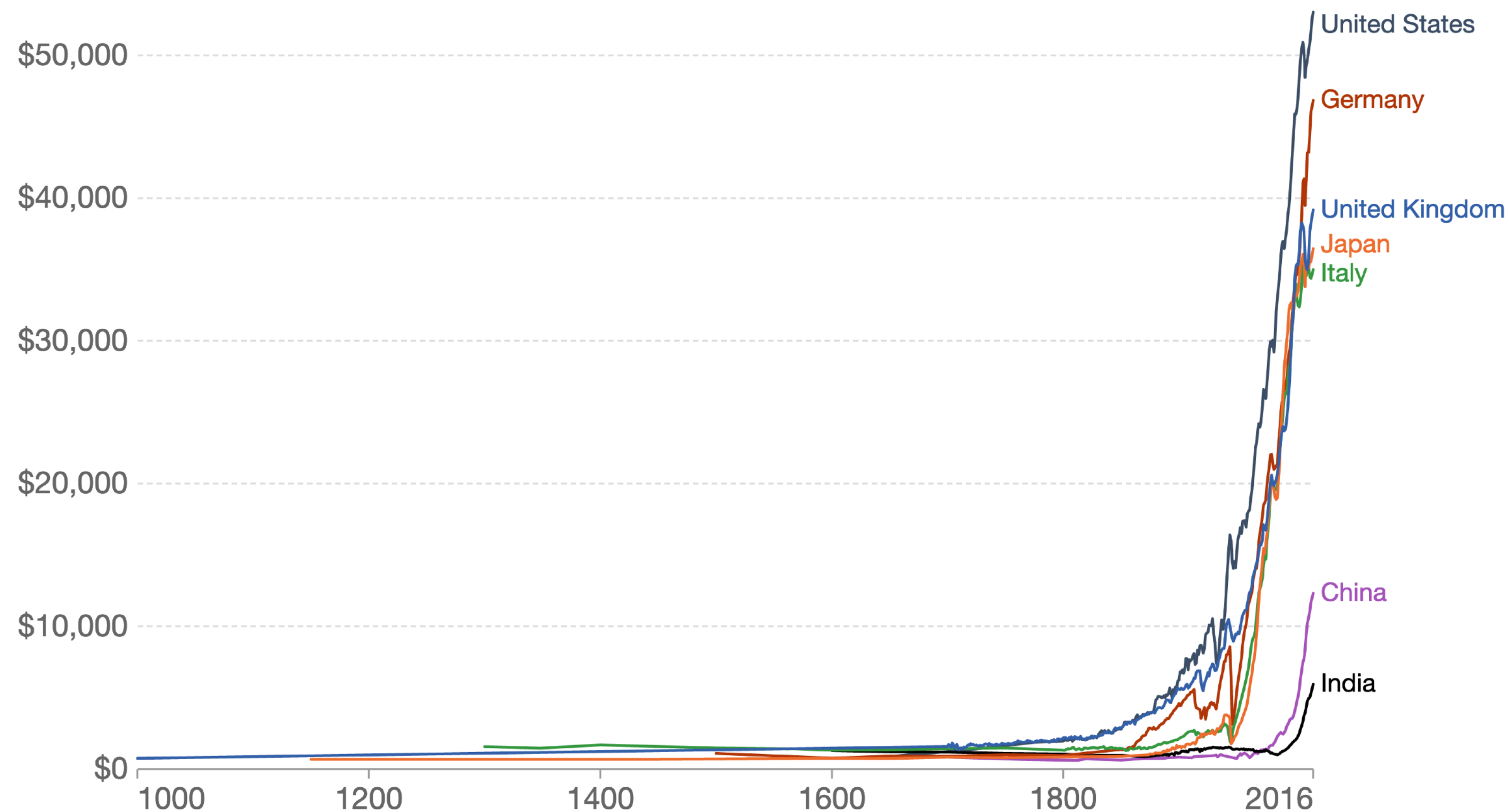
ROUTLEDGE

# The fly and the elephant

History's hockey stick: Worldwide historical real gross domestic product per capita, 1000 to 2016



Unit 1 'The capitalist revolution' in The CORE Team, The Economy. Available at: <https://tinyco.re/19274920> [Figure 1.1a]



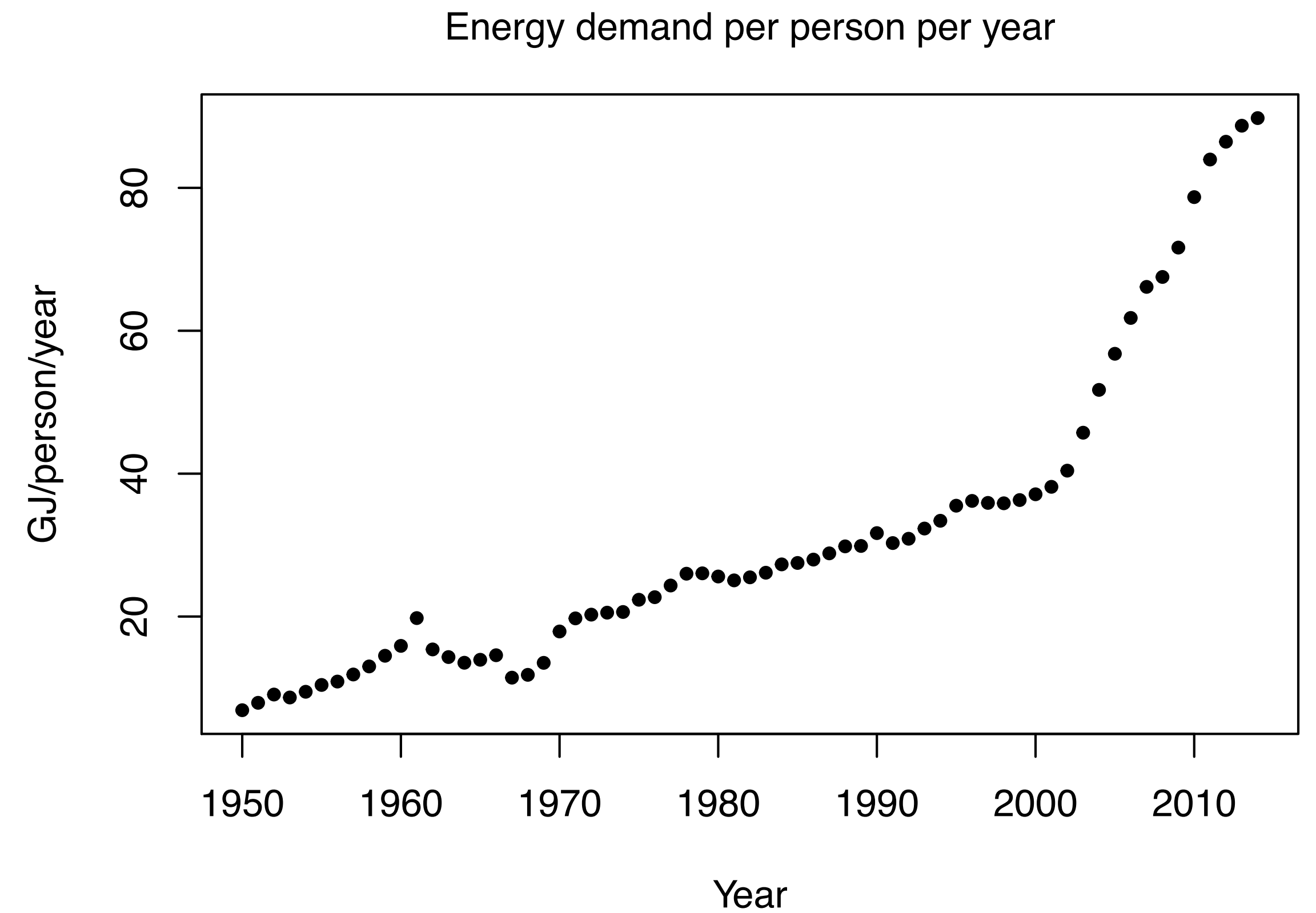
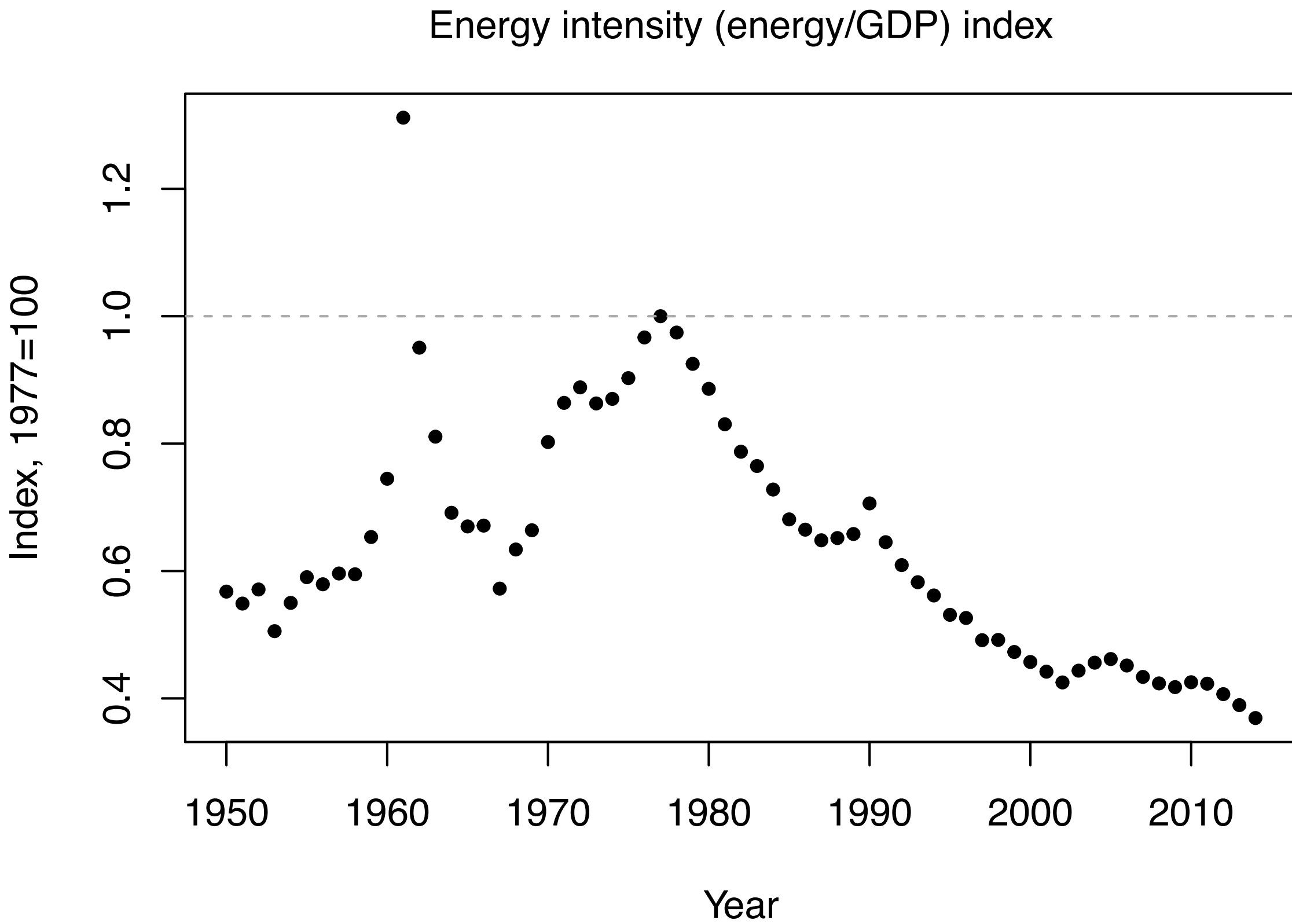
Source: Maddison Project Database (2018)

Note: The units of measurement is 2011 US dollar which is used to compare Purchasing Power Parity and GDP across countries over time.

CC-BY-ND-NC

[tinyco.re/19274920](https://tinyco.re/19274920) • Powered by [ourworldindata.org](https://ourworldindata.org)

# The elephant trying to jump?



Data source: Semieniuk et al. 2018

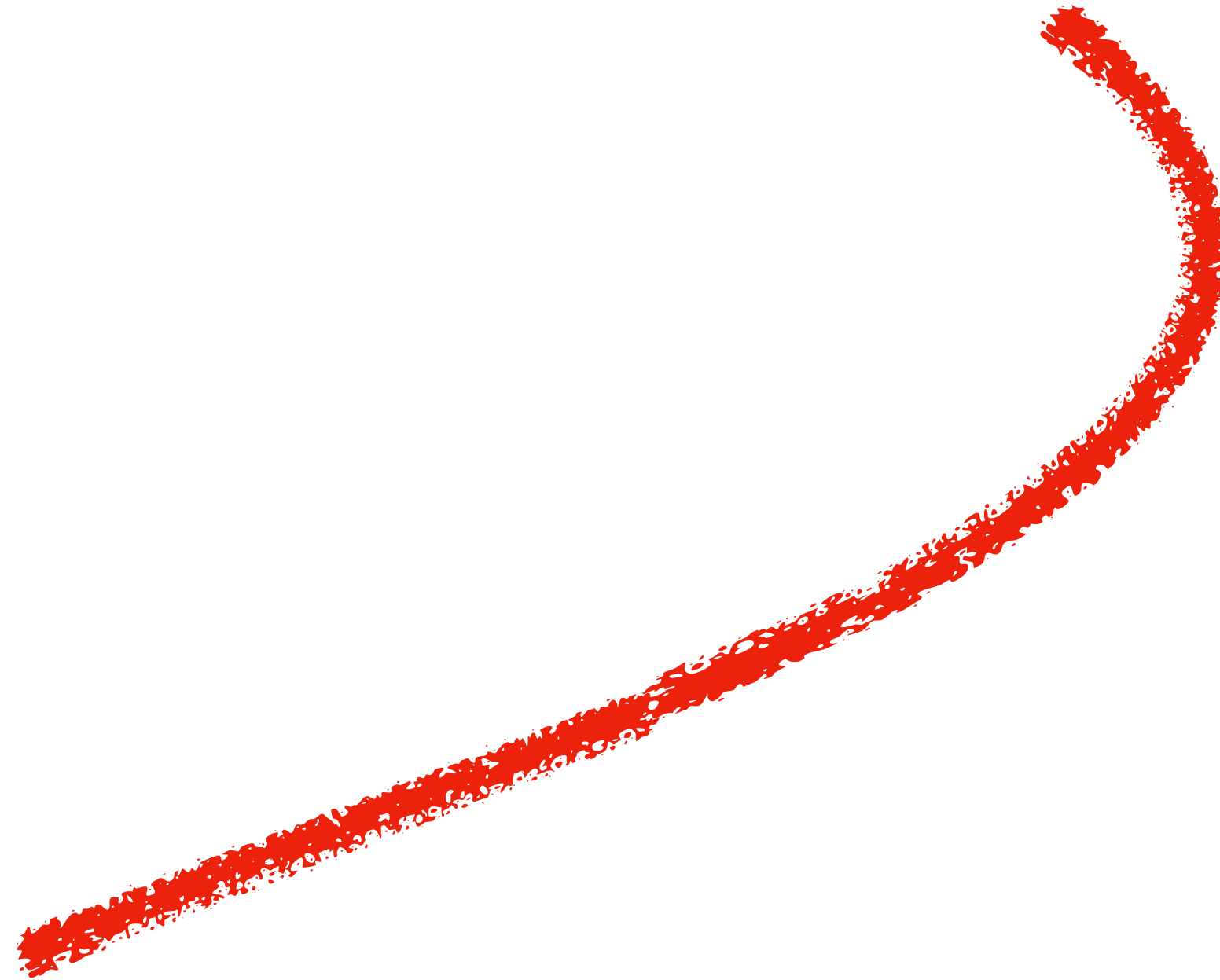


# Towards a ‘new’ model?

Source: The People’s Government of Nanxun District, 2017

# China's paralyzed giant

- 90 per cent of people and economic activity in the East
- Most of the mineral resources in the West

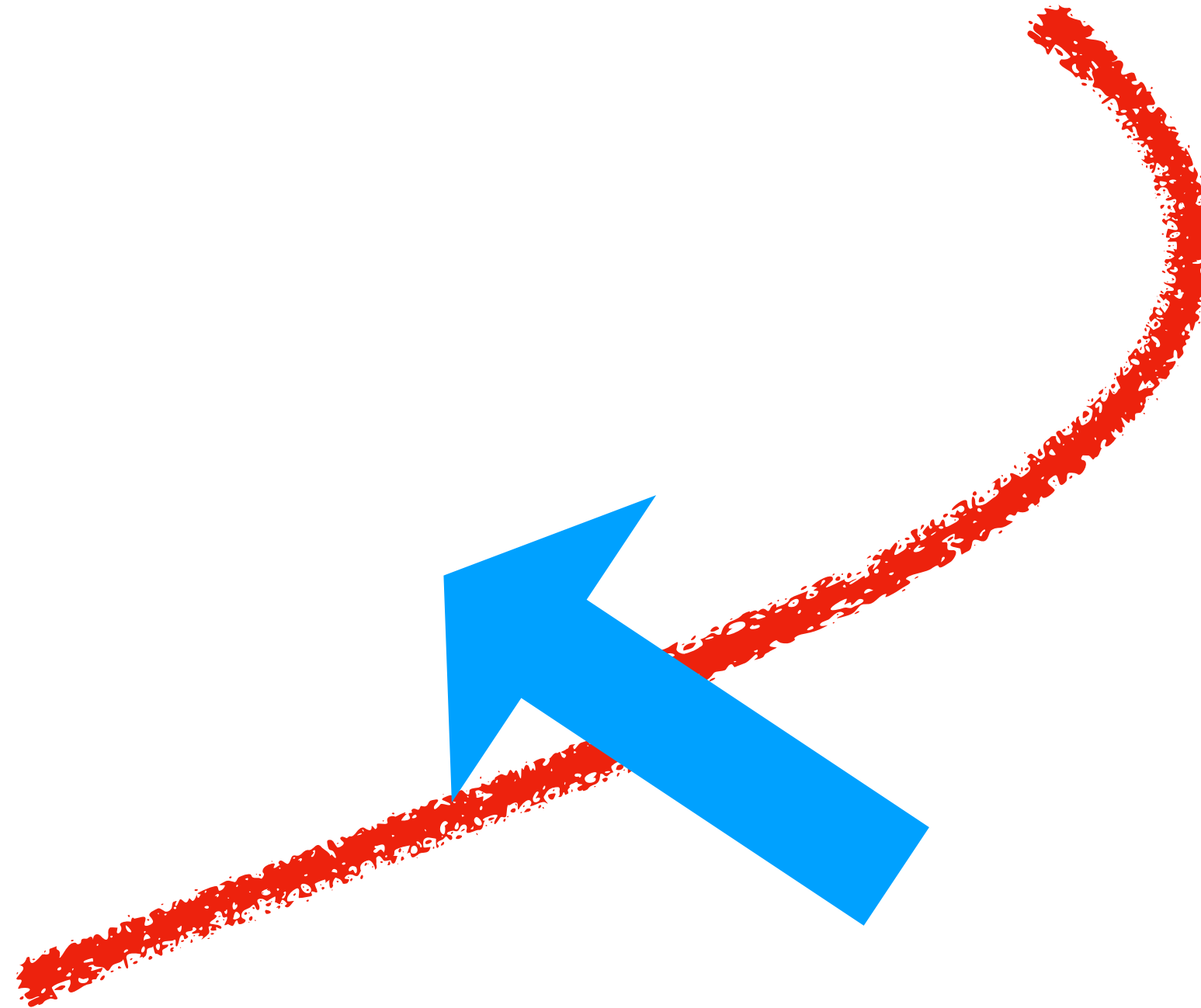


China's long-term mean annual precipitation distribution  
(Deng et al. 2006, data source China Meteorological Administration)

# Awakening the giant?

*“I am sure that as long as a few developed countries continue to dominate the world’s oil resources, as long as there is no change in the global power structure, the Chinese people will have to undertake major hydrological engineering projects in western China if they want to modernize.”*

(Deng Yingtao, 2012)



Bring water to the East using **wind power** with **hydraulic power** as storage and local energy source?

风水

China’s long-term mean annual precipitation distribution  
(Deng et al. 2006, data source China Meteorological Administration)

# Awakening the giant?



Lin Yishan, 1911-2007

Dongbei, 1946

“The irrigation system at Dujiangyan was **a rolling project**, too. There was no complete plan before the work started. But Li Bing and his son built a system that has watered the Chengdu plain for 2000 years... The

Grant Canal was also a rolling project. ...after generations of work, ... finally forming the continuous north-south link. The Great Wall was the same. ... The resilience of the Chinese race lies in these huge projects, great walls built over thousands of years. ... Dynasties rose and fell, generation after generation after generation went by, and they were still working at it. *And the entire process of construction was driven by need: wherever the problems were most urgent, they would build, then gradually extend and expand, until finally the full edifice was complete.*” (Deng Yingtao, 2012)

# Shock Therapy in Washington Consensus

Transition **to market economy**: structural transformation via subjecting **state-owned companies** to disciplining hand of price signals

How: **increase** (liberalise) prices at which SOEs access imported/intermediary inputs & **increase** the price of credit via monetary austerity

Politics: imposed via IFIs (WB/IMF), in local coalitions with central bank and against political opposition/contestation (job losses)

# Shock Therapy in Wallstreet Consensus (Gabor & Weber, 2021)?

Transition to **low carbon economy**: structural transformation via subjecting **companies** to disciplining hand of price signals

How: **increase** (liberalise) prices at **which companies pollute and increase the price of credit via risk-based green central banking**

Politics: imposed via IFIs (WB/IMF), in local coalitions with central bank and against political opposition/contestation (job losses)



**What can be an economic model for a socio-ecological transition that works for the many?**