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Profit-Making State Firms and China's Development Experience: "State Capitalism" or "Socialist Market Economy"?

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Abstract

State-owned "enterprises" from the planned era, converted into profit-making state firms in the 2000s, have been playing a major role in the continued spectacular growth of China's GDP. This fact, however, has been obscured by hegemonic neoliberal economic discourse with its assumption that only private firms can drive economic development, thereby turning what is a major dynamic into a major failing. At the same time, by a variety of abstract constructs founded on theoretical speculations rather than empirical reality, neoliberal economic and sociological discourse has also obscured the mounting social inequalities that have accompanied Chinese development. The evidence shows that central and local Chinese government actions lie at the root of the growing social inequalities. This article ends with a discussion of the new Chongqing experiment and its implications for the big issue of the direction of China's future development: whether "state capitalism" or "socialist market economy," not in rhetoric but in actual substance.

Keywords

hegemonic discourse, neoclassical economics, new institutional economics, social inequality, Chongqing experience

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The basic assumption that the state must not engage in profit-making activities runs very deep in modern Western economic and political thought. This has greatly affected our understanding of Reform China's development experience, by turning what has in truth been a major dynamic of that development into a major failing. It has also ruled out creative new thinking about the potential role state firms can play in China's social and economic development. This article begins with a summary of well-known facts about the role the Chinese state (both central and local) has played in the economy in the Reform period, then reviews how those facts have been interpreted and understood by mainstream economists in the West and in China, before going on to demonstrate that the state and its firms have been a major dynamic in driving China's economic development.

At the same time, the state has also been responsible for the growing social inequality in China, in large measure because of its deliberate and/or unintentional circumventing of its own labor laws and regulations in China's second-class "informal economy," namely that of peasant migrant workers (153 million in 2010), disemployed former employees of state enterprises (50 million), peasant and non-peasant employees of township and village enterprises 乡镇企业 (below the level of the county seat, 156 million), peasant farmers long outside the protection of state labor laws (260 million),[1] and rural peddlers, stall-keepers, small shopkeepers, and other individual or household "enterprises" 个体户 (23 million, many of whom are also engaged in farming), plus those employed in rural private enterprises (30 million), which together account for 672 million persons, or 86 percent of the total workforce of 780 million (Zhonghua renmin gongheguo guojia tongjiju, 2012; Zhongguo tongji nianjian, 2010: table 4-2, 4-3). The continued poverty of this large majority of the population is of course not just a social issue but also an economic one: it severely limits domestic consumption demand, forcing reliance on unsustainable export-driven development.

The big question confronting China today is: will it continue along such a path of "state capitalism," allowing the government and its officials, the capitalists, and other elites to become rich, while the majority of the population remains poor—as summed up in the common Chinese expression "the state is rich but the people are not" 国富民不富? Or will it attend, in addition to market-oriented economic development, to the socialist ideals of equity (but not planned economy), summed up in the term "socialist market economy" 社会主义市场经济, officially espoused by the state? This article ends by exploring in the concrete a major local experiment of the past few years in the latter approach. It points to the potential of using state firms to help fund social development to expand China's domestic consumption demand, for more sustainable economic development.

Some Basic Facts

Given common assumptions about economic development, perhaps the most striking thing about China's experience is the active engagement in profit-making by the state and its firms. That began in the 1980s with rural (township and village) governments' setting up profit-making enterprises 乡村企业 (TVEs), developed in the 1990s into higher-level local (province, municipality, and county) governments' aggressive efforts to "draw in businesses and investments" 招商引资 by providing low-cost land, subsidies, and tax breaks, in addition to cheap "informal" (i.e., not subject to legal protections and benefits) labor and, finally, in the reconfiguration during the 2000s of the largest so-called state-owned enterprises 国有企业 (SOEs) into profit-making state firms, while letting large numbers of smaller ones go private or bankrupt, in the "grasp the big and let go of the small" 抓大放小 policy.

As of July 2011, 61 Chinese firms have made it onto the Fortune 500 list (compared with just 12 in 2001), 59 of them state-owned, with total revenues (of the 61) amounting to supposedly 47.8 percent of China's GDP, according to the Fortune report ("61 Chinese Companies Make the Fortune 500 List," 2011). Of the 59 state-owned firms, 38 are central government firms, the remaining 21 being local government firms. Revenues and net profits of the 38 central-level firms reportedly have doubled in the five-year period (of the 11th five-year plan) from 2006 through 2010 or, in other words, have expanded at a rate of more than 14 percent per year (Shao Ning, 2012). With that kind of track record across the 2008 financial crisis and its aftermath, Chinese state firms have become well positioned in the global capitalist economy.

Throughout the Reform era, the Chinese central government and its local governments have combined in a paradoxical way a high degree of centralization with much decentralization. The former is evidenced above all in firm central control of official appointments and the latter in variegated local government initiatives for economic development. The combination is paradoxical because, in spite of the apparent contradiction between the two, they have in fact coexisted.

In the market competition both domestically and internationally, the central and local Chinese state have both played key roles, and their firms have enjoyed distinct advantages not possible for mere private firms. This is because, first of all, given the Chinese institutional environment even today, virtually nothing can be done without government approval and, almost literally, anything can be done with government approval. The examples that come most immediately to mind are the requisitioning of peasant land for urban development, to an extent far exceeding anything imaginable under the

Western tradition of eminent domain. This is not to speak of the mustering of permits and resources necessary for rural enterprises in the 1980s, the provisions of subsidies, bank loans, special tax benefits, and so on in the "draw in businesses and investments" competition among local governments in the 1990s and after, and the still more direct involvement in the past decade of the party-state machinery in state entities converted into profit-making firms but still owned or controlled by the state.

On the empirical level, there is little to be disputed in the above summary. The facts are thoroughly documented in the available scholarly research and widely known among most of the seasoned observers of China. I have myself documented or discussed these facts in more detail in several recent articles (Huang, 2009, 2010, 2011a, 2011c; Huang Zongzhi, 2008). Among the most recent academic studies are two reports to the congressional U.S.-China Economic and Security Review Commission, by Adam Hersh and by Andrew Szamosszegi and Cole Kyle. Hersh highlights especially the crucial role of the local governments in China's economic development (although he does not talk about the distinctive combination of decentralized local government initiative with central government authoritarianism) (Hersh, 2012). Szamosszegi and Kyle mainly document the extent of the role of state-owned or controlled firms (SOEs), arguing that they account for at least 40 percent of China's non-agricultural GDP, possibly as high as 50 percent (Szamosszegi and Kyle, 2011).

Further, Szamosszegi and Kyle reported to the commission that while there are just 120 central-level SOEs (in 2009), those have many local subsidiaries, perhaps 12,000 in all; local government SOEs, on the other hand, total perhaps 100,000 enterprises (Szamosszegi and Kyle, 2011: 26). No data are available in terms of the relative proportions of GDP of central versus local SOEs, but local-level employment figures suggest that SOEs account for relatively low proportions of total urban employment in provinces-municipalities like Zhejiang (14 percent), Jiangsu (15 percent), and Guangdong (17 percent), but relatively high proportions in Hunan (32 percent), Sichuan (33 percent), Guangxi (38 percent), Jiangxi (38 percent), and middling ranges in Shanghai and Beijing (20 percent), Chongqing (24 percent), and Tianjin (26 percent) (Szamosszegi and Kyle, 2011: 27, table IV-1).[2]

The Hegemonic Discourse

What is in contention are not the above facts themselves but how they are comprehended. The dominant theoretical take, in China no less than in the United States, has been from the standpoint of the so-called new institutional economics. That body of theory, originating from several Nobel Prize–winning economists—especially Ronald H. Coase and Douglass North—holds that only clear-cut private property rights can undergird a smoothly functioning market economy, and only a market economy can generate the dynamic for economic development (Coase, [1988] 1990, 1991; North, 1981, 1993). That has become a cardinal theoretical premise, with the force almost of a mathematical axiom, in a discipline that has represented itself as a hard, scientific one (despite its obvious history of being unable to predict or deal effectively with crises like the Great Depression of the early 1930s and the financial tsunami of the late 2000s).

Beneath that axiom lies a long-standing discursive structure of the modern West, with assumptions that are more taken for granted than spoken or made explicit. This is especially true of the fundamental binary juxtapositions between the market and the state, the private and the public, that hark back to the classical liberalism of Adam Smith and the later neoclassical economics in their firm opposition to state interference with the "invisible hand" of the market.

In the contemporary discipline of economics, that binary opposition between the market and the state has been upheld by a vigorous defense of the original classical principles by Friedrich Hayek, among others. Hayek began by criticizing as an insider neoclassical economics' tendency to equate the real with the idealized and its excessive reliance on mathematical models. He singled out for criticism what he termed the "false individualism" in neoclassical economics' assumption of perfectly rational and perfectly informed individuals, and argued instead for a "true individualism" that would acknowledge imperfect rationality and information. But that powerful critique, it turns out, was not made for the purpose of overturning or even revising the classical economic assumption of an optimizing market, but rather for the purpose of attacking what he saw as the false, scientistic mentality that lay behind the Soviet Union's planned economy. His point was, in the end, that despite imperfect information and imperfectly rational individuals, only market mechanisms can optimize the allocation of resources (Hayek, [1948] 1980: esp. chaps. 1 and 6; cf. Hayek, 1974). He in fact considered himself, in the final analysis, to be a "classical liberal" ("Friedrich Hayek," www.wikipedia.com, citing Ebenstein, 2001: 305 and passim).

In Ronald Coase's case, the key point was to focus on the neglected "black box" of "the firm," and the crucial importance of clear-cut property rights law for lowering "transaction costs" to enable efficient operation of the market (Coase, [1988] 1990, 1991). In Douglass North's case, the key point was similarly that clear-cut private property rights law is the sine qua non of a market economy and economic development, and the crucial difference between developed nations and the less developed (North, 1981, 1993).

Despite the apparently critical postures these three adopted toward neoclassical economics, they all stood finally against state interference with the operations of the "invisible hand" of the market. In the past three decades, these classical–neoclassical and new institutional economics views have been given the powerful sponsorship of Anglo-American neoconservatism. Hayek particularly held the distinction of being Ronald Reagan's, Margaret Thatcher's, and George H. W. Bush's favorite economist ("Friedrich Hayek," www.wikipedia.com, citing Ebenstein, 2001: 305 and passim). The result was that these principles and their underlying assumptions took on all the force of a hegemonic discourse—that is, not just an ideology sponsored and propagated by political power, but also a system of language and talk that reigns supreme and is used without question.

The presumed binary opposition between the state and the market, the public and private, is so fundamental that, among American Republicans and Democrats alike, it is simply taken for granted that the state must not engage in profit-making activities. Profit-making in the market is to be reserved for private firms; the state may only tax or borrow for public services, but not engage in profit-seeking or operate profit-making firms. That assumption / belief runs so deep that it is almost never openly questioned. The division between Republicans and Democrats in American politics has to do not with whether state entities may engage in profit-seeking, but rather with whether the market and its private actors need to be regulated, and whether Keynesian macroeconomic tinkerings by the state with the money supply and with employment are justified. Republicans have insisted that Adam Smith's "invisible hand" should be allowed to operate without interference (the less state interference the better); the Democrats have maintained that Keynesian state actions are necessary and desirable. Neither, however, seriously contemplates a state engaged in profit-making. A concrete illustration is that, despite the tremendous difficulties confronting the U.S. government's Social Security program, it is still taken for granted that the Social Security fund shall not, may not, invest in equities of private firms, even though they have demonstrated over time higher rates of return to investment than the holding of government debt.

Historically in Britain and America, this fundamental principle was set aside only in the earlier days of imperialism, its rhetoric of laissez-faire and free trade notwithstanding, and in the main only with respect to overseas colonies, in which the state might act directly in conjunction with private entities (like the semi-official British East India Company, which was given a Royal Charter for a monopoly on trade with the East Indies, came to rule India, was responsible for most of the opium trade with China, and provided large amounts of tax revenue for the British government). A present-day remnant of such may be found in the U.S. government-funded OPIC, the Overseas Private Investment Corporation, established in 1971 with the express purpose of facilitating overseas private investment (in the so-called emerging markets) by providing loans, guarantees, and insurance. It is an entity that has turned out to be profitable, but it is anomalous and but a minuscule part of the total U.S. economy (Huang, 2011c: 583–84). Another is the Tennessee Valley Authority (TVA), formed to deal with flooding in the Tennessee Valley by building dams and harnessing hydroelectric power for public use. But TVA is similarly anomalous and was fiercely attacked by Ronald Reagan during the launching of his political career as being "socialist" (Huang, 2011c: 585).

The neoconservative (or neoliberal) outlook has led to the following take on Chinese state profit-making activities among most Western observers. They are never seen as a major dynamic for China's development, but rather as aberrations or, at best, as less-than-ideal "transition" phenomena. The distinction for being the engine for economic growth has been reserved entirely for (the rise of) private firms. The mainstream new institutional economics argument is that, in order to reach a truly optimal allocation of resources, China must privatize further, setting up more clear-cut private property rights and doing away with state-run enterprises entirely.

State enterprises are assumed to be inherently economically inefficient. They are run by bureaucrats not entrepreneurs. Like monopolies, they are not subject to competitive forces. They interfere with true market competition, and are therefore detrimental to the efficient allocation of resources. Far from explaining China's dynamic development, profit-making state firms and activities are seen as leftovers from the planned economy and obstacles to China's full transition to a truly developed Western-style capitalist market economy. Hence the word "transition," which is generally assumed to refer to the transition from a backward planned economy to a developed, privatized, capitalist market economy.

Related to the above is the basic structure of the prevailing hegemonic discourse: the assumed binary opposition between capitalism and socialism, private and public, market and the state. As Janos Kornai has argued with such force and influence, capitalism and socialism are two diametrically opposed economic systems, each with its own internal coherence and logic. Whereas the socialist system is based on bureaucratic management, the capitalist system is predicated on private property and market signals. The former operates by choices and decisions made by bureaucrats, the latter by the market decisions of individual entrepreneurs and consumers. The former institutional structure leads to "soft budget constraints"—the state, for ideological and not economic reasons, will continue to support an enterprise whether it is profitable or not. The latter, on the other hand, is based on "hard budget constraints"—an enterprise will fail if it loses rather than makes money, for that is the nature of market discipline. The former relies on distorted bureaucratic judgments in making production decisions, hence its chronic condition of ("horizontal") shortage, in which goods that are needed and wanted are chronically in short supply, while unwanted goods might be in great abundance. The latter, however, is keyed to real demand and supply, shown and determined by market prices, thereby supplying goods and services where they are needed. Since each system forms an integrated and logically coherent whole, any attempt to mix the two can only lead to "incoherence" and heavy costs (Kornai, 1992: esp. chaps. 11 and 15).

The above view of the opposed logics of socialism and capitalism, of course, leads to the belief that one has to give way completely to the other. That is in fact the logic underlying that seemingly innocuous term "transition." There can be no mixing of the two, no "third way." (For a most recent and sophisticated argument, see Szelenyi, 2011, and the response in Huang, 2011d.) Thus, by the logic of Kornai, no less than of Hayek–Coase–North, the state's profit-making entities could not have been a major dynamic for China's economic development. In the Hersh and Szamosszegi-Kyle reports cited above, the unspoken concern of the U.S.–China Economic and Security Review Commission is to uncover possible Chinese violations of the rules of the World Trade Organization undergirded by the principles of classical and neoclassical economics, not the secret to China's successful development.

This ideology and hegemonic discourse have if anything been adopted even more completely and fiercely in China than in the neoconservative West, that because of the background of the powerful tide of reaction against the planned economy of old. Indeed, Chinese rural government enterprises gave way after the 1980s to privatization to varying degrees, influenced at least in part by that hegemonic discourse. And the "draw in businesses and investments" drive by local governments from the 1990s on was undertaken on the basis of an ideology of private business-driven development, under a central government policy of using GDP increase as the key index for evaluating local officials' performance (Wang Hansheng and Wang Yige, 2009; cf. Huang, 2010: 124). So too with the privatization of smaller and medium-sized state firms in the past decade.

Alternative Theoretical Formulations

There have been efforts in past American scholarship to take into account more seriously the pivotal role played by the Chinese state, especially by local governments, in China's development. As I have detailed elsewhere (Huang, 2011a), one train of thought came from political scientist Jean Oi (1992, 1999) and sociologist Andrew Walder (1995), summed up by the term "local state corporatism," based mainly on the empirical reality of the TVEs of the 1980s. In that analysis, the Chinese "local" state came to be seen in effect as a (profit-seeking) corporation in conventional economic terms, with almost all of the characteristics of a capitalist firm. In Walder's elaboration and development of Oi's original concept, the lower down one goes in the hierarchy of Chinese governmental jurisdictions, the more private corporation–like the governments became—with less obligations for workers' benefits, greater independence, and harder budget constraints. That was what accounted for the success of the TVEs. Another train of thought came from economist Yingyi Qian, who introduced in addition the rationale and dynamic of competition among local governments as a key ingredient. Dubbed "Chinese federalism" by Qian, the argument sought to place the Chinese experience of local government competition into Western categories, by analogizing Chinese governmental decentralization to American "federalism" (Qian and Roland, 1998; Qian and Weingast, 1997; Montinola, Qian, and Weingast, 1995).

Oi–Walder's and Qian's contribution was to make the Chinese experience more understandable in the terms to which Western analysts are accustomed, namely the terms of neoliberal economic discourse. In a sentence, China developed because Chinese local governments had come to act like privatized Western firms in a marketized environment.

Nowhere did Oi–Walder or Qian make clear what I believe to be a key factor in the Chinese experience: the special competitive advantages enjoyed by profit-making state entities over the simple private firm in the Chinese institutional environment. The truly difficult point to grasp, it seems to me, is not that those state entities are like private firms but rather that, in a marketized but mixed economy of the two, they enjoy advantages not available to the private firms. The terms of Oi–Walder and Qian's argument were set by the hegemonic neoliberal discourse that takes for granted that only Western-style private firms can generate development, hence the argument that Chinese local government enterprises came to behave like those firms. However, while it is true that private firms have played a very important role in the development of Reform China, equally true is that in the Chinese context state firms and state-supported firms have been a major dynamic for development, not just because they are like private firms, but precisely because they enjoy competitive advantages not possible for the private firm. How else could the Chinese economy as a whole have developed so dramatically, given that it began as almost a completely state-owned one and remains today close to 50 percent state-owned? It is the latter point that has been truly difficult to grasp for Western analysts working within the dominant neoliberal discursive structure. That is what really needs to be made clear to bridge the gap in understanding.

In addition, as I have pointed out elsewhere, the Oi–Walder and Qian theoretical analysis has not been extended to the 1990s and the "draw in businesses and investments" competition among local governments, in which local governments came to act more like facilitators-supporters of domestic and foreign firms rather than owners-managers themselves as with the TVEs (Huang, 2011a), and still less to the 2000s in which large SOEs have been converted into profit-making firms to compete with multinational corporations, but still remain government-owned and controlled.

In contrast to Oi–Walder's and Qian's work, the more purely empirical analyses presented by applied economists generally confront only the question of "what" (e.g., what is the size and role of Chinese state-owned and controlled enterprises?) and not of "why" (e.g., why have they been successful? Or not successful?). This is particularly evident in the policy-oriented studies done for the U.S.–China Economic and Security Review Commission, such as those of Hersh and Szamosszegi–Kyle discussed above. For academic thinking about the question of "why," our best examples are still the theoretical work of Oi–Walder and Qian.

The Chinese Political and Social Context

Ironically, while neoliberal theories and assumptions have made the positive role of state firms a difficult reality and concept to grasp, the Chinese party-state, given its historical background of totalistic state control of the economy, quite naturally took on profit-making for its firms, in practice if not in theory. The planning part had been given up because it was inefficient; what was to take its place was the market. In the Chinese discursive context, giving up the plan meant giving up at least for the time being the revolutionary economy dedicated above all to social equity and adopting a marketized economy. And the word "market" has long been associated with profit-making and "merchants" 商人, the main Chinese term for profit-seekers. The change is well summarized by Deng Xiaoping's oft-quoted expression, "let some of the people get rich first" 让一部分人先富起来. In this process, the role of the state would shrink, to be sure, but given its all pervasive role earlier, even a much diminished role is still a huge one, far more than anything imaginable in the Anglo-American classical and neoclassical tradition. After all, in the Chinese frame of reference, what can be more obvious and natural than state intervention in the economy, marketized or not? From there, it was but a short step to the profit-making state firm.

On balance, neoliberalism did perhaps more to legitimize profit-making by the state than constrain it. The classical and neoclassical insistence that individual search for gain is the best prescription for the economy, and hence also for all the people, served for many to rationalize self-gain. Under that ideology, Reform China in fact became a nation in which it was right to seek personal benefit and profit, by state officials and not just by "merchants," rationalized in terms of its contribution to development.

At the same time, even if doctrinaire Chinese neoliberal economists could not quite grasp the operative realities of the reformed economy, the practical-minded could readily see the advantages state entities enjoy over the private enterprise in a competitive market environment—in overcoming systemic 体制 or institutional 制度 obstacles (e.g., mazes of bureaucratic red tape) that would otherwise be insurmountable, in gathering up the necessary financial and material resources, in obtaining special protections and benefits, in bending the law, and so on. Such advantages, perhaps difficult to grasp for doctrinaire academic economists caught up in abstract theories, are easily appreciated by the do-ers, like officials and profit-seeking entrepreneurs engaged in real business activities. As a Chinese businessman who has made a fabulous fortune in the past twenty-plus years explained to me, his "secret" in business was very simply always to "follow the lead of the state."

It was in that general environment that widespread abuses took place, by rural cadres who enriched themselves through local government enterprises, by local officials who either got rich from kickbacks in "drawing in businesses and investments" or advanced their careers by compiling impressive records ("administrative accomplishments" 政绩) in promoting local GDP growth, and later, also by state officials overseeing the transition of erstwhile SOEs of the planned economy into profit-making firms. In fact, in the general restructuring of SOEs, it became legitimate to get rich from the process. One good illustration is a particularly well-documented case of a smaller SOE's conversion into a private firm: the manager of a southwest distillery (whose top-of-the-line product now sells for more than US$100 a bottle) personally acquired through the process a 20 percent equity in the company, in addition to 97 million yuan in dividends (by 2009), all that under the direction of state policy (Chan and Unger, 2009; cf. Huang, 2011c: 582).

It was also under the neoliberal ideology that widespread abuses of the state's labor regulations took place. In many ways, Chinese local governments have behaved toward the countryside much as Western governments in the era of imperialism behaved toward their colonies, usually in the name of free trade and the optimizing market (and the civilizing mission of the West). The countryside was the locus of resources—most especially land, and also abundant cheap labor. Through a variety of guises, rural labor came to be treated as outside the purview of standing government regulations about employment, in terms of hours worked per day and per week, minimum wages, basic benefits, and the like. That was what drove the tremendous spread of China's informal economy, outside the protection of normal state laws and regulations, with a rate of expansion that dwarfed even that of China's GDP.

According to the detailed 2009 study by the State Statistical Bureau, the 145 million peasant migrant workers in the informal economy work an average of 58.4 hours a week, 89 percent of them working more than the legally stipulated 44 hours a week, and just 12.2 percent of them with health benefits and just 7.6 percent with retirement benefits (Zhonghua renmin gongheguo guojia tongjiju, 2010; cf. Huang, 2011b: 475). (While healthcare reform in the past three years [2009–2011] has managed to extend basic low-level coverage to a majority [95 percent] of peasants, gross inequities exist between an urban resident's healthcare insurance and a peasant's—see the concrete discussion in the Chongqing experiment section below). These results of the 2009 study were largely consistent with an earlier systematic study done in 2006 (Zhongguo nongmingong wenti yanjiu zong baogao, 2006).

The 2009 study, however, did not undertake a systematic comparison between the incomes of the peasant migrant workers and the incomes of workers in the formal economy. For that, we go back to the 2006 study. It had shown that while the peasant migrant workers worked an average of 50 percent more time than the regular workers, they received only 60 percent of the monthly pay of the regular workers (Zhongguo nongmingong wenti yanjiu zong baogao, 2006; cf., Huang, 2009: 408). A parallel study by an international group of scholars found that they earned only half of what regular workers did (Gustafsson, Li, and Sicular, 2008: 12, 29; Huang, 2009: 409). And neither of the two studies factored in their lack of benefits. It was by the use of such a labor force that many officials and private merchants have enriched themselves, in ways not dissimilar to Western imperialists in their colonies of an earlier era.

Needless to say, cheap labor and cheap rural land were the keys to ultra-profitable investments from outside (both domestic and foreign), and also the keys to some local officials' self-enrichment. In that larger environment, it was predictable that some officials and "merchants," and often also neoliberal economists, would have allied to legitimize each other's self-seeking behavior. Indeed, the phenomenon has been dubbed in Chinese the "iron triangle of officials, businessmen, and academics" 政, 商, 学铁三角 (Luoshan Yushi, 2011).

The gross abuses and corruption have been criticized by both the right and the left, although the rising incidence of popular/labor protest has been highlighted mainly by the left. The former is dramatized by frequent reports of high-level local officials found guilty of corruption, or local governments' pursuit of showcase government buildings and offices, or their mindless pursuit of GDP growth. The latter is dramatized by the ever-increasing incidence of "collective action events" 群体性事件, reaching by official statistics more than 90,000 a year in each of the years 2007, 2008, and 2009, the majority of them having to do with abuses in rural requisitioning of land 征地 or the tearing down of old urban housing to make way for new development 拆迁 (Yu Jianrong, 2010).

One "neutral" outsider measurement of the social context of all this is the World Bank's periodic tallying of different degrees of income inequality in the world's nations, called the Gini coefficient, named after the Italian founder of the method, quantified in terms of 0.00 to 1.00, with 0 being completely equal and 1 being completely unequal. Most developed nations of the world have figured in the 0.30 to 0.40 range, and China at the start of the marketizing reforms at 0.30 (in 1982), placing it among the most equal nations in the world, but 0.45 by 2005, making it one of the most unequal nations in the world (ranking number 90 among 131 nations of the world) (China Development Research Foundation, 2005: 13). Urban–rural inequality has jumped in roughly the same period from 1.8:1 in 1985 to 3.3:1 in 2007 (World Bank, 2009: 34, and fig. 2.36; cf. Huang, Gao, and Peng, 2012: 163).

Cheap labor goes a long way toward explaining why China has been such an attractive place for foreign investors, with return to capital investment rates during recent decades of more than 20 percent, according to a 2006 Brookings study (Bai, Hsieh, and Qian, 2006: 62; cf. Huang, 2011a: 21). At those attractive rates of return to capital, it is small wonder that China should have ranked as the most desirable destination for investment in the world, this by a United Nations Conference on Trade and Development survey in 2005 of experts and multinational corporations (Gao Bai, 2006: table 7; cf. Huang, 2011a: 22). That, in turn, goes a long way toward explaining why Chinese GDP has risen so dramatically.

That same set of reasons accounts, it can readily be seen, for the severe inequities of Chinese society and economy. It lies behind the mistreatment of 153 million (in 2010) "leave the land and the village" peasant migrant workers working in the cities. It lies, to a considerable degree, also behind the continued poverty of the countryside, which has been exploited, much as foreign colonies of the third world had been under the imperialism of the first world, for natural resources and cheap labor.

One important organizational secret to low wages among migrant workers is the persistence of the family as the basic economic unit of the peasants. Migrant workers from the countryside can be forced to draw part of their support from the family farm in the village, for retirement, health, schooling, unemployment benefits and such, even if not for subsistence in the cities. And, by the same token, the prices and returns of agricultural products can be kept low. These days the state actively controls the fluctuations of prices of basic agricultural commodities like grain, cotton, and pork, by storing up large quantities (as much as 20 percent or more of annual production), buying when cheap, and releasing and selling when dear, all in the long-standing historical tradition of the state's "ever normal granaries" 常平仓. The relatively low prices of agricultural goods vis-à-vis manufactured goods have been sustainable because peasants engaged in farming can be expected to draw subsidies from family members who are urban employed (Huang, 2011b; Huang Zongzhi, 2012a, 2012b).

Chinese Neoliberal Analyses

"Mainstream" Chinese neoliberal analyses, however, have proceeded not from the basic realities summarized above but from abstractions about the free market and private property. In their fundamentalist faith, only the market, on the basis of fair and equal competition, can allocate resources optimally. State firms violate those principles, they argue, because they misuse "public authority" 公权力 to gain special privileges, such as free access to land and other natural resources, privileged access to bank loans, tax advantages, and other kinds of policy support, tantamount to advantages enjoyed by monopolies. If one were to control for those "unfair" uses of resources, they can be shown, by comparison with private firms, to be inefficient, costly, unprofitable or less profitable, and unsustainable. It follows that the answer to China's problems has to be more complete privatization and marketization. (The circularity of the reasoning here should be obvious.) That is the crux of the neoliberal argument, well illustrated by recent studies by the

Tianze ("heavenly principle," or "unirule" by the founders' own translation) Economic Research Institute 天则经济研究所, perhaps the most influential center of the "new institutional economics" in China today (Tianze jingji yanjiusuo, 2011). Its director, SHENG Hong, has recently delivered a televised lecture to emphasize just the above points (Sheng Hong, 2012).

A variant of the above is the "comparative advantage" argument by Justin Lin, until recently China's representative at the World Bank as deputy head and "chief economist." For Lin, the institutional economists have overstated the determinative role of private property. To him, the rational allocation of resources by the market is more fundamental. China's "comparative advantage" is its "factor endowment" of abundant labor. It is disregard of that fundamental reality that led the Maoist state to place priority on heavy industry, which is capital-intensive, rather than light industry, which is labor-intensive. That disregard of a fundamental economic law is what made state enterprises unprofitable, which in turn led the state to sustain and support such entities through state appropriations rather than enterprise profits, or in other words, the "soft budget constraints" pointed out by Janos Kornai. The reform correction that is needed, therefore, is not so much privatization as observance of that basic economic law of comparative advantage—in other words, for the Chinese state to turn its priority to labor-intensive, non-capital-intensive light industry rather than heavy industry (Lin Yifu and Li Zhibin, 2005).

It should be clear that Lin's argument falls well within the compass of the neoliberal perspective. It is in fact even more "classical" than the views of the institutional economists like Sheng Hong and the Tianze Economic Research Institute. It is actually reminiscent of the emphasis of the classical liberal Friedrich Hayek, more than a Ronald Coase or Douglass North. Sheng Hong and Tianze, by contrast, are more in line with Coase–North. Obviously, to those who reject such fundamentalist faith in the freely competitive market, the differences between Lin and the institutional economists are merely minor variations on a theme akin to, say, denominational differences among Protestants. Neither questions the basic premise of the optimizing market. Both object strongly to any actions that might run counter to free market principles.

My objection to such Chinese neoliberal analysis has, first of all, to do with its assessment of the state firms. True, corruption and inefficiencies have accompanied the process of corporatization of state-owned entities of the planned economy. There have been plenty of examples of such, and those cry out for stricter regulation. At the same time, however, it is not true that new profit-making state firms have operated like monopolies without competition; in fact, they engage in globalized competition and have shown definite vitality in doing so. Indeed, it is apparent that Chinese firms, like those of other developing countries, are generally undercapitalized and less developed by comparison with the globalized multinational corporations. They can really only hope to compete against the developed nations' multinational corporations with the active engagement and support of the state. In reality, the new Chinese state firms have become a major cutting edge of Chinese economic development in the first decade of the twenty-first century. Without them, we would not see the rapid entrance into the Fortune 500 by Chinese firms, nor their generally successful records of profitability (more below).

The view that state firms are monopolistic and suppress competition does not really apply to the mixed economy of Reform China. As Oi–Walder and Qian already made clear, both the TVEs of the 1980s and the local governments of the 1990s operated in environments of intense competition, against other enterprises and other localities, and for the biggest ones, also against foreign enterprises and foreign countries. That is clearly true also of the large state firms of the 2000s.

In addition, I would point out, it is not the fact of state ownership or management that has led to widespread corruption and official self-enrichment. Indeed, what can be more obvious than that there had been little or no corruption in the Mao Zedong era, despite complete state ownership and control? Rather, it is the process of the corporatization of the SOEs, the turning of SOEs into market-oriented, profit-maximizing entities, that created the spaces for official abuse and self-enrichment. Fuller privatization at this point would just mean still more opportunity for abuse and corruption, as happened in Russia and Eastern Europe (Hamm, King, and Stuckler, 2012).

Neoliberal Chinese economists reject profit-making state firms in part because their theory takes for granted a starting baseline of a completely privatized and marketized economy. It is from such a point of view that state firms come to be seen as intrusions into the private economy that rely on "unfair" uses of "public authority" for unfair competition. But Reform China's starting baseline was in actuality not a private market economy but rather a state-owned economy, and even today, we have seen, state-owned firms still account for nearly half of the GDP of China's mixed economic system. Proceeding from that reality opens up a different perspective: since state firms are "owned by the whole people," their resources and profits can be mobilized for the public good without encroaching on the private economy and its interests, opening up possibilities that are not imaginable for a completely privatized economy. The question then becomes not whether state firms should exist at all but how they might be changed to serve the public good.

The correct economic answer to China's current problems is therefore very different from what the neoliberals prescribe. To eliminate state-owned and managed corporations would in fact cripple Chinese competiveness in the global market, not enhance it. What needs to be done is not to eliminate them, but to close the loopholes for corruption and, most important, redirect the state firms toward worthier missions that are more than simple profit-making and are for the public good.

The Case of the Bank of China

Before proceeding, it would be well to take a closer, microeconomic look at just what happens inside an old-style SOE when it is converted into a profit-making state firm. This is the kind of topic that most conventional economists do not research, preoccupied as they are with theoretical maxims and national statistics. The questions we need to ask are: Seen at the level of the operations of a firm, is it true as Kornai maintains that market-oriented behavior cannot be mixed with state ownership and management? Is it true that only private ownership can change bureaucratic management into market-oriented behavior? The topic cries out for the close-up research of an insightful economic anthropologist.

In the meantime, thanks to a recent book detailing the process by Xiao Gang (2011), chairman of the board (and also party secretary) of the Bank of China, the man who has been in charge of the bank's corporatization process in these past years, we can make a few observations about this crucial aspect of the Chinese development experience. The Bank of China is a particularly good illustration because, as one of the most bureaucratized entities of the Chinese economy, a true dinosaur, it is among the very last of the planned economy entities to be restructured and marketized. Xiao's reminiscences, moreover, are not merely theoretical observations but rather come with the persuasive force of someone who actually oversaw the implementation of the changes in practice.

What the book makes clear, first of all, is that the key issue in the SOEs corporatization process involved not simply or even mainly a change of property rights, but rather above all a change of the value system and outlook of the entity's personnel, from what Xiao dubs the "official first" 官本位 to a "people first" 民本位 culture or outlook. To appreciate what Xiao is saying one needs only recall the officious attitudes of the clerks of earlier Chinese banks, of the Reform era no less than the Mao era. The "customer," after a long wait, finally gets to come face to face with a clerk who talks and acts like an official toward lowly people. The new guiding principle is to break out of that culture and create a new one of the market customer first ("people first").

As Xiao Gang tells it, in an account that recalls some parts of Kornai's analysis, the old modus operandi was born of the bureaucratic personnel structure of the bank. Bank officers held official titles like department head 处长, deputy department head 副处长, section head 科长, and deputy section head 副科长, and were part and parcel of the state's gigantic bureaucratic hierarchy. We might note in addition that these post-1949 Communist administrators inherited the long-standing bureaucratic culture of the past, in which one became an official only after years and years of hard study and examinations. Gaining an official position was thus widely seen as a reward for such effort, with its entitlements and powers. That led to a particular attitude on the part of the personnel of the bank who, in Xiao Gang's characterization, were more preoccupied with what they could get from the unit than with contributing to or developing it (pp. 31ff).

What's more, that "official first" culture meant a single, narrow path for career advancement. It was strictly limited to moving up the official ladder—that is when one got more pay, more power, and more prominence. It was a system, as Xiao characterizes it, of "thousands of soldiers and tens of thousands of horses squeezing onto a single-plank bridge" 千军万马挤独木桥 (pp. 41–42). We might note here, in addition, that post-1949 Communist Party organization made that official system even more rigid than in the past, each layer tightly controlled by the layer immediately above it, from the center on down. Advancement meant above all gaining the approval of one's immediate superior. It was a system that fostered obsequiousness toward those above and favoritism toward those below.

As Xiao notes, reform of such a structure was above all about changing the culture of the entity. Most particularly, he singles out the need for a much greater emphasis on professional expertise (chap. 5). The bank has by his account taken great pains to set up avenues for advancement based on expertise. Pay scales and responsibilities have been pegged to professional knowledge, skills, and performance. It has become possible to advance in pay to levels that are equal or more than those of the administrators. And much has been done to try to make job reviews truly professional ("scientific"), predicated on performance in the marketplace (e.g., dealing with customers or bringing in new business), rather than the kind of formalistic evaluation procedure that, according to Xiao, still characterizes professional reviews in the universities today.

Xiao sounds several secondary themes. One is an emphasis on hiring younger talent. Another is setting up internal training programs to develop more professional expertise. Still another is engaging foreign consultants and specialists, most particularly the British "human resource management" consulting firm Hewitt Associates, which had been hired eight years earlier by the bank and remains a major player in its reform (p. 34). Another key is the position of the inspector-general for risk-evaluation of the head office's loans 信贷风险总监. Xiao mentions in particular the American Lonnie Dounn, someone with much previous experience in the field, who was paid the hefty salary (by Chinese standards) of several million yuan a year, and was given the task of seeing to objective evaluations of the risk factors of the bank's major loans (no doubt mindful of the bad debts of the past from loans based on state-policy orientations or personal *guanxi* connections without regard to the market).

By comparison with the above changes, privatizing the bank's ownership is clearly not the key issue. Here Xiao goes directly counter to other parts of Kornai's analytical scheme. To be sure, the bank made good use of drawing in the investments of four foreign banks-investors as "partners": the Royal Bank of Scotland 苏格兰皇家银行, the United Bank of Switzerland (UBS) 瑞士银行, the Asian Development Bank 亚洲开发银行, and the Singapore government's Temasek Holding Company 新加坡淡马锡控股公司, but those added up to merely 16.85 percent of the bank's total shares. The chief purpose of the "partnership" was not at all to terminate state ownership, since the state retained 83.15 percent ownership, but to package the bank for its initial public offering (IPO), which it succeeded in doing in Hong Kong in 2006, within two years of the agreement. From the bank's point of view, the foreign banks' participation made it look much more attractive to prospective investors. From the perspective of the four investing entities, the draw was the return to investment promised by the planned IPO, not real partnership with the Bank of China. (Indeed, the Bank of China's agreement with the four entities guaranteed for three years the shares at their initial value, and further promised to return the investments if the IPO should fail in that period.) (pp. 75–77)

The change from a simple state-owned entity to a publicly held firm, even one in which the state retains a dominant proportion of outstanding shares, brings with it a host of changes. Management has to become vitally concerned with the market value of the company's equities, hence also with profits and efficiency. And stock market regulations demand a certain degree of transparency in the essential information of the company. Both of those aspects mean a definite degree of investors' "supervision" over the firm. Non-state stockholders come to command a degree of influence, however minor by comparison with management. Together, these clearly became important forces for reshaping the internal culture of the firm in the manner described by Xiao.

In other respects, however, the bank retains all the attributes of the typical Chinese party-state unit. Of its 280,000 employees, more than 100,000 are Communist Party members, organized into some 6,000 party cells (p. 95). The party organization and hierarchy is present in full, complete with a party committee headed by Xiao at the top, and the standard organizational divisions into the different departments of propaganda, discipline, organization, and so on (p. 79). Xiao Gang, as secretary of the party committee and chairman of the board of directors, is the top person 第一把手 of the bank.

It is clear that the Communist party-state retains control of this state firm. The board of directors includes not only members from the foreign investors but also six members appointed by the party-state's holding company for the bank 中央汇金公司, the official legal owner of the bank. Moreover, the board can only appoint the deputy heads and above of the bank, but not the managers and deputy managers of its 25 divisions. When party-state policies and bank concerns are in conflict, Xiao Gang plays the pivotal role of coordinator and peacemaker between the board of directors and the party committee.

Yet, despite what Kornai and neoliberal economists would see as a heavy burden of party-state interference and control, as well as the obvious persistence and predominance of state ownership, the bank has compiled an impressive record under Xiao Gang. The value of its assets doubled between 2004 and 2009, and its net profits tripled (p. 28). The financial crisis of 2008 actually turned out to be an opportunity for the conservative (in terms of much higher capital reserves ratios and non-engagement in derivative instruments) Chinese banks. While other banks lost money, the Chinese banks gained, and their proportion of the total profits of all banks worldwide rose sharply as a result. In 2007, Chinese banks had accounted for just 4.6 percent of all profits of the 1,000 largest banks in the world; in 2008, that figure rose to 10 percent, and in 2009, further to a whopping 74 percent. In 2010, the figure still remained a very high 26 percent (p. 23, table 1-2). With that kind of recent track record, Chinese banks in general and the Bank of China in particular look to be well positioned in the global economy.[3]

Thus does Xiao Gang's book document that it is not a matter of simply private ownership vs. state ownership, private management versus state management, but rather of the reshaping of the goals, values, and work ethic of the personnel in a marketized environment that has been crucial to the "transition" of the Bank of China into a profit-oriented state firm. More important, the reformed Communist Party's influence and organization do not seem incompatible with a profit-making entity competing in the marketplace, domestic and international. In short, the Chinese state firm, *pace* neoliberal expectations, seems well able to excel at the capitalist game.

What is perhaps most needed at this point is further clarification of the mission of such an entity. If the market profits and gains of the bank should devolve mainly to the powerful and the connected (e.g., the managers and the key officials in the state's holding company) or just the entity itself, any talk about a changed culture of serving the people would remain mere rhetoric. The true test is whether the bank's market profits will actually be used to benefit the people.

Social Inequality

The neoliberal perspective is the most critically flawed when it comes to the social dimensions of China's development experience. To be sure, there has emerged in urban China a sizable elite group that matches middle class income standards of the developed West and Japan. They own comfortable Western-style condominiums in the cities, drive expensive cars (often imported), and shop sometimes in elite department stores whose goods carry prices that intimidate even a middle class American.

This new elite group is sizable enough to excite multinational corporations as to the potentials of the China market. The dimensions of the group depend largely on the definition one adopts. The State Bureau of Statistics 国家统计局 (SBS) in 2005 set the definition at 60,000 to 500,000 yuan of household income per year, or roughly US$7,500 to $62,500 at that time, certainly a modest level by Western standards, and found that just 5.04 percent of the population qualified. In 2007, that figure reached 6.15 percent (Guojia tongjiju, 2007; cf. Huang Zongzhi, 2010: 198). If we use the 5 percent figure for today, this (rather misnamed) "middle class" group would total in absolute numbers nearly 70 million; at 10 percent, they would total 135 million, and at 15 percent, 200 million strong. Visions of rapid growth of such a class, to a proportion of the population comparable to that of the American middle class, are enough to make China seem potentially the biggest market in the world for middle class goods of the developed world.

But, it must be pointed out, this misnamed new "middle class" of China remains and will remain for a long time only a small minority elite of the total Chinese population. As noted earlier, one needs only count up the 153 million peasant migrant workers in the cities (above the administrative level of the county seat), another 156 million peasant and non-peasant workers in the rural "township and village enterprises" (below the county seat), plus 50 million workers disemployed from privatized, bankrupted or slimmed down former SOEs, 260 million farming peasants, plus another 23 million rural peddlers, stall-keepers, small individual and household services and businesses, and 30 million employees of rural private enterprises, to see that the lower-income groups constitute by far the majority: a total of 672 million, or 86 percent of the labor force.

Neoliberal scholars typically try to argue away the size and even existence of this majority group of the population, on the basis of abstractions derived from neoclassical economic theory. Thus, mainstream Chinese economists have borrowed from W. Arthur Lewis's "dual economy" model's forecast—that the division between a modern sector and a traditional rural sector "with unlimited supplies of labor" and hence much lower wages will enter into a "turning point" with economic development, to usher in a single integrated market—to insist that China is already at or past that "turning point" (see, e.g., Cai Fang, 2007; cf. the discussion in Huang, 2009: 413–15). One is thus to imagine an integrated Chinese labor market on modern urban middle class standards. An equally influential argument, by neoliberal sociologists, is that Chinese society is already olive shaped, with a bulging middle in the same manner as American society (see, e.g., Lu Xueyi, 2002, 2003, 2007; cf. the discussion in Huang, 2009: 416–17). One is thus to imagine a present and future middle class that would, like in the United States, constitute a majority of the population. These arguments have been made with all seriousness despite the obvious fact that 86 percent of the labor force belong to the second-class informal economy.

It is the latter dimension of China's development experience that is truly alarming, its stunning GDP growth record notwithstanding. That is how China, despite being the world's second largest economy in terms of GDP, with the probability of soon becoming the largest economy, ranks among the most unequal nations by the measurements of the World Bank. In real human terms, about 1.16 billion of the 1.35 billion people live and work in the second-class informal economy. And 15.9 percent of the population, or 215 million people, remain under the poverty line of US$1.25 a day (World Bank, 2008; cf. Huang Zongzhi, 2010: 13–14).

It is this issue of social inequality above all that makes China's past approach to development unsustainable. It is the relative poverty of the majority of the population that severely limits the size of the domestic Chinese market and forces it to depend on exports for economic development. The issue is the more relevant and urgent because of the tradition of a revolution that was made in the name of the laboring classes and emphasized social justice above all else. To be sure, to judge by the overall record of the past 30 years, that tradition has meant little in the actual economic practices of the Reform era, but the Communist Party has elected to retain much of its revolutionary rhetoric, and in fact harps periodically on the themes of social justice ("scientific development") and a "harmonious society," despite strict adherence to the banning of any talk of class conflict. The ideal of social equity, though obviously very far removed from present-day social reality, remains widely accepted among most of the population, not least because of its continued advocacy in official rhetoric.

The sustainability issue is not merely social, but also economic, because China has relied heavily until now on export-led growth, providing cheap goods through its cheap labor for much of the rest of the world. With the financial crisis of 2008, almost everyone now understands that for its rapid growth to continue, China will have to rely more and more on domestic and not foreign demand and consumption. And those can be rapidly raised only by improving the standards of living of the informal workers and peasants who are the majority of the population and spend the largest proportion of their income on consumption.

Environmentally speaking, the same policies by local governments of aggressively "drawing in businesses and investments" led not just to the disregarding of state laws and regulations on labor, but also those on the environment (Economy, 2004; Zhang Yulin, 2007, 2009; cf. Huang, 2010: 120). The realities of those practices on the local level, regardless of central-level intentions and rhetoric, are a big part of the environmental crisis that confronts China today. That too is obviously unsustainable.

The Chongqing Experiment

Lest the implied advocacy here of greater social equity seem to be just so much wishful thinking, let us review briefly the record of Chongqing municipality's (population 33 million, with 23 million registered as peasants) experiment of the past few years. There the local government took advantage precisely of the competitive advantage of profit-making state firms to propel both stunning GDP growth at an average of 16 percent per year in the past five years (2007–2011) (see the detailed study of Qu Hongbin, 2012) and great advances in social equity, funded above all by profits from state-owned and controlled firms. In Chongqing, those profits have been dubbed a "third finance," in addition to taxes (first finance) and revenues from "assignments" 出让 of development land to private developers (second finance) (Huang, 2011c).

Those profits have gone to fund welfare benefits equal to those enjoyed by urban residents for millions of peasant migrant workers hitherto treated as second-class citizens in their temporary employment in the city. Those who convert to urban status have the option of retaining for five years their rural land rights (more below). Launched only in August 2010, the project was so welcome by the people concerned that it completed its original three-year target in a year and a half, by March 2012, re-registering a total of 3.22 million peasant migrant workers as full-fledged urban residents—as reported by the systematic study done by the Development Research Center of the State Council (Guowuyuan fazhan yanjiu zhongxin, 2012; Huang, 2011c: 594). That covers all who have worked in the main city for five years or more, and in the smaller cities and towns of the other municipal districts for three years or more. That means they now enjoy the same health, retirement, education, and other benefits as urban residents.

As Chongqing mayor Huang Qifan explained, there had been a two-tiered benefits structure in Chongqing. The gap is dramatically illustrated by the difference in compensation for deaths from vehicular accidents: 200,000 to 300,000 yuan for an urban resident; 80,000 to 100,000 yuan for a peasant. In terms of normal benefits, enterprises needed to provide 20 percent of an urban-resident worker's monthly pay toward retirement, but only 12 percent for a rural resident, and 1,400 yuan a year for an urban resident for health benefits, but only 480 yuan for a peasant. (As noted above, three years of healthcare benefits reforms have brought 95 percent of peasants under a basic coverage plan, but that is a far cry from equal coverage for rural and urban residents.) To cover the difference in those two benefits alone, Huang estimated it will cost about 20,000 yuan per person over a 15-year period. Most crucially for many families, the urban resident is entitled to attend urban schools basically without charge, while the rural resident must pay hefty "choosing a school" 择校 fees of several thousand or more a year. (Nine-year compulsory free education applies only to the locale of one's household registration.) The costs for providing education, housing, and public health for the peasants turned urban residents will run another 10,000 yuan or so a person (Huang Qifan, 2010; cf. Huang, 2011c: 584–95).

The program to provide inexpensive public rental housing for the migrant workers (as well as new college graduates and urbanites with substandard housing) is just as striking. A total of 40 million square meters of housing is being built, to house a total of two to three million people, at an average of 15–20 square meters (or 150 to 200 square feet) per person, at a rent of 10 yuan per square meter, or roughly 600 yuan a month for a unit of 60 square meters (or about 600 square feet) for a family of three, this compared to the 3,000 yuan or more a young university instructor in Beijing typically has to pay for a one-bedroom apartment. The tenants of the public rental housing will be able to purchase the units (at far below market housing rates) after five years of rental, but may not sell them on the open market for a profit, only back to the housing authority (Huang, 2011c: 591). As of the end of 2011, a total 82,000 units in the city proper, plus another 30,000 in smaller surrounding cities, had been assigned by (transparent and fair) lottery, to house a total of more than 300,000 people ("Chongqing gongzufang," 2011). In the city proper, the rental housing is being dispersed over 21 larger community districts, so that they enjoy the standard services of commercial housing, and to prevent the formation of any kind of a congregated slum of cheap public housing (Huang, 2011c: 591).

The main sources of funding here have also been the government's use of profits from state firms, in addition to market appreciation of urban development land. State firms, in fact, have been required as of 2012 to turn over 30 percent of their profits to the government for use for the public good (Guowuyuan fazhan yanjiu zhongxin, 2012), and the government has since 2008 spent more than 50 percent of its total expenditures every year for "people's livelihood" ("Guoqi tuodi," 2010; Huang, 2011c: 589).

For neoliberal economists, of course, such government spending for "entitlements" recalls the unsustainable practices of the planned economy era. But the Chongqing strategy is not social equity just for its own sake, as had been the case with the redistributive revolutionary economy of the past, but rather to use social development to drive economic development. Obviously, the conversion of large numbers of peasant migrant workers into regular urban residents, with much improved standards of living, will greatly expand domestic demand and consumption.

We might note in addition that the use of profits from state firms to fund such a redirection is not at all unfair, for the state firms had from the start been "owned by the whole people"—what, in fact, can be fairer than that the profits from their restructured selves should be used for the public good, most especially for those who have borne the main burden of China's development, rather than for the private gain of a few powerful and well connected? The implied vision here is to turn "state firms" into "public firms" (my term) in the true sense of the word "public." Such actions may be justified in different ways: for example, in terms of the cities helping the countryside, or the rich helping the poor, akin to the concept of aid from the developed nations to (their former colonies of) the developing world. They can also more powerfully be justified, it seems to me, in terms of how entities owned by the whole people are to contribute to the public good.

The relative health of Chongqing's economy under such a development strategy is perhaps best shown by its housing industry and market, which stand out from those in the other major cities of China. The Chongqing government's approach to the housing market, the single biggest livelihood issue in China, is to adopt a three-tiered housing structure: housing for 30 percent of the people at the bottom to be furnished by the inexpensive public rental housing just described (compared to just 3–5 percent in other cities); 60 percent by commercial real estate; finally, at the top tier, about 10 percent by luxury housing subject to special tax levies. In addition, the government has been careful to control the prices of urban development land, to keep them at one-third or less of the price of the completed housing. The net effect has been that at the end of 2011, newly built housing remains at a reasonable average price of 6,000 to 7,000 yuan per square meter, the same as at year end 2010, quite affordable for middle income people, this compared to the runaway 30,000 yuan or more per square meter in cities like Beijing and Shanghai (Huang, 2011c: 593; Huang, 2011d; cf. "Chongqing shi zhucheng," 2011). That record attests not to a housing bubble but a sustainable housing industry and market based on a mixture of public and private firms.

In addition, most, though not all, of the Chongqing state firms are in infrastructural development and public services, such as road construction, energy provision, public transport, water supply, public housing development, and the like. As a group, state firms clearly have not obstructed the drawing in of private enterprise or the rise of local private enterprises but have rather been necessary for those. The share of non-state enterprises in Chongqing's GDP has in fact risen from 40 percent to 60 percent in the years between 2001 and 2009 (Wang Shaoguang, 2011: figure 5; cf. Huang, 2011c: 600), roughly comparable to overall trends in the entire nation (Hu Angang, 2012).

Thus, the Chongqing example has shown that equitable development funded by state-enterprise profits can work. That is, by breaking out of the bind of a binary opposition in the modern Western tradition between the private and the public, capitalism and socialism, and adopting the very practical approach, given Chinese realities, of turning state enterprises overburdened by bureaucratic and redistributive burdens into dynamic profit-making firms, but not for profit for its own sake (or for the benefit of the managers of the firm, or the local government, or the firm itself), but rather for the public good. And that would be in a mixed economy of state and private firms.

All this could not have happened without active state engagement and support over and above just the state firms. A particularly good illustration is the new Yu-Xin-Ou (Chongqing-New-Europe) 渝新欧 rail transport line. The idea was simple: to turn inland Chongqing into a "port," that by linking up Chongqing with the vast European market by direct rail transport. The project was accomplished by putting together an agreement first with

Kazakhstan and Russia, and then bringing in Belarus, Poland, and Germany. Customs would be cleared in Chongqing, and from there the containers would transit without further customs inspection all the way through to Duisburg in Germany, in a journey of just 14 days,[4] about 20 days faster than if exiting from Shanghai or Shenzhen and then transported by ship to Europe. In May 2011, less than a year after the agreement was initially reached with Kazakhstan and Russia, Huang Qifan reported that the planned train route was already running. By April 2012, it was maintaining a twice weekly schedule, with a targeted frequency of thrice weekly by the end of 2012. At the same time, the formation of a new multinational Yu-Xin-Ou logistical (i.e., goods transport) company 物流公司 was announced, with Chongqing holding the controlling proportion of shares, and participation from Kazakhstan, Russia, and Germany. The cost for such transport is at present a reasonable US$8,900 per 40-foot container, with the prospect for further reductions through better coordination ("Yu-Xin-Ou tielu," 2012; "Yu-Xin-Ou wuliu gongsi," 2012; Huang 2011c: 573).

It was the promise of that kind of access between Chongqing and the outside world, most especially the European market, that lay behind the Chongqing municipal government's successful drawing in of firms like Hewlett Packard, Foxconn, Acer, Quanta, and Inventec, in competition with other local governments and countries, to spearhead the development of a new IT park in Chongqing. By April 2012, just two and a half years after the deals were first reached in August 2009 with Hewlett Packard and Foxconn, Chongqing was already producing more than 50 million notebook computers a year. Projections are for Chongqing to reach 100 million notebook computers a year by the end of 2014, that out of an originally projected world demand totaling perhaps 300 million or more notebook computers. That would make Chongqing the largest notebook computer producer in the world ("Chongqing jinnian ni shengchan," 2012; Huang, 2011c: 572).

Needless to say, logistical linkage between the municipality and Europe is crucial also for the other major industrial projects of Chongqing, such as natural gas and polyurethane (a widely used packing material) production, led by massive foreign investment from the giant German firm BASF, and automobiles, with Chongqing's Chang'an Auto Company and the Ford Motor Company playing leading roles. Obviously, no such development could have been accomplished by any mere private firm, or even state firm, but was only possible by active government (central and local) engagement. (For additional details, see Huang, 2011c: 571–75.)

Chongqing's development, in other words, has made good use of globalized multinational corporations, relying on them to initiate an aggregation effect to develop Chongqing itself. At the same time, it has resorted widely to "land financing," or what has been done widely elsewhere in China (for details, see Huang, 2011c: 575–77). And, in Chongqing as in the rest of China, it has had to compete with private enterprises, with other local governments, and with foreign enterprises.

Where the Chongqing strategy differs from what has been done in other areas is its special emphasis on social equity, not just for its own sake, but to drive economic development. This is most dramatically shown in what the municipal government has done with land, almost everywhere in China the main source of local government extra-budgetary revenues. Instead of allowing the profits from land appreciation (which we can conceptualize as a three-stage process, from initial government requisition to a ripened condition with infrastructure, and further to completed development with operational buildings) to go mainly to private developers and government offices, Chongqing has directed them toward public service and social equity. The best illustration is the public rental housing project, in which the government investment comes mainly in the form of land, and then repays its loans from proceeds generated by the completed buildings in rental income (including commercial use rental) and in time, also sales of the units. The underlying economic strategy and calculation, as (now deposed) Party Secretary Bo Xilai and Mayor Huang Qifan explained it, is to use social development to drive economic development, to raise domestic consumption by improving the living standard of the lower and lower middle classes. The target is not just rapid GDP growth, but also substantial social development in the sense of greater equity, measured in terms of Gini coefficients and rural–urban income gaps used by the World Bank (Huang, 2011c: 589–95).

In addition, the municipality has launched special programs to help develop employment, by aggressive state support for private micro-enterprises. An initial investment of 100,000 yuan, with employment for seven people, would receive a state contribution of 50,000 yuan, plus a loan of 150,000 yuan, to add up to a starting capital of 300,000 yuan. The plan calls for the development of 150,000 such small businesses by 2015, to employ a total of more than one million persons (Guowuyuan fazhan yanjiu zhongxin, 2012). By year end 2011, 50,000 such new micro-enterprises have reportedly been established, employing a total of more than 350,000 (Cui Zhiyuan, 2012).

For the countryside, the local government has developed a "three rights, three certificates" 三权三证 program to enable peasants to use their land rights as security for loans from formal financial institutions, when loans had hitherto been available only from informal channels such as family, neighbors and friends, or rural usurers. One mu of a residential plot, if reconverted to cultivation, can allow the government (under the Center's strict adherence to maintaining the “red line” of 1.8 billion mu of cultivated land, and hence very strict quota controls of the amount of land local governments may develop for non-agricultural use) to add one mu of land to urban development. That carries the potential of an increase in market value of the land from (to use a schematized figure of) 10,000 yuan a mu in its undeveloped state, to 100,000 yuan when it comes with infrastructural support of roads, power, and services, and finally to 1,000,000 yuan and more at completed development. The certificate therefore has definite market value for both the local government and private developers The Chongqing government has now adopted the policy of allowing peasants to capitalize (i.e., to use the land as security for a bank loan) on such land at 85 percent of its assessed value. At year end 2010, the actual market value of a one-mu certificate at the government-established “land certificate exchange” was 100,000 yuan, and by July 2011 had further increased to 155,000 yuan. The same applies, though with much lower market value, to the peasants’ two other land rights—the “responsibility” land they farm, and forest land (in this hilly municipality) over which they have a claim. The plan, launched in April 2011, now calls for the government to extend (through local banks) 100 billion yuan in loans by year 2015. At the end of 2011, 5.7 billion of such loans had been extended. It is an innovative plan that will possibly be pathbreaking in terms of helping to make capital accessible to substantial numbers of peasants (“2015 nian,” 2012; Huang, Gao, and Peng, 2012: 166–67; cf. Huang, 2011c).

The Chongqing experiment, to be sure, has faced a major setback as a consequence of the abrupt dismissal in March 2012 of its party secretary Bo Xilai. But that does not make its record any less impressive, nor any less important for its long-term significance. China’s past development pattern is clearly unsustainable given its extreme social inequities and paucity of domestic demand (as well as environmental degradation). The Chongqing experiment offers perhaps the first really hopeful signs of a creative alternative of more equitable development. It is different from earlier approaches in that it uses equitable development to drive domestic demand and consumption, and draws on the profits of state firms to fund that social development.

“State Capitalism” versus “Socialist Market Economy”

What the Chongqing experiment brings into focus is the issue captured to a considerable extent by the opposition between two different stock phrases that have been widely used to describe the Chinese economy of the Reform era: “state capitalism” 国家资本主义and “socialist market economy” 社会主义市场经济.

What the term “state capitalism” suggests is that the Chinese economy today evinces all the signs of a capitalist economy—dominated by capital, profit-driven, and with wide income gaps between capitalists and their hired workers—except that the state plays a very large role, most especially in the form of interventions in the economy and state-owned and managed corporations. The difference from the planned era is that market forces and a profit ethic have replaced planning and a revolutionary, redistributive ethic. What the term highlights is the large role of the state and the essentially capitalist nature of the system.

The other widely used term is “socialist market economy,” the official Chinese formulation since about 1993. Here the idea is that the economy is market-oriented and market-driven for growth, just as in capitalist economies, but it is for a socialist purpose. Now, “socialism” can be understood in many different ways, including planning and state ownership, but in the context of this article, and in the Chongqing experiment, it is intended to mean above all a mixed state and private economy that comes with social equity, summed up by the expression “getting rich together” 共同致富. It means development (“getting rich”), but development with equity, not without.

What has been happening in China in the Reform era approximates in reality “state capitalism” more than “socialist market economy.” That is part of the reason there have been so much criticism and opposition from China’s socially conscious, progressive intellectuals, who do not reject the market but believe that the ideals of social justice from the revolution have largely been given up for the ideals of individual pursuit of self-enrichment.

It is in that context that the Chongqing experiment stands out so strongly and appealingly among the majority population, most of whom at present see little or no hope of attaining the elite middle class income sufficient for a decent home and a car in the city. That would include the vast majority of the peasant migrant workers and the disemployed urban workers, the large numbers of people who run individual or household services and shops and stalls and such in the cities, the large numbers of peasants working in agriculture and small services and businesses in the countryside, and even a substantial portion of white collar workers—in other words, a large majority of the workforce.

The Chongqing experiment is based on a simple enough idea. The market appreciation in the value of assets brought by urbanization, especially of urban development land, should not devolve only to the private developers and the local government (namely, local officials’ pockets, or their advancement up the official ladder, or the government for its showcase buildings and offices and such) but rather should be used for the public good ("people's livelihood"): such as providing inexpensive public rental housing for 30 percent of the urban population, extending urban-resident benefits to migrant workers, and allowing peasants to capitalize on (i.e., use as security for bank loans) their land rights. That is what has struck such a chord with most of the local population and, as the Chongqing experience came to be more widely known, with the larger non-elite population in China as a whole. To many, this seems the only way the lower income majority could ever hope to share in the benefits of the stunning GDP development that has come to China.

Indeed, the dichotomy between the two categories captures to a considerable extent the big issue facing China today: is it going to go farther down the path of "state capitalism" or is it going to adjust course, and lend real substance to the official rhetoric of "socialist market economy"? Deng Xiaoping's reformist formulation, "let some people get rich first," of course, implied that the eventual goal was to be "get rich together." But the issue of social equity had been pushed out to the future, or even covered up to a great extent by the state's maintaining a good deal of the old socialist rhetoric while behaving otherwise. In the past few years, however, it has been brought to the fore by what Chongqing has represented in the way of giving real substance to the heretofore mere rhetoric of "socialist market economy." That, I believe, will be the true significance of Chongqing for future historians.

Summary and Conclusion

In summary, a review of the empirical record of the past 30 years of Chinese development shows that the profit-seeking Chinese central and local state and their firms have been a major dynamic for the rapid rise in China's GDP. The reasons are that in the new competitive and marketized environment of China's mixed economy, the state enjoys obvious advantages vis-à-vis private enterprises, in overcoming bureaucratic obstacles, in mobilizing resources, in providing special subsidies and tax breaks, in bending or violating its own laws and regulations on labor and the environment, and so on, all to make the enterprise more profitable. It would not be an exaggeration to consider those to be "comparative (institutional) advantages" that, like cheap labor, have served as integral parts of the engine of China's development.

This obvious statement of fact is surprising and controversial only because of the tremendous influence and power of neoliberal ideology and discourse inside and outside China. That discourse has enjoyed the ideological support of (Anglo-American) neoconservatism and of the mainstream of an economics discipline claiming to be "scientific." The result is that almost all analysts have insisted on pointing out only the shortcomings of state firms, while greatly exaggerating the role played by private property and private enterprise. This when the reality has been that the Chinese state has played the pivotal role in the entire Reform period, and government-owned or controlled firms have proven to be effective in competitive profit-seeking on the market, evidenced not least by the fact that 59 state-owned and managed firms have now made it onto the ranks of the Fortune 500, compared with just 2 non-state firms. For China as for most other developing nations, such a record in competition with more highly capitalized and advanced multinational firms would simply have been inconceivable without the active involvement of the state, the only entity powerful enough to take on such competition.

Hegemonic neoliberal economic discourse, by insisting that only private firms can drive development, has actually focused our attention on the wrong question. The big question for China's development is not whether state firms should play a key role, or exist at all, but rather where the profits of state firms are to go. Thus far, a great deal has gone for the enrichment of capitalists, officials, and the state itself rather than society at large and the public good, to result in massive social inequalities, well captured by the oft-used term "state capitalism." Neoliberal economic and social analyses have tried to argue away that reality, by the abstractions of China supposedly entering a "Lewis-ian turning point" of a single integrated labor market fashioned after the urban middle class, and of China already showing an olive-shaped American-style middle class society. But the reality is that 86 percent of the workforce, and hence of the population, remain in the second-class informal economy, low paid, overworked, outside of the protection of state labor laws, without (or with only second-class) health and retirement benefits, and without access to schools in the city. So long as that social reality remains, the economy cannot have a solid basis in domestic demand and consumption.

The inability of neoliberal economics to grasp the major role played by the state and by state firms in China's economic development has meant not just the inability to grasp the true dynamic behind China's stunning GDP development, but also the inability to grasp the true roots of the great social-economic (and environmental) crisis that confronts China today. Part of the secret to the success of this state-led development has been the resort, deliberate or unintentional, to circumventing the state's own laws and regulations in order to enlarge the profit margins of enterprises. That is what truly lies behind the gross social inequities that afflict China today, inequities that are all the more conspicuous in the eyes of the Chinese people because of the party-state's continued espousal of socialism in its rhetoric, and also because of the sharp contrasts between current realities and the relative equality of the Maoist past. And those gross inequalities are what explain the structural weakness of the Chinese economy—its excessive and unsustainable reliance on exports, without a solid basis in domestic demand and consumption.

What the above discussion emphasizes, then, are not just the fallacies of much of the economic theorizing of currently still hegemonic neoliberalism, but also the great importance for China to adjust its course. Not to eliminate profit-making state firms, as has been advocated incessantly by neoliberal economists, but to alter their reason for being—from benefiting officials and private developers, to benefiting the people at large.

Indeed, given that the starting point of Reform China's economy is SOEs and that profit-making state-owned firms continue to account for nearly half of the economy, what can be more obvious than that their role in China's development must be critically important? And, given that they remain in theory "owned by the whole people," what can be more obvious than that their profits should be dedicated to benefit not the few but rather the whole people? All the more so, since it is really the only effective way to expand domestic demand and consumption to make economic development genuinely sustainable.

To adjust its course, the state can begin by doing more to control rampant corruption and attacking the urgent issue of social inequality by requiring that the profits from state firms be used to serve the greater good of the people. Clarification of that mission for state firms would help not only to reshape their culture but also help justify the special advantages they enjoy. The point is not to eliminate state firms, but rather to bend them to the purpose of serving society at large.

The recent Chongqing experience has provided a glimpse at the potential of such an approach. (Even the Bank of China example shows how important loftier motivations for the personnel than mere profit-making are for changing the operating culture of the bank.) That is what truly lies beyond the grasp of mainstream economic thinking today; and that is what truly can alter the shape of China's future. That is what can lend true meaning to a path that can combine the social equity ideals of the Chinese revolution with the developmental "miracle" of Reform China's spectacular GDP growth, in a novel amalgamation of private and state firms, market economy and social equity that goes beyond both traditional capitalism and socialism.

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Notes

1. Table 4-3 of the Statistical Yearbook gives a figure of 297 million engaged in agriculture but the employment breakdown in table 4-2 shows that many farming peasants were simultaneously engaged in other activities. A total of 37 million of them were counted under the categories of "private" or "individual" enterprises rather than under agriculture. The 260 million farming peasants figure used here comes from deducting those employed in township and village enterprises 乡镇企业 (156 million), private enterprises 私营企业 (30 million), and individual enterprises 个体户 (23 million) from the total rural employed (469 million) (Zhongguo tongji nianjian, 2010: table 4-2, 4-3).
2. There are also figures for fixed asset investment.
3. The four Chinese banks that rank among the Fortune 500 are: the Industrial and Commercial Bank of China (number 170), the Bank of China (215), the China Construction Bank (230), and the Agricultural Bank of China (277) ("List of the Largest Companies of China," 2012).
4. The target is 12 days, which will come with the completion of the new Chongqing–Lanzhou railway (the route at present is Chongqing–Xi'an–Xinjiang) and a new railway in Kazakhstan ("Yu-Xin-Ou tielu," 2012).

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