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# A Brief Comment on Ivan Szelenyi's Comment

Modern China  
37(6) 684–688  
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DOI: 10.1177/0097700411420854  
<http://mcx.sagepub.com>



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## **Abstract**

Ivan Szelenyi argues that no third way alternatives to capitalist market economy and socialist planned economy are possible, a conclusion he reached after his own searches for such dating back to the 1980s. My comment responds to his two main points, about a “real estate bubble,” and hence the non-sustainability of Chongqing’s third finance, and the historical failures of third ways in Eastern Europe and Russia, and hence the likelihood of the same failure in Chongqing and in China.

## **Keywords**

Chongqing, third way, “real estate bubble,” “third hand,” communist party

Ivan Szelenyi, an old friend and colleague, has brought to bear on this discussion the force of his 30 plus years of personal experience in searching for alternatives to the either/or binary of capitalism or socialism. He has made two crucial points that I would like to comment on very briefly.

The first is about a “real estate bubble” in China and the strong likelihood that it will burst sooner or later. It must be pointed out that part of the great appeal of Chongqing is not that it is part of that “bubble,” but rather that it is a counter to it. By capping land values of residential structures at one third the price of the homes, providing inexpensive public rental housing for 30 to

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40 percent of the city proper's population, and taxing high-end condos to check speculation, it has thus far managed to keep housing prices at a reasonable 6,000 to 7,000 yuan a square meter within city limits, compared with Shanghai and Beijing's minimum of 30,000 yuan per square meter. I recounted these facts in my article, but they are in danger of being lost in the mass of other details. Hence my wish to recapitulate here. If the Chongqing model is applied throughout China, it would be in fact a powerful step toward arresting, or even reversing, China's runaway housing prices.

There is also the judgment that Chongqing's "third financing," based mainly on rising values of land converted from farm use to urban development, will sooner or later prove unsustainable. Here we must be reminded of China's huge rural population, a condition that Chongqing approximates. At present, about 70 percent of Chongqing's 33 million population are registered as peasants. Even at an accelerated urbanization rate of 1.5 percent (compared to the just under 1 percent rate for China as a whole in the past 30 plus years), it will take Chongqing close to 30 years to reduce the proportion of rural population down to 30 percent, or roughly the span of time it took Szelenyi to conclude that third ways have failed. And that proportion would still be a long distance from the 4 to 8 percent (agricultural labor force) of Japan, Taiwan, and Korea, not to speak of the 2 percent or so of Britain, the United States, and Germany (*Zhongguo tongji nianjian*, 2008: 89, 1000, 1018). Of course, so long as substantial urbanization continues, the pressures for more land for urban development will continue, as will the differential between land originally used for farming and land being developed for urban commercial, industrial, and residential use, thereby sustaining the "third finance." Beyond such a time frame, further speculation seems to me rather pointless.

Szelenyi's second important point is based in part on the theoretical notion that "systems tend to develop toward their pure form or ideal types," which he rejected for a time but came back to espouse. It is of course precisely the theoretical argument made by Janos Kornai. Szelenyi's change of heart, however, is not so much based on theory as on observable historical reality: in Eastern Europe and in Russia, as he writes, the former ruling elites who became rulers of marketizing reforms "saw the new opportunities for themselves and their children . . . in enriching themselves." Their self-seeking actions were what undermined all third ways.

A great deal of the same thing has happened in China's reform period, to be sure; yet one must not forget that China is also very different. Its communist party (CPC) has remained intact—powerful and vibrant. That is of course no accident, but rather an outgrowth of the historical fact that the

party won power only after protracted struggle—from the early years’ misguided emphasis on cities, to building base areas and promoting rural revolution, to the long War of Resistance against Japan, and the Civil War against the Guomindang, before final victory. It was more deeply rooted in society than the communist parties in Eastern Europe and Russia. This is not to suggest that the CPC will necessarily turn out to be true to its original socialist ideals; indeed, most of what it has done in the past 30 years would suggest otherwise. Nevertheless, what we are looking at now are very real changes in Chongqing, and it has been designated by the party center to be the test point for a possible turn toward social equity in national policy. Is it possible that the deeper historical and social rootedness of the CPC allows for a different outcome in China than in Eastern Europe and Russia?

Few would dispute the fact that the CPC’s authority structure is highly centralized, shown most clearly by its cadre appointment and party discipline systems, this despite the reality of a high degree of decentralization in which local governments have exercised considerable autonomy—in what might be characterized as a system of “centralized decentralism” (Huang, 2011). For the centralized part of that paradoxical combination, one needs only think of the long list of corrupt provincial and municipal heads who have been investigated under the imposing powers of the party’s Central Disciplinary Committee 中央纪律检查委员会. Under its procedures (dubbed the “two requirements” 双规), suspected offenders are as a matter of course suddenly isolated and detained for protracted periods of investigation, without possibility of resistance or legal counsel. When the evidence against them is found to be conclusive, they are then sentenced through the judicial apparatus. The most recent examples are the executions for gross corruption, on July 19, 2011, of Xu Maiyong 许迈永, deputy mayor of Hangzhou city, and Jiang Renjie 姜人杰, deputy mayor of equally prosperous Suzhou city. (Hangzhou . . . , 2011). Is it possible that the CPC, with its long revolutionary tradition and disciplinary apparatus, still has the wherewithal to implement the direction it sets for its party members—including those who make up the party committees that govern the municipalities and provinces, as well as those who manage the kinds of state-owned, public benefit-oriented firms that Chongqing has established?

If the party can put the immense profits from urban development land to use for the benefit of the populace rather than the corrupt and privileged few, it would surely earn greater popular support. Genuine popular support in turn would just as surely ease the party’s anxiety about dissent and obsession with “maintaining stability” 保稳. A party with such confidence may be more able to democratize gradually. Chongqing, we have seen, has already taken the

first big steps in such a direction. If it can continue to move forward, then its experiment might just turn out to be not quite as “utopian” as Szelenyi suggests from his observations of what happened in Eastern Europe and Russia.

Finally, it should be made clear that Szelenyi and I, despite our shared understanding of the meanings of the first and third hands, have conceptualized the “second hand” differently. Szelenyi thinks of it as the socialist planned economy of old and includes under it all different kinds of redistributive state interventions. For my part, following the lead of the Chongqing leaders, I think of the second hand more in terms of different varieties of state actions, including macroeconomic adjustments and provision of public services and social welfare, that are predicated on a fundamental acceptance of a privatized market economy. I have left out of my conception the erstwhile socialist planned economy, since it is already very much in the past.

Szelenyi’s and my very different conceptions of the second hand in fact reveal our fundamental difference over Chongqing. For Szelenyi, capitalism and socialism have proven historically to be either/or diametric opposites. Thus, he concludes in effect that one must select either one or the other, and that no intermediate “third hand” or third way is possible. For me, however, what the Chongqing experience shows is the coexistence, at once competitive and collaborative, among the three different hands (of my conception). Given the reality of a globalized market economy, it has been private domestic and foreign corporations (the first hand), state public services and welfare programs (the second hand), and state-owned firms dedicated to social equity (the third hand) that have together powered Chongqing’s development, both economic and social. The combination has been very successful thus far, with the third hand serving to make possible a much improved balance between social equity and economic efficiency. Is it possible that Chongqing’s state-owned firms of the third hand, born and tempered in that environment, will continue to be both economically competitive and socially progressive? Chongqing’s experiment has posed the above series of questions for us, not just ideologically or theoretically but as observable empirical realities.

### **Declaration of Conflicting Interests**

The author declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

### **Funding**

The author received no financial support for the research, authorship, and/or publication of this article.

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## Biography

**Philip C. C. Huang** has published the third volume of his study of Chinese agriculture, in Chinese. He has been teaching at the People’s (Renmin) University of China, in the Law School and the School of Agriculture and Rural Development.