Modern China
38(6) 587–590

DOI: 10.1177/0097700412459701
http://mcx.sagepub.com

"State Capitalism" or "Socialist Market Economy"?—Editor's Foreword

Philip C. C. Huang[1,2]

This special issue, the fifth in our "Dialogues among Western and Chinese Scholars" series, focuses on the question of the direction of China's development. The first article, my own, spotlights the role of profit-making state-owned (and state-controlled) firms and of the state. Currently hegemonic neoliberal economics discourse assumes that state firms can only be inefficient and must be privatized, based on the basic theoretical assumption that the less the state interferes with the "invisible hand" of the market the better. China's development experience, however, shows that from the rural enterprises of the 1980s, to state-supported and subsidized private enterprises of the 1990s, to the reorganized state-owned firms of the 2000s, local and central state firms and government actions have in fact been a major engine of Chinese development, along with private enterprises. But state policies and actions have also resulted in severe inequities between China's second-class "informal economy" (outside of the protection of state laws and with little or no social security benefits) encompassing a large majority of the population and its first-class "formal economy" engaging only a relatively small proportion of the population. The present situation cries out for using profits from state firms to fund critically needed welfare programs and public services (as opposed to allowing them to devolve to a small number of developers and officials), not only for the sake of social equity but also in order to enhance

[1]University of California, Los Angeles, Los Angeles, CA, USA
[2]Renmin University of China, Beijing, China

Corresponding Author:
Philip C. C. Huang, 332 Grenola Street, Pacific Palisades, CA 90272, USA
Email: huang@history.ucla.edu

domestic demand and consumption to help sustain China's development. Such a change would lend real substance to the official slogan of "socialist market economy" 社会主义市场经济.

The next article, by health economist Ling Li, who participated in the healthcare reforms of the past three years, and her coauthors, details that recent turn in state policy toward providing basic healthcare coverage for China's immense population, especially the 900 million peasants (by registration) who with de-collectivization had been left with little or no healthcare protection. As a first step of a broader healthcare reform and within the short span of three years, basic coverage has been extended to 95% of the population. Rural healthcare infrastructure has been significantly expanded, and some of the worst abuses of the healthcare system (like over-prescribing medication for the benefit of the doctor and the hospital) have been brought under some measure of control. For Professor Li, these changes signal an important turn on the part of the Chinese leadership from a one-sided focus on economic development toward "social development." Important gaps remain, however, in terms of provisions of healthcare for the 153 million (2010 figure) peasant migrant workers working away from home, and also of inequities in coverage between urban and rural residents. Healthcare, of course, is critically important to the issue of social welfare, one of the central concerns of this symposium.

The third article, by Ivan Szelenyi, the doyen of the "sociology of transitions," continues the dialogue between him and me in our previous special issue about the Chongqing experiment (see Szelenyi, 2011; and Philip C. C. Huang, 2011a, 2011b). Here Szelenyi comes out more explicitly in favor of a mixed economy, and identifies closely with what he sees as an earlier Janos Kornai, before he became completely wedded to an either/or logic about capitalism based on private property–market economy and socialism based on state property–bureaucratic management. Szelenyi favors in particular an approach to the two through detached "mirrored comparisons" and the concept of the "elective affinities" of each, rather than an either/or binary in which each comes with absolute and necessary coherence. Szelenyi himself favors especially an approach to reform "from below" (which he argues was what happened in China in the 1980s)[1] as opposed to "from above." He rejects the idea of marketized profit-making state firms, arguing that the coordinating mechanism for them is not market competition but rather bureaucratic, redistributive decisions based on "rents" rather than market profits. In the end, Szelenyi questions the sustainability of Chongqing's experiment, arguing that it is closely linked to an exceptional leader, now deposed, and based only on ideals, however noble, rather than firmly established institutions.

The fourth essay, by public policy scholar Zhiyuan Cui, is coincidentally in many ways an answer to, or further exploration of, issues raised in Szelenyi's article. Cui first reviews the record of the actual actions of the United States' Troubled Assets Relief Program (TARP). He shows how they were above all the massive injection of government capital into the major banks by buying (preferred) stock shares of those banks—something which is really the most basic of "nationalization" measures. The strategic calculation was to strengthen the crucial, highly leveraged "Tier 1" capital of the banks by an injection of capital amounting to no less than 75 percent of such capital of the major banks. But, because of the influence of the hegemonic neoliberal economics discourse and the sensibilities toward any hint of "nationalization" in the American political environment, that action had to be carefully disguised as anything but what it really was. And it had to be done on terms that were unfavorable to the government (accepting a 5 percent dividend payment for preferred stocks, rather than the 10 percent obtained by Warren Buffett's Berkshire firm just three weeks earlier). The net result was great costs to American taxpayers, who had to bear the burden of the government's "gift" and largesse to the banks and who have therefore remained widely and deeply disgruntled. Cui then calls on Nobel economist James Meade's analysis of the post–World War II nationalization of strategic industries by the British government, showing how it too had been constrained by that same hegemonic discourse. Meade himself, however, saw beyond the left/right either/or binary and urged consideration of an alternative approach, in which market gains from state-owned enterprises may be directed toward public uses with great benefit to the people. The "liberal socialism" that Meade advocated can in Cui's view become the true meaning of China's continuing search for an alternative to the binary of capitalism versus socialism—in its tentative and as yet not well articulated notion of a "socialist market economy."

The final article, by political economist Zhengfu Shi and social-economic historian Chang Liu, may be seen as a further exploration and concretizing of a vision beyond the rigid left/right either/or binary. It points out first that large business firms worldwide have long since moved away from the classical model of owner-managed enterprises into a model of separation between owners and management, with pervasive "socialization" 社会化 of ownership (e.g., ownership by pension and mutual funds and foundations, which today account for more than half of the equity of large corporations), using just a small portion of a firm's stock shares as incentive for the managers. At the same time, there has been a separation between the actual stockholders themselves and equity management 股权经营 by "surrogate owner" 替身所有者 firms which share in a portion of the gains. China, therefore, should definitely not attempt to go the old route of simple privatization à la the classical model as called for by many mainstream economists in their misunderstanding of business history. The Chinese State Assets Commission 国资委 ownership model of recent years, Shi and Liu argue, cannot effectively separate out managers from bureaucrats and ensure managerial professionalism and incentives. They advocate instead a surrogate owner model in a three-way division, in which 30 percent of the shares of a state firm would be held by a public entity dedicated to public services and social welfare, another 30 percent would be state-owned shares, and 30 percent would be a national pension/annuity fund, each appropriately represented on the board of directors of the firm. China, they argue, can take advantage of its socialist past to move into such an institutional structure, without the constraints of a private ownership system as in the West. By drawing on the profits of state firms, China would be able to augment currently inadequate tax revenue and see to provisions of public services and welfare benefits with an institutional structure distinctive to China.

Note

1. For this he calls on the research of Yasheng Huang, who argued that of the 12 million "township and village enterprises" (TVEs) in China in 1985, "only 1.5 million . . . were actually collectives—the rest were private firms" (Szelenyi's paraphrasing, citing Yasheng Huang, 2008: 103). It must be pointed out here that Yasheng Huang's data are seriously misleading, for he includes among the TVEs what he calls "household businesses," the 个体户 in Chinese (see p. 79, table 2.1), who were of course in the main artisans, peddlers, street stall keepers, cart-drivers, and the like.

References

HUANG, PHILIP C. C. (2011a) "Chongqing: equitable development driven by a 'third hand'?" Modern China 37, 6 (Nov.): 569–622.

HUANG, PHILIP C. C. (2011b) "A brief comment on Ivan Szelenyi's comment." Modern China 37, 6 (Nov): 684-88.

HUANG, YASHENG (2008) Capitalism with Chinese Characteristics: Entrepreneurship and the State. New York: Cambridge Univ. Press.

SZELENYI, IVAN (2011) "Third ways." Modern China 37, 6 (Nov.): 672–83.