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Introduction to “Whither Chinese Reforms? Dialogues Among Western and Chinese Scholars, II”

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This special issue focuses on the question of where Chinese reforms will go from here, seen from the perspective of the experiences of the past 30 years. The composition of our authors and commentators reflects the increasingly transnational and globalized nature of China research. Two of the authors are U.S.-based American Chinese scholars (Wing Thye Woo and myself), one Hong Kong-based (Wang Shaoguang); two are scholars as well as influential public intellectuals in China (Wang Shaoguang and Fan Gang); and our two commentators, one English (Chris Bramall) and one German (Sebastian Heilmann), bring a European perspective that American and Chinese readers should find refreshing.

The first article, by Fan Gang and Wing Thye Woo, represents what might be considered “mainstream” economic opinion in China, if a bit to the left therein. In this particular article, Fan and Woo take up the question of “sequencing,” of doing one reform and then another rather than all at one time, for example, first economic and then political reform, first GDP growth and then social equity, and first rural reform, then state enterprises reform, and then financial institutions reform. Fan and Woo advocate instead simultaneous partial reform, which they call “parallel partial progression” (or PPP). Such partial reforms are necessary, they say, in order to overcome “incoherence costs” (which refers to the argument in Janos Kornai [1992] that planned economies form an integrated coherent system, as do market economies; part-planned part-market economies, therefore, will suffer from costs of incoherence of the different parts), such as the “social costs” of economic reform, political–institutional obstacles to market efficiency, and inadequate financing for private and smaller enterprises. They single out the urgency of more thoroughgoing financial reform to make more funding available to “nonstate manufacturing industries.”

The second article, by Wang Shaoguang, looks at past and present Chinese government efforts in health care to highlight its ability in policy making to learn from new initiatives and adapt to changing circumstances and needs. Wang focuses especially on the “cooperative medical system” (*hezuo yiliao*) for the countryside. The reach of that system shrank in just a few years of the Reform era from more than 90% of all villages in 1976 down to just 11% in 1983. In the years following, the government, working with the World Bank, experimented first with the insurance approach, but that went nowhere. Later, it tried a kind of compromise formula of the old and new, of “user-paid, collective-subsidized, and government-guided and supported,” only to find very limited success, reaching just 20% of all villages in the 1990s, because of lack of government funding and shortage of collective resources. By the mid-1990s, a new consensus had emerged, for a new cooperative medical system with greater government funding to provide health care for major sicknesses. Today, the outlook is good for comprehensive inclusion of most of the countryside under the program. To Wang, this illustrates well the Chinese government’s ability not only to experiment, as emphasized by Sebastian Heilmann, but also to learn from spontaneous initiatives from below and to adapt to realities through practice.

The third article is my own on China’s neglected urban “informal economy,” that is, the 120 million or so *nongmingong* (“migrant [peasant] workers”) and the 50 million or so disemployed laborers (in 2006), who constitute nearly 60% of the total urban employed, or 1.5 times those in the formal economy. (There are another 80 million *nongmingong* who work off-farm in “township and village enterprises” located below the county seat level.) They generally work outside the protection of the nation’s labor laws and regulations and without the benefits accorded to those in the formal economy (and, in the case of the *nongmingong*, without the privileges in education and health services extended to individuals with urban household registrations). These informal laborers work an average of 1.5 times the number of hours of the regular workers, for about 60% of the pay (without considering benefits).

Most mainstream Chinese economists and sociologists have cast these inequities (and the resulting inequalities) as a temporary “transitional” glitch in the Chinese economy’s inexorable march toward what they envision as an American-style free market economy. That journey will result in a fully “integrated labor market” that would mark the end of the present “economic dualism” of higher pay in the “modern” urban sector and lower pay in the overpopulated rural sector, a la W. Arthur Lewis, and lead to the development of an ever larger “middle class,” a la C. Wright Mills, as the benefits of economic growth ripple out to include an ever

larger proportion of the population. Chinese social structure today, they say, has already moved from a “pyramid shape” to an “olive shape” with a bulging middle.

This ideology of “modernizationism” from 1950s and 1960s American social science, and reinvigorated in recent decades by American neoconservatism, has not only guided Chinese government policies and economic thinking but also statistical data compilations, to result in a grossly misleading picture of present realities. The fact is that the informal workforce has not shrunk over time but has exploded geometrically since the 1980s to its present dimensions; the social structure today is not olive shaped but flask shaped, and China has changed in a short time from one of the world’s most equal societies to one of the most unequal. My article calls for seeing beyond the neoclassical as well as the planned-economy ideologies to search out a new alternative that would incorporate the genuine insights of both—the market for entrepreneurial energies and the state for regulation against market excesses and for public services and social welfare—and provide decent treatment for informal workers.

Chris Bramall takes issue with some of the above. Against Fan and Woo’s implicit advocacy of a neoclassical American model (what Bramall calls “Anglo-Saxon capitalism”) and explicit call for reforming Chinese financial institutions (presumably through privatization), Bramall points instead to “Rheinish capitalism” (or “Rhenish capitalism,” which, as I understand it, usually refers to the “Northern European” economies of Germany, the Netherlands, Denmark, and Sweden, characterized by nonmarket patterns of coordination and extensive state regulation of market outcomes), most especially of Germany, in which state banks have played a large role in extending long-term credit to small- and medium-scale enterprises. The current financial crisis, Bramall notes, has already discredited the Anglo-American model that Fan and Woo look to as their goal. Their PPP scheme, Bramall argues, actually asks for too much reform in the financial sector, and not enough in others, such as measures against corruption and social injustice.

Bramall also takes issue with Wang Shaoguang’s analysis of the record of health care. Wang’s article itself shows, Bramall says, how successful the Maoist period had been in extending rudimentary health care (and, Bramall adds, junior middle school education as well) to the vast majority of the countryside. The Reform government could easily have built a modern health care and education system on that sound foundation, but instead allowed it to disintegrate completely. That, Bramall says, tells not about its pragmatic ability to learn and adapt but rather about its excessively ideological reorientation.

What Bramall calls for is a kind of Chinese-adapted “Rheinish capitalism” in the form of “welfare capitalism” or “*xiaokang* [i.e., modest prosperity] socialism” (see Cui Zhiyuan, 2005). For that, China must see beyond the narrow visions of neoclassical economics and learn from the successes as well as failures of countries such as Germany (and France and Japan), which in Bramall’s analysis had outperformed the American and English economies in labor productivity in the decade before 1995, until their economies were set back by “macroeconomic mismanagement” and progressive abandonment of Rheinish capitalism. China can draw lessons both from Rheinish capitalism and from its own genuine successes, like earlier rural reform and rural industrialization.

Sebastian Heilmann, finally, focuses his comments on the limitations of the neoclassical “market cum privatization” (which he dubs the “marcump”) paradigm, which until recently has been so dominant in Western social sciences (as well as in China). Fan and Woo’s PPP scheme, Heilmann notes, is based on the teleology of the “marcump” paradigm, presupposing that China’s desired destination is already a given, when the strength of the Chinese approach to reform has actually been its open-ended experimental nature, responding to domestic as well as outside problems (such as the Asian financial crisis) as they emerged. How can one speak of a partial (20%) change, Heilmann reasons, when the end goal (the 100%) is as yet unclear?

While agreeing in the main with Wang Shaoguang’s emphasis on the pragmatic nature of the Chinese government’s approach to policy making, Heilmann also points out that one must not overestimate the role played by spontaneous policy initiatives from below. The centralized and hierarchical structure of authority is an ever-present part of China’s policy-making system, which is based finally on a “dialectical interplay between dispersed local initiative and central policy making.” And, Heilmann adds, the Chinese policy-making process cannot be characterized simply as distinctive for its learning and adaptive ability, for it has been more disposed to learning in some areas, such as foreign trade, but not others, such as corruption.

On the question of where China ought to go from here, Heilmann, while agreeing with my call for improved public services (health, education, welfare) to address the problem of injustices involving the nongmingong and other informal workers, points especially to the experiences of “central and northern Europe” as a guide. In particular, he singles out the German (and Swiss) “ordoliberalism” (the “Freiburg School”) tradition, born of “devastating experiences in economic, social, and political collapse in central Europe.” In Heilmann’s interpretation, ordoliberalism

points out that historically markets required government actions to protect and regulate, calls for clear delimitations of both the market and the government, and advocates a “social market economy” that would serve the purpose of “material well-being, civic rights, social inclusion, and a collectively supported social safety net.” The neoclassical “marcump” paradigm, Heilmann concludes, is today bankrupt and alternative perspectives must be sought. In that search, the “experimental tinkering” of Chinese policy making might give it a special “processual advantage”—something that Western social science needs to take into account more fully.

If there is a theme to this volume as a whole, it would be to set aside the ideology of free market fundamentalism (as well as the earlier command economy socialism) that has so dominated official Chinese thinking. While acknowledging the dynamic role of the market, there needs also to be state regulation against market excesses and state provision of social welfare and public services. This volume begins to explore just what an alternative that incorporates both to go beyond both might look like.

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