

CHINA'S ECONOMIC MIRACLE AND THE THREAT OF FUTURE SHOCK

BY QIN HUI

With little to lose in escaping the Maoist system after the Cultural Revolution, China's bold economic reforms have gained international admiration compared with more troubled transitions in Eastern Europe. But the lack of accompanying political reform bodes ill for the long-term, as the Chinese people grow increasingly discontented over their lack of a share in the spoils under privatization.

In recent years, transition economists in China and abroad have engaged in a hot debate about the reasons behind the bumpy economic transition of Eastern Europe, known as the East European predicament, and the rapid expansion of the Chinese economy that has come to be known as the Chinese miracle. There is a long-standing debate in Western economics over two opposing economic models: classical liberalism's laissez-faire economics on the one side and Keynesianism's state interference in the economy on the other.

Among transition economists, debate over these two models has produced the "Washington Consensus" of liberal economics and the Keynesian "post-Washington Consensus." But the two sides seem to have reached a "consensus consensus," namely that China's reforms are gradual and that Eastern Europe's reforms have been hasty. The primary difference between them is that one side commends China for its gradual reforms and criticizes Eastern Europe for intemperate marketization, while the other side believes China's gradual reforms bring rapid growth in the short term, but will cause a host of problems in the future. This side also holds that the countries of Eastern Europe, while currently paying a heavy price for taking the road of complete liberalization, will reap the benefit of this policy in the long term.

However, further analysis suggests that this "consensus consensus" may be fundamentally flawed. If we ignore political reform and only focus on economic transition, theories about China's gradual reform and Eastern Europe's hasty reform don't hold water, and assessments based on such arguments miss the main point.

Fatal flaws in logic

The two schools of thought on economic transition, both of which originated in the West, have three shortcomings in common: the first is that **they ask the wrong question**. They invariably assume that the most important and even the only question an economy in transition faces is the choice between laissez-faire and state intervention or between laissez-faire and the welfare state. Consequently, one camp puts the blame on "market fundamentalism" and the other camp blames "state interventionism." But they ignore what kind of "state" we are dealing with, because that is not a "question that concerns economics." Nor do they pay any heed to how assets are redistributed, because they don't face this type of question themselves.

The second problem is one of **conceptual oversimplification**. As far as these economists are concerned, if an economy is not a market economy it must be a planned economy, and a planned economy is a welfare state coupled with a scientific approach to economic planning. Considered in this light, the whole question of transition turns on how much social welfare you give up and whether business enterprises are suddenly or gradually allowed to quit taking orders from government officials who fancy themselves "scientists." Although some economists have looked into the question of irrational, nonmarket conventional command economies, their focus has been on premodern times and economic history. No one seems to have considered that some "nonmarket economies" might be less welfare-oriented and scientific than market economies. Governments that abandon this type of economic model may face other problems, but giving up social welfare and a "scientific approach" are not, in all likelihood, real issues as far as they are concerned. Both transition-economy schools like to find fault with different "transition goals," but neither has really considered the question of whether there were major differences between countries in the feasibility of abandoning a nonmarket economic model in the pre-transition period.

The third problem is that **economists pay more attention to what governments say than to what they do**. They assume that if government leaders are always touting neoliberalism, the country is bound to be undergoing "hasty reform," but if the leaders don't say a word about privatization, this proves that the country is undergoing "gradual reform." They don't

understand the clever Asian proclivity for both “all talk and no action” and “doing rather than talking.”

The fact is that there are big differences within and between Eastern Europe and China. Take two East European countries that are very close in terms of history and geography: both Estonia and Belarus were part of the former Soviet Union, but they are polar opposites. Under Estonia’s “hasty reforms” almost all assets have been sold to multinational corporations, whereas under Belarus’ “gradual” reforms there has been no progress whatsoever. In fact, Belarus is even more communist than China’s Nanjie Village.¹ The same has happened in China. For example, Wenzhou City in Zhejiang Province has adopted a system of almost complete private ownership, while Nanjie Village, Henan Province has reverted to the commune system. However, while Nanjie and Wenzhou have each had their ups and downs since the start of the reforms, both have experienced growth along with the rest of China. In Eastern Europe, on the other hand, every country, including Estonia and Belarus, has experienced economic downturns of varying duration. Clearly, this is not a simple question of hasty or gradual reform.

Differences between Eastern Europe and China

In fact, there are three major differences between China and Eastern Europe. First, Western scholars often think that before the reforms were launched, China and the countries of Eastern Europe were all planned economies, which have since implemented reforms in different directions. They think that it’s not so much a matter of socialism vs. capitalism but of Keynesianism vs. neoliberalism. As a matter of fact, **the main difference in the orientation of reforms in China and Eastern Europe is political.** It is hard to say which economy has been more market-oriented. It would be more accurate to say that the two have emerged from different situations than that they are moving in different directions.

The “Charter of the Anshan Iron and Steel Company” that replaced the “Charter of the Magnitogorsk Iron and Steel Combine” is emblematic of China’s economic point of origin.² As a matter of historical fact, the Soviet Union and Eastern Europe were modern industrial civilizations that built rational planned economic systems in the name of science. China, on the other hand, ignored planning and built a command economy that emphasized fanfare over substance and culminated in the Cultural Revolution.

Breaking up a planned economy requires upsetting its economic equilibrium, and as a balanced market cannot be established overnight, disorder is inevitable. A price will inevitably have to be paid, regardless of whether hasty or gradual reform is pursued. In China, however, the reforms were launched as the country emerged from chaos. At that time, higher productivity could be achieved just as easily from a balanced planned economy as from a balanced market. Deng Xiaoping said that the reforms were initially a “rectification,” but what he was referring to was not market liberalization but rather a return to “revisionism.” In fact, what Deng did was to abandon Maoist fanfare without substance and introduce a little Soviet-style planning; he abandoned the Charter of the Anshan Iron and

Steel Company in favor of the Charter of the Magnitogorsk Iron and Steel Combine. The result was an immediate improvement in the economy.

In Eastern Europe, which already had balanced planned economies, this trick could not be pulled off. As soon as states abandoned their “scientific” planning, chaos ensued. In other words, in the pre-reform period, “scientific” planning was much more productive than Maoist fanfare without substance, but abandoning it came at a far higher price. In China, on the other hand, there was no price to be paid for giving up the Maoist system.

People often criticize Eastern European countries for pursuing a “free market utopia” in contrast to the cautious and realistic Chinese approach of “wading across the river by feeling for stones.” The fact is that utopian catastrophes occur only in dictatorships. Because constitutional democracies allow freedom of thought, all sorts of utopias have always flourished in them, but these utopias have not been forced on people and have therefore never resulted in man-made catastrophes. For example, Czech President Václav Klaus has said that he believes in a “free-market utopia.” Perhaps he means this, but such a utopia certainly does not exist in the Czech Republic. Nor has such a utopian ideal caused a man-made catastrophe or prevented the Czech Republic from becoming a welfare state that follows the logic of Czech realities.

What really matters is whether there are major differences between countries in the feasibility of abandoning a nonmarket economic model (not whether or not such a model should be abandoned, but whether it can be abandoned without paying a price). This difference may be more significant to countries in transition than the ultimate goal of the transition. To sum up, the mistakes and lessons of each Eastern European country are important. But no matter how brilliant a strategy is adopted, a price inevitably has to be paid to give it up. There is simply no comparison between this and China’s situation as it emerged from the chaos of the Cultural Revolution.

Second, **an illiberal economic community invariably performs two functions: one is to constrain people and the other is to protect them.** Therefore, leaving such a community also entails two types of “freedoms”: the freedom of shaking off constraints and the “freedom” of losing the protection afforded by the community. The former is a benefit, but the latter is a cost or price to be paid. Logically speaking, the constraints and protection that come with such an economic system ought to be balanced out, and abandoning the system, either suddenly or gradually, ought to entail both costs and benefits. But in history there have been many instances in which constraints and protections have not been balanced, and in which, as a result, the costs and benefits have been similarly unequal.

For example, prior to reforms, China’s peasantry was in the stage of “primitive accumulation” similar to the situation of Soviet farmers in the 1930s. But the Soviet Union eventually completed the primitive accumulation stage and built an industrialized urban society, as a result of which by the 1960s the USSR had already reached a stage where industry was repaying agriculture. By 1966, the USSR had fully introduced a guaranteed agricultural wage system underwritten by the state

bank. Therefore, although Soviet farmers were subject to the system's constraints, they also enjoyed a fairly high degree of protection under it. In China things were different. Before the reforms, one of the characteristics of the people's communes was that they imposed formidable constraints on their members but afforded them very little in the way of protection. Consequently, when China's farmers cast off the constraints of the old system, they lost little in terms of protections.

Because constitutional democracies allow freedom of thought, their utopias have not been forced on people and have therefore never resulted in man-made catastrophes.

Unlike China, Poland and Yugoslavia did not carry out collectivization in the pre-reform years. Their farmers ran family-owned farms and therefore enjoyed freedoms that Chinese farmers obtained only after the reforms. Under the old system, these countries gave their farmers a very high level of social security; from 1972 onward, all farmers in Poland received free medical care, and a retirement system and a paid-vacations system were introduced in 1978. Thus, from the farmers' perspective, market economy reforms did not release them from many restraints, but caused them to lose a lot of protections. There was no way they could avoid paying a heavy price.

Farmers, who comprise the majority of China's population, cast off very harsh restraints during the initial stage of the reforms, while there were no protections for them to lose. This provided a huge impetus for the reforms in their initial stage, and is one of the key factors contributing to China's rapid economic growth during that period.

In the jargon of economics, one could say that before the reforms the vast majority of China's population had to endure a "negative Pareto process" (nobody benefited, but some suffered greater losses than others). Any change away from this process constituted a "Pareto improvement" (nobody incurred a loss, but some benefited more than others).³ Before the reforms, East Europeans experienced "Pareto efficiency" (a process in which group A benefited and group B suffered a loss). The changes that accompanied abandoning this process often meant another sort of "Pareto efficiency" (group B benefited and group A suffered a loss). There is a critical difference between these situations.

These two points of difference between China and Eastern Europe relate to the different ways in which pre-reform economic systems were abandoned, and explain why China avoided paying the price Eastern Europe paid during the initial period of its reforms. Over time, however, the differences in how abandonment of an old economic system is experienced matter less and less. The reason why China's economy grew faster than the economies of Eastern Europe by the 1990s calls for some other explanation than that "shock therapy caused a disaster," as has been said of Eastern Europe, or that "gradual reform is better than hasty reform." Indeed, Eastern European economies are in a slump regardless of whether they have

undergone "hasty" or "gradual" reform (in fact, the slump has generally been even more severe where reform has been gradual). In China, on the other hand, economic growth has been sustained regardless of the "shock therapy" approach in Suqian, Jiangsu Province,⁴ or the collectivization of Nanjie Village. The obvious explanation is that **the countries of Eastern Europe have democratized and China has not.**

The biggest problem associated with the privatization process under democratic conditions is that it entails, as some Chinese scholars like to point out, the payment of a tremendous "transaction cost" (using Ronald Coase's term to mean something he would not necessarily agree with⁵). In China, Qiu He, a member of the Communist Party, has successfully sold off all public property, including the local school, hospital and kindergarten, while Czech President Václav Klaus, who is supposedly a free-market liberal, has spent and spent for eight years and turned the Czech Republic into a welfare state. So what is all this talk about Eastern Europe's "hasty reforms"?

Eastern European countries have expended a great deal of time and energy on the problems concomitant with the process of "the democratic redistribution of property," including public participation, political, economic and social chess games with multiple players, too much counterproductive diversity of opinion and endless negotiations. This is another reason why the economic transition has presented such a predicament for Eastern Europe countries, and why China has been able to avoid this predicament. A related issue is that democratization places restrictions on state power, but not on state responsibilities. Compared with pre-reform China, where the government was not responsible for providing welfare benefits to the peasants that made up a majority of its citizens, the countries of Central and Eastern Europe had a highly developed social welfare and social security system for both urban and rural populations. In countries that have become democracies, the state can no longer allocate resources at will, but is likewise unable to abandon its responsibility for welfare at its own discretion.

Deceptive appearances

Many leftists outside the political mainstream criticize Central and Eastern Europe for having simply carried out a "state withdrawal," and claim that China's emphasis on the function of the state is more effective. As a matter of fact, the state has been thoroughly involved in both types of transition. The difference is that in Central and Eastern Europe, the "withdrawal of state power" has been easy and the "withdrawal of responsibility" difficult. In China precisely the opposite is true. For talking up responsibility, you "don't go to the mayor; you go to the market"; for playing politics, you "don't go to the market, you go to the mayor."

Although leftists love to curse Russia, as far as social security is concerned, there is still plenty of "socialism" around. In the non-Black Earth regions of Russia (an area comprising some 23 regions and six autonomous republics of European Russia) many farmers have quit farming altogether and live on social security payments. Compare that with the Chinese "good news" report of a few years ago, which claimed that a

hundred-year-old peasant woman who was no longer able to perform physical labor had assured the government that she was willing to shoulder a “reasonable burden”—that story says it all. Both Western transition-economy schools identify with democracy, and neither is about to suggest that Eastern Europe revert to dictatorship. But being economists, they are primarily concerned with economic theory and avoid discussing politics (just as Western political scientists generally don’t address economic issues), which is why they steer clear of the key issue and focus their debates on the pros and cons of “hasty reforms” and “gradual reforms.”

Although the “democratic redistribution of property” came at a high “transaction cost,” over the long term it will fulfill an important mission: it will have provided legitimacy to the redistribution of assets in Eastern Europe. There are three aspects to this legitimacy:

The first, and the starting point, is **a level playing field**. In all East European countries, whether it be Czech-style fair distribution of public assets to all citizens, Hungary’s democratic government conducting open and impartial competitive auctions under the watchful eye of the opposition or Poland’s equitable transition from employee buyouts to employee and management buyouts, the distinguishing characteristics in every case have been a fair and transparent division and sale of assets, clearly defined trusteeship responsibilities and a free market.



Members of election commission in Moscow prepare to count ballots in the 2004 election that affirmed President Vladimir Putin’s policies on economic reform and corruption. Photo: Reuters

People of ability have quickly stood out in the crowd. In all these cases, legitimacy is based on a key principle of natural law: justice. This is something that no written law can replace.

The second aspect is **fair representation**. As I noted above, at first glance the main difficulty in conducting transactions of state-owned assets seems to be the question of pricing. But in fact, the crux of the matter is whether there is a genuine trusteeship relationship between citizens as the rightful owners of national assets and government officials entrusted with those assets. Unless government officials have been properly designated as citizens’ trustees, they have no legal right to buy or sell public property on their behalf. Irrespective of how high the price is set, officials lacking a proper mandate are guilty of selling stolen property.

Modern democratic systems are not founded on pure, unadulterated principles, but rather on the logic of “no taxation without representation.” Applied to economies in transition, this logic can be expressed as “no sale or redistribution of property without representation.” In the early Middle Ages, European kings lived off of their fiefs and had no right to tax the whole realm. Democracy did not even come into it. In later times, taxes proliferated. You want to tax us without consulting with us? What right have you to tax us without our agreement or that of our elected representatives? In fact, democratization is usually followed by an increase in taxation, but with the consent of the taxpayers.

Pre-transition political systems are like big families. The children cannot choose their father, but neither can the father dismiss his children. Now the father can dismiss his children, but are the children able to choose their father? Which begs the question: what is to be done with the family property? The fact is that after the transition to democracy, the selling price of state-owned enterprises does not rise; it drops. What’s more, it drops with the public’s approval. This is also why in democratic systems people are willing to pay higher taxes. Before the sudden and dramatic arrival of democracy in Eastern Europe, the sale of state-owned enterprises, regardless of price, elicited public wrath and accusations that public property had been stolen and sold off. But after the arrival of democracy, no one objected to the sale of public property.

The third aspect is **fair consultation**. The redistribution of property is a serious matter. Even when there is a clearly defined trusteeship relationship, and privatization has a democratic legal foundation, the actual process of dividing assets results in all sorts of conflicts of interest that require negotiation among all parties concerned. At the same time, democratic systems incorporate processes that allow them to become better and stronger. As long as there is ample room for improvement in the democratic system and consultative mechanisms remain imperfect, consultation between all concerned is of critical importance. Even if the final outcome is much the same, it makes a big difference if the people affected were consulted beforehand.

Experience in Central and Eastern Europe demonstrates that it is better to argue things out at the beginning than to have to square accounts further down the line. In Poland, the privatization process triggered many petitions, demonstrations, marches

and strikes between 1991 and 1993, but in Russia there were far fewer of them (at that time Russia's public participation was essentially political). Public unrest in Poland calmed after privatization was completed. The Jaruzelski junta had been unable to quash the labor unions, which were very active in negotiations over the distribution of state assets, but these same unions crumbled after numerous state-owned enterprises were privatized in an equitable and open process. Lech Walesa, the co-founder of Solidarity who shook up the country in the 1980s and who won Poland's first democratic presidential election in 1990, eventually lost his audience and faded quietly from the political scene. The so-called Polish disease ("Labor unions scare off investors") is a thing of the past. In recent years, Poland has overtaken Hungary to hold first place among Central and Eastern European countries in attracting foreign investment. In Russia, on the other hand, the government's lack of credibility in the allocation of property rights has triggered serious capital flight, while its campaign against the oligarchs has made it impossible for many big companies to run their businesses effectively, resulting in huge losses.

In summation, while freedom of speech gave the impression of discontent on all sides during the "democratic redistribution of property," in Eastern Europe the results of democratic reform have met with widespread approval from ordinary people. What stands out most is that for more than a decade, democratic elections have been held in every East European country. Candidates of the left and right have by turns been elected to government, and the positive outcome of the democratic transition has been generally acknowledged. Political parties that advocate backtracking are allowed to exist and campaign openly, but they are garnering fewer and fewer votes. By and large, the countries of Central and Eastern Europe have already carried out a "democratic redistribution of property" and have established a fair and stable framework for property rights. This is extremely important for the future development of these countries.

In short, although conditions vary from country to country, the main problem in Central and Eastern Europe has not been a "shock" resulting from "hasty economic reform," but rather the prolonged losses sometimes resulting from the high transaction cost of the "democratic redistribution of property," exacerbated by the increase in state responsibility and decrease in state power resulting from democratization. But in the long term, this price is worth paying. In point of fact, the regions of Central and Eastern Europe that have experienced the earliest and fastest economic resurgence, and which on the whole have paid the smallest price for their transition, are precisely those countries where the redistribution of assets has been carried out in the fairest and most democratic manner, namely Poland, the Czech Republic and Hungary.

The quandary of asset redistribution

In its transition to democracy, Russia has experience extremely serious problems, both in terms of economic productivity and justice. As a result, when some people talk about Eastern Europe, what they're really referring to is Russia, as if Poland, the Czech Republic and other countries did not exist, and Rus-

sia has become a convenient pretext to lambaste opponents in the debate.

Criticism of Russia focuses on two points: first is the so-called "shock therapy" and the second is the distribution of state assets through "privatization vouchers."⁶ Regardless of the pros and cons of shock therapy, the fact is that Russia's economic recession began during the final years of the Soviet Union and continued until Putin assumed the presidency in 2000. Heydar Aliyev had implemented shock therapy for only six months after becoming president of Azerbaijan when Viktor Chernomyrdin, who had recently been appointed prime minister of the Russian Federation, told him to give up his "romantic style of reform." Is it justifiable to attribute ten years of decline to what was done over the course of half a year? Not every country of the former Soviet Union adopted Heydar-style reforms. For example, Ukraine and Belarus did not, but they are currently doing less well than Russia.

Because Russia's economy is in poor shape, economists of the left and the right blame the privatization vouchers. Economists on the left argue that many Russians traded the vouchers they received for vodka, and that others seized the opportunity to buy large quantities of vouchers, thereby acquiring huge quantities of state assets and becoming oligarchs. According to these economists, the result was injustice all round. To these left-leaning economists it is clear that all of this property should not have been reallocated, that neoliberalism is a crime that deserves 10,000 deaths, and that people are better off when a patriarchal leadership manages all a nation's assets. Economists on the right, on the other hand, argue that Russians were unduly obsessed with fairness and wanted to ensure that even the common folk were allocated shares of state-owned assets. As a result, equity rights were spread much too thin, making the management of corporations less efficient. It would have been better to hand over the assets to professional managers. To these economists it's obvious that reallocation of state property should be shouldered by the powerful, because the common people are completely wrongheaded.

In fact, these two explanations are mutually exclusive: if the privatization vouchers scheme resulted in equity rights being spread much too thin, what's all this talk about oligarchs? If it has concentrated property rights in the hands of a small minority of bosses, why would companies have difficulty managing assets? What's more, the arguments made by some critics simply don't stand up to scrutiny. They claim that privatization vouchers were worthless, but also that the selling price of enterprises was set too low, that anyone could acquire a major company with a few vouchers, and that distributing assets instead of selling them off is a big mistake. How can all these arguments be logically reconciled?

If assets are distributed rather than sold, their set price depends on the quota of privatization vouchers that are distributed, and is unrelated to inflation. If the prices of enterprises put on the market are pinned to inflation, and the number of privatization vouchers issued is fixed, how can they be used to acquire ownership rights? Some people like to say that the people are supreme, but in reality they regard them as fools who will only trade their vouchers for vodka and there-



Campaign poster in Dangxi, Shandong Province urges villagers to vote for village committee members fighting local corruption. Photo: Reuters

fore should not be included in the distribution of assets. As a matter of fact, because government officials did not really reallocate that many assets to begin with, in most cases privatization vouchers were not worth the paper on which they were printed, and exchanging them for liquor would have been a smart move. In Russia one fifth of all vouchers were never converted into shares, making them the equivalent of junk bonds. Of the people who swapped these worthless certificates pieces of paper for vodka, how many hit the skids, and who became oligarchs?

Concrete evidence indicates that Yeltsin's government seized the opportunity provided by inflation and property to renege on the government's original commitment to redistribute assets. As a result, the principal state-owned assets were never redistributed, and privatization vouchers could only be exchanged for junk bonds. People who bought large quantities of these vouchers went bankrupt and certainly did not become "oligarchs," and the oligarchs certainly did not make their fortunes by buying privatization vouchers. Rather, the oligarchs' fortunes were made later, in a series of insider deals in 1994 through which a small number of the elite shamelessly appropriated state assets that had never been distributed to ordinary people. Much the same is happening in China today.

Today, non-mainstream economists criticize China's privatization as a form of "russification." But left and right-leaning economists have managed to confuse everyone as to what actually happened in Russia. The problem in Russia was that the government claimed to distribute assets but did not really do so, and claimed to sell assets but failed to do so in an open and aboveboard way. Because very few people really understand this, some people use the argument that "equal division of state property resulted in economic failure in Russia" as a pretext for advocating the transfer of state property to individuals in secret and underhanded transactions. The truth is that Russia's privatization voucher program was necessary. The problem was that the government reneged on its promise to redistribute state-owned property, then hand the property on to insiders in secret deals. What lessons should we Chinese draw from this experience?

If the Russian state had been serious about conducting a fair redistribution of state assets through a privatization voucher scheme—as was done in the Czech Republic—Russia's subsequent economic development would certainly have been quite different. It is hard to say whether the economy would have grown faster, but the country would at least not have had to contend with the bane of the oligarchs. This is not to say that the Czech-style redistribution program was perfect in every way, or that selling off property is unworkable. While the Czech emphasis on a "level playing field" was a positive move, problems with investment privatization funds (IPFs) during the later stage adversely affected corporate management. But it is perfectly viable to sell state-owned assets if it is done in an orderly and fair a manner as in Hungary, and if the income is used to shore up social security and public welfare funds.

In fact, the first reason Russia's privatization was not as fair as the Czech Republic's is that Russia democratized much less thoroughly than the Czech Republic. As a result, its privatization process was less fair than the Czech Republic's. Secondly, democratization is an essential condition of fair and equitable privatization, but it is not a sufficient condition. In democratic countries, privatization is not always fair and equitable, but undemocratic privatization is never fair and equitable. Even so, it is precisely because there is some democracy in Russia that the government had the legal qualifications to act as the citizens' trustee in the allocation of public property, and there was much debate in society about who the beneficiaries were. The process was accompanied by intense bargaining and compromise. While the final outcome has left people dissatisfied, very few advocate a reversion to the way things were.

Today, some people in China advocate "privatizing first and democratizing afterward." To support their argument, they point to Russia, where privatization was not fair and equitable and did not result in a squaring of accounts. Isn't this turning logic on its head? Is Russia an example of "privatization followed by democratization"? Although Russia's privatization was not fair and equitable and did not lead to major settling of accounts (in fact there have been small settlements of accounts, such as Putin's treatment of Mikhail Khodorkovsky), is this not the result of the first step toward democracy having been taken? Conversely, what if the elite had already carved up public property among themselves during the Gorbachev era, and Yeltsin's democratization had only happened after they had made their fortunes? Would there have been only a handful "putschists" to prosecute in that event?

The importance of democratic participation

Today both sides cite Russia to support their arguments. One group says that China's reforms are in fact russification. The other group says they are not and that we are doing a better job than the Russians. Even so, Russia's state-property reform program was not only freely debated by people on the left, center and right and carried out in accordance with a democratic legislative process, but was also put to a popular referendum. Has China's state-property reform been put to a popular referendum? More importantly: could it pass a popular referendum?

Whether Russia's state-property reform has resulted in a

less equitable distribution of wealth than we now have in China is doubtful. A preponderance of data shows that China's current Gini coefficient of income inequality (grouping together urban and rural areas) surpasses Russia's. Even if there were any doubt on this point, China's Gini coefficient is certainly higher than those of Hungary, Poland and other East European countries (at a symposium held in Beijing on August 28, a speaker who supported Professor Larry Lang⁷ cited several negative examples).

As for the legitimacy of the allocation of property rights—both in legal and moral terms—how does China compare with Russia (to say nothing of Eastern Europe)? It bears noting that unequal and unjust (that is, lacking in moral legitimacy) are not the same thing. A relatively high Gini coefficient is not equivalent to injustice. Most Americans do not consider Rockefeller's vast wealth to be unjust, but Chinese feel bitter resentment toward Zhou Zhengyi and Lai Changxing, who were far less wealthy than Rockefeller.⁸

There is clearly a serious problem of legitimacy in Russia's state-property reform. That is why Putin's takeover and handling of Yukos was very popular. After Putin took action against the oligarchs, public-opinion polls gave him a 73 percent approval rating, while Prime Minister Mikhail Kasyanov, who expressed dissatisfaction with Putin's campaign, was supported by only 39 percent of people surveyed. Another poll found 54 percent of those surveyed approving of the arrest of Mikhail Khodorkovsky, while only 4 percent strongly opposed it, and 42 percent were ambiguous or declined to comment. But if you look at what Chinese people are saying on the Internet (and I am not referring to left-wing Web sites such as Strong Nation Forum [*Qiangguo Luntan*] and the People's Daily Online), data on popular sites such as Sina.com and Sohu show that up to 90 percent of those surveyed express strong support for Larry Lang! Although netizens cannot be considered representative of the people as a whole, the two Russian polls were also conducted over the Internet, so there are good grounds for comparison.

It would be worth knowing whether Russia's current strongman-president, who has taken on the oligarchs, has greater appeal than a popular scholar such as Larry Lang (who isn't even from mainland China). Popular support for Putin's actions pales in comparison with the whirlwind Lang stirred up in China. It is obvious that the Russian public's dissatisfaction with state-property reform is nowhere near as great as that of the Chinese people. Although many Chinese like to play up the Russian crisis, the plain truth is that there have been plenty of grievances there, but nothing close to a "revolutionary situation." In China, on the other hand, the slightest sign of trouble is much more likely to turn into a crisis of justice that will capsize the reforms.

Translated by Paul Frank

This is an edited translation of an article that can be accessed in its original form at New Century Net: <http://ncn.org/asp/zwginfo/da.asp?ID=60346&ad=10/28/2004>.

TRANSLATOR'S AND EDITOR'S NOTES:

1. Nanjie Village in Henan Province has recently gained notoriety for returning to collectivization. Its commune has 5,000 members who receive a salary of approximately \$20 a month, plus free housing, electricity, water, telephone and cable TV. Nanjie also boasts statues to Mao and Stalin. See "Dorf der reichen Maoisten," *DieWelt*, September 29, 2005.
2. In 1960, at the height of the Great Leap Forward, Mao Zedong endorsed the new Charter of the Anshan Iron and Steel Company to replace one modeled on the Charter of the Magnitogorsk Iron and Steel Combine in the Soviet Union. The new charter put the primary emphasis on politics by strengthening party leadership, placing politics in command and launching mass movements. Functionaries were supposed to participate in productive labor and workers in management. See Roderick MacFarquhar, *The Origins of the Cultural Revolution, Part 2: The Great Leap Forward, 1958–1960* (London: Oxford University Press, 1983), p. 308.
3. The Italian economist Vilfredo Pareto (1848–1923) posited that in all countries and times, the distribution of income and wealth follows a set logarithmic pattern.
4. Qiu He, Party chief of Suqian, a city in northern Jiangsu Province, has undertaken an aggressive urbanization of the region, financed through provincial poverty alleviation funds, aggressive sell-off of state assets and levying special taxes on government employees. See "The China Syndrome: Land," *Farms.com*, October 26, 2004, <http://www.agsearch.com/readstory.cfm?dmnewsid=1105627>, and "When 'iron wrist' lashes out at tradition," *People's Daily Online*, June 3, 2005, http://english.people.com.cn/200506/03/eng20050603_188362.html.
5. Ronald Coase received the Alfred Nobel Memorial Prize in Economic Sciences in 1991 for his discovery and clarification of the significance of transaction costs and property rights for the institutional structure and functioning of the economy.
6. In the summer of 1992, President Yeltsin made "privatization vouchers" the centerpiece of economic reform. Anders Aslund explains, "The vouchers were meant to form demand for all kinds of property to be privatized. The basic principle was that each Russian citizen should be entitled to receive one privatization check or voucher with a nominal value of 10,000 rubles. It was thus a system of free distribution, available equally to all with no differentiation between people." It was widely reported that many Russians who got privatization vouchers early sold them immediately and used the proceeds to buy vodka. See Anders Aslund, *How Russia Became a Market Economy* (Brookings Institution Press, 1995), p. 236.
7. In a talk he gave in August 2004 at Fudan University in Shanghai, Larry Lang, a professor of economics at the Chinese University of Hong Kong, argued that Chinese entrepreneurs were engaging in management buyouts and insider trading to enrich themselves at the expense of the public and to strip state-owned assets. Lang's views were echoed by a number of non-mainstream economists who criticized the "neoliberal views" that underpinned the government's scheme to restructure state-owned industries. See Joseph Fewsmith, "China under Hu Jintao," *China Leadership Monitor*, No. 14, pp. 4–5, <http://www.chinaleadershipmonitor.org/20052/jf.pdf>.
8. Zhou Zhengyi, a Shanghai tycoon, was sentenced to three years in prison in 2004 on charges of securities fraud. Lai Changxing, the kingpin of the criminal ring in Xiamen, reportedly bribed scores of top-level party and military cadres. Lai is currently in Canada fighting deportation to face criminal charges in China.