

# The Making of China's Economic Reforms. Interview with Isabella Weber

*di Raffaele Danna*

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The text presented here stems from a conversation between Isabella Weber and Raffaele Danna, which started from a talk given by Isabella at the Cambridge research network The Politics of Economics, convened, among others, by Raffaele. Such conversation ultimately led to a long interview, of which this is the first half. Arianna Papalia contributed in formulating the questions and took care of the Italian translation of the interview. The various subjects briefly touched upon here are discussed in detail in Isabella's forthcoming book.

What was the role of the memory of the long history of China, as well as that of Western influence, in shaping the Chinese narrative for reform?

Isabella Weber: As a matter of fact, not only in the late 70s but until the present day, the long history of China is a recurring theme in speeches of Party leaders and debates among intellectuals especially in years like 2019, which marks the 70th anniversary since the founding of the People's Republic of China. But also beyond important anniversaries history is an integral part of political reasoning in China. For example in a speech that Xi Jinping gave at the UNESCO headquarters in 2014, he said: "for any country in the world, the past always holds the key to the present, and the present is always rooted in the past. Only when we know where a country has come from, could we possibly understand why a country is what it is today, and only then could you realise in which direction it is heading". Until today there has been a clear and recurrent reference to different aspects and periods of China's history also in regard to economic policy questions. The late 70s were a moment when Chinese intellectuals and political leaders opened their mind "to the outside world" - as Deng Xiaoping liked to say. This was not only a slogan, Chinese delegations started to travel around the world, and intellectuals had the chance to acquire first-hand knowledge of what was going on outside of China. One of the shocking revelations for many was how economically and technologically "backward" China had become in relation to the capitalist world. So if the Revolution had not only sat out to create the foundations for a communist society, but also to set China free of imperialism and feudalism, the new phase of economic reforms elevated escaping sheer poverty and material development to the guiding principles.

How important was the heritage of the Cultural Revolution in shaping the premises for the successive phase of economic reforms in China?

Isabella Weber: Among many other things the Cultural Revolution was an onslaught on bureaucratic structures (one of the slogans that resonated very strongly with the '68 generation of the West was

"bombarding the headquarters"). The idea of a hierarchical, centrally planned economy was under attack. At the same time markets were condemned as the capitalist road. In many ways the economy from which the reforms started was closer to a chaotic command economy with an important place for political campaigns, rather than a planned, centrally coordinated system. The designated successor of Mao Zedong, Hua Guofeng, started off in trying to revive the planning structures by making a new big push towards Soviet-style industrialization, which failed dramatically. As an irony of history, the Cultural Revolution turned out to be vital for reform. The Cultural Revolution had broken up the prevailing social order in a violent way. Many of the people who had previously been in positions of power as well as prominent intellectuals were purged, and sent to re-education camps in the countryside. But also urban youth were sent to live with the peasantry, often for many years. When these people came back to the cities and the centres of power, they faced the question of how to rebuild China. In their search for ways forward, both the networks as well as the often traumatic experiences during the Cultural Revolution were critical. The chaos of the Cultural Revolution created in some sense the communicative space to debate the question of reform. I am not a historian of Russia, but I think it is safe to say that in Russia, which had a continuity of highly bureaucratized structures, such a space did not open up before they started their attempts at reform.

Could you give us an outline of the transition from the economic policies of the Cultural Revolution to the ones of the successive economic reforms? How did China manage to open markets while at the same time retaining a strongly centralized structure?

Isabella Weber: In the late 1970s China was still a largely agricultural economy and the communes, key institutions of the Maoist political economy, were in the countryside. The first step towards economic system reform was agricultural reform. It started from the poorest regions that produced with simple techniques and barely provided for their own subsistence, as such experimentation could proceed without larger implications for the national grain procurement system. The so called Rural Development Group played a key role in spreading these first experiments. Reform entailed moving the responsibility for production from the commune to the households, first in these poorest localities and eventually in China's grain chambers. The Rural Development Group was a group that emerged from a movement of youth that had entered the universities after years in the countryside in the late 1970s. They identified with the peasant question and were intimately familiar with the conditions of the countryside. At the same time they were not part of the established research organisations. With the support of first-generation party leaders like Deng Liqun and Du Runsheng, they organised studies across different grounds of agricultural experimentation to survey their outcomes. Their reports were critical in developing the new agricultural policy of the household responsibility system which gradually spread from the peripheries of the system into its core, that is to say the model communes and grain chambers. This logic of starting from areas of the national political economy which were non-essential for the workings of the entire system while keeping control of its central elements systematically underlies China's reforms. This can also be exemplified by the dual-track price system which emerged in the 1980s as political control over non-essential production activities was gradually loosened. The command and order relations of the core of the centrally planned economy were kept subject to planned prices. Yet, at the margins of the system, production for market demand at a market price was first tolerated and later officially sanctioned. The new institutional arrangements and economic dynamic that was created by opening up these spaces eventually transformed also the core of the system itself. In this process economic research was critical as a form of empirical surveying and conceptual analysis that transmitted successful experimental practices from marginal spaces to key institutions. This experimentalist approach

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competed in the 1980s with the attempt to design a target system with the market as its central coordinating mechanism which should then be implemented either step-by-step or in one go. Ultimately, the experimentalist approach prevailed and continues to shape China's economic policy making.

[caption id="attachment\_10825" align="aligncenter" width="10618"] A picture of the Economic System Reform Research Institute and some leaders of the Economic System Reform Commission in 1987.[/caption]

Was there a dialectic between supporters of political reform and supporters of economic reform?

Isabella Weber: Without going into the details of this story we can say that within China, at least since 1979, there was a discussion about whether political reform was a precondition for economic reform and some just as in Eastern Europe hold that only a complete overhaul of China's political institutions could result in successful economic system reform. But as we know, such a radical change in the political system never occurred, while the economic system has nevertheless been deeply transformed. One reason for this particular relation between economic and political reform might lie in the experience of the Cultural Revolution. Then the slogan had been to put politics in command and the attempt was to achieve economic development by political means. The kind of political change envisioned by those hoping for market-oriented reform was drastically different from the idea of continuous revolution adopted during the Cultural Revolution. But nevertheless, in response to the Cultural Revolution the dominant logic of reform was a primacy of economics and economic development. This did not fit well with the idea that political change had to precede economic reform. Another important reason for why economic reform prevailed over political reform was the unexpected economic success of the early years of agricultural reform. Finally, we have to keep in mind that the first generation revolutionaries were still in charge in the critical 1980s. But despite the dominance of economic reform in China one has to acknowledge that this brought substantial political changes. In agriculture, the household responsibility system ultimately ended the communes as the political backbone of Maoism. If you previously had an industrial economy that was managed centrally with state-owned and collective enterprises at its core, the increasing number of private enterprises and the gradual privatisation of many SOEs as well as the proletarianisation of workers fundamentally changed the political structure of China's society.

What was the background of the people who designed the economic reforms of the late 70s? What were their relations with Western economic theory?

Isabella Weber: As I show in detail in my forthcoming book, there was a heterogenous group of intellectuals that played a role in designing China's economic reforms. But just as the example of the Rural Development Group and their role in the agricultural reforms illustrates, the most important contributions to economic system reform were not by 'armchair economists' who had some great ideas about how China's future political economy should look like. Rather economists played a critical role in designing, surveying and interpreting policy initiatives that were developing on various levels as the central leadership opened up spaces for experimentation often involving market mechanisms. In this context young intellectuals that had entered university after spending years in the countryside and who often benefitted from connections with party seniors or older intellectuals made important contributions. For example, one institution which grew out of the rural reform group was the Economic System Reform Institute headed by Chen Yizi and Wang Xiaoqiang and initiated by then Prime Minister Zhao Ziyang. In some sense they applied the approach of the agricultural

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reform to the question of industrial reform and of urban-industrial systems, which was in important ways much more inductive and empirical than the Eastern-European reform approach - at least as it was represented in China by émigré economists like Ota Sik, Włodzimierz Brus or Janos Kornai. The Eastern Europeans typically started from theoretically deriving a target model, and tried to work out a reform package that would have achieved this target. While many economists were searching for the right target model and reform package, the experimental approach emerged from the agricultural reforms in China. This approach was to release direct control in peripheral areas, survey what happened, and investigate how it was possible to extract a systematic logic from these experiments. Such logic was then applied to reforming increasingly important sectors and institutions of the system without endangering the stability of the system as a whole. The dual-track price system is an excellent example for that and encapsulates this logic. There is a huge debate right now in China about who has invented the dual-track price system. I think that it is a system that was not invented, but rather a system that came out of the space that was given to local bureaucrats and SOE managers. The role of economic research was to provide insights on which areas to let go of, as well as to systematize the experimental practices such that they could be turned into policy. It was not something that came out of conceptualizing an idealtype. Moreover, this happened in constant dialogue with the previous revolutionary generation, which unlike the soviet leaders of the 1980s, still had first-hand experience with the markets and the capitalist system. This older generation had used the market as a tool in economic warfare during the civil war and as an economic reform tool during the 40s and early 50s. In fact the socialist economy was created, as a process of growing out of the market, or of growing into the plan, where economic mechanisms and economic dynamics were exploited to go towards the plan. In the 1980s China was growing into the market using similar practices of economic governance as in the revolutionary struggle and the first years of the People's Republic of China but this time to grow into the market. These practices are deeply rooted in Chinese conceptions of price regulation and market creation by the state.

Do you think that China's long history and consolidated culture played a role in the successful phase of economic reform? Would you argue, as some seem to suggest, that Confucianism played a role?

Isabella Weber: I think that the economic reform practices that emerged through the interaction of experimentation at the margins and empirical investigation in parts relied on reviving pre-revolutionary practices and in this regard traditional conceptions and governance institutions have been important. I show this in detail in my book as regards practices of price regulation. As regards the broader debate over the revival of Confucianism in China, it is important to ask why such a debate is happening now. And I think that there are deep reasons for this to happen, in the sense that the more than 200 years of almost exclusive Western economic, political and cultural dominance that followed the industrial revolution are coming to a close, and we see the signs of that in many spheres. In China this has created a new self-confidence that China is not anymore the colonized, or backward subordinate. This poses the question of what China is, where it comes from and how to make sense of China in relation to the West. I think this is the broad historical moment from which discussions about the role of Confucianism stems. These discussions are used in political ways often taking the form of propaganda, but there is also a genuine intellectual interest among scholars in trying to make sense of China's Confucian heritage. Quite a different question is whether it is possible to understand China's historical path, let's say in the 20th century, as a result of its Confucian tradition. There is a lot of debate around this question, but I personally like to think that it would surely be absurd not to recognise the millennia of Chinese tradition of statecraft, bureaucracy, philosophy, even mathematics, encyclopaedic works and so on, while it would be equally misguided to see the 20th century just as a reaction to that tradition.

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Can you give us an example of the process of mediation between Western economic ideas and Chinese socialism? How was the idea of a possible mediation between socialism and a gradual opening of markets achieved? How was this translated into actual policies?

Isabella Weber: I think there are two different questions here. The first one is about how Western economics becomes relevant to China in the late 70s and how it was integrated into the reform discourse. In the context of Socialist China, why bother with capitalist, bourgeoisie economics? In this context the idea of making up lessons from capitalist development is decisive. This originates from an orthodox Marxist notion of economic development in terms of stages. If China has jumped the stage of capitalist development by moving from a feudal society dominated by foreign imperial powers to socialism, this means that China can learn from capitalist management techniques in order to make up lessons and move forward in history. This notion of making up lessons is very problematic in many ways, but it definitely was an important discursive element in the late 1970s and early 1980s. As a result of that, China really started to explore all sorts of foreign economic doctrines, from Milton Freedman to Western Marxists.

The second question is about the different ways in which Western economics has been used within China. There was a group of scholars who were inspired by the eastern European émigrés mentioned earlier who were invited to China by the World Bank. Those who in China were strongly influenced by this kind of economics were driven by a pursuit of a market economy as target model. So they posed questions such as: how can we establish equilibrium prices so that, to put it in simple terms, once we get equilibrium prices right we can let the market do its job? This was a very uncritical, in a certain sense naïve, embrace of Western neoclassical economics. On the other hand the economists who sought to contribute to economic reform by helping to design, surveying and interpreting experiments were also extremely interested in all sorts of Western economics and social science research techniques. But they saw this more as a tool to understand concrete problems and solve concrete challenges within reforms, rather than as a paradigm that would provide a theoretically derived target model. These two groups of economists were engaged in a fierce debate in the 1980s not over whether or not but over how to reform China's economy. The first group proposed a package reform that would have had important similarities with shock therapy. The second group strongly opposed such a reform in one go arguing that this was a dangerous move that would have undermined the success of reform itself. While this is a story of the 1980s, I think that it is still relevant today. When it is argued that China's reforms are unfinished, this suggests that they are unfinished in relation to some target model, typically defined based on Western capitalism as the idealtype. By contrast, if reform is thought of as a dynamic, open and continuous process, we can understand that, while it is not without direction, it can never be finished. For example, with questions like the financial sector reform, I would say that this confrontation is still going on, and similarly for the question of state-owned enterprise reform, where you have the question of whether you should model a state-owned enterprise such as to function as if it was a capitalist private stock market listed company, or whether a new type of enterprise should be created that does take some elements from a private capitalist, stock-market listed multinational company, but nevertheless evolves in an experimentalist way towards a new type of institution.

Would you say that the mediation between a neoliberal agenda and Chinese socialism has turned out to be a success story? How and why?

Isabella Weber: As I already hinted at in my previous answer, the struggle over neoliberal reforms is

not over. An important aspect of the trade war is to force China to open sectors of its economy that have so far been shielded from foreign access. The ongoing dispute around the question of whether China is a market economy or not based on the arguably neoliberal standards of the WTO and EU also shows that China's economic governance has clearly not been fully neoliberalised. As such China presents a challenge to the prevailing neoliberal system of global governance. Yet, whether China presents a socialist alternative is an altogether different question. It strikes me that even though the term socialism is experiencing a revival of some sort there is little consensus what socialism means in the 21st century and I am afraid that China's present system does not fill that gap.

At the same time, there is little doubt that China has been successful in creating a set of institutions different from the Washington Consensus that have proven superior in delivering economic growth. In this regard the comparison with Russia is striking. Russia implemented the neoliberal policy prescription of shock therapy. According to the Piketty database, in 2015 the bottom 99% of Russians had a lower per adult income in real USD terms than in 1990. In comparison, the per adult income of the 99% had increased more than fourfold in China in the same period. As I argue in my chapter of the SAGE Handbook of Neoliberalisms (2018), China has thoroughly embraced market competition with all the social problems that this brings including very high levels of inequality, but has escaped shock therapy as the purist form of neoliberalisation. This escape from shock therapy was critical for the unprecedented levels of growth we have observed over the last decades.