

RIETI BBL Seminar Handout

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How China Became Capitalist

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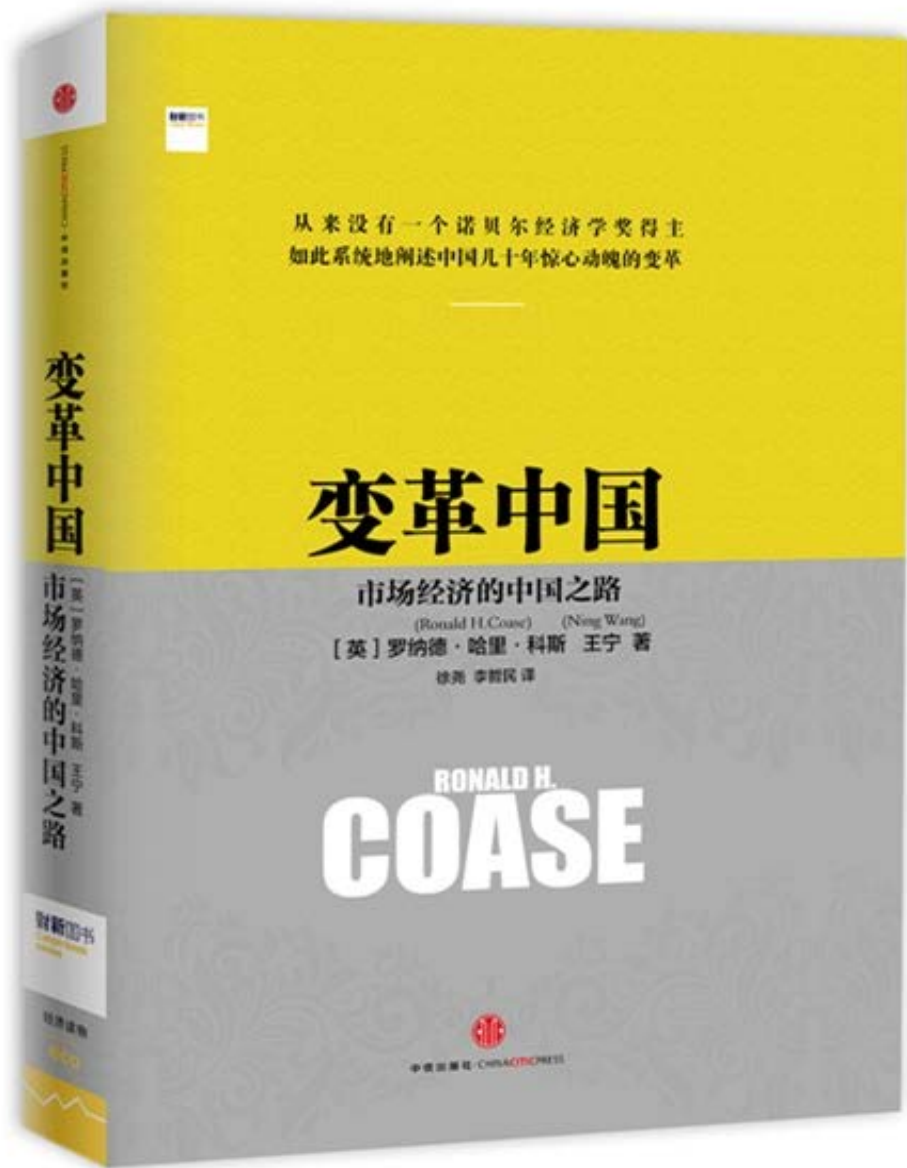
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HOW CHINA BECAME CAPITALIST

RONALD COASE
Nobel Laureate in Economics
& **NING WANG**





从来没有一个诺贝尔经济学奖得主
如此系统地阐述中国几十年惊心动魄的变革

变革中国

市场经济的中国之路

(Ronald H. Coase) (Ning Wang)

【英】罗纳德·哈里·科斯 王宁 著

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变革中国

市场经济的中国之路

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HOW CHINA BECAME CAPITALIST

中国共産党と 資本主義

ロナルド・コース王軍

訳 栗原百代



「著作権保護コンテンツ」

白泉社

Did Beijing Engineer the Rise of China?

- “The secret to China’s boom: state capitalism” (*Reuters*, Nov 4, 2011)
- “China’s state capitalism” (*the Economist*, Nov 6, 2012)
- “The US must learn from China’s state capitalism to beat it” (*the Atlantic*, Nov 5, 2012)
- Naughton & Tsai (eds.,) (2015) *State Capitalism, Institutional Adaptation, and the Chinese Miracle*. Cambridge University Press.

Continuity of the Party-State

- With the exceptions of China and Vietnam, Communist Parties all disappeared in other transition economies.
- The Chinese Communist Party has survived, and indeed prospered from, China's market transformation.
- Compared with other leading economies, China still has a quite significant state sector.

Cross-country v Historical Comparison

- Cross-country comparison is misleading.
- To understand the role of government in China's economic rise, we have to take a historical approach.

China before and after Reform

- Prior to “reform and opening-up”, all aspect of the economy, from production to consumption, were controlled by the state.
- After three decades of reform, despite many defects and weaknesses, China has now become a market economy.
- The economic rise of China has been accompanied, and made possible, by the continuous withdrawal of the state.

State-led Reform: Round I

- The first economic program launched by the post-Mao Chinese government started in 1977 under Hua Guofeng.
- Hua ended Mao's radical ideology and led China to economic modernization.
- Hua's reform was a program of the state, by the state, and for the state.
- It shortly ran into a dead alley.

State-led Reform: Round II

- At the end of 1978, Deng Xiaoping 邓小平 and Chen Yun 陈云 returned to power.
- Chen ended Hua's economic program and launched his own in 1979.
- Reform of the state-owned enterprises was the “central link” of the new round of Beijing-led economic program.

Marginal Revolution I

- Private farming reemerged in rural China when Beijing was still trying to beef up the commune system.
- It was private farming, not agricultural reform designed by Beijing, that transformed rural China.

Marginal Revolution II

- Township and village enterprises were the main engine of growth during the first two decades of Chinese reform.
- They prospered and quickly overtook the state enterprises in spite of policy discrimination.

Marginal Revolution III

- Private sectors in Chinese cities were started by urban residents who did not have a job in the state sector.
- Many of them were returned city youths who had been sent down to the countryside during Mao's era.

Marginal Revolution IV

- The Special Economic Zones 经济特区 were created to co-opt capitalism to save socialism.
- Foreign investments were first confined to the Special Economic Zones, which were cautiously guarded by the government.

China's Two Reforms

- China was carried forward by two reforms of different origins and characters.
- Beijing-led reform aimed to revive socialism.
- China was transformed into capitalism primarily by market forces and private entrepreneurship.
- This transformation was made possible by the gradual withdrawal of the state and its continuous self-adaptation.

China under Xi-Li

- In November 2013, the new Chinese leadership committed itself to further economic liberalization, allowing the market to play a “decisive role” in the economy.
- On September 9, 2015, the Chinese government issued “Guidelines for Deepening the Reform of State-Enterprises”.

Economic Role of Government

- Provision of public goods
 - Market failure calls for state intervention
 - Pigou (1920), Samuelson (1954)
- Market failure theory of the state
- Coase's critiques (1959, 1960, 1974)

Public Choice School

- Buchanan and Tullock (1962): positive theory
- Chicago school of regulation
 - Stigler 1971
 - Posner 1974
 - Peltzman 1976
- Regulation didn't work!

Alternative View

- Protection of Rights of Property
 - John Locke (1632-1704)
 - Adam Smith (1723-1790)
 - Ronald Coase (1960)
 - Guan Zi (管子) (725-645 BC)
 - 凡治国之道，必先富民，民富则易治。
 - 夫霸王之所始也，以人为本，本治则国固，本乱则国危。
 - 无市则民乏。

How to Protect Property?

- Economic freedom
 - Peace and order
 - Specialization and trade
 - Competition
 - Innovation
- Lord Acton (1834-1902)
 - Liberty is not the power of doing what we like, but the right to do what we ought.
 - The danger is not that a particular class is not fit to govern; every class is unfit to govern.

Transformation of Chinese State

- From omnipresent to limited government
 - Increasing role for market forces
- From dictator to facilitator of the economy
 - Industrial parks as an example
- From exporter of radical ideology to promoter of trade
 - China-Africa economic ties

Unfinished Agenda

- Rule of Law
- Market order
- Financial system
- Market for ideas