

# China in the Russian Mirror

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1. When people all over the world think about the collapse of the Soviet Union they draw a certain picture in their minds. According to this picture, modern societies developed along two different paths: the market economy and the command economy. Countries that took the path of the command economy made the wrong choice, and suffered economic failure as a consequence. They must now return to the fork in the road and take the other path. Although the transition is costly and ridden by conflict between those who stand to gain and those who stand to lose, the definition of the road is not in doubt. China--many people in the West as well as in China believe--has been cushioned from the worst effects of this necessary transition. It long ago decentralized its economy, expanding opportunities for private property and for individual or local initiative. What it must now do is to continue developing the market economy while maintaining the political order needed to avoid regional anarchy and social conflict. The picture from which this view starts is, however, false. It encourages the misleading idea that developing countries in general and post-communist societies in particular are limited to a choice of the speed with which they can travel toward the same unquestioned goal; hence the vocabulary of gradualism as the rival to shock therapy. This vocabulary has its kernel of truth, suggesting as it does that any institutional change, no matter how ambitious, may advance step by step. It nevertheless suffers from the fatal flaw of minimizing the most important point at issue in national politics: the diversity of possible national futures. Institutional fetishism animates and vitiates the terminology of gradualism and shock therapy: the false belief that abstract institutional conceptions, like the market economy and representative democracy, have a natural and necessary form, namely the form established in the rich industrial countries. In fact, there are different ways of organizing market economies and representative democracies. The United States, Germany, and Japan all have their distinct and changing institutional arrangements. As we free ourselves from many types of determinism in economic and political thought, we come to understand that these actual variations in the institutional structure of market economies and political democracies represent a small portion of a far broader field of possible variations. Those who fail to recognize this wealth of possibility in the construction of real democracies and democratized market economies often end up accepting an authoritarian or colonial imposition as an unavoidable national destiny. The conspiracy between elite self-interest and elite superstition stands today as a formidable obstacle to the popular stake in political and economic democracy as well as to the pursuit of national independence. The present experience of Russia--and the experiences of developing countries around the world--demonstrate that these countries cannot

achieve the wealth, strength, and freedom of the rich industrial democracies by simply imitating the economic and political institutions of those democracies. They must, to succeed, invent different institutions. An appreciation of what is actually happening, in Russia and in other developing countries, can help guide this practice of institutional invention.

2. Consider contemporary events in Russia. The Russian people have been presented with an impossible choice. On one side there is the so-called neoliberal idea, sponsored by the International Monetary Fund, the World Bank, the Western government, and many of the traveling technocrats. It wants to impose strict monetary discipline, Western-style individual property rights, and complete openness of the national economy to penetration by foreign capital. To execute this program, it is more than happy to pay the price of a catastrophic decline of production. It derides much of the production system as "value-subtracting": that is to say, as consuming more resources than it produces. On the other side there is the self-interested defense by the surviving nomenklatura of the existing production system, and of their places and privileges within it. The Russian people are denied any truly popular program of industrial reconstruction and any truly democratized form of the market economy. Such an alternative cannot come from books or from the schemes of bureaucrats and professors. It has to be generated by an organized society and an active citizenry, encouraged by political institutions that heighten the level of popular political action and by social institutions that enable civil society outside the state to organize itself. But the neoliberals in Russia and their Western patrons regard such institutions as a costly luxury, which the country can ill afford in a period of national reconstruction, rather than as the indispensable reconstructive instrument that it truly is. As a result, the neoliberal, Westernizing program becomes a self-fulfilling prophecy. A disorganized society cannot rebuild itself.

3. Where can Russia and China--each in its different circumstances and with its different prospects--look for inspiration in developing the alternative to the program that is bringing disaster to Russia and that, in a modified and gradualist form, is often presented in China as the necessary road to the market economy? Here are three such sources of inspiration. First, there is the experience that stands at the center of the spectacular economic success of the Western powers. The foundation of the economic greatness of the United States lies in agriculture before industry. And American agriculture, like the agriculture of many other successful Western economies, was based, since the middle decades of the nineteenth century, upon a partnership between the American government and the family farmer. The government not only gave land but also helped support prices, distribute fertilizers and machines, and organize trade. What the most advanced regional economies in the West have been struggling with is how to extend this model of successful partnership between government and the private producer to the whole economy. A second source of inspiration is the experience of the "East Asian tigers"--South Korea, Taiwan Province of China, and Singapore, following close upon the heels of Japan. These countries diverged from their less successful Latin American counterparts first because they promoted equalizing reforms, especially agrarian reform and massive investment in the education of the people; second, because they carefully controlled the penetration of foreign capital, subordinating the presence of

multinationals to their national development strategy; and third, because they too pioneered a successful partnership between government and business. The problem is that the institutions of this partnership--centralized state agencies orchestrating industrial policy and trade policy, have often served as agents of collusion between bureaucratic and entrepreneurial elites. Great mistakes have been made as a result of bureaucratic dogmatism, and popular interests have been sacrificed to elite interests. The task is to recast this partnership in a more decentralized, experimentalist, and democratic mode. For example, instead of centralized bureaucratic organs, we can imagine that mixed public-private bodies, with state support but financial discipline and social accountability, compete in organizing productive and commercial initiatives within regions of the country and sectors of the economy. Workers, local governments, and social organizations should all hold stakes in these social funds and cooperative networks. A third source of inspiration is the emergence in the most successful regional economies within the industrial democracies--in northern Italy, Catalonia, Denmark, southwest Germany, and some parts of the American Midwest--of regimes of cooperative competition. Small and medium-sized firms, or decentralized divisions of large firms, compete and cooperate at the same time, pooling financial, commercial, and technological resources. The mixture of competition and cooperation makes it possible to combine the advantages of decentralized initiative with those of economies of scale. More generally, it helps create an environment favorable to the acceleration of learning: one in which the contrast between conception and execution weakens. At the heart of the collective capacity to sustain economic growth is the tense, troubled, and success-giving relation between innovation and cooperation. The reiterated practice of innovation--in organizational practices as well as in techniques and technologies--requires teamwork in production and collaboration at all levels of social governance. Yet cooperation also threatens the power to innovate, particularly when it degenerates into a system of vested rights, holding productive opportunities hostage to narrow interests. A central and persistent problem in the strategy of economic growth is the need to find the institutional forms of cooperation that minimize the costs, and multiply the benefits, of cooperation to innovation. In the satisfaction of this requirement, regional economies characterized by cooperative competition have been particularly successful. These postfordist economies, however, have typically relied upon prefordist conditions: long developed traditions of craft labor and a dense network of community life, linking a diverse cast of "private" associations to energetic local governments. The regional economy of northern Italy provides a classic example. In much of the both the developing and the industrialized worlds, however, these background conditions are largely absent. It then becomes necessary to develop, through political imagination, and to establish, through political action, the functional equivalents to the prefordist conditions of postfordism. Such equivalents may include massive investment in education and a preference for economic and political arrangements facilitating independent collective organization in many sectors of practical social life. Each of the three starting points for a democratizing development strategy and a democratized market economy that we have invoked may require the establishment of organizations--such as social funds and development banks--working in between governments and firms. Such intermediate agencies can and should be accountable to the firms and communities with which they deal as well as to the governments under which they operate. They should nevertheless enjoy considerable

independence in decision making. They should remain subject to competition among themselves as well as to the discipline of bankruptcy. At a later stage, such institutional inventions may require the development of alternative regimes of property, factoring out of the traditional, unified property right the powers that right includes and vesting these powers in different tiers of rightholders. Thus, democratic governments, social funds, local governments, firms, and workers might all hold stakes in what are, physically, the same productive resources and the income streams they generate. Chinese reform is already moving along the track of multiple, joint ownership, vesting separate components of the traditional, Western-style property right in different kinds of owners. State ownership in the PRC has traditionally been divided between central and local governments. Since 1978 the course of Chinese reform has progressively if fitfully broadened the range of included stakeholders. Ideas such as Jiang Yi-wei's theory of economic democracy represent a beginning of programmatic reflection upon this experience.

4. To combine these different sources of inspiration is to understand the most promising path of advance for China as well as for other large developing countries. China may be poorer than some of these other countries. It has formidable problems to solve in the democratizing reconstruction of the state. But it also has the decisive advantage of being able to count on a rich array of innovations in combining public and private initiative, social and private ownership, industry and agriculture, advanced and primitive technology. The direction in which the most successful experiences of development around the world point is that of linking regimes of cooperative competition--by which competing firms also cooperate, pooling financial, commercial, and technological resources--with a partnership between government and business, between public organs or social organization and private producers. The cooperative-competitive networks of private producers should be the partners of local and regional governments. The partnership should work through the device of mixed public-private funds, banks, and technology centers. These agencies should enjoy considerable independence. They should be subject to financial discipline and to competition among themselves. Consistent with this independence, however, they should be accountable both to democratic government above and to the firms and workers with which they deal below. They should be co-owned by central and local government, by social organizations, and by workers. Such a framework gives practical meaning to the idea of market socialism and to democratic experimentalism in economic life. At the same time it provides the most favorable institutional basis for an alliance between a technological vanguard and a technological rearguard. A technological vanguard produces, in customized fashion, the inputs and machine goods that a technological rearguard can assimilate according to its moving frontier of technological assimilation. The decentralized manufacturing activities of China can be gradually transformed if they are supplied by such a vanguard. Vanguard and rearguard learn together. The combination of learning with cooperation is the essence of successful and sustained economic growth, particularly of a style of growth that can be reconciled with popular democracy and national unity. The fundamental requirement for the development of such an alliance is the emancipation of a sector of the economy--the sector responsible for developing the vanguard and for linking it with the rearguard--from short-termism: the constraint to

make profits in the short term. The partnership between vanguard and rearguard can reap enormous economic gains for all who participate in it, but not immediately. For that very reason it demands an institutional framework, such as the one we have outlined, capable of formulating and implementing long-term strategies and of identifying common interests and opportunities. Moreover, the alliance between vanguard and rearguard makes several decisive contributions to a sustainable and democratizing strategy of national development. First, it overcomes the false choice between capital-intensive and labor-intensive production: a capital-intensive vanguard can produce for a labor-intensive rearguard. Second, it prevents internal dualism--the division of the economy and the society into two systems, one favored with capital, technology, and governmental help; the other, degraded into a reserve labor army and a residual consumers' market. The failure to prevent or combat such a dualism has proved destructive to countries such as Brazil and Mexico. And the neoliberal, Westernizing program is today in the process of creating such a destructive dualism in Russia. Third, the partnership between vanguard and rearguard would help China and other developing countries escape the fate that is being prepared for it in the new world economy: that of being the receptacle of the antiquated fordist style of industry -- mass production of standardized goods, with rigid machines and production processes, operated by semi-skilled labor. This belated and second-hand fordism remains competitive only on the basis of continuing wage repression. It drives the national economy into a losing position, caught in a wedge between the lowest wage producers in the world and the advanced producers. Most significantly, it slows down the process of collective learning and innovation that lies at the heart of economic development. As Russia is becoming a dualistic economy (or changing the character of its preexisting dualism), it is being driven deeper and deeper into the subordinating and impoverishing niche of late fordism. Nothing other than the fate of democratic politics is more important to China than the prevention of dualism and the escape from the late-fordist role that, together with Russia, it is now being invited to play within the world economy. These proposals find a starting point in the line of China's "two-leg" industrial policy, initiated by Mao Tse-tung in 1958 and developed since 1978 through cooperation between rural industrial subcontracting and more advanced state enterprises in the cities. This distinctive alliance presages the necessary partnership between the economic vanguard and the economic rearguard in an inclusive popular and democratic strategy of economic growth. It helped prevent the development of a Latin American-style dualism: a rigid division between favored and disfavored sectors of the economy and society. At the same time it helped avoid the "price-scissor" mechanism that had such fateful consequences for the course of Soviet industrialization and the character of the Soviet regime. Under the "price-scissor" system the central government depressed the price of agricultural goods, driving peasants into industrial employment and forcing agriculture to subsidize industry. In this context Stalin outlawed in 1938 rural industry run by the collective farms into which he had violently driven the peasantry after the food procurements crisis of 1927-1928. He correctly identified in rural industry a route by which peasants might evade the price scissor. Yet rural industry, so relentlessly banished from the Soviet Union, was to become a centerpiece of the Chinese development strategy. As early as 1958 Mao insisted that "peoples' communes must run rural industry." After the failure of the Great Leap Forward in 1961 Liu Shao-qi outlawed rural industry run by agricultural communes. However, with Mao's advocacy of

agricultural mechanization in 1970, many such commune-operated rural industries reemerged. The recent development of the "stockholding-cooperative" system in rural enterprises suggests the beginnings of a more flexible style of cooperation between scientific research institutions and rural and urban industries. Each of the starting points for an alternative development strategy enumerated earlier--the generalization to the entire economy of the alliance between the government and the family farm; the regime of cooperative competition within and among firms; the experimentalist decentralization of an East-Asian tiger style partnership between government and private producers; and the linkage between vanguard and rearguard--can find material to work with in present Chinese experience. If this material is worked into a coherent development strategy it will enable the Chinese to escape the late-fordist niche in the world economy and save it from sinking into the marsh of static comparative advantage in factor endowments. Were China to listen to the advice of the conservative-liberal Western economists, the multilateral economic organizations like the IMF and the World Bank, and the Western powers, it would simply try to make the best of its present advantages and disabilities: cheap labor on an enormous scale combined with large stocks of certain natural resources. Consequently, it would allow a substantial portion of its labor force to be drawn into traditional, low-skill fordist mass production for export as well as for internal consumption, while most of the rest of the people continued to produce the food needed to feed the country. Thus, China would patiently assume the role in which economic orthodoxy offers to cast the front-line developing economies: that of establishing the relatively low wage and technologically regressive fordism from which the more advanced economies are now trying to rid themselves. This belated fordist niche in the world economy would in turn prevent the development of a reciprocal link between vanguard and rearguard, for mass-production industry is best suited to reproducing standardized consumption goods rather than to producing, in the necessary customized fashion, the inputs and machines needed to drive forward the agriculture and the manufacturing of the "second," undeveloped economy. Such a basis for economic development would assure jobs to a limited portion of the labor force while driving the remainder into a capital-starved second economy. It would make export competitiveness hostage to wage repression: although privileged by contrast to the rest of the labor force, workers in the mass-production sector would have to pay, in severe limits on wages and consumption, for the relative backwardness of the factories in which they worked. In all these ways an acceptance of late fordism as an unsurpassable stage of economic evolution would invite the emergence of a rigid dualism from which China, unlike most developing countries, has heretofore managed to escape. The rejection of this fate is a political project before it is an economic program.

5. Politics drives economics. A strategy such as the one we have advocated requires a hard state--a state capable of formulating and implementing policy with a considerable measure of independence from the interests of economic elites. The possession of such a hard state has been the single most important advantage enjoyed by the East Asian tigers over the major Latin American countries as well as an important condition of other specific advantages, such as the promotion of equalizing reforms (in the context of cold war rivalry) and the massive investment in public education. The Soviet Union had since the Brezhnev period become an increasingly soft state, and Russia, despite its hyper-

Gaullist constitution, continues to be one. On the other hand, those Latin American countries that have managed to promote any reforms, even the wrongheaded reforms of neoliberalism and the IMF, have done so by becoming harder states: Chile, through military dictatorship, followed by centrist consensus; Argentina, by political betrayal and delegation of power to a forceful technocrat; Mexico, by reliance upon a Saint-Simonian dictatorship of supposedly enlightened technocrats, relying more upon electoral fraud and less upon economic clientelism than it once did. Political authoritarianism, such as has prevailed in the East Asian tigers and elsewhere, is a shortcut to the hardness of the state. It is, however, a dangerous and increasingly costly shortcut. It invariably produces a collusion between political-bureaucratic and economic elites, which qualifies the hardness of the state and holds economic progress hostage to the interests of those who are in on the deal of the elites. When pressures for democracy mount and concessions to the democratic impulse must be made, the semi-democratized hard state becomes softer, and continues to soften, until it can once again become hard through the radicalization of democracy and the more comprehensive self-organization of civil society. There is a connection between economic pluralism and political pluralism. We should not, however, allow institutional fetishism to entice us into mistaking this connection for a necessary link between democracy and the dominant Western-style institutions that are conventionally labeled "capitalism." Just as the course of contemporary Chinese reform has multiplied unorthodox market institutions, so too the contemporary history of China includes episodes of institutional innovation combining, in novel institutional form, elements of direct and representative democracy. Thus in the early history of the Chinese communist movement the Shen-Kan-Ning Border Region became, in 1937, the first local government in modern China to initiate direct competitive elections of officials. This experience continued to resonate in the competitive elections of village and township leaders held, since June 1988, in the twenty seven provinces of China. The dictatorial suppression of party-political pluralism by the state elite has circumscribed the scope and the originality of these proto-democratic experiences. Moreover, by clinging to power and seeking to translate public office into private privilege, this increasingly corrupt and degraded elite demonstrates a natural preference for some of the more conventional forms of market capitalism. Greedy merchants and political despots have often made common cause, in Chinese history as in world history. Officials anxious to build up a private treasure chest can also hide most easily behind the screen of the traditional property right. A multi-tiered, inclusive structure of property and production, recognizing the stakes of workers, social organizations, and local governments, cannot be so readily reconciled with political authoritarianism. For such a structure organizes production in a manner that promotes the self-organization of civil society and undermines the sharp contrast between supervision and execution in practical life. The demand for more democracy and for a democratized form of the market economy elicits a familiar objection: more democracy in a country of vast proportions, with a semi-educated population, means more chaos. Political repression appears to be the providential antidote to violent disorder. But this prejudice rests upon a superstition akin to institutional fetishism. The institutional forms of democracy and of the market economy differ in their quality as well as in their content: that is to say, in the extent to which they facilitate their own revision rather than presenting themselves on a take-it-or-leave-it basis. Popular political mobilization and definite institutions are not, as conservative political science would have it, simple

opposites. Rather institutions differ in the extent to which they sustain participation and channel conflict, inviting their own correction. To grow its economy, unify its people, and renovate its institutions, a country must practice basic reform frequently. It must learn to live with the practice of reform as an integral part of normal, peaceful life. A politics of reiterated structural change is inevitably a high-energy politics, requiring a tolerance for institutionalized conflict and a widening of popular participation. A technocratic, authoritarian, low-energy politics cannot sustain a politics of repeated basic reform. Nor does such a low-energy politics provide the environment most favorable to continued economic advance: as economies develop, coercive surplus extraction (the absolute level of savings and investment) pales in significance when compared, as a constraint upon economic growth, to the capacity for permanent innovation. (Comparative-historical study suggests that Ming-Ching China enjoyed a savings level higher than that of Great Britain during the Industrial Revolution; inadequate social and technical innovation, not inadequate repression of consumption, was the main bar to rapid growth.) The task is to forge through politics--national politics and grassroots politics as well as the politics of ideas--the institutions that overcome the false dilemma of repression or chaos. To move in such a direction is to deepen democracy. The deepening of democracy means the development of arrangements that heighten the level of political mobilization in society (for example, through public financing of political campaigns and broadened access by parties and movements to the means of mass communication); the preference for constitutional arrangements resolving impasses among branches of government quickly, by appealing through plebiscites and anticipated elections, to the universal electorate; and the establishment of social institutions that encourage civil society to organize itself, territorially and functionally, outside the state apparatus and to engage vigilantly in the collective discussion and resolution of collective problems. The general rule in the world is: political authoritarianism allows for a facile but precarious form of hardness of the state; relative democracy (the democracy of politically active elites and a relatively demobilized and unevenly organized society) softens the state; and hardness, in another, deeper form, becomes possible again if society is more thoroughly democratized. The implications for China are clear. If it does not sooner or later take the road to the deepening of democracy, China will have to choose between the elitist and collusive form of hardness of the state and the softening of the state--its permeability to elite interests and elite deals, and to the conversion of public office into private privilege--accompanying a contained retreat from political authoritarianism. China has long since begun such a contained retreat. The logic of the path its rulers have chosen is now, together with the failure adequately to educate the people, what chiefly limits its prospects for economic and social innovation. Like all retreats, this one threatens at every moment to become a disorganized rout. The fear of such a disorganization serves as a pretext to cling to the authoritarian apparatus. The interests of the Chinese people, however, point in another direction. Only the radicalization of democratic experimentalism--not overnight and at once but step by step--can make possible the broadened economic experimentalism embodied in the strategy and the institutions we have sketched. And only this practical experimentalism can save China from becoming, like Russia today, a divided and despairing society.

6. China must now choose between two futures. The path of least resistance is to

treat its current innovations, such as rural industry and township-village enterprises, as mere transitions to the logic of traditional individual property rights, free-ranging inequality, and semi-democratized government. This would be a gradualist counterpart to the path Russia has already taken, and from which the Russian people *now* struggle, blindly, to escape. The other path is that of democratizing innovation, in the economy and in politics, building upon its own peculiarities and inventions, and giving to both the market economy and political democracy a more radically experimentalist form than they enjoy in the leading Western powers. This second path, of national emancipation and popular empowerment, can already be imagined. It can begin to be opened, however, only when many people in Chinese society and the Chinese state have decided to seize fortune by the throat, and have understood that hope is the consequence rather than the cause of action.