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## **The (Im-)Possibility of Rational Socialism: Mises in China's Market Reform Debate**

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# The (Im-)Possibility of Rational Socialism: Mises in China's Market Reform Debate\*

Isabella M. Weber, University of Massachusetts Amherst

## Abstract

This paper investigates the long first decade of reform in China (1978-1992) to show that Mises, in particular his initiating contribution to the Socialist Calculation Debate, became relevant to the reconfiguration of China's political economy when the reformers gave up on the late Maoist primacy of continuous revolution and adhered instead to an imperative of development and catching up. During the Cultural Revolution, Mao had rejected the notions of efficiency and rational economic management. In the late 1970s, the reformers under Deng Xiaoping's leadership elevated these notions to highest principle. As a result, Mises' critique that socialism could not achieve a rational economic order came to be debated throughout the 1980s and Chinese economists developed their own reading of Mises and the Socialist Calculation Debate. When Deng Xiaoping reinstated market reforms in the early 1990s after the Tiananmen crackdown, a history of thought review of the possibility of rational socialism and socialist markets helped to justify the Socialist Market Economy with Chinese Characteristics the official designation of China's economic system to this day.

## Keywords:

Socialism; capitalism; market economy; Mises; China; comparative economic systems;

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## Introduction

This essay traces the role of Ludwig Mises' claim of the impossibility of rational socialism in China's path-defining market reform debate (1978-1992). China's move from revolution to reform gave rise to a surge in interest in foreign economics as shown in a number of recent publications.<sup>1</sup> But little is known about Chinese economists' engagement with the

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<sup>1</sup> See Pieter Bottelier, *Economic Policy Making in China (1949-2016): The Role of Economists* (London and New York: Routledge, 2018); Steven M. Cohen, *Competing Economic Paradigms in China: The Co-Evolution of Economic Events, Economic Theory and Economics Education, 1976-2016* (London and New York: Routledge, 2017); Julian Gewirtz, *Unlikely Partners: Chinese Reformers, Western Economists and the Making of Global China* (Cambridge: Harvard University Press, 2017); Rebecca Karl, *The Magic of Concepts: History and the Economic in Twentieth-Century China* (Durham and London: Duke University Press, 2017); Isabella M. Weber, "China and Neoliberalism: Moving Beyond the China is/is not Neoliberal Dichotomy," in *The SAGE Handbook of Neoliberalism*, ed. Damien Cahill, Melinda Cooper, Martijn Konings and David Pimrose (London: SAGE Publications, 2018); Isabella M. Weber und Gregor Semieniuk, "American Radical Economists in Mao's

Austrian school in general and Mises in particular at this critical juncture. This essay explores how the Austrian critique of socialist economics was mobilized by radical Chinese reform economists to reinterpret the meaning and content of Chinese socialism culminating in the official designation of the new economic system as Socialist Market Economy with Chinese Characteristics in 1992.

At the dawn of reform in the late 1970s, Ludwig von Mises' economics was by no means new to China. Mises' contributions had been 'imported', discussed and critiqued in China at least since the 1930s. During the time of the Great Depression China was deeply integrated into the global capitalist economy and Chinese economists were intellectually and sociologically connected to global currents of thought. Chinese students pursued graduate studies in economics in Japan, Europe and the US, some of them under Friedrich Hayek's supervision at the London School of Economics (e.g. Zhou Dewei, Jiang Shuojie and Wu Yuanli).<sup>2</sup> Foreign economists such as Augusta Wagner teaching in China compiled textbooks to introduce Western economics, including Mises' and Hayek's critique of socialism.<sup>3</sup> Wang Yanang, famous as cotranslator of David Ricardo, Adam Smith and Karl Marx trained in Japan and an outspoken critique of Austrian economics at the time, goes as far as to attest that in the 1930s and early 1940s China was undergoing a "wholesale importation ... of political economy as a discipline and science" which resulted in a mechanical application of economics principles to China. Wang found that Austrian school idealism and metaphysics was a key element of this importation.<sup>4</sup>

Rebecca Karl's reading of Wang resonates with Chinese reform economists' engagement with Mises half a century later. Seeing China's reality through the lens of Austrian economics only left two options, argued Wang: either Austrian economic theory was faulty in

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China: From Hopes to Disillusionment," *Research in the History of Economic Thought and Methodology*, 37A (2019): 31-63; Isabella M. Weber, *How China Escaped Shock Therapy: The Market Reform Debate* (London and New York: Routledge, 2020); Isabella M. Weber, "Das westdeutsche und das chinesische »Wirtschaftswunder«: Der Wettstreit um die Interpretation von Ludwig Erhards Wirtschaftspolitik in Chinas Preisreformdebatte der 1980er-Jahre," *Jahrbuch für Historische Kommunismusforschung* (2020); Isabella M. Weber, "Origins of China's Contested Relation with Neoliberalism: Economics, World Bank, and Milton Friedman at the Dawn of Reform," *Global Perspectives* 1(2020); Susanne Weigelin-Schwiedrzik and Liu Hong, "Vergessene Partner im Reformprozess: Der Dialog der VR China mit reform-kommunistischen Strömungen in Osteuropa (1977–1987)," *Jahrbuch für Historische Kommunismusforschung* (2020).

<sup>2</sup> For a discussion of their intellectual formation and trajectory in pre-revolutionary China, Taiwan and the People's Republic of China see Li Weisen, Feng Xingyuan and Sun Liang, "The Diffusion of F.A. Hayek's Thoughts in Mainland China and Taiwan," in *The Diffusion of Western Economic Ideas in East Asia*, ed. Malcolm Warner (London and New York: Routledge, 2017), 214-234; Paul B. Trescott, *Jingji Xue: The History of the Introduction of Western Economic Ideas into China, 1850-1950* (Hong Kong: The Chinese University Press, 2007), 83-85.

<sup>3</sup> Trescott, *Jingji Xue*, 150-1.

<sup>4</sup> Karl, *Magic of Concepts*, 2-4, 81-6.

China's context and China required instead empiricist exceptionalism; or Chinese reality was at fault for not complying with the Austrian metaphysical universalism and required changing. The earlier conclusion led to reducing economics to the positivist scientific method. The latter reinforced a wide-spread sentiment among Chinese economists that stressed feudalism over imperialism and argued for the need of capitalism and the market as a progressive force.<sup>5</sup> Followers of Mises and Hayek found the Nationalists' collectivism as unfit to free China from its feudalist backwardness and called for free enterprise instead.<sup>6</sup>

Many of China's prominent promoters of Austrian economics of the 1930s and 1940s fled to Taiwan where they pioneered the translation of Mises, Hayek, Röpke and others and lobbied for neoliberal economic policies.<sup>7</sup> In contrast, after the Communist revolution in 1949 Austrian economics largely vanished in the People's Republic except for a short revival from the viewpoint of critique in the late 1950s and early 1960s. The disaster of the Great Leap Forward and the catastrophe of the Great Famine posed again the question of the right economic system and the role of the law of value under socialism in China's young People's Republic. In this context, Soviet-trained Sun Yefang pioneered the demand for socialist markets inspired by Oscar Lange and the Socialist Calculation Debate.<sup>8</sup> In 1962 Teng Weizao translated Hayek's (1944) *The Road to Serfdom*.<sup>9</sup> Teng assures that the purpose of this translation was criticism.<sup>10</sup> Yet, given the failure of the great push for collectivization that was becoming apparent at the time, Hayek's critique of collectivism must have resonated with some of Teng's readers. As this essay shows, some 20 years later, this Austrian critique and Mises' claim of the impossibility of a rational socialist economy was embraced by some prominent Chinese reform economists and political leaders. It came to play a role in the redefinition of China's economic model in the 1980s and early 1990s.

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<sup>5</sup> Karl, *Magic of Concepts*, 2-3.

<sup>6</sup> Trescott, *Jingji Xue*, 186-7.

<sup>7</sup> Li, Feng and Sun, "The Diffusion of F.A. Hayek's Thoughts in Mainland China and Taiwan," 215-24.

<sup>8</sup> See Cyril C. Lin, "The Reinstatement of Economics in China Today," *The China Quarterly*, 85(1981): 14-15; Robert C. Hsu, *Economic Theories in China, 1979-1988*, (Cambridge: Cambridge University Press, 1991), 145-7; Trescott, *Jingji Xue*, 306. See also Chinese introduction of Lange's (1959) first volume of *Political Economy* in Qi Hou, "(Polish) Oskar Lange's *Political Economy* (Volume 1): Table of Contents" [ (波兰) 奥·兰格《政治经济学》第一卷目录], *Economic Perspectives* [经济学动态] 3(1961): 6-10; Li Yining "My Understanding of the Relationship Between Public Ownership and the Equity-Efficiency Nexus," [我对公有制与公平效率之间关系的认识] *Reform* [改革] 6(1989): 34-36.

<sup>9</sup> Friedrich A. Hayek, *The Road to Serfdom* [通往奴役之路] (Beijing: Shangwu Yinshuguan, 1962 [1944], translated by Teng Weizao. The circulation of this translation was restricted. For an overview of Chinese translations of Hayek's work see Li, Feng and Sun, "The Diffusion of F.A. Hayek's Thoughts in Mainland China and Taiwan," 230-2.

<sup>10</sup> Li, Feng and Sun, "The Diffusion of F.A. Hayek's Thoughts in Mainland China and Taiwan," 225.

I draw on Chinese articles published on Mises in the period 1978-1992 to show that Mises, in particular his initiating contribution to the Socialist Calculation Debate,<sup>11</sup> became relevant to the reconfiguration of China's political economy when the reformers gave up on the late Maoist primacy of the revolution of the relations of production and adhered instead to an imperative of the development of the forces of production and catching up.<sup>12</sup> During the Cultural Revolution, Mao had rejected the notions of efficiency and rational economic management. In the late 1970s, the reformers under Deng Xiaoping's leadership elevated these notions to highest principle. As a result, Mises' (1920) critique that socialism could not achieve a rational economic order came to be debated throughout the 1980s and Chinese economists developed their own reading of Mises and the Socialist Calculation Debate. When market reforms were reinstated in the 1990s after having been stalled since the Tiananmen crackdown, a history of thought review of the possibility of rational socialism and socialist markets by Jiang Chunze helped to justify the Socialist Market Economy with Chinese Characteristics as the new official designation of China's economic system and target for reform.

### **From Continuous Revolution to Economic Determinism: How Mises Became Relevant to China's Reform**

*The communist dreamland of liberated individuals and universal solidarity cracked in the People's Republic when the regime alienated itself from the population by allowing bureaucratic privileges on the one hand and excessive persecution of opponents on the other. But it was not until the revolution's emancipatory promises were broken in a 'feudal tyranny' toward the end of the Cultural Revolution that many believed that much of the original communist strength had been destroyed. The exhaustion was so evident that the power transition after Mao died in September 1976 would be initiated by a 'coup' to remove his widow, Jiang Qing, and her allies, an event that had been waited for and was celebrated in the streets. The breakthrough, no doubt a case of political secrecy and Byzantine politics, nevertheless brought to the fore a broad consensus on the need of the country to open up, liberalize, and democratize.<sup>13</sup>*

Lin Chun's synthesis of the critical moment in the 1970s when China shifted from late Maoism to reform helps us to understand how Mises became relevant to China's

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<sup>11</sup> Ludwig Mises, "Die Wirtschaftsrechnung im sozialistischen Gemeinwesen," *Archiv für Sozialwissenschaften* 47 (1920): 86-121. For an English translation see Ludwig Mises "Economic Calculation in the Socialist Commonwealth," in *Collectivist Economic Planning: Critical Studies on the Possibilities of Socialism*, ed. Friedrich A. Hayek; translated by S. Adler (London: Routledge & Kegan, Paul, 1963), 87-130.

<sup>12</sup> For a broad analysis of the relation between Mises work on socialism and the Chinese reformers' rethinking of socialism see Weber, "China and Neoliberalism" and Weber, "Origins of China's Contested Relation with Neoliberalism."

<sup>13</sup> Lin Chun, *The Transformation of Chinese Socialism* (Durham and London: Duke University Press, 2006), 207.

reconfiguration of the political economy. It was this breaking down of the hope for a “communist dreamland”, the collapse of the “revolution’s emancipatory promises” and the exhaustion of the “original communist strength” that gave way to a reorientation from Mao’s emphasis on ‘continuous revolution’ to Deng Xiaoping’s ‘reform and opening up’. Per capita grain output as a measure both of nutrition standards and leeway for industrialization had stagnated<sup>14</sup> and when many Chinese officials joined delegations to tour the world under Mao’s designated heir Hua Guofeng, they found how far China’s material development lacked behind.<sup>15</sup> This sentiment combined with the lost hope in the revolution’s promises laid the ground for China’s reorientation towards a primacy of economic development and efficiency. Only when China gave up on achieving revolution in the present and instead pursued a rationalization of its economy did Mises’ claim of the impossibility of a rational socialist economy become pertinent to China’s economics discourse.

A shift to a more orthodox version of historical materialism prepared the return of Mises and the Socialist Calculation Debate to China. The paradigm of reform turned Mao upside down. Mao had rejected Lenin’s claim that the “transition from capitalism to socialism will be more difficult for a country the more backward it is.” Against this Mao stated: “Actually, the transition is less difficult the more backward an economy is.”<sup>16</sup> The doctrine of reform returned to the logic of Lenin’s dictum: In the words of the leading party intellectual Su Shaozhi the “less developed the country, the more difficult the transition from capitalism to socialism.”<sup>17</sup> It follows from this that economic development is essential for the transition to socialism. The immanent ideological shift of the first years of reform encompassed a rejection of the Cultural Revolution line that saw the main task to achieve socialism in revolutionizing the relations of production. Achieving higher levels of development of the relations of production, would in turn lead to a progress of the forces of production. The shift from revolution to reform meant that this causality was reversed. Now all emphasis was on developing the forces of production. As a result of this logic of economic determinism, the relations of production no longer needed to be revolutionized in their own right. Instead, they had to be redesigned to best advance the

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<sup>14</sup> Robert Ash, “Squeezing the Peasants: Grain Extraction, Food Consumption, and Rural Living Standards in Mao’s China,” *The China Quarterly* 188(2006): 959-998.

<sup>15</sup> Hua Sheng, Luo Xiaopeng and Zhang Xiejung, *China: From Revolution to Reform* (Houndmills and London: Macmillan Press, 1993), 23.

<sup>16</sup> Mao Zedong, *A Critique of Soviet Economics* (New York and London: Monthly Review Press, 1977 [1967]), 50. For a discussion of this text and Mao’s critique of Soviet orthodoxy see Maurice Meisner, “The Advantages and Burdens of Backwardness: Some Reflections on Maoism and Marxism at the Close of the Maoist Era,” *Asian Thought and Society* 2:1 (1977): 40.

<sup>17</sup> Su Shaozhi, “Response to Commentary, 15 January,” *Bulletin of Concerned Asian Scholars* 20:1(1988): 31.

forces of production which was in turn argued to be the most effective way to move towards socialism.<sup>18</sup>

In these first years of reform, Mao's theories of class struggle under socialism and of continuous revolution, his impatience and overestimation of man's will were singled out as gravely mistaken, utopian and unscientific.<sup>19</sup> This assessment was codified in the official 1981 'Resolution on certain questions in the history of our party since the founding of the People's Republic of China'.<sup>20</sup> Jing Rongben, in an early contribution on the Socialist Calculation Debate in China's leading economics journal, *Economic Research* (经济研究),<sup>21</sup> implicitly shows that the fundamental ideological reorientation of the *Resolution* laid the ground for Mises' relevance to China's reforms. He argues it was undeniable that contradictions emerged in the Soviet-inspired economic model of public ownership, central planning and distribution according to labor. According to Rong, there were two interpretations of the emergence of such contradictions. The first stresses that the relations and forces of production are co-developing and sees contradictions as result of remnants of capitalism and bourgeois thought in socialist society. This would long have been the Soviet perspective. The second view admits the possibility of a contradiction between Soviet-style relations of production and the development of the forces of production and argues for a plurality of socialist economic systems which reflect different historical conditions. Rong stresses that this second view was sanctioned by the Chinese Communist Party in the 1981 *Resolution*. This interpretation would necessitate comparative economic systems research to adjust China's economic model to its stage of historical development. The study of comparative economic systems, in Rong's eyes, was importantly shaped by the Socialist Calculation Debate that began with Mises' (1920) contribution. Against Mises' claim that a rational socialist economy was impossible since central planners could not correctly calculate all prices in the economy which left them without a reliable standard of value, Lange had posited the possibility of using the market mechanism

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<sup>18</sup> See Sun Yan, *The Chinese Reassessment of Socialism, 1976-1992* (Princeton: Princeton University Press, 1995), 184-87.

<sup>19</sup> See Maurice Meisner, *Marxism, Maoism and Utopianism* (Madison and London: The University of Wisconsin Press, 1982), ix.

<sup>20</sup> Communist Party of China, "Resolution on certain questions in the history of our party since the founding of the People's Republic of China, 1981" Retrieved from <https://www.marxists.org/subject/china/documents/cpc/history/01.htm>. For a general comparison of Mises' understanding of socialism and that expressed in the CPC's 1981 Resolution see Weber, "Origins of China's Contest Relation with Neoliberalism."

<sup>21</sup> Rong Jingben, "On the Comparative Study of Socialist Economic Models,"[关于社会主义经济模式的比较研究] *Economic Research* [经济研究]12(1981): 9-16.



to serve central planning. Thereby, stresses Rong, Lange used bourgeois economics. It follows that in China's search for a new economic model bourgeois economics constitutes a useful tool.

Rong's emphasis on the usefulness of bourgeois economics is representative of the general rehabilitation of economics in the era of reform. During the Cultural Revolution, a study of the forces of production independent of the relations of production was considered a bourgeois aberration. Economics as a discipline was largely dismissed and many economists spend years in the countryside undergoing 'reeducation' through labor or like Gu Zhun were sent to prison.<sup>22</sup> With the new primacy of economic development in the late 1970s economists and their discipline were rehabilitated.<sup>23</sup> Catching up through reform meant "making up lessons" in bourgeois economics which had previously been condemned as "capitalist poison". China embarked on a path of learning from foreign economists which involved rapidly growing exchanges.<sup>24</sup>

As the relations of production were reconceptualized under reform as tools serving the larger goal of growth and development, the question of whether the market could serve socialism rose to the top of the agenda as early as 1979. For example, at the famous Wuxi conference that year two economists of the Chinese Academy of Social Science, Zhao Renwei and Liu Guoguang, argued for the need of markets. According to them, in the past, the socialist countries had treated "economic planning and the market ... as being mutually exclusive, as if there were no place for the market in a planned economy" but "such a view" had "brought a series of disasters" to China's economy. Without making any references to the protagonists of the Socialist Calculation Debate, they suggested instead to promote free competition and the regulation of prices by supply and demand within a certain range, such as for the market mechanism to become the main means in allocating manpower, materials and funds.<sup>25</sup> Deng Xiaoping sanctioned this view some months later when he told a foreign journalist:

*It is wrong to maintain that a market economy exists only in capitalist society and that there is only [a] 'capitalist' market economy. Why can't we develop a market economy*

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<sup>22</sup> See Els van Dongen, *Realistic Revolution: Contesting Chinese History, Culture, and Politics after 1989* (Cambridge: Cambridge University Press, 2019), 123; Barry Naughton, "Editor's Introduction: Biographical Preface," in *Wu Jinglian: Voice of Reform*, ed. Barry Naughton (Cambridge: MIT Press, 2013), 107-8; Carl Riskin, *China's Political Economy: The Quest for Development since 1949* (Oxford: Oxford University Press, 1988), 163-4.

<sup>23</sup> See Lin, "The Reinstatement of Economics in China Today."

<sup>24</sup> See footnote 1.

<sup>25</sup> Liu Guoguang and Zhao Renwei, "On the Relationship Between Planning and Market in a Socialist Economy," [论社会主义经济中计划与市场的关系] *Economic Research* [经济研究] 5(1979): 47-56, author's own translation.

*under socialism? Developing a market economy does not mean practising capitalism. While maintaining a planned economy as the mainstay of our economic system, we are also introducing a market economy. But it is a socialist market economy.*<sup>26</sup>

It was to take another 13 years of intense political struggle and debate until the Socialist Market Economy with Chinese Characteristics was to become officially the designation of China's economic model. But once the question of China's political economy had been reframed in terms of the most efficient allocation of resources and the most effective advancement of the forces of production, the question *how* the market could serve as a tool towards this end under socialism became centerstage in debates among Chinese economists. This prompted exchanges with Eastern European (former) market socialists such as Włodzimierz Brus, Ota Šik and later Janos Kornai in parts facilitated by the World Bank.<sup>27</sup> It also gave rise to a fierce debate among reform economists who emphasized that China's reform path had to be carved out through experimentation on the ground improving the material conditions one step at a time, and more academic economists who sought to define a blueprint for reform in theory to be implemented in one big package.<sup>28</sup> Such a package would have importantly involved overnight price liberalization which is a key component of shock therapy as it was later implemented in other socialist countries. The economists in search of a blueprint became invested in the subdiscipline of comparative economic systems and some studied the historical Socialist Calculation Debate. In this context, Mises (1920) considered as the initiator of the Socialist Calculation Debate was frequently acknowledged as an important contributor to comparative economic systems. Mises entered China's reform debate as the economist who had posed the crucial question of whether a rational socialist economy was possible at a time when Chinese leaders had declared such a rationalization as a foremost goal.<sup>29</sup>

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<sup>26</sup> Deng Xiaoping, "Answers to the Italian Journalist Oriana Fallaci, August 21 and 23, 1980," in *Selected Works of Deng Xiaoping, 1975-1982* (Beijing: Foreign Language Press, 1984), 327.

<sup>27</sup> See Gewirtz, *Unlikely Partners*, 64-80; Liu Hong *The Eighties: Glory and Dreams of Chinese Economic Scholars* [80年代: 中国经济学人的光荣与梦想] (Guilin: Guanxi Normal University Press, 2010), pp.; Weigelin-Schwiedrzik and Liu, "Vergessene Partner im Reformprozess"; Edwin Lim, "The Opening of the Mind to the Outside World in China's Reform and Opening Process" [中国改革开放过程中的对外思想开放], in eds. Wu Jinglian, Fan Gang, Liu He, Justin Yifu Lin et al., *50 Chinese Economists Review the Last 30 Years* (Beijing: Zhongguo Jingji Chubanshe, 2008).

<sup>28</sup> Weber, "China and Neoliberalism"; Weber, *How China Escaped Shock Therapy*

<sup>29</sup> For a discussion on attempts at rationalization in China's early years of reform see Barry Naughton, *Growing out of the Plan: Chinese Economic Reform 1978-1993* (Cambridge: Cambridge University Press, 1995) 127-30.

## Rethinking the Market and Socialism: Chinese Economists' Interpretation of Mises

The first stage of China's reform was marked by the fast pace of the rural reforms. In 1984, the reform of the industrial-urban economy was officially sanctioned when the "Resolution on the Reform of the Economy System" (中共中央关于经济体制改革的决定) was approved by the Central Committee. This constituted a formal commitment by the CPC to reform China's basic economic model.<sup>30</sup> The *Resolution* declared that socialism and a commodity economy were not mutually exclusive. The reformers distanced themselves from what was labeled the 'traditional view' that socialism should supersede commodity relations and structure relations of production around use not exchange values. From now on China's planned economy should use the law of value, that is to say socialist production units should be turned into independent commodity producers taking their production decisions based on exchange values. The development of such a commodity-producing economy was declared a prerequisite for China's modernization. Yet, China's commodity economy should take a socialist form by being planned and adhering to public ownership.<sup>31</sup>

The 1984 *Resolution* was a broad-brush statement of the direction of China's reform. Clearly, it officially sanctioned a wide-ranging use of markets and the price mechanism. But the precise constitution of China's planned commodity economy, especially the relation between planning and market remained open.<sup>32</sup> Extending the dual-price system to the core of the urban-industrial economy and the introduction of a new tax system that made enterprises responsible for their own profits and losses were important new policies implemented that year. Numerous and diverse experiments evaluated by practically minded economists contributed to working out a new economic model in practice. At the same time, the *Resolution* gave impetus to a surge in theoretical studies discussing the history of thought on socialist economic models, often conducted by economists calling for the need of a coordinated market reform package.<sup>33</sup>

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<sup>30</sup> See Joseph Fewsmith, *Dilemmas of Reform in China: Political Conflict and Economic Debate* (Armonk and New York: M.E. Sharp, 1994) 137-8; Naughton, *Growing out of the Plan*, 178-80; Ezra F. Vogel, Deng Xiaoping and the Transformation of China (Cambridge MA and London: Harvard University Press, 2011) 466-7.

<sup>31</sup> Lin Zili, "Socialism and the Commodity Economy," *Chinese Economic Studies* 19:1 (1985): 65-7.

<sup>32</sup> Fewsmith, *Dilemmas of Reform in China*, 134.

<sup>33</sup> Fewsmith, *Dilemmas of Reform in China*, 163-5.

In this context, a wave of papers re-evaluated Mises (1920) and the Socialist Calculation Debate<sup>34</sup> building on earlier contributions focused on Mises' socialist adversary Oskar Lange<sup>35</sup> and Milton Friedman's interpretation of the Socialist Calculation Debate in his speeches in China.<sup>36</sup> This becomes apparent when surging for Mises (米塞斯), Lange (兰格) and economic calculation (经济计算) in China's most important scientific database China National Knowledge Infrastructure (CNKI). We can observe a general pattern with some variations in these contributions. They broadly agree that Mises' question of the possibility of a rational socialist economy poses an important and productive challenge to the attempt at developing socialist reform models. Yet, in the 1980s and early 1990s, Chinese economists rejected Mises' answer that only a private property, free market type economy could achieve a rational economic order but accepted his framing of the problem. They also tend to see Lange as too idealist and his model as unrealistic, but adopt his emphasis on the possibility of markets under socialism. The reviews of Mises and the Socialist Calculation Debate serve to call for a need to employ the tools of comparative economic systems research to develop a blueprint for China's new economic model. This constitutes a form of Hegelian "Aufhebung" where Mises' answer to his question of the possibility of rational socialism is initially rejected, yet his framing of the problem of a rational economy is retained thus pathing the way for making China's economic discourse commensurable with Austrian economics.<sup>37</sup> Let me elaborate my reading of the Chinese reform economists' interpretation of Mises based on some salient examples.

The first Chinese translation of Mises (1935 [1920]) "Economic Calculation in the Socialist Commonwealth" (社会主义制度下的经济计算) appeared in 1986 in *Comparative*

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<sup>34</sup> See for example Rong Jingben, "Thoughts on the Relationship Between Ownership and Market in a Socialist Economy: Economic Calculation in the Socialist System"[社会主义经济中所有制和市场关系的思考——谈社会主义制度下的经济计算], *Comparative Economic & Social Systems* [经济社会体制比较] 2(1986): 64, 58; Jiang Chunze and Zhang Yuyan, "Several Issues on Comparative Economic System Studies"[关于比较经济体制学的若干问题], *The Journal of World Economy* [世界经济] 10 (1987): 38-46; Guo Xibao, "Ludwig von Mises"[卢德维·冯·米塞斯], *The Journal of World Economy* [世界经济] 10 (1987): 92-93.

<sup>35</sup> See for example Zhang Zizhuang, "A Brief Introduction to Lange's Socialist Economic Model,"[兰格的社会主义经济模型简介] *Economic Perspectives* [经济学动态] 11(1979): 29-36; Jing Rongben, "On the Comparative Study of Socialist Economic Models"; Wang Hongchang, "A Brief Introduction to Lange's 'Introduction to Economic Cybernetics'" [兰格的《经济控制论导论》简介], *Economic Perspectives* [经济学动态] 11(1981).

<sup>36</sup> See Wang Liansheng, Friedman's Discussion of Market Mechanism and Centrally Planned Economy [弗里德曼谈市场机制与中央经济计划], *Economic Perspectives* [经济学动态] 11(1983). For a detailed interpretation of Friedman's speeches in China see Weber, "Origins of China's Contested Relation with Neoliberalism."

<sup>37</sup> For a detailed account of paradigm shifts in the economics discipline in China (1976-2016) see Cohen, *Competing Economic Paradigms in China*.

*Social and Economic Systems* (经济社会体制比较).<sup>38</sup> This new journal had just been founded in 1985 in response to the 1984 *Resolution*.<sup>39</sup> Driving forces and leading editors of the journal have been Zhao Renwei, author of the 1979 paper on market and plan mentioned earlier and prominent reform economists, Wu Jinglian, a reform economist in China often dubbed as “Market Wu” due to his free market radicalism, and Rong Jingben, trained in Russian studies and a scholar of comparative economic systems based at the Marxism Research Institute of the Compilation and Translation Bureau of the Central Committee. Wu and Rong had previously collaborated in an attempt to publish transcriptions of speeches by Brus and Šik during their visits to China in 1979-80 and 1981 respectively. However, the publication of the market reform proposals by these two Eastern European émigré economists was censored.<sup>40</sup> The 1984 *Resolution* created a political opening that allowed for a new push towards comparative economics meant to path the way for a radical price, tax and wage reform program launched but not implemented in 1986.<sup>41</sup> This initiative was supported by translations of foreign language texts on the relation between market and socialism, including Mises (1920).

The editor’s note introducing the translation of Mises (1920) set the tone for subsequent interpretations of the text and its implicit or explicit relevance to China. First, the editor stresses that Mises wrote his article as a critique of the planning practice under Soviet war communism. Thus, argues the editor, when Mises says socialism what he really refers to is Soviet war communism. By the mid-1980s China had largely broken with the Soviet planning model. It becomes implicitly clear that Mises’ analysis is only relevant to China as regards the question he raises on the (im-)possibility of rational socialism not the negative answer he provides. The Peking University economics professor and popularizer of marginalist economics, Yan Zhijie, made this point clear in his later analysis of Mises (1920). Yan urges that instead of dismissing Mises as a capitalist apologist, China’s reformers had to realize that his criticism concerned the

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<sup>38</sup> Ludwig Mises, “Economic Calculation in the Socialist Commonwealth” [社会主义制度下的经济计算], *Comparative Economic & Social Systems* [经济社会体制比较] 2(1986): 59-63, translated by Chen Guoxiong.

<sup>39</sup> Rong Jingben, “Review of the Launch of ‘Comparative Economic and Social Systems’: Commemorating the 30<sup>th</sup> Anniversary of ‘Comparative Economic and Social Systems’ [《经济社会体制比较》创刊回顾---纪念《经济社会体制比较》创刊三十周年], *Comparative Economic & Social Systems* [经济社会体制比较] 5(2015): 9-12.

<sup>40</sup> Wu Jinglian, Interview with Author (Beijin 2016); Liu, *The Eighties*.

<sup>41</sup> Rong, “Review of the Launch of ‘Comparative Economic and Social Systems’”; Weber, “China and Neoliberalism”; Weber, *How China Escaped Shock Therapy*.

traditional Soviet model and that Mises had anticipated some of the deficiencies that had prompted China to reform the old system.<sup>42</sup>

The editor of Mises' (1920) translation pointed out, Mises had shown that with the abolishment of commodities and money under socialism it became impossible to conduct rational calculation and thus to use planning as an efficient economic mechanism. The editor rejects Mises' stance that private ownership was a necessary condition for the market mechanism and thus for a rational economy as too extreme. Yet, Mises' question, according to the editor, had not only given rise to the Socialist Calculation Debate of the 1920s and 1930s but was worth pondering in the context of China's reform. In the 1984 *Resolution* the use of money-commodity relations under Chinese socialism had been resurrected. The editor suggests that Mises' contribution would be useful in rethinking the relation between the market and public ownership in this context. Thus, while Mises' dismissive stance on the possibility of markets under public ownership was questioned, the claim of the need for a rational economic mechanism and efficient resource allocation was accepted as relevant to the design of China's reform.

In a longer commentary on Mises (1920) published with the Chinese translation, Rong Jingben further elaborates the editor's take – which might well have also been written by him.<sup>43</sup> Confirming the Austrian market universalism, Rong asserts that all socialist countries undergoing reform would now agree on the necessity of markets. According to Rong, markets were needed not only for consumer goods and labor as in the Lange model<sup>44</sup> but also for the means of production and finance. Replicating Mises' (1920) arguments, Rong elaborates that as long as the means of production were not evaluated on the market, there was no way for prices to be rational. Implying a strong anti-egalitarian message, Rong continues that given the heterogeneity of different types of labor, it was equally impossible for labor input to be correctly valued without market competition. Finally, as long as banks were all part of one big state-owned system treating all enterprises equally, investments could not be following rational standards of efficiency and consumer demand. So, finance, too, had to be regulated by the market.<sup>45</sup>

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<sup>42</sup> See Yan Zhijie, "Market Economy and Socialism: Recollection of a Historical Debate" [一场值得回顾的关于计划与市场的论战], *Journal of Peking University (Philosophy and Social Sciences)* [北京大学学报(哲学社会科学版)] 30(1993): 92-99, 128.

<sup>43</sup> See Rong, "Thoughts on the Relationship Between Ownership and Market in a Socialist Economy."

<sup>44</sup> See Rong, "On the Comparative Study of Socialist Economic Models."

<sup>45</sup> See Rong, "Thoughts on the Relationship Between Ownership and Market in a Socialist Economy."

Having established the necessity for complete markets in full agreement with Mises, Rong turns to the question of ownership. He suggests that a discussion based on Mises' contribution was needed not only on whether markets are compatible with socialist public ownership but also on whether there might be superior markets without public ownership. Rong asseverates that China must stick to socialist public ownership but hastens to add that this cannot mean pure public ownership. In reality, China would already practice mixed ownership forms including individual and private enterprise as well as foreign capitalist investment. Rong ends his comment on the note that ultimately the essence of public ownership was to facilitate the accumulation of wealth in society whereas the purpose of socialist reform was to build a more efficient economic system. This is very much in line with the Dengist dictum of the time that "poverty is not socialism" and that "the fundamental task of socialism is to develop productivity" (Fewsmith 1995, 207). In Rong's Austrian inspired interpretation, socialism is reduced to a tool for economic growth and all egalitarian ambitions and communist visions of a life without alienation are discarded. In sum, Rong has stretched his endorsement of Mises to the maximum attainable degree in a journal published by the Central Compilation and Translation Bureau under the political circumstances at the time. The only remaining difference between Rong and Mises, is Rong's stress on mixed rather than pure private ownership.

Rong might have been the most sympathetic interpreter of Mises at the time. For example Jiang Chunze in an article co-authored with Zhang Yuyan presents a more cautious or subtle interpretation.<sup>46</sup> Jiang, a prominent scholar of the Soviet Union and Eastern Europe had just returned from being a visiting scholar at the University of Illinois, the University of Berkeley and the Woodrow Wilson International Center where she would have encountered the research frontier in economics and comparative economic systems. Jiang and Zhang couch their analysis of Mises in a broad call for the use of the tools of comparative economic systems in China's economic system reform debate. Their article provides what was likely to be the most comprehensive history of thought account of the socialist calculation debate in Chinese to that date covering Pareto, Barone, Taylor, Hayek and Robbins, and Lange. Against the background of the larger debate, they criticize Mises for suggesting that there is only one possible form of socialism modeled on the Soviet war communism. In contrast, the experience of socialism over half a century, they argue, had demonstrated that in reality there is a plurality of models with multiple arrangements of public property. Yet, they emphasize the importance of Mises' framing of the problem: his insight that economic calculation was necessary for

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<sup>46</sup> See Jiang and Zhang, "Several Issues on Comparative Economic System Studies."

rational resource allocation has proved to be profound and should guide China's reform. In order to develop its own efficient system, China should employ the tools of comparative economic systems and move away from the old way of focusing on "isms", i.e. capitalism versus socialism. For Jiang and Zhang and China's proponent of comparative economic systems more broadly, Mises serves to reframe the question of the reconstitution of China's political economy as a technical problem to be solved with the modern tools of marginalist economics rather than the reading of classics in Maoism-Marxism-Leninism or fieldwork evaluating policy experiments.

While Mises is predominantly considered by Chinese reform economists for his contribution to the socialist calculation debate, some first contributions also appear in the second half of the 1980s on his larger body of work. For example, Guo Xibao of the Wuhan economics department surveyed Mises' theories of money and the business cycle, his anti-Keynesianism and his study of human behavior.<sup>47</sup> Guo stresses Mises' influence in the West in light of the decline of Keynesianism and the new rise of liberalism but comes to the conclusion that Chinese economists don't have much to learn from Mises. Another example is the Chinese translation of a Japanese article titled "Is Free Science Possible?" that introduced discussions on the methodological and epistemological foundations of Mises' work including the notions of praxeology and introspection and his rejection of positivism.<sup>48</sup> But clearly, the greatest interest aroused Mises' work on the impossibility of rational socialism.

Most Chinese commentators dismissed Lange's model as too idealist and thus not useful for China's purposes of reform. Yet, the evaluation of Mises' contribution by most Chinese economists is in agreement with that of Lange. Xiao Xin quotes Lange to this end:<sup>49</sup>

*Socialists have certainly good reason to be grateful to Professor Mises, the great advocatus diaboli of their cause. For it was his powerful challenge that forced the socialists to recognise the importance of an adequate system of economic accounting to guide the allocation of resources in a socialist economy.*<sup>50</sup>

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<sup>47</sup> Guo, "Ludwig von Mises."

<sup>48</sup> K. Saeki, "Is 'Free Science' Possible? On Objectivism and Subjectivism in Economics"[自由的科学"可能吗?——关于经济学上的客观主义与主观主义], *Social Sciences Abroad* [国外社会科学] 6(1986): 27-31.

<sup>49</sup> Xiao Xin, "The Lange Model and Its Theoretical Significance" [兰格模式及其理论意义], *The Changbai Journal* [长白学刊], 3(1987): 61-64.

<sup>50</sup> English translation as in original. See Oskar Lange, "On the Economic Theory of Socialism," *Review of Economic Studies* 4:1 (1936): 53.



By accepting Mises' framing of the problem of socialist economic systems, an influential fraction of Chinese reform economists made China's market reform debate commensurable with Western mainstream economics and the global neoliberal economic hegemony. Market socialists like Lange and his successors like Brus and Kornai thereby served as a bridge, consciously introduced to China by the World Bank for precisely this purpose.<sup>51</sup>

## **Paving the Way for the Socialist Market Economy with Chinese Characteristics**

In 1986 and again in 1988 initiatives launched first by Zhao Ziyang and then by Deng Xiaoping to liberalize the prices of essential means of production and labor combined with far-reaching tax and financial reform failed.<sup>52</sup> If successful, these reform pushes would have constituted a big policy step towards the Mises-inspired vision articulated by Rong. Despite the failure of these major policy initiatives, in 1987 a renewed ideological re-articulation of the nature of Chinese socialism moved Chinese reform ideology further in Mises' direction. At the Thirteenth National Congress of the CPC party general secretary Zhao Ziyang officially announced that China was in the primary stage of socialism. This concept had initially been rejected by the reform leaders as heresy when articulated by Su Shaozhi and Feng Lanrui.<sup>53</sup> In 1987, declaring China to be in the primary stage of socialism meant that China's so-called economic backwardness served as justification to further lift constraints on private ownership and the market. On this basis, Zhao Ziyang promoted dropping "planned" in the designation of China's economy and to move to a socialist commodity economy without further qualifications.<sup>54</sup> Around that time and in the context of this renewed thrust towards more comprehensive marketisation, Murray Rothbard claims: "The Mises Institute...where I'm vice president, got a message from the Chinese Embassy in Washington DC that they wanted all the works of Ludwig von Mises, they want to figure out how to desocialize."<sup>55</sup> But the collapse of first price and then social stability in 1988 and the political upheaval of 1989 led market reforms to grind to a halt.

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<sup>51</sup> Edwin Lim, Author Interview (London, 2016).

<sup>52</sup> Fewsmith, *The Dilemma of Chinese Reform*, 220-26; Vogel, *Deng Xiaoping and the Transformation of China*, 469-73; Weber, *How China Escaped Shock Therapy*.

<sup>53</sup> Su Shaozhi and Feng Lanrui, "The Question of the Stages of Social Development," *Economic Research* [经济研究] 5(1979): 14-19.

<sup>54</sup> Sun, *The Chinese Reassessment of Socialism*, 74-80.

<sup>55</sup> Murray N. Rothbard, "The Current State of World Affairs," Speech at the 1989 Texas State Libertarian Conference, retrieved from: <https://mises.org/library/current-state-world-affairs>. I would like to thank Quinn Slobodian for providing this source.

In 1990, market reformers faced with the challenge to relaunch their agenda mobilized interpretations of Mises and the Socialist Calculation Debate. The newly appointed director of the State Commission for Economic System Reform, Chen Jinhua, was a convinced advocate of the need for the market to liberate and develop China's productive forces.<sup>56</sup> Chen required a theoretical analysis to justify his political agenda. He asked Jiang Chunze, then deputy head of the Economic System Division of his commission to compile a review of the international debate and experience of the relation between plan and market.<sup>57</sup> Drawing on her earlier work, Jiang now revisited her evaluation of the Socialist Calculation Debate to argue that both the market and planning were neutral means of resource allocation. As such they could not be the defining feature of socialism or capitalism. Further, 20<sup>th</sup> century history, according to Jiang, had shown that market economies were superior in enhancing productive forces. Thus, since a planned economy was not a requirement for socialism, China was best advised to transform its economic system from a planned to a market economy.

Jiang recapitulates Mises argument that rational prices constitute a necessary condition for an efficient economy and could only be achieved by the market. In contrast to Lange, who saw the market as a trial and error mechanism to serve the plan, Jiang argued for a full-fledged market economy as the basic means of resource allocation. She pushes Lange's idea of market socialism to a new level. If socialism can use the market to aid planning, it can also use it as fundamental economic mechanism. This would not prevent China from also using macroeconomic planning, Jiang insists. Keynesians and Neoliberals – in Jiang's view – had come to agree that the modern market economy is not a pure laissez faire economy and that some extent of intervention was required. Hence, there was no reason that China could not also combine a market economy with macroeconomic planning and that this would be socialist by virtue of liberating China's forces of production.<sup>58</sup>

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<sup>56</sup> Chen Jinhua, *Eventful Years: Memoirs of Chen Jinhua* (Beijing: Foreign Language Press, 2008), 277; Chen Jinhua, "Remembering the Fermentation and Establishment of the Socialist Market Economy" [回顾社会主义市场经济体制的酝酿和确立], *Finance and Economics* [财经] 27(2012).

<sup>57</sup> See Jiang Chunze, "On an Internal Report about Plan and Market" [关于计划与市场的一份内部报告], *China Reform Forum* (中国改革讨论网): retrieved from: [http://people.chinareform.org.cn/J/jiangchunze/Article/201303/t20130304\\_161859.htm](http://people.chinareform.org.cn/J/jiangchunze/Article/201303/t20130304_161859.htm); Jiang Chunze, Author Interview (Beijing 2016).

<sup>58</sup> See Jiang Chunze, "Plan and Market in the context of the History of Global Debate and Recent Experience" [计划与市场在世界范围内争论的历史背景和当代实践], A Briefing Report to the State Commission for Restructuring the Economy by the Deputy Head of the Foreign Economics System Division, submitted on September 30, 1990, first published in *Reform* [改革], 2(1992).

Chen was impressed with Jiang's succinct argument in line with his marketisation agenda and shared her report with Jiang Zemin who had replaced Zhao Ziyang as General Secretary of the CPC in 1989, Premier Li Peng, and Deng Xiaoping who all endorsed the review and added it to the reference material for the upcoming Seventh Plenary Session of the 13<sup>th</sup> Party Central Committee. On the eve of this important Plenum, Deng Xiaoping called a meeting with party leaders and basically endorsed the message of Jiang Chunze's report. Deng is quote to have said:

*We must get clear theoretically that the difference between capitalism and socialism does not lie in planning or market" and may "not think that we are following the capitalist road for developing a market economy. ... Both planning and market are needed. If we do not have a market, we cannot get information from the world and that would be to resign ourselves to a backward status... .<sup>59</sup>*

Deng failed to gain the Central Committee's support for his line at this time (Vogel 2011, 667-8). Several new articles delivering interpretations of Mises and the Socialist Calculation Debate in ways compatible with Jiang Chunze's report appeared in 1990-1992.<sup>60</sup> When Deng launched his Southern Tour in 1992, preparing the return to his vision of market reform, he reiterated his earlier statement echoing Jiang's report.<sup>61</sup> In October 1992, the 14<sup>th</sup> CPC National Congress took the formal decision to establish a Socialist Market Economy with Chinese Characteristics. Jiang Zemin explained this new leading concept. His words once more resonated with Jiang Chunze's and others' 'anything goes' solution to Mises' framing of the problem of rational socialism:

*Whether the emphasis was on planning or on market regulation was not the essential distinction between socialism and capitalism. This brilliant thesis has helped free us*

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<sup>59</sup> See Chen, *Eventful Years*, 292; Jiang Chunze, "'The Background and Far Reaching Influence of Deng Xiaoping's

Southern Speech" (邓小平南方谈话的背景和深远影响): *China Reform Forum*, online: [http://www.chinareform.org.cn/Explore/fruition/201203/t20120309\\_136276.htm](http://www.chinareform.org.cn/Explore/fruition/201203/t20120309_136276.htm). (2012).

<sup>60</sup> See for example Q. B. Yang, "Several Issues on the Socialist Planning vs Market Debate in the Twenties and Thirties," [关于二三十年代社会主义计划与市场大论战的若干问题] *Journal of Shaanxi Normal University (Philosophy and Social Sciences Edition)* [陕西师大学报(哲学社会科学版)] 20(1991): 16-22; Z. J. Yan,

"Market Economy and Socialism: Recollection of a Historical Debate,"[一场值得回顾的关于计划与市场的论战] *Journal of Peking University (Philosophy and Social Sciences)* [北京大学学报(哲学社会科学版)] 30(1993): 92-99, 128.

<sup>61</sup> Chen, *Eventful Years*, 292-3.

*from the restrictive notion that the planned economy and the market economy belong to basically different social systems, thus bringing about a great breakthrough in our understanding of the relation between planning and market regulation.*<sup>62</sup>

The Fourteenth Congress also further eroded the primacy of public ownership and stressed the need for diverse ownership forms and equal competition between state and non-state competition thereby legitimizing foreign and private ownership.<sup>63</sup> To be sure, the CPC maintained its ultimate primacy in all affairs, including the economy, and its own logic of economic governance distinct from the global neoliberal mainstream.<sup>64</sup> But by the early 1990s, China had come a long way from Mao's agenda of continuous revolution in the direction of Mises' emphasis on rational allocation and the superiority of the market economy.

## Conclusion

A large wave of scholarly interest in Mises' whole body of work and Austrian economics swept China in the late 1990s. This by far outsized the early reform era engagement with Mises I have analyzed in this essay. Neoliberal thinking gained wide-spread traction when privatization had moved to the top of China's policy agenda and the Chinese government negotiated accession to the World Trade Organization. Rather than focusing on this big tide that has received some recent scholarly attention,<sup>65</sup> this essay analyzes how in the first long decade of reform and opening up the intellectual and ideological foundation of China's economic system was reconstituted in ways that made China's economics discourse commensurable with the global mainstream.

In the 1930s, Wang Yanang diagnosed that there were only two possible results when applying Austrian economics to China's reality: positivist exceptionalism and metaphysical universalism. The genealogy of the Socialist Market Economy with Chinese Characteristics in this essay leads us to read China's market reforms as an attempt to reconcile precisely these two tendencies. On the one hand, China's reformers have subscribed to the universalism of the market economy as only viable form of rational economic organization and as without

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<sup>62</sup> Jiang Zemin, "Full Text of Jiang Zemin's Report at 14th Party Congress, 1992," online: [http://www.bjreview.com.cn/document/txt/2011-03/29/content\\_363504.htm](http://www.bjreview.com.cn/document/txt/2011-03/29/content_363504.htm), last updated March 29, 2011.

<sup>63</sup> Sun, *The Chinese Reassessment of Socialism*, 19.

<sup>64</sup> Weber, "China and Neoliberalism."

<sup>65</sup> See for example Dongen, *Realistic Revolution*, 120-1; Liu Junning, "Classical Liberalism Catches on in China," *Journal of Democracy*, 11:3(2000): 48-57; Karl, *Magic of Concepts*, 160-5; Wang Hui, *China's New Order* (Cambridge and London: Harvard University Press): 96-115.

alternative in China's attempt to escape backwardness. As such, they have fully embraced both Mises' insistence on the need for a rational economic mechanism and efficient resource allocation as well as his claim that this could only be achieved by a market economy. Yet, the reformers stress China's exceptionalism and reject Mises' necessity of universal private property as unfounded idealism not compatible with Chinese reality. China's reformers have made wide-ranging concessions but ultimately stand firm that China's socialist ambition and specific historical circumstances require a plurality of ownership relations with a leading role for public ownership. The tension between this embrace of market universalism and insistence on Chinese exceptionalism continues to this day and provides a lens that can help us understand some of the continuing contradictions in China's relation with global neoliberalism.