China is found both to be neoliberal and to provide an alternative to neoliberal development. To illuminate the origins of this contradiction, this paper analyzes China’s relationship with neoliberalism from a historical and economic theory perspective. Neoliberal economic thinking became relevant to China with the beginning of reform and opening up in 1978, when the Communist Party moved from Maoism to an economic determinist outlook on socialism. This ideological shift opened the door for exchanges with the World Bank and foreign economists, including neoliberals. Yet an analysis of Milton Friedman’s speeches in China reveals a critical divide: the Chinese reformers embrace the market but deny that the market requires universal private property. Thus, China is integrated into the global market while the Chinese state reserves its rights to control the economy.

INTRODUCTION

China’s relation with neoliberalism as a mode of economic governance is contested and contradictory. Scholars and activists on the left criticize China for its neoliberal authoritarianism. Neoliberals celebrate China’s growth success as a result of market reforms, yet they attack China for its incomplete reforms, its interventionist state, and a lack of compliance with the liberal international order. At the same time, development economists with an industrial policy mission see China’s developmentalist state as a challenge to the quintessentially neoliberal Washington Consensus.

In this essay, I explore the ideological shift in China in the late 1970s from Maoism to economic developmentalism to trace the origins of this contradictory relation between China and global neoliberalism. Drawing on my reading of Ludwig von Mises’s rejection of the possibility of a rational socialist order in conjunction with key Chinese party documents, I argue that the primary of economic development and growth of the reform era integrated China into neoliberal globalization and gave rise to strategies of neoliberal governmentality. Yet my study of the arrival of Western economists and the World Bank in China brings out critical differences between China’s market reforms and the neoliberal economic policy paradigm. The Chinese state has maintained control over the direction of the economy in ways that contradict the neoliberal vision of state-market relations. Thus, China has been integrated into global neoliberalism while not pursuing a neoliberal economic policy.

Let me spell out how my historical argument in this paper helps us to make sense of the contradictory state of the literature on China’s being neoliberal or not. China is found to be (non-)neoliberal on several grounds that can be traced back to the shift from Maoism to economic developmentalism in the late 1970s. As I show, this shift resulted in the primacy of economic efficiency and growth and the rejection of late Maoism’s emphasis on permanent revolution. The reformers replaced the Maoist slogan of revolutionizing social relations with the idea of making up lessons from capitalism in order to achieve historical progress through market reforms. Consequently, a technocratic policy agenda became dominant, and China became amenable to what Foucaultians call neoliberal governmentality (see, e.g., Sigley 2007; Zhang and Ong 2008). From a related perspective, China’s developmentalism, economism, and transitionism represent a “linguistic hegemony” of neoliberalism (Hui Wang 2003). A broad range of studies on a wide range of empirical phenomena find China to be neoliberal in this sense.

The reform era’s emphasis on economic growth also has reintegrated China into the arguably neoliberal global regime of capital accumulation, and with this integration, class divide and income inequality have been growing rapidly (see, e.g., Harvey 2007; Hart-Landsberg and Burkett 2005; Schmalz and Ebenau 2012). Yet China is under constant attack for disobeying the rules of the game of neoliberal globalization. China has not implemented the quintessentially neoliberal policies of the Washington Consensus and unlike Russia escaped shock therapy (Weber 2020). China has not pursued the core policies of full-fledged price, trade, and financial liberalization and privatization (see, e.g., Liew 2005; Lo 2009, 2016). In fact, some go so far as to claim that China has established an alternative develop-
development model to the Washington Consensus (Horesh and Lim 2017), a Beijing Consensus (Huang and Cui 2005; Ramo 2004). China’s economic policy is not congruent with neoliberal economics, and China’s rise has contributed critically to what Ilene Grabel (2017) has conceptualized as “productive incoherence” undermining the global hegemony of the neoliberal policy paradigm. In this essay, I trace the historical origins of this Chinese policy defiance from neoliberalism by analyzing differences between neoliberal policy prescripts and the Chinese reform agenda.

MISES’S NEOLIBERALISM AS LIBERAL NEGATION OF MARXISM AND SOCIALISM

In order to understand the relation between China’s Communist Party state and neoliberalism, it is useful to reconsider how neoliberals have historically reacted to and critiqued Marxism and socialism. Marxism and the rise of socialism were key for the formation of the neoliberal school of thought in the interwar period. This is reflected in the great number of writings on socialism by some of the founding fathers of neoliberalism and in the importance of the Socialist Calculation Debate (SCD). I conduct a brief reading of Mises’s ([1922] 1962) critique of socialism and Marxism in his classic Socialism: An Economic and Sociological Analysis. This serves to later derive the radical difference between Marxism and neoliberalism, on the one hand, and the partial convergence between China’s reform thinking and neoliberalism, on the other.

For Mises ([1922] 1962, 13) “whether or not socialism should supplant the market economy” is the “great ideological conflict of [his] age.” Key to this statement is the incompatibility of the market economy with socialism. Mises defines all those as socialists “who consider the socialist order of society economically and ethically superior to that based on private ownership of the means of production” (26), whereas liberals are those “who see the only possible form of economic society in an order based on private ownership of the means of production” (26–27). Hence, Mises creates a dichotomy between a liberal market economy based on private ownership and a socialist society.

“Marxists” are for Mises “all who have accepted the basic principles—that class conditions thought, that Socialism is inevitable, and that research into the being and working of the socialist community is unscientific” (16; emphasis added). Mises’s goal is to defend liberalism against a socialist onslaught by debunking Marxism. He writes to demonstrate the superiority of a liberal order to win the decisive “battle of ideas” (507). Against the principle of “class conditions thought,” Mises seeks to establish the “possibility of a general science which is valid for all men, whatever their class” (30); against the principle “that socialism is inevitable,” Mises holds that “[capitalism is the only conceivable form of social economy which is appropriate to the fulfillment of the demands which society makes of any economic organization” (220); and finally, against the principle “that research into the being and working of the socialist community is unscientific,” he conducts extensive research on the “economics of a socialist community” in order to prove the “impracticability of socialism” and the inferiority of socialist production (109, 451).

Mises asserts that, for Marxism, socialism is both “the end towards which economic evolution leads with the inevitability of a natural law” (29) in the course of the development of the productive forces as well as the “aim of its political effort” (29). But since he claims to have shown that a rational socialist organization is impossible, socialism cannot be the highest state of progress in his view. Progress for Mises is “the extension of the division of labour” (299). According to Mises, it is this extension of the division of labor that socialism is incapable of managing in a rational way.

Therefore, “class war” from Mises’s viewpoint is not a progressive force but seeks “to destroy the social division of labour within a nation” and is “anti-social” (310). Socialist revolutions destroy the evolution of the division of labor altogether while at the same time failing to manage a rational division of labor. For Mises and other leading neoliberal thinkers of his time, the evolution of the division of labor is not limited to the scale of the nation (Slobodian 2018). Instead, trade unites the globe, and “[w]hoever advocates the economic self-sufficiency of nations and states, seeks to disintegrate the oecumenical society” (Mises [1922] 1962, 310). In sum, any collective formation of political forces pursuing aims other than to protect the evolution of the global division of labor is perceived as regressive, and “since socialist society is not a possibility every step towards it must destroy society” (Mises [1922] 1962, 497).

To finally prove that any political force that is not subordinate to the logic of the distinct economic sphere is regressive, Mises accuses Marxists trying to shape the course of history by collective political action of having misinterpreted Marx: “Marxism describes Capitalism as the inevitable preliminary to Socialism, and looked forward to the new society only as the result of Capitalism’s fruition. If we take our stand on this part of Marx’s theory . . . then the policy of all the parties that claim Marx’s authority is quite non-Marxian. The Marxians ought to have combated everything that could in any way hinder the development of Capitalism” (Mises [1922] 1962, 497). So not only is socialism impossible, according to Mises, but in his view, even for Marxists who believe in the possibility of socialism, it could be reached only by fostering capitalism—that is, the evolution of the division of labor.

ECONOMICS BECOMES KEY TO CHINA’S POST-MAO PATH TO SOCIALISM

In the era of economic reform since 1978, the conception of historical progress has been redefined in China as economic development. Economics as a “general science” in Mises’s sense became key. China has given up on a class standpoint in academic work and on class struggle as the moving force in history. The universalization of the division of labor became instead the dominant principle. In these regards, China’s reformers are in accordance with Mises. Yet they insist on the possibility of rational socialism and reject the neoliberals’ primacy of private property. This becomes appar-

3 With regard to the development of the productive forces, Mises ([1922] 1962, 347) quotes Marx’s preface to A Contribution to the Critique of Political Economy: "a social order never succumbs until all the productive forces of which it is capable are developed, and new and higher conditions of production never replace it until the old society itself has conceived within its womb the material conditions of their existence."
ent through a close reading of the Chinese Communist Party’s official reevaluation of the history of the People’s Republic and the emergence of the doctrine of the initial stage of socialism.

With the accession of Deng Xiaoping to the leadership in 1978, the period of the Cultural Revolution and the Great Leap were condemned as wasted years (Feuchtwang and Hussain 1983, 2), and Mao’s thought was divided into an early phase of great insight and a late phase of great errors. 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 (Chang 1982, 16; Meisner 1982, ix). 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” (Communist Party of China 1981).

The resolution holds that the late Mao was wrong when he said that the “contradiction between the proletariat and the bourgeoisie remained the principal contradiction” in China’s socialist society. His belief would have been even more erroneous when Mao asserted that “throughout the historical period of socialism” the potential of revisionism would make a “cultural revolution” necessary—that is, “a great political revolution in which one class would overthrow another, a revolution that would have to be waged time and again” (Communist Party of China 1981).

What is instead correct, according to the resolution, is what had been decided at the Eighth National Congress of the Party, held in September 1956: “the principal contradiction within the country was no longer the contradiction between the working class and the bourgeoisie but between the demand of the people for rapid economic and cultural development and the existing state of our economy and culture” (Communist Party of China 1981). Therefore the “whole nation” had to “concentrate all efforts on developing the productive forces, industrializing the country and gradually meeting the people’s incessantly growing material and cultural needs.” The way forward, according to the resolution, was to acknowledge that the Chinese revolution “has entered the period of peaceful development,” a “very long historical period” that would require China to “act in accordance with objective economic and natural laws, . . . under leadership, step by step,” while maintaining national “independence and self-reliance” (Communist Party of China 1981).

In sum, the Chinese Communist Party (CCP) declared in its 1981 government work report, “The core issue is to improve efficiency in production, construction, distribution, and other aspects of the economy in every possible way.” The emphasis on efficiency favored “specialized units and division of labour” while at the “level of the individual worker, specialization and division of labour meant a strictly enforced individual responsibility system with emphasis on individual material incentives” (Zhuo 2009, 164). This emphasis on greater social division of labor was a radical break with Mao’s “many-workshops” approach, in which each unit and locality was meant to be largely independent of others and to distribute resources for itself (Zhuo 2009, 7). The embrace of the social division of labor moved the Chinese reformers closer to Mises and enabled China’s integration into globalization. The new paradigm of “opening up” broke with Mao’s approach, under which “[i]nternational markets were regarded as economically anarchic systems from which China’s domestic economy should be insulated” (Nolan 1990, 7). Now, an integration into the global division of labor was instead regarded as beneficial to China if managed in the right way.

The economic determinism already immanent in the primacy of economics became even more explicit in the party doctrine of the initial state of socialism as sanctioned in Premier Zhao Ziyang’s report to the Thirteenth National Party Congress, in 1987.” Zhao (1987) declared: “Our country is at the initial stage of socialism. . . . The assumption that we could bypass the initial stage of socialism without immense development of productive forces is utopianism.

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5 Nolan (1990, 4) points out that China had found already during the first Five Year Plan (1953–57) that in light of the impossibility of planning all decisions from the center, there was a need for “a great deal of detailed planning . . . to be done at lower administrative levels, with only the simplest exchange of major commodities occurring between regions.” This would have reinforced the pressures toward regional and sectoral self-sufficiency. He estimates that in the late 1970s, 56 percent of industrial output was produced in small-scale, mainly urban state-run plants.
6 This goes back to earlier contributions conceptualizing the idea of a primary stage of socialism by Yue Muqiao ([1978] 2011) as well as Su Shaozhi and Feng Lannui (1979). See Fan (2018, 62–63) for a detailed record of how this concept became influential in the 1980s.
The fundamental task of socialist society is to develop productive forces. At the initial stage, in order to get rid of poverty and backwardness, the center of all of our work should be the development of productive forces."

Mao (1977, 50) thought China’s "backwardness" was advantageous in the struggle to achieve socialism and that "the less developed the economy, the easier, instead of the more difficult, the transition from capitalism to socialism." This relation has been overturned under the paradigm of reform. Now, the doctrine is the "less developed the country, the more difficult the transition from capitalism to socialism" (S. Z. Su 1988, 31). More fundamentally, whereas in Mao's perspective progress was both a political act and aimed at economic development, for the reform leadership, progress becomes a function of economic development. The Chinese state ideology has converged toward Mises's fatalist understanding of Marxism propheysing socialism as the fruition of economic development whereas any political force that is not subordinate to that development is regressive. For both Mises and the Chinese leadership, historical progress is economic development.

The crucial difference between Mises and the Chinese primary stage of socialism is, however, that for the Chinese reformers, the leadership by the Communist Party and the strategic importance of public ownership remain vital to economic progress. The Chinese reforms rely on market interventions, and state guidance is key to China's strategy for economic development. In contrast, for Mises and for neoliberals more broadly, the spontaneous interaction of individuals in possession of private property is the only rational organization of the economy. The role of the state is to safeguard the market, not to intervene in it. Critically, Chinese state ideology is also opposed to Mises's rejection of the "basic principle" of the "inevitability of socialism." For the Chinese reformers, the scientific development of the productive forces will eventually lead to mature socialism in some distant future. For neoliberals like Mises, rational socialism remains impossible.

FOREIGN ECONOMISTS AND THEIR CONTRIBUTION TO THE REINSTATEMENT OF ECONOMICS IN CHINA

It is against the background of economics having been identified by the Chinese leadership as key to China's advance in history that the introduction of the most modern economic science became a political priority. No exception was made for neoliberal economists and economics. Since economics had previously been widely neglected as bourgeois social science, the reinstatement of economics was perceived as a task of "catching up" and required China to "open the minds" to the outside world. This opening up the mind should include all ideological orientations. Deng Xiaoping himself actively called for cooperation with foreign economists and stressed the importance of economic science for China's development (Gewirtz 2017; Weber 2020). The aim was for China to begin keeping abreast of state-of-the-art economics independent of its politics.

In the next two subsections, I explore two examples to show how the process of bringing Chinese economics to the "state of the art" of modern mathematical economics was supported by foreign institutions and economists and how this involved integrating China into "the numerous and transnational linkages and dimensions of neoliberalism" (Plehwe 2009, 2). I look at how the World Bank provided economic expertise to the Chinese government and give an overview of the exchanges between the American Economic Association (AEA) and the Chinese leadership and economic research institutions.

THE WORLD BANK ARRIVES IN CHINA

Edwin Lim, responsible for the World Bank's economic work in China from the time when the People's Republic resumed its seat in 1980 until 1990, reports that Deng Xiaoping told the president of the World Bank, Robert McNamara, during their meeting in 1980: "China has decided to realize modernization and economic development. With the help of the World Bank we can implement these goals faster and more efficiently; without the help of the World Bank we could still do it, but we would need more time" (Lim et al. 2008, 27–28). For China, the bank was viewed more as a source of technology, knowledge, and information than as a lender (Tidrick 2005, 5; Wood 2016). The World Bank celebrates, in its commissioned Brookings history, the work with China as "one of the most successful interactions... with a borrower" and describes the bank's role of the first few years as "primarily a didactic one of educating a cadre of senior Chinese officials in new economic ideas and technical systems" (Kapur, Lewis, and Wills 1999, 24). To this end, the World Bank organized two important conferences, the Moganshan Conference in July 1982 and the Bashanlun Boat Conference in September 1985; published two reports on China's economy in the same years; and funded the rebuilding of China's higher education curriculum in economics (Gewirtz 2017; Lim 2014; Vogel 2015, 55–76; Weber 2020).

China's opening to outside economic thinking started with exploring Soviet and Eastern European reform theories. The Eastern European reform ideas were similar to the works by China's own pioneers of socialist reform such as Sun Yefang and Gu Zhun dating back to the 1950s and 1960s (Weber 2020). Several Chinese delegations were sent to Yugoslavia, Hungary, Romania, and the Soviet Union in the late 1970s and early 1980s (Weigelin-Schiewedzik and Hong 2020). But of even greater interest to the Chinese leadership and economists were those pioneers of market socialist reforms from Eastern European countries who had left their socialist home countries after their reform experiments were aborted. They now lived and worked in the West. While being disillusioned with the prospects for socialism, they nevertheless combined concrete experience in socialist reform experiments with knowledge of modern economic theory.

In December 1979, Wlodzimierz Brus, a Polish economist who was then professor at Oxford University, visited China (Lim et al. 2008; Liu 2010, 280). Before Brus was removed from his posts in 1968, he had been professor of economics at Warsaw University, head of the department of economic research of the Planning Commission and vice-chairman of the State Economic Council, and "a close colleague of the late Professor Oskar Lange" (Dobb 1973, viii). He positioned his work on markets in a socialist economy explicitly in the tradition of the SCD and was diametrically opposed to the neoliberal stance of Mises and others (Brus 1972, 12–61). Two years later, in 1981, Otto Šík, then professor in St. Gallen, former Czech vice-premier and economy minister, who led the economic grounds for the Prague Spring of 1968 and became famous for theorizing a "third way" between Soviet socialism and capitalism, was also invited to China (Wu et al. 1982, 45; Kosta 1990). Both Brus and Šík's lectures were met with great enthusiasm by Chinese politicians and economists (Weber 2020) Inspired by the discussions, Wu Jinglian and Liu Guoguang approached Edwin Lim and requested that the World Bank organize a conference to invite more Eastern European reformers to China (Lim et al. 2008).

The World Bank met this request by hosting the Moganshan Conference. This was the first conference orga-
nized by the World Bank in China. It had to be held under the radar of the public in China and abroad. Both its top-
ic—price reform—and its participants were politically too sensitive. Some of the delegation members were dissidents from other socialist countries who had not set foot on so-
cialist soil since they fled to the West. Brus led the dele-
gation of economists, including Julius Struminski (Poland),
Jiri Kosta (Czechoslovakia), and Peter Kende (Hungary) as well as the American expert on socialist economies David
Granic. Chinese participants included Xue Muqiao, Liao Jili, and Liu Zhuofu, who all reported to the State Council
(Lim et al. 2008; Wood 1982; Weber 2020).

Edwin Lim (2008, 2016) recalls that the Eastern European
reformers introduced the use of modern economic tools to
analyze the problems of a centrally planned economy. But
more importantly, the conference was meant to make the
Chinese economists consider that China’s economic prob-
lems might not be due to specific policy mistakes but were
systemic problems of a planned economy and, as such,
could be met only by economic system reform.

In parallel to China’s discussions on Eastern European
and Soviet reform ideas, the World Bank conducted eco-
nomic investigations for two reports, which Lim argues
have introduced “modern mainstream economic theory” to
China. The first report, released in 1981, was compiled be-
cause China was applying for credits from the bank. The
World Bank history holds that the first report “became a primer for senior Chinese officials” (Kapur, Lewis, and Webb
1997, 24), and the second report was drafted on demand by
the Chinese leadership (Lim et al. 2008; Lim 2016; Wood
2016). The bank’s evaluation of the impact of the second re-
port suggests that Premier Zhao Ziyang ordered the seventh
Five-Year Plan to be revised based on the World Bank’s rec-
ommendations (Lu 2005, 2).

Besides the lead authors, Edwin Lim and Adrian Wood,
and several contributing authors, Brus was a consultant for
both reports. The Hungarian reformer János Kornai—a key
proponent of shock therapy in Eastern Europe—also con-
tributed to the 1985 report as a consultant (Lim and Wood
1985, xi). Both reports are rich in statistical analysis of Chi-
nia’s economy and are cautious about being largely in line
with the agenda of the Chinese government at the time.
Their main contribution was to introduce a new way of eco-
nomic reasoning.

The first report finds, for example, that “[t]he future of
economic reform in China . . . does not lie simply in an ex-
pansion of the role of the market economy, but in the ex-
ceptional nature of the plan. Indeed, without more effective planning of macroeco-
nomic variables and major investment decisions, many of
the prospective benefits of reform will be lost. The most
fundamental need is for medium to long-term economy-
wide planning” (World Bank 1983, 1:20). Effective planning
would, in turn, require the Chinese planners to be trained
in statistics and economics. The second report states that
“China’s ultimate economic objective is to catch up with the
developed countries, while maintaining a socialist system”
(Lim and Wood 1985, 1). It advocated efficiency gains that
could be achieved by moving from self-sufficiency to greater
division of labor and trade, enhancing the incentives for en-
terprises by introducing profit orientation, as well as by in-
creasing the role of market forces and more rational prices
(Lim and Wood 1985, 1:21, 172; Vogel 2015, 485).

A year before the release of the second report, the Chi-
nese leadership introduced an important move toward a
market economy with the establishment of a “commodity
economy with planning” at the third plenum of the Twelfth
National Party Congress (Naughton 1995, 179). China was
breaking away from the model of Soviet-type planned econ-
yomy.

In 1985 Edwin Lim was once more approached to orga-
nize a conference with foreign experts hosted by the World
Bank in China. This time, the topics suggested for discus-
sion by the Economic System Reform Commission were
based on the premise of a market economy, and the main
challenge was how to manage it. The three proposed areas
of inquiry were as follows: first, approaches to how the
state could manage a market economy; second, questions
regarding the transition from a centrally planned to a mar-
etomy; and third, international experiences in in-
tegrating planning with the market.8 The Nobel Memorial
Prize in Economics winner James Tobin; Keynes’s student,
monetary economist, and influential policy adviser Sir Alec
Cairncross,9 and the former director of the Bundesbank and
monetary conservative Otmar Emminger10 were invited to
speak on the first matter; the latter two were also invited to
speak on the second matter together with Brus and Ko-
mai. Michel Albert, former director of the French national
planning authority; the Yugoslav reform economist and pri-
vatization proponent A. Bajt;11 and the Korea expert Leroy
Jones covered the third area. The Chinese participants were
from the first generation of revolutionaries, a middle gen-
eration, and some young economists who were to become
very influential later in their careers, including Lou Jiwei,
the recently retired minister of finance and current chair
of the National Council for Social Security Fund, and Guo
Shuqing, currently chair of the China Banking Regulatory
Commission.12

In the context of what some considered an overheating
economy, increasing inflation, and China’s ongoing move
toward a market economy, the main lessons of the confer-
cence concerned monetary and fiscal tools used in capital-
ist countries to smoothen economic cycles. So, if the East-
ern European economists at the Moganshan Conference had
laid the groundwork for using modern economic tools by
showing their application to socialist economies, and the
two World Bank reports introduced the application of mod-
ern mainstream economics to Chinese data, the Bashanlun
Conference provided access to some of the leading econo-
mists at the time who were shaping global discussions on
economic policy-making, including proponents of a neolib-

7 The reports were World Bank (1983) and Lim and Wood (1985).
8 A selection of conference papers was published in Chinese in Economic System Reform Research Conference (1986).
9 See Weber (2020) for a discussion of the relationship between Cairncross’s role in the United Kingdom’s gradual transition from a largely
planned war to a more market-based peace economy and his stance on the right policies of transition.
10 See Gray (2007) on Emminger’s role in Germany’s turn to a floating currency and its global impact.
12 Other important participants included An Zhiwen, Xue Muqiao, Ma Hong, Liu Guoguang, and Tong Dalin (older generation), and Gao
Shangquan, Wu Jinglian, Zhao Renwei, and Xiang Huacheng (middle generation). Many of their writings have been published in transla-

Global Perspectives
eral big bang in price reform such as Kornai (Weber 2019, 2020).

EXCHANGES WITH THE AMERICAN ECONOMIC ASSOCIATION

The exchange between economists working in Western Europe and in the United States was not limited to that facilitated by the World Bank. Members of the AEA also organized joint activities with Chinese researchers and actively contributed to the reform of China’s economics curriculum, partly supported by the World Bank. This curriculum reform laid the foundations to make China’s economics teaching and research compatible with the increasingly neoliberal mainstream in the decades to come.

Gregory C. Chow played a vital role as chair of the AEA’s Committee on U.S.-China Exchanges (Chow 1994, 61; Perkins 2016). Chow was a student of Milton Friedman in the 1950s and emphasizes the great influence Friedman had on his thinking (Chow 2016). He attended classes by Tjalling Koopmans, proponent of a “pre-institutional theory of allocation of resources” (Koopmans 1976, 216) applicable both to market as well as to planned economies. He studied under Jakob Marschak, director of the Cowles Commission for Research in Economics (1943–48), one of the founding fathers of modern econometrics and a Menshevik in his early years in Kiev (Arrow 1991). Chow also participated in Hayek’s methods class while at Chicago together with Gary Becker (Bernanke 2001). In the 1960s he was a “major economic advisor to Chiang Kai-Shek” (City University of Hong Kong 2018) and later to Chiang Kai-Shek’s son Chiang Ching-Kuo (Friedman 1990).

Chow (1994) reports the AEA’s China activities of the 1980s and emphasizes the strategic importance of shaping economics education in China: “What kind of economic institutions China will have in the twenty-first century depends partly on the nature of economics education in Chinese universities today” (Chow 1994, 59). The efforts of AEA members range from summer workshops and year-round graduate training courses run by American economists in China, to programs for Chinese students to study in the United States, to active engagement in the reform of the economics curriculum at Chinese universities and the drafting of textbooks for Chinese students.

The year 1984 was important for the reform of economics in China: the Chinese university economics curriculum started to include non-Marxian economics, and microeconomics became a core component (Chow 1994, 40–47); the Ministry of Education started annual national examinations in economics and mathematics for scholarships sponsored by the Ford Foundation, the receiving American universities, and the Chinese government to undertake graduate studies in economics in the United States (Chow 1994, 41–43); finally, Premier Zhao Ziyang invited Chow to discuss economic reform and economics education (People’s Daily 1984). The meeting was broadcast on national TV and reported on the first page of People’s Daily to underscore the official endorsement of American economics in China. After this meeting, Zhao Ziyang hired Chow as well as the Hong Kong–based “third generation representative of the Chicago School” (Horn and Klaes 2011, 180) and member of the Mont Pelerin Society Steven Cheung as economic advisors (Zhou 2008, 88).

During that same meeting, Zhao endorsed the publication and distribution of a Chinese edition of Chow’s introductory economics textbook The Chinese Economy, based on the example of China’s institutions (Chow 1994, 40–41). A more comprehensive textbook reform was to follow. In the course of another curriculum extension recommended by an international panel of economists sponsored by the World Bank and implemented by the Chinese State Education Commission in 1987, new university textbooks were written in Chinese with the support of American economists. 13

In addition to the activities explicitly targeted at educational reform, American and Chinese economists cooperated to organize an increasing number of academic workshops throughout the 1980s. The earliest event mentioned by Chow was held in August 1981 on economic development. It was organized jointly by the Social Science Research Council and the Institute of Economics of the Chinese Academy of Social Sciences. The eminent Chicago economist D. Gale Johnson led the delegation and was joined by Gary Becker, later president of the Mont Pelerin Society (1990–92), Anne Krueger, Gustav Ranis, Joseph Stiglitz, and others (Chow 1994, 40).

These exchange events were complemented by Chinese publications of the writings of American economists. For example, in 1980 the Science and Technology Review was founded to translate American academic publications into Chinese for wide circulation. Contributors from the AEA included Kenneth Arrow, Milton Friedman, and Lawrence Klein. One of China’s most authoritative economics journals, Economic Research (Jingji yanjiu), also started publishing articles by American economists as well as edited volumes of Chinese translations such as Essays on the Economies of China and Other Developing Countries by Foreign Economists (1982).

FRIEDMAN IN CHINA, OR ANOTHER ROUND OF THE SOCIALIST CALCULATION DEBATE

The World Bank’s and AEA’s activities included but were by no means limited to the engagement of neoliberal thinkers. 14 Neoliberals came to China as part of a broader push for scientific economics that was considered key in the reformers’ program of catching up. Within this broader context, Milton Friedman’s visits to China are important symbolic events for the introduction of neoliberalism to China’s economic thinking. As Friedman (1990) 15 describes in Friedman in China, 17 he and his wife, Rose, were invited to China first in 1980, sponsored by the Committee on Scholarly Communication with the People’s Republic of China and the

13 The core courses for economics majors now included micro- and macroeconomics, development, comparative economic systems, statistics, computer applications, public finance, money and banking, international trade and finance, and accounting, along with Marxian economics (Chow 1994, 54).
15 For example, Arrow, while being one of the foremost neoclassical economists of the twentieth century, gave a speech in 1978 arguing “[a] cautious case for socialism.”
16 The foreword to Friedman in China is by Y. C. Richard Wong, chairman of the MPS 2014 organizing committee for the meeting in Hong Kong.
Chinese Academy of Social Sciences, and second in 1988 to attend a conference on China’s reforms jointly organized by the Cato Institute and Fudan University in Shanghai. A considerable number of the speakers at this conference were either Friedman’s fellow Mont Pelerin Society members or closely linked to the society’s work.18 On the occasion of the 1988 Cato conference, Friedman was awarded an honorary professorship at Fudan University (Crane 1990, ix). During both visits, Friedman gave lectures at several universities. On the second trip, Friedman was also received by General Secretary Zhao Ziyang for a two-hour conversation on China’s reforms.

In 1980 Friedman lectured on "How to Use Market Mechanisms in Connection with Central Planning" and in 1988 on "Using the Market for Social Development."19 These two lectures can be considered Friedman’s contribution to the SCD in the Chinese context. The SCD was revived in China in the early 1980s, when the central question was how to organize China’s socialist economy more efficiently by combining planning with market elements, and when the ideas and experiences of Eastern European market socialism were being widely discussed.

In the original SCD, in the 1920s and 1930s, Robbins (1954) and Hayek ([1935] 1963) retreated to a "second line of defense" (Lange 1936, 55) in relation to Mises’s claim of the impossibility of a rational socialist economy and reduced the problem of central planning to one of practicality, not of abstract possibility. In comparison, Friedman in China retreats to a third line of defense against the "Lange-Lerner Approach." The following is Friedman’s summary of this defense: "The idea is to formulate the end results of the operation of a free market and to translate those results into instructions to managers of state enterprises about how to run the enterprises. . . . in a free competitive market prices tend to equal marginal cost, that is, the cost of producing an extra unit. Accordingly, Lange and Lerner would have the authorities instruct managers of state-run enterprises to set the prices of their products equal to marginal cost" (Friedman 1990).

In Mises’s view, it is the task of the planner to equate marginal costs and prices, which he thought impossible. For Hayek and Robbins, such an equation would be possible in theory but not feasible in practice. Lange and Lerner suggest that under a centrally planned economy, the equation of marginal costs with prices could still be done by individual enterprises in the way it is done under capitalism.

Friedman attacks the Lange-Lerner solution by arguing that managers of state-run enterprises could not be motivated in the same way as managers of private companies to actually achieve this equation: "The managers investing the capital would not be investing their own funds or the funds of identifiable persons as whose agent they were operating. They would be investing state funds. . . . in a system in which managers of state enterprises are told to behave as if they were profit making entrepreneurs, what incentive do they have to monitor themselves? Government officials will seek to monitor them, but what incentives do those officials have to monitor them properly? And how can they have the information to monitor them?" So, for Friedman, the essential drawback of the Lange-Lerner type of market socialism is the lack of private property relations. Friedman observes that "[v]arious forms of this system have been tried . . . in many countries—in Poland, in Czechoslovakia, in Hungary, and in Romania." But the results "have uniformly disappointed the hopes of the sponsors of the reform." Like Mises, Friedman rejects the possibility of a market economy without private property.

But, sensing that in 1980 privatization was not quite on the Chinese agenda yet, Friedman gives his argument a twist when he comes to the implications of his analysis for China: "for enterprises which remain state enterprises, the Lange-Lerner rule . . . nonetheless indicates the direction in which you should seek to go." Hence, Friedman is in agreement with Brus, Šik, and the World Bank in the early 1980s that a move toward market socialism would be an improvement in comparison to the status quo. Friedman continues: "Make enterprises responsible for their own behaviour, set them targets in generalized terms, in terms of profits or money, rather than in terms of specific physical outcomes." He thereby speaks not only to the household responsibility system introduced not long before his lecture but also to a debate on the need to base accounting on value instead of on physical categories going back to Sun Yefang’s (1982) work of the 1950s.

At the time of Friedman’s second visit to China, important steps had been taken toward a socialist market economy. At the Thirteenth Party Congress in October 1987, General Secretary Zhao Ziyang reported: "Planning work must be based on commodity exchange and the law of value. The direct management method that relies primarily on compulsory plans does not correspond to the development of the socialist commodity economy. . . . Overall, the new system must be one in which ‘the state adjusts the market, and the market guides the enterprise’" (as in Naughton 1995, 203; emphasis added).

Hence, the elements that Friedman had identified as beneficial in the Lange-Lerner approach had already become state doctrine at the time of his second lecture on the use of the market. But there is a fundamental disagreement between Zhao and Friedman regarding the role of the state. Friedman finds it impossible for the state to adjust the market while the market guides the enterprise as Zhao suggests. Instead, "The state is organized from the top down; the market, from the bottom up. The two principles are incompatible. The state can control part of the economy, and the market part, but the combination Zhao describes is not feasible." For Friedman, the control of the market itself by the state is impossible. For the Chinese reformers, the state control of the market is essential.

In light of China’s gradual move toward the market, Friedman advocates privatization even more vigorously against any type of market socialism during his second visit. Almost paraphrasing Hayek, Friedman writes: "The market is simply a mechanism that may be mobilized for one pur-
place or another. . . . Using or not using the market is not the crucial distinction. Every society, communist, socialist, social democratic, purely capitalist, call it what you will, uses the market."

Up to this point Friedman finds himself—consciously or not—in full agreement with Deng Xiaoping (1983), 20 who stated as early as 1979: "It is wrong to maintain that a market economy exists only in capitalist society and that there is only 'capitalist' market economy. Why can't we develop a market economy under socialism?" 21 But Friedman continues: "The crucial issue is not market or no market, the crucial issue is private property or no private property." And the issue of private property is a crucial issue of disagreement between the Chinese line of market reform in the late 1980s and Milton Friedman.

In their conversation, Zhao Ziyang replies to Friedman's call to "replace centralized government controls of the economy and state enterprises by decentralization and private control" that the People's Congress would already have passed "a law allowing the development of private enterprise." They would now aim to "introduce a shareholding system so that ownership rights in state enterprises will be clearly defined" as well as to separate "the ownership rights and enterprise management rights." This approach would be inspired by the success of the township and village enterprises. "Their property is not privately owned, but it is clear who owns the property. It belongs to the village or township government." And Zhao adds, "Of course, I cannot say which has more vibrancy, their system of ownership or the system of private enterprise in the West" (Friedman 1990).

The answer to the question whether "the only possible form of economic society" is "an order based on private ownership of the means of production," which Mises had found to be the defining characteristic for someone to be socialist or liberal, turns out to also be a fundamental division between the Chinese market reformers and Milton Friedman in the 1980s, even though the permission of private enterprise begins to blur the line. The reformers had come a long way from Mao's understanding of socialism toward being socialists in Mises's sense, and they had embarked on a path toward the large-scale privatizations of the 1990s. Yet the private free market was not embraced as being without alternative. They had not given up on a state that not only intervenes in the economy but actively guides economic development.

CONCLUSION

We have seen that the destiny of the Chinese socialist project has been subsumed under the primacy of economic development in the era of reform and opening up. In pursuit of economic progress, China has become part of the global economy and the neoliberal order. Socialism has been postponed to a distant future while the imperative in the present is for "backward" China to "catch up" and "make up the lessons" that were missed by skipping the full fruition of capitalism. For Deng Xiaoping, there was no alternative to reform. The primacy of the economic seemed inescapable in light of the desperate material conditions for the masses of the rural population thirty years after the revolution.

The imperative of catching up economically has moved the reinstatement of economics as a science to the top of the agenda of the Chinese leadership from the earliest years of reform onward. The World Bank and individual economists such as Gregory Chow as well as the AEA were instrumental in relinking China to the global networks of the economics profession. Market socialist thinking and thinkers—such as, for example, Brus and Šík—were important in introducing neoclassical economics to China by subscribing to the notions of Paretoian rationality, efficiency, and optimality. Their role as intellectual bridge builders between state socialism and the mainstream of economics at the time also becomes apparent in Friedman’s appraisal of the "Lange-Lerner approach" as a desirable "second best" if full-fledged, free private markets are politically not feasible.

China has gradually embraced the market as an important coordinating mechanism for the increasing degree of domestic social division of labor. However, by insisting on the capacity of the state to guide the market and by resisting the privatization of key strategic industries, a big bang approach, and the liberalization of foreign exchange, China has at the same time powerfully opposed the neoliberal policy paradigm. Departing from the Maoist emphasis on local self-sufficiency, the reformers have reintegrated China's vast resources into the global division of labor and have thereby integrated China into neoliberal globalization. But this integration is based on the premise of being controllable and controlled by the Chinese state and the CCP. The Chinese reform paradigm that emerges in the first decade of reform is marketization under the primacy of the state and not of private property. The market and private property are meant to serve the state's developmentalist agenda. This form of marketization has reintegrated China into neoliberal globalization without, however, pursuing a wholesale adaptation of neoliberal economic policies.

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20 Friedman seems to be closer to Deng Xiaoping on this point than to Margaret Thatcher. The latter visited China in 1991 and is remembered by Chen Jinhua (2008, 516), then minister of economic system reform, as having expressed the view "that socialism and the market economy were incompatible and that socialism could not develop a market economy, which required the building of a capitalist system and privatization."

21 Deng later refined this view when he stated on the eve of the Seventh Plenary Session of the Thirteenth Party Central Committee: "We must get clear theoretically that the difference between capitalism and socialism does not lie in planning or market" and "do not think that we are following the capitalist road for developing some market economy. There is nothing of the kind. 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" (Chen 2008, 292). Deng expressed precisely the same notion again during his famous Southern Tour in January to February 1992: "Whether to have more planning or more market is not the essential difference between socialism and capitalism," he said. "Planned economy does not mean socialism. Capitalism also has plans. Market economy does not equate to capitalism. Socialism also has market. Planning and market are both economic means" (Chen 2008, 292–93).
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