

BOOK REVIEW
Isabella M. Weber,
*How China Escaped Shock Therapy:
The Market Reform Debate*
(Routledge, 2021)

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Liberal economic pundits of the Anglosphere, typically found inhabiting the pages of journals like *The Economist*, often struggle to make sense of China's economic success, given its apparent "failure" to adhere to the established and generally accepted rules of economic governance which have long dominated in the US-led liberal world order. Bedrock institutions of the Chinese economy which have continued since the Mao years – the importance attached to state-owned enterprises and the persistence of collective land ownership in the countryside, to name just two – are routinely accounted for on the basis of the excessive power and influence of "Party ideologues." We can simply assume – so goes this line of thought – that policies such as these which are foundational to China's economic form, but which buck global liberal norms, are rooted in warped, ideological thinking – perhaps vestiges of the PRC's early years under the thumb of Stalin.

Such depictions are so common among the China-watching commentariat that it is both refreshing and enlightening to read Isabella Weber's book on the intensely-fought market reform debates of the 1980s among Chinese policymakers. Her account is based on rigorous research and detailed analysis of the opposing positions in these debates and their evolution over time. It also includes an impressive number of interviews with prominent first-hand participants. Weber's central concern is with the debates over what was referred to then as "package reform" – subsequently, and more famously, following the Russian experience, known as "shock therapy" – a sudden lifting of state regulations over the economy which, as Weber demonstrates, is really centred on the lifting of price controls. The logic is

based, in large part, on the belief that a sudden, comprehensive release of state controls would – via the mythical Smithian *invisible hand*¹ – lead, spontaneously, through natural trading interactions between individuals freed from state interference, to the bottom-up emergence of functioning markets.

Shock therapy's implementation in Russia in 1991 led to devastating inflation, plummeting living standards, and profoundly shaped the form of Russia's economy and society, for the worse, over the ensuing decades (see the alarming graphs in Weber's book on pages 2, 3 and 7). China came perilously close to implementing a very similar programme, in both 1986 and 1988. The book tells the story of how, on both occasions, more cautious Chinese reformers promoting a gradual move towards the market managed to defeat the proponents of shock therapy and thus sway China's leading decisionmakers away from its implementation. Along with the intensive discussions of economic analysis, the narrative is at times grippingly dramatic. With the Russian catastrophe in hindsight, we now know just how much could have been at stake.

While taking both sides of the debate seriously, Weber compellingly presents those advocating for the application of the one-size-fits-all neoliberal doctrine of shock therapy to China's socialist economy as misguided by idealism and orthodoxy. Those who warn against it, based on careful empirical analysis and surveys of China's existing institutions and social conditions, are the ones rooted in reality. China's reforms succeeded, not so much because the reformers opened up to supposedly more 'rational' Western economic modes of thought – the

tale we are usually told – but because of the ways they resisted. Thus, Weber turns the dominant narrative of the lead-up to China’s gargantuan economic success on its head.

In the book’s set-up, Weber skilfully deflects any preconceptions readers might have brought to the issues at hand about how the market reforms were primarily an exercise in Chinese thinkers *learning established truths from the capitalist West*. The three opening chapters, taken together, serve to deliberately reconfigure this framing. In Chapter 1, we are taken back to early Chinese debates on the role of the state and its relationship to the market dating from the Warring States period. This, Weber takes pains to point out, is not to show us that there is some essential, monolithic ‘Chineseness’ which continues to shape the minds of Chinese policymakers up until today. On the contrary, it is to demonstrate that Chinese policymakers already had a rich historical reservoir of intellectual resources to draw on in thinking about – and arguing about – the appropriate role of the state in the market.

In Chapter 2, Weber further rebuts any assumptions readers might have that controlling prices is “quintessentially Chinese, traditional, or premodern” (pp. 42-43) – or indeed, socialist – by examining the debates over price controls in that quintessentially capitalist state, the US, during and immediately after World War Two. This chapter, likewise, serves as a reminder that the neoliberal framework of assumptions which has, in recent decades, dominated economic thinking globally, is itself just one, historically contingent, version of what American economic thinking looks like. This cleverly serves to demote, in the reader’s mind, the status of Milton Friedman when he arrives in China a few decades later.

In Chapter 3, Weber provides an account of the success of the Communist revolutionaries in the newly established PRC following the devastating civil war which had destroyed China’s integrated market system and brought about hyperinflation. At that time, the veteran revolutionaries successfully reined in the runaway inflation and utilized market dynamics to recreate a functioning and cohesive economy, factors which played a crucial role in establishing the legitimacy of their fledgling regime.

This experience profoundly shaped the thinking of Chinese policymakers during the 1980s and, as is apparent from Weber’s account, gave them a justified sense of authority over their international advisors.

The main narrative of the price control debates in the 1980s runs from Chapters 5 to 8. We watch as the various competing intellectual alliances – consisting of both revolutionary veterans and young students – form, evolve, and struggle to influence the pivotal decisionmaker Premier Zhao Ziyang, and through him, Deng Xiaoping. Throughout, Weber shows how the different groups draw support from historical experience, contemporary on-the-ground surveys, and/or a host of high-profile foreign advisors including from Eastern Europe, West Germany, the US, UK and Latin America. Weber drives home with force that this is by no means a contest between modernizing market proponents and backward Communist ideologues – everyone involved agrees on the need for change. The question is how?

The book can be read as an account of the run-up to the violent tragedy of Tiananmen Square 1989. The climax comes on page 252, with the announcement on state TV and in the *People’s Daily* that radical price liberalization is imminent, leading to panic buying, bank runs, and worker unrest – a spiralling movement which ultimately led to the demonstrations in the Square. Three years later, determined to push on with his former plans for liberalisation, Deng embarked on his Southern Tour. By this point, however, Weber argues that the gradual, step-by-step market reforms had deepened sufficiently that the catastrophic “big bang” witnessed in Russia did not take place – only a “small bang” (p. 269) of limited social disruptions insufficient to crash the entire economy. China’s economy had been saved – and so began its meteoric rise.

This book can also be read as a historical salvaging of the crucial role played by the gradualist reformers. As Weber makes clear towards the end, following June 1989, after which a disgraced Zhao Ziyang was placed under house arrest, the role of these reformers in safeguarding China’s economy was all but erased from the historical record. Many were exiled or imprisoned, while key figures among the shock

therapy proponents went on to have long lasting and high-profile careers, celebrated as modernizers in both Chinese and non-Chinese accounts of the reforms – a distorted historical record, written and validated in the context of neoliberalism’s international triumph after the fall of the Soviet Union.

There are three questions I would like to address to the author. First, a key moment of the debates was the Bashan Boat conference, held in 1985 and jointly organized by the World Bank. This conference played a key role in swaying China’s leaders towards the implementation of shock therapy, which almost took place in 1986. Despite the many prominent proponents of gradualism among participants in the ongoing market reform debates, none of them were invited to the conference – a fact which, as you point out on page 194, was quite remarkable. Why do you think this was the case, and was this commented upon by any of your interviewees who had been involved in the debates at the time? Was this a sign that shock therapy was already the favoured position at the top of China’s leadership? Or was this perhaps due to World Bank influence in the conference organization? Surely it was not just an oversight? In your view, does this tell us something more broadly about the overall balance of power among the various debate participants, which perhaps presaged the triumph of the shock therapy proponents after 1989?

Second, Wang Hui, in his well-known account of the move towards more radical forms of liberalisation

after 1989,² suggests that a group of special interests played a key role. This group consisted of the material beneficiaries of the earlier forms of limited marketization and, in many cases, of the corruption resulting from the dual track pricing system. These people, Wang argues, were able to utilise their high-level connections to the state to successfully push for more radical forms of marketization in order to safeguard their gains. Are you persuaded by Wang’s account – or was China’s economic trajectory during the 1990s more a result of Deng Xiaoping finally getting what he wanted all along once opposition had been suppressed? In other words, how much was the brief period of 1989-1992 a moment of real historical possibility open to contestation, or was the path already set by the pre-determined preferences of those at the very top?

Finally – in an era of the Sino-US trade war, rising nationalisms and protectionist movements, and increased forms of state support during the era of Covid, the dominance of neoliberalism as an ideology may, perhaps, be on the way out. In this sense, your book is very timely. To what extent do you see your book as not just a historical account of China’s reforms, but as a critique of the neoliberal doctrine more broadly? Internationally, what lessons do the Chinese debates of the 1980s hold for us today?

¹ A widely held axiom among liberal economists based, in fact, on an unfortunate misreading of Adam Smith. See Weber, p. 6.

² Wang Hui, “The Year 1989 and the Historical Roots of Neoliberalism in China,” *positions* 12:1 (2004): 7-69.

Response

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I would like to start by thanking the reviewer for her thoughtful reading of my book and for distilling how my argument diverges from accounts that see marketization as a wholesale convergence with the neoliberal economic model.

My book is focused on the question of big bang price liberalization as the decisive shock in shock therapy. Universal market prices are a key tenet of neoliberal economic thinking. Market exchange from this perspective is the only way to facilitate social relations in a rational manner and this requires free and undistorted prices as the all-encompassing signalling system.¹ To be sure, private property is an important condition for markets to work in the neoliberal worldview. However, as I show in my book, leading neoliberals like Milton Friedman were prepared to accept transitional public ownership as a second best as long as market reforms meant wholesale price liberalization as the first decisive step. In contrast, in China the most essential prices for production and human livelihoods have continued to be actively steered and stabilized by the participation of state institutions in specific markets.² As such, China's economic governance has diverged in critical ways from the neoliberal model.

With this in mind, let me turn to the question raised by the reviewer whether my book constitutes a critique of the neoliberal economic model. In some sense, my book connects the Chinese experience to Alice Amsden's dictum of "deliberately getting relative prices 'wrong'" in her argument for a state-guided development model.³ Amsden wrote at a time when the Washington Consensus was on the rise. My book has been published when what Ilene Grabel calls "productive incoherence" has given way to development thinking beyond the hegemony of the Washington Consensus.⁴ Unearthing the non-neoliberal economics of China's growth trajectory is another nail in the coffin of the Washington Consensus. To be sure, this is not to say that I am

suggesting that development economics should follow a Beijing Consensus as a new doctrine. Instead, I have been arguing that the Chinese experience suggests the need for countries to carve out their own path based on a careful understanding of past experiences (foreign and domestic, successes and pitfalls), local circumstances and a creative mobilization of both development planning and markets as tools of economic governance. The big lesson is that there is no magic fix and that development is treacherous.

But the implications of my argument that under certain circumstances universal market prices are not necessarily the best economic policy reach beyond development economics. As the reviewer points out, I develop this point among other cases based on the American price control experience during World War II and its aftermath. Without intention, I have lived through some sort of an "experiment" that illustrated how daring it is for an economist to challenge the theoretical proposition of universally free prices. On December 29, 2021, *The Guardian* published an opinion piece in which I pointed out that the White House Council of Economic Advisors (CEA) had suggested that the inflation pressures that occurred in the course of reopening after the pandemic-induced shutdowns resembled to some extent those after World War II. Based on my book, I reminded my readers that in the historical constellation invoked by the CEA the leading representatives of the economics profession in the United States across various schools of thought had insisted that selective price controls could be one useful tool among others to fight inflation. The reactions to my piece could hardly have been more hostile and culminated in a global (social) media storm involving some of the leading representatives of the economics profession today. These "knee-jerk reactions" – to use Dani Rodrik's words⁵ – illustrate how squarely the idea of state interference in specific prices sits in opposition to neoliberalism. This is not to say that in practice many Western states exert a

considerable degree of administrative control over prices.⁶ But it is a breach with the economics paradigm to make this practice explicit and point to its potential usefulness for economic stabilization, even when the argument is explicitly limited to the challenges of widespread bottlenecks in times of overlapping emergencies.

The important question raised by the reviewer regarding Wang Hui merits an essay in its own right. Let me just briefly note that Wang Hui's emphasis on the emergence of special interest groups and corruption as a result of the marketization process is not inconsistent with my account. I argue that the dual-track price system unleashed new dynamics initially at the margins of the system but eventually these dynamics became so strong that the core was transformed.

On the role of the Bashan Conference and the question of who was invited, I think this is in parts incidental and in parts an expression of an emerging sociological divide between different groups of reformers. There were economists who had strong

aspirations to join the international scholarly community of economics and who gravitated to the World Bank and other international institutions; there were others who were primarily occupied with applied questions and were more drawn to survey research than theoretical inquiries. But there is no sharp dividing line and there were more than two groups even though this simplified categorization holds some truth from the angle of the kind of economics they subscribed to. The Bashan Conference is to some extent a symbol for the arrival of a new kind of economic expertise in China. The group picture of the conference participants gives about as much space to the pool as to the people in the picture – some of them quite famous such as the Nobel Memorial Laureate James Tobin. This illustrates the importance of the setting. China's economists are being welcomed to the global gentlemen's club.

¹ I further explain the centrality of free prices to neoliberal economics in Isabella M. Weber (2018) "China and Neoliberalism: Moving Beyond the China Is/Is not Neoliberal Dichotomy." In D. Cahill, M. Cooper, and D. Primrose (Eds.), *SAGE Handbook of Neoliberalism* (pp. 219–233). London: SAGE; (2020) "Origins of China's Contested Relation with Neoliberalism: Economics, the World Bank, and Milton Friedman at the Dawn of Reform." *Global Perspectives*, 1(1), 1–14. <https://doi.org/10.1525/gp.2020.12271>; (2022)

"Neoliberal Economic Thinking and the Quest for Rational Socialism in China: Ludwig von Mises and the Market Reform Debate." *Journal of the History of Ideas*, 83(2), 333–356.

² On this point also see Isabella M. Weber and Hao Qi (2021) "China's State-Constituted Market Economy: A Conceptual Framework." University of Massachusetts Amherst,

Department of Economics Working Paper Series Nr. 2022-01. Online:

https://scholarworks.umass.edu/econ_workingpaper/319/.

³ Alice Amsden (1989) *Asia's Next Giant: South Korea and Late Industrialization*. Oxford: Oxford University Press, 139–156.

⁴ Ilene Grabel (2017) *When Things Don't Fall Apart: Global Financial Governance and Development Finance in an Age of Productive Incoherence*. Cambridge: The MIT Press.

⁵ Dani Rodrik (2022) "Inflation Heresies, Project Syndicate," January 11. Online: <https://www.project-syndicate.org/commentary/correct-policies-to-fight-inflation-depend-on-context-by-dani-rodrik-2022-01>.

⁶ Official Eurostat data suggests that on average 13 per cent of prices are administered prices in the EU.