

Seeking Truth from Facts and Figures Only? The Logic of Economics and China's Miracles

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Abstract

“Let a hundred flowers bloom; let a hundred schools of thought contend” is an iconic dictum of the early Maoist era, when the free speech was nominally encouraged in order to determine intellectuals to debate and develop socialism, though soon proved to be some perverse strategy to encourage the self-signalling of the too critical stances on the system and to ease their shutting up. The Deng Xiaoping’s U-turn consecrated the “seeking (of) truth from facts”, marking a process of gradually finding the right path towards the “socialism/capitalism with Chinese characteristics” and since then a worldwide competition among the explanations for the “successfulness” or “sustainability” of China’s transformations has spurred in the academic community of social scientists. Nowadays the Chinese unique hybrid model is under siege, with the turmoil installed in its financial markets calling for explanations of whether too much capitalism or too much socialism/interventionism is responsible for this. Our paper will propose a scrutiny of the theories standing behind Chinese realities, calling for a strategy we named “seeking truth from principles”.

Keywords: China, communism, capitalism, central planning, free markets, crisis

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1. Introduction

Consulting the specific literature, perhaps the most striking thing – beyond the problem of insufficient or unreliable data (Koch-Weser 2013) on the economic status of one of world’s most intriguing economies – is economists’ low concern to explicitly judge the Chinese economic regime, that is somehow under the famous dictum attributed to Deng Xiaoping: “It doesn’t matter whether a cat is white or black, as long as it catches mice”. Analyses and debates on this subject have been made, but thorough, detailed studies, if truth be told, to convincingly clarify the economic structure of this country are still very scarce. There is a valid need for in depth investigation of this area that otherwise enjoys so much interest in the communities of scholars and practitioners in economics and business. “Seeking

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truth from facts” previously needs a painstakingly responsible cleaning of the intellectual lenses.

Up to now, the majority of research studies have somehow converged in showing that the most appropriate term to describe what is happening in China is definitely *capitalism*, with or without the adagio “with Chinese characteristics”, along with which its nominal *socialism* is also labelled. One of the challenging works on this topic belongs to the Nobel Prize laureate, Ronald Coase, and the Chinese economist Ning Wang (2012): *How China become capitalist*. Analysing their thesis and contrasting their vision with competing opinions, our immediate purpose is to highlight – in the effort to articulate and advocate our argument that we are dealing with a classic case of still heavy *interventionism* – some issues that we consider relevant in discounting the overvalued view that in contemporary China we are witnessing a strong commitment towards capitalist principles and practices¹.

As things stand, the Chinese debate, that is still prone to controversy, seems rather closed, with a quite categorical verdict on both stated goals and means employed: the country is at the beginning of the so-called *state capitalism*. It only needs monetary reform, prices liberalization, completion of privatization process and full establishment of the rule of law and property rights to go to *market capitalism*. In line with such assumptions, though making a step further, Coase and Wang (2012; 2013) say that in China there is market economy since late 90s – prior to WTO accession – and do ask for a free “market for ideas”, to get to the next level – that of political freedom. Once this done, China will be ready to teach capitalism to a Western world thrown in terms of mentalities and representations in the arms of “state-ism” by the recent crisis. Escaping “crises of ideas” is critical (Jora 2014).

Although it brings important contributions to the specific literature, the demonstration of the above-mentioned authors is essentially founded on several controversial assumptions. To the extent that economic phenomena or processes are seen as subject to “time-variant laws” (Coase and Wang 2012, 202), scientific statements lose their truth-property, in the hard sense, becoming mere conjectures. Our analysis, which takes deliberately a qualitative, deductive-reasoning, (praxeological) orientation, coupled with illustrative, quantitative observations,

¹ The foundations of the view we are criticizing (pre)suppose, as assumed by the Communist Party, the following features (Li and Shaw 2013): firstly, the Chinese rulers’ principal concern has been the creation of a solidly competitive market; secondly, there is the purpose to reduce the proportion of government involvement in the economy; thirdly, the market forces are setting the prices that govern nation-wide allocation of resources; fourthly, granting more economic freedom to private sectors is the state’s unabated concern; and, fifthly, authorities’ interest is for even wider opening towards the rest of the world economy. These statements are to be taken *cum grano salis*, even if the trends are convincingly pointing towards China’s internal and external liberalization and openness, because the image that results from public authorities’ discourse is that, at Beijing, “economic freedoms” come along with “government permits”.

addresses some of the shortcomings from the *institutional design* of the Chinese economy, whose both *resilience* and *sustainability* were put into question by the severe economic turbulences that were observed in the last year. The quiz is to whom China owes this: to too much public governance or to too much private one (Stiglitz 2014)?

The thesis of this essay explores on the institutional problems associated to the particular economic system of China and the feeling that after years of booming growth the economy starts to deliver signs of (market?) “failures”. The question whether the troubles epitomized by the slowing growth are an effect of the *market freeing* process or an effect of the *residual planning* is cornerstone in understanding the orientation that the authorities might adopt. Do they need to further the market reforms (internal liberalization and external opening) or they need to strengthen control over the segments of the economy which are more exposed to risks of both domestic and foreign origin? Depending on the intellectual position we do have in the “markets vs. hierarchies” debate and on the understanding of their different nature, we may at least find out that a straightforward advice is: “Shrink the rotten half!”.

The paper draws from the existing scientific literature from both Chinese and Western sources, as well as from few personal experiences *in situ* (Jora 2015). These are decoded from an explicitly-assumed *free-market private-property* perspective¹ as being the best equipped social setting in terms of *incentive* (Adam Smith), *instruments of calculation*, *in terms of private-property-exchanges prices* (Ludwig von Mises) and *social information circulation that fuels the spontaneous order* (Friedrich von Hayek). After the intro notes, (a). we make a brief detour inside the spiritual and material context of China’s “U turn”, (b). then we investigate the (centrally tailored) “de-centralized” inter-regions competition, (c). and get to the epistemic issues associated with the much praised Chinese pragmatism, (d). in order to assess “two-systems”, “mid-road” philosophy and policies, and conclude.

2. From Cultural (Counter)Revolution to Civilizational Revolution

One country, two dead ends

“The Great Leap Forward” and “The Cultural Revolution” are the names of the biggest dramas orchestrated by Mao Zedong, one “magna cum laude graduate” of the “social engineering school” of the twentieth century for whom

¹ In our understanding so far, the “free market” is equated with the undiscounted respect for *private property rights*, as they are derived, defended and disposed of in their “logical” way. For an extensive discussion on how logical argumentation allows us to understand private property formation, as well as the profound unsoundness of any pseudo-argumentative pleading that denies their *a priori* nature (in anchoring genuinely social human conduct that is oriented towards peacefulness and prosperity), see Hoppe (1989) and (Hülsmann 2004).

only the violence of his means was greater than his obsession for quickening the “pace” of history¹.

The Great Leap was perhaps the purest expression of Mao’s chronic impatience [...], his confidence that, granted the will, the age of miracles was not over, noted the American historian Paul Johnson (2004, 533). Mao wanted to skip the stages in the growing up process of a society, as they were canonically described by Marx, trying to reach communism in one move, even up to its ultimate level in which the state would “wither away”. He defined his project by difference from that of Stalin, about which he claimed it walked “only on one leg”, creating “separate and monopod” industrial and agricultural areas. Mao’s China was aimed at “walking on two legs”, directly implementing self-reliant communes, each with its own industrial, agricultural and service sectors and its own defence militia: “unity of work and arms” (Johnson 2004, 533).

After just two years, in 1959, Mao admits the obviously sinister collapse of The Leap. Arguing that it had become impractical due to the cultural failure of a nation enslaved by civilization, Mao set in motion, in 1965, his last and most horrifying production: The Cultural Revolution. The disaster caused was terrible; the shootings of the machine guns were only one step away from the shootings of disarticulated words of the “cultural revolutionaries”. Drained by the civil war, by the economic failure that gangrened the country, by the collapse of the education system, by the destruction of cultural life, the Chinese Communist Party abandoned, starting with 1978-1979, the multimodal coercion and mental cleansing as a way of keeping silent the largest population of the globe and chose, instead, the pragmatic, incremental economic reforms².

It was therefore targeted the transition from the Stalinist-Maoist obsessive emphasis on heavy industrialization to an economic structure more appropriate for a developing country. The efforts of forced saving have been tampered: the percentage of GDP “invested” from the centre would fall from an unsustainable 38% (1978) to 25% (1985). Profit sharing and bonuses were introduced, to interest the workforce and to stimulate the entrepreneurial initiatives of managers. “Civil rights” became, for the first time, at least nominally, a common expression in the

¹ Like Lenin, Mao was too impatient to be an orthodox Marxist, one who would support that the establishment of socialism results from the “materialism of history”, according to which “capitalist production begets its own negation”. Tsarist Russia was poorly industrialized then, with a weak bourgeoisie and a less numerous proletariat, where the “objective” conditions for a “revolution” were, at that time, far from being ripe. Since “proletarian consciousness” had not been created yet, the “avant-garde battle” fought by a revolutionary elite would be the one giving the impulse, argued Lenin. His “heresy” would also serve as a justification for his choice for violence, revolution and civil war – the path of “revolutionary change” –, distinct from the “socialists” or “social democrats” approach, that wanted to reach the same (socialist) goals, but by using the “parliamentary-democratic” trajectory.

² For a summary of the features of the Chinese state capitalism, see Xu (2011), and for a synthesis of the main institutional transformation, see Xing and Shaw (2013).

legal-judicial system. Bureaucratic abuse was brought under relative control by developing democratic tools. And market forces were encouraged, or at least not hampered, to develop. Without leaving the scene, the Party had discovered that its safety is in people's thrive, and not in ideological demagoguery.

Three old schools of thought

Contemporary China is also the product of its amazing past. Stronger than terracotta or metal are the ideas upon the Chinese identity is built. These ideas were far from being homogenous, but they represent a collection of pioneering pieces from the “warring state” between “freedom” and “coercion” ideologies: *Confucianism* and *Taoism* vs. *Legalism*.

Confucianism (Kongfuzi 1998; Rothbard 1995; Long 2003; Leoni 2009) aimed for a society shaped alongside the lines of the patriarchal family and its internal and external relations. Freedom was second to the loyalty towards kinship, but society was never to be subdued to the protectorate of the “paternal state” seen as inherent warlike organization.

Taoism, the sum Lao Zi's teachings, emerged around the idea of individual happiness as foundation of an authentic society (Laozi 2001; Rothbard 1990; Rothbard 1995; Leoni 2009). The state was arbitrariness of law (with its rules “more numerous than the hairs of an ox”) and oppression of the individuals (being “more to be feared than fierce tigers”).

The *legalism* of Qin Shi Huangdi, the emperor who unified China in 221 BC (“macro-stabilizing” it by burning the dangerous books and slaughtering the daunting scholars), closely resembles to the obsessions of the modern Leviathans. Maoism was the unofficial heir of this hyper-centralized and hyper-politicized Establishment – and had its destiny.

Four marginal (r)evolutions

If the *theoretic marginal revolution* unleashed the understanding of the value (utility) genesis and economic science started building over it, in China there were four *applied marginal revolutions*, in certain parts of the sectors and fields of the economy, reviving latent energy of human behaviour and spurring social emulation.

The metaphor of the Chinese marginal revolutions belongs to Coase and Wang (2012). It is about the active edges of the Chinese economy, which worked in parallel with, rather outside, if not against, the ossified mechanisms of the decrepit, centrally-planned, blind-folded production structure typical to mainstream socialist state.

The *private agriculture*, the *quasi-private local enterprises* (township/village), the *urban private businesses* and the *Special Economic Zones* were the forces responsible for the restart of the Chinese economy after 1978. None

of them was “planned” in a socialist sense of the idea, but only “permitted” by the political decision centre.

Chinese government was happy to leave them alone as long as they did not threaten the political power of the Communist Party. It was created room for manoeuvre, that brought quasi-private property entrepreneurship and market forces back to China during the (critical) first decade of reforms. But planning instincts survived.

China’s quartet of reforms

Private agriculture. 20 years of collectivism with 40 million deaths because of starvation, this is the record of Mao’s “communist agriculture”. After 1978, many Chinese had gone back to villages to start private farming although the collective system was not “officially” admitted as inappropriate in terms of efficiency. In September 1980, private farming was allowed where people have lost their confidence in the collective farms and since 1982, it had become national policy and the state was involved mainly by price-support schemes.

Local enterprises (from township/village areas). During the first two decades of the reforms, the industrial enterprises from rural regions represented the most dynamic sector. They functioned outside the plan, did not have access to state-controlled raw materials, but could still purchase them from the black markets at higher prices, while marketing their products on market basis as genuine business. And it was not too long before they outperformed privileged and protected state enterprises that had no incentives to innovate.

Private businesses. In Mao’s times, almost 20 million secondary school graduates (15-18 years) from the cities were sent to the countryside. The main reason was that the state could not create enough jobs, situation that persisted after these people flooded back to home cities, where they started vast street protests. This escalating pressure forced the government to tolerate “self-employment” activities, previously seen immoral-bourgeois. Private shops occupied the cities and rapidly cut-off state monopoly from urban economy.

Special Economic Zones. “They were instituted so as to resort to capitalism in order to rescue socialism”, it was then ironically commented. They were permitted to experiment with the market economy, by importing advanced technology and managerial know-how, to sell goods globally, to create jobs and spur growth, but only in tightly defined enclaves strictly controlled to contain the contagion of failures. Finally, they acted as a significant step forward in the sensitive global trade liberalization with China adhering to the WTO¹.

¹ In Butiseacă and Iacob (2015) there were given reasons for which China’s accession to the WTO is rather expression of opportunistic Chinese perspective upon global interventionism, and not a pure commitment to liberalization. The “free market” seems to be neither a strong concern in the Chinese state’s strategy towards WTO nor is it for the WTO member states towards each other (Jora and Butiseacă 2015). “China looked for access to global markets and to attract foreign investment, and in the meantime to control and regulate the essential foundations of the market, like private property, competition

3. Economics in politics: central government vs. competing regions

While the “marginal revolutions” had reawakened the market conscience and behaviour in the previous decade, it is argued that “regional competition” became the prime transformative energy in the second decade of reforms¹, moving China much closer to an integrated *market economy* at the end of the century.

During the first decade of reform, regional competition was pursued behind trade barriers amongst provinces, maintaining the fragmentation. One cause: the production tax (paid irrespective of profitability) was an invitation to local authorities to protect the enterprises from their constituencies in order to ease the burden.

Authorities understood that, unless further measures, a simulacrum of institutional competition is in place. Thus, price reforms from 1992 (to reduce allocative distortions), fiscal reforms from 1994 (VAT was compatible to openness and profit seeking) and the privatization from mid-1990s changed the trajectory. But simply equating “political competition” to “economic competition” does not tell the full and real story. If one is to do justice to Chinese economic transformations, it is crux to notice that “institutional competition” may pave the way to the deregulation of market freedoms only if it’s not politicized from the “Centre”.

and currency. To these, there pertain reasons of national pride embodied in the well-known mega-projects in almost all sectors and interests to promote geopolitical and geostrategic targets” (Butiseacă and Iacob 2015). A member of China’s calibre can have an influent place in the global trading system, and can more effectively defend its own public enterprises’ interests. “China would become an initiator of global trade community rules. It might be able to influence the debate and the new rules of global trade liberalization” (The Chinese University of Hong Kong 2000).

¹ “Regional competition” would not be an element of novelty; it existed during the first ten years of the reform. To be fair, it also existed during the entire Maoist period. The father of Communist China was anything but a Stalinist centralizer. He believed in decentralization to a certain extent, yet such a process, combined with a flawed institutional framework, leads to dramatic unintended consequences. Against the backdrop of adverse stimulants accompanying any form of government based on the socialization of resources (the excessive use of “commons”, the inability to calculate efficiency, resulting in waste and a leechlike perverse political competition), poorly integrated from an economic standpoint, communist China was developing competition between its provinces “at a loss”, as leaders were contending to report the socialized production (at the cost of its citizens’ famine), moreover, excessively inflated, purely aspiring for the Centre’s good graces. The situation resembles the ridiculous “competition” sponsored by the former Romanian Communist Party, to give rise to enormities as “all counties reported productions over the average” (sic!).

Competition de-homogenized

Competition between public officials (political administrators)¹ does not have the same substance as the genuine one, held between legitimate owners. It tends to be wasteful of resources by the fact that political/bureaucratic decisions are not based on economic calculations and on a healthy structure of incentives. The more intense the competition between political/bureaucratic administrators, the more confiscatory is it for the members of society, as long as the first ones finance coercively their projects from the very incomes of the last ones. It doesn't matter if the aim is the benevolence of the public (a relevant minority, in fact) or the sympathy of the hierarchical superiors: the fundamental severance of the results obtained through expropriating means from the genuine concept of "generalized welfare" is *a priori* blatant and needs no *empirical* sophisticated verification.

Nobel laureate Eric Maskin is one of the authors who praise without much complains the political competition unfolded under the wise guise of the Chinese Communist Party (Maskin, Qian and Xu 2000). Maskin depicts in quite favourable terms the "tournament" that the Party runs among local officials, promoting those who "produce" the highest rates of economic growth and the lowest rates of unemployment, or those who perform in terms of attracting foreign direct investments. But if we turn the page and observe corruption (exposed even by Chinese official media, transparent in order to "give lessons") and the obscene rate of billionaires (from the descendants of Party's elite, in a still-poor society), we notice a reality about which the theoretical literature (on agency problems, opportunism) and the empirical evidences (the Soviets) already warned (Gregory 2012).

The regions we are discussing about need real competition between investors; one that by not twist of the mind cannot be mimicked by bureaucrats. In a competitive system not the "public servants" have to be in the foreground, but the *private owners* animated by an unaltered "profit and loss" dialectics (Mises 1998). No matter how well-intended is the "state", the *properly incentivized, informed and instrumented economic calculation* is the privilege of owners-capitalists-entrepreneurs. Exposed to human errors, they still do better in matching "private means" with "public ends", minimizing the risk of both chimerical (undercapitalized) or wasteful (overcapitalized) investment projects. The spectacularly booming of contemporary China needs valid economic (not vain

¹ There are opinions that the reform process and the growth-enhancing policies emerged not from political or fiscal decentralization ("regional competition"), but from competition between premarket and conservative factions in the Communist Party, therefore still a form a "political competition" (Cai and Treisman 2007). On competition and institutional change, see also Li, Li and Zhang (2000). On post-Maoist rent seeking behaviours in the community of communist leaders, see Wedeman (2003). On the complexity of the behaviours observed in China during the transition from central planning of Maoist genre to relative market liberalizations, see Naughton (2006) and Lardi (2014).

political) competition as a vital self-censorship towards reality, and abortion of credit and currency manipulation.

As well as other political initiatives, the regional competition too was subjected to the (much praised even in the Western world) *pragmatism* and *incrementalism* exposed by the “neo-Confucianism” reading of Marxism encapsulated in Deng Xiaoping’s dictum “seeking truth from facts”. A brief *epistemic* exhortation won’t be a waste of time if we are to grasp the “paradigm” of the Chinese economic revolutions, evolutions and involutions.

4. Pragmatism and principles: revisiting Deng’s societal laboratory

It’s not the “reality” *per se* that establishes causal links between its hosted events, it can’t tell, on its own, what measures to adopt and where to head. To accept that things would be otherwise would be completely absurd, because to think of or to discuss about any phenomenon actually means, *volens nolens*, “theorizing” it. The language itself, in which we are referring to certain things, has a decoding “theory”. The facts themselves include theory as they are implemented by humans, being (willingly thickening the outline now) the external practical form of a particular implicit theory. They do not appear out of nowhere, they are developed *ex ante* in the human mind (shaped within the environment from which it originates and to which a person adheres), they come bundled with theoretical assumptions of the actor; and, as well, *a posteriori*, facts are further scrutinized by theory.

There is a seemingly never-ending debate on the *a priori* versus the *empirical* nature of economics. What is to be pointed out is that humans possess the *a priori* self-awareness of their fundamental mind-set, of their universal software: *logic*. They have the privilege of discovering as “preinstalled” their *inner* mental working before exploring *outer* physical territories. Their/our knowledge about human action and social interaction, in fundamental, essential sense, needs not complex empirical observations, but accurate introspections into the (praxeo)logic dimension of value, preference, choice and so on (Hoppe 1995). In economics, due to this unsettled dispute between deductive and inductive nature of economics inferences, as well as to the relativism that is consecrated by the mainstream, dominant empiricism, no “pragmatism” can be, thus, free of the ideological component¹.

These considerations prepare us to address the problem of “laboratory experiments” in social sciences and in civil life.

¹ However, the role of the “seeking truth from facts” principle must not be underestimated, since there are situations when it made the deregulation process considerably easier, and to which, one might argue, Chinese success is owed. Yet, it is necessary, in our understanding, a prudent approach when reading Chinese policymaking. It’s worth drawing attention to the errors that can occur (occurred) as a result of the concentration of the analysis only on the (immediate) results derived from the short term experimentation, as well as over those originating from considering consequences on only one sector, missing from sight the impact registered by other economic sectors.

The main shortcoming of “laboratory experiments” is represented by the fact that this method is dramatically inadequate for the social sciences, neither effectively nor as a metaphor. Mises (1998) explicitly offered an explanation for this statement, showing that what happened in the past cannot be used in the future actions because in the social-economic life there are no constant quantitative behavioural determinants and relationships. Hence, the expectation of the planning committee to obtain authentic “tested information” in order to legitimize different measures or policies is not supported. But if we assume that the planners would obtain information in these laboratories, would the planning be possible? Absent authentic private ownership of the factors of production and implicitly of the free transactions between owners, the occurrence of production factors prices (as carriers of social information regarding utility and scarcity) is vitiated, making impossible the realization of unbiased economic calculations (the computation of profits and losses) in monetary terms, essential for emitting rational allocative judgements – this is the essence of the “Mises-Hayek” argument against socialism (valid towards interventionism as well).

At this point of the discussion, it can be said that both Coase and Wang, but also the majority of those who support the idea that there is capitalism or a form of capitalism in China understand the fundamental problem of socialism in a Hayekian (2011) paradigm¹: the necessary information for such planning is never found in concentrated form, but only dispersed, incomplete and even contradictory – the problem is solved with the help of the freely-formed price system, where each scarce resource is being attached a numerical index that reflects its importance in the cross-societal means-ends structure which needs coordination. But as demonstrated by some economists, following a rather Misesian paradigm², the insurmountable problem faced by any planning committee does not refer to “knowledge”, but to “ownership”; it does not refer to mere adaptation of some

¹ See Boettke (2003; 2015) for a Hayekian explanation of de facto socialist failure. Also, on Hayek’s ideas starting to be digested in China, in The Economist (2012) and Mingardi (2013).

² Secondary to Mises’s thesis chronologically, Hayek’s argument featured on the free market side of the (still not fully absorbed in economics) interwar debate of the “economic calculation in socialism” problem – Mises-Hayek-Robbins “Austrians” vs. Taylor-Lange-Lerner “market socialists”. Although not fully grasped in the free market camp, there still was an important difference between Mises (the originator of the calculation argument for the impossibility of socialism focused on property rights) and Hayek (invoking the impracticability of socialism on knowledge dispersion issues). Converging, Salerno (1993), Hoppe (1996), and Hülsmann (1997) explain the split. While “Hayekians” believe that the market prices are better because of their informational dimension, “Misesians” argue that their primary virtue stems from their origin: truly voluntary, non-simulated, cooperation; they cannot be assessed through mental experiments for their significance has nothing to do with truth or knowledge, but with real actions of entrepreneurial nature, backed-up by the existence of private property rights (Hülsmann 1997, 48).

past-based, passively-observed parametric prices, but to the establishment, in action, in a continuous process, of the real market prices; it is not about a simple stock of information, but it is about a flow of information created by each and every entrepreneurial action (bidding resources, offering goods) motivated by profit-seeking and amended by risk-assessment.

Experiments are unscientific if they strive to find regularities in human action (other than those discovered by logical introspection) and inappropriate if they try to approximate or substitute the entrepreneurial social function (that relies on private ownership, the only property setting compatible with productive innovation and responsible risk-taking). In the case of collective ownership, the administrator does not have the possibility to pick up the reward coming from a rise in assets value, nor to support the losses following the depreciation of the value of those assets. In order to bring the best interpersonal economically calculated coordination possible (the benchmark for social *efficiency*), that is as well the only *ethical*, conflict-solving solution, the problem is the proper definition, defence and distribution of private property rights (Rothbard 1982; Hoppe 1993). In China, not the accuracy of social experimenting and the thorough collection of relevant social information were responsible for economic revival, but the isles of private property in agriculture or urban undertakings, the removal of perverse incentives in public firms' management, and the special economic zones as proxies and nodes for global capitalism.

We come back now to the “theory” behind the experiments. It is fair to see these experiments not as genuine ways to liberalization, but rather as means used for the purpose of trying to heal/save economic units/sectors affected by previous governmental interventions, and to keep the control of the political administrative areas where they are located, while benefiting from the effects of the partial state withdrawal. For if it is not this, it is then justified to wonder: how it can be explained that what happens in the Special Economic Zones or in the free regions of China is not spread over the entire country? The studies undertaken in this respect expose different explanations.

One of them, favourable to the idea that the Chinese regulators “planned for freedom”, claims that the model seems not to be chosen at random by Deng Xiaoping, but it was based on a logical theory, arguing that if the political openness came first, it could ignite many political forces that might have hampered the implementation of economic reforms, as it had happened back in 1989, in the former Soviet Union. Deng's model implied political authority of the Party as representative promoter of liberalization and democratization, seasoned with particular experiences to be extrapolated gradually to similar contexts, all in an orderly manner: “Pragmatism with Chinese characteristics”.

What results is the allegation that People's Republic of China has some particular capitalism, which is to be incorporated as the foundation of a new theory regarding capitalism, or something between capitalism and socialism, to serve as a model to other nations. Such an attempt seems to be rather a semantic twist, a wordplay. The debate is “*capitalism vs. socialism*” as *production-factor-ownership principles*. The “curious case” of Chinese pragmatism is nothing new, but a mix,

having the virtues and the vices of each. It cannot therefore be another system, a “unique system”, with “Chinese characteristics”. It is much more appropriate to call it “Chinese interventionism”.

5. Condensed hermeneutics: the “Chinese characteristics” exposed

“The proportion of planning to market forces is not the essential difference between socialism and capitalism. A planned economy is not equivalent to socialism, because there is planning under capitalism too; a market economy is not capitalism, because there are markets under socialism too. Planning and market forces are both means of controlling economic activity. The essence of socialism is liberation and development of the productive forces, elimination of exploitation and polarization, and the ultimate achievement of prosperity for all. This concept must be made clear to the people. Are securities and the stock market good or bad? Do they entail any dangers? Are they peculiar to capitalism? Can socialism make use of them? We allow people to reserve their judgment, but we must try these things out. If, after one or two years of experimentation, they prove feasible, we can expand them. Otherwise, we can put a stop to them and be done with it. We can stop them all at once or gradually, totally or partially. What is there to be afraid of? So long as we keep this attitude, everything will be all right, and we shall not make any major mistakes. In short, if we want socialism to achieve superiority over capitalism, we should not hesitate to draw on the achievements of all cultures and to learn from other countries, including the developed capitalist countries, all advanced methods of operation and techniques of management that reflect the laws governing modern socialized production” (Deng Xiaoping)¹.

At this point, we believe that it is significant to note that these are all grafted onto a structure that, although it has not remained the same at present, it pays tribute to Deng Xiaoping’s thoughts. This remarkable description of the way the Chinese system works, at least at the rhetorical level, is worth studying in some detail to uncover the Beijing official(s’) vision².

i. There is “*planning under capitalism too*”. What is not always clearly said nor understood is that the essential differences between the two ways of planning do not allow their integration/conflation into a single system. The specific planning in capitalism refers to the spontaneous social coordination through non-aggressive market means, carried out by private entrepreneurs and their consumers. Only within this type of regime economic calculation is possible. A different kind

¹ “The complete formulation of our economic policy is to give full play to the basic role of market forces in allocating resources under the macroeconomic guidance and regulation of the government. We have one important piece of experience of the past thirty years that is to ensure that both the visible hand and invisible hand are given full play in regulating the market forces”, summarizes again Wen Jiabao, former Chinese prime-minister, quoted in Anderson (2012), the basics of Chinese economic way of thinking.

² For an interesting insight into the words and facts that composed the Chinese economics reforms, see Zhang (2015a; 2015b).

of planning cannot be legitimately associated with authentic capitalism. Of course, there is still government planning in the systems rated as freer or more open, but this does not mean that these two ways of allocating resources can be taken together in one homogenous system¹.

ii. *“There are markets under socialism too”*. One thing that remains apparently undigested in the mainstream economy is that, without the possibility of using real prices from voluntary markets (external markets or internal black ones), as Soviet planners did, this much heralded Chinese economic planning would collapse in a very short time due to calculation problems. But, praxeologically speaking, “socialist markets” does not justify smoothing the differences from the freer ones, fact brilliantly exposed by Mises (1935) in his still undigested “economic calculation argument” (softened by Hayek informational focus) towards the Lange and Lerner approach (“trial and error” process used by central planners is a good proxy to market prices formation, while equation solving gives better covering, more reliable “information-prices”).

iii. *“The essence of socialism is liberation and development of the productive forces, elimination of exploitation and polarization, and the ultimate achievement of prosperity for all”*. We remind, once again, that socialism, having only some far-fetched calculation method, cannot estimate accurately any growth nor produce goods efficiently. But suppose it could be a significant growth, spurred visibly by the government, over an extensive period of time². The question is: at what cost is this economic development? The liberalization of productive forces that Deng Xiaoping is talking about does not operate under expected yields on a makeshift field. The system of “market socialism”, due to misallocation of resources, has produced everywhere it was applied big mess and waste in the public management of production factors³.

iv. *“People”* are allowed *“to reserve their judgment, but we must try these things out. If, after one or two years of experimentation, they prove feasible, we can expand them”*. This optic is part of the “scientist” view on the economy, tributary to “state’s trial and error”. We go on asking, if the experiments’ output may be different (success in the region X, failure in another) in this case, how do

¹ This is the reason why Comănescu (2004) draws attention to liberalism’s misunderstanding: “That the nationalization of education, currency and jurisprudence, budget deficits, protectionism, political centralization and the bellicose challenge or exploitation crisis are among the main secular signs of anti-liberalism. That the state is inherently socialist, the socialist part of every contemporary society. That the liberalism and the socialism are like two barrels: one with wine, one with dirt. If you put a teaspoon from the first into the second, it does not change anything, but if you put one in reverse, then it changes everything”.

² Following Minsky’s argument that large government sector is indispensable for a capitalist market economy to assure macro-stability and avoid severe recessions, Minqi () offers alternative to privatization as a recipe for “efficient employment”.

³ The core of socialism is captured by Huerta de Soto (2012): “a system of institutional aggression against entrepreneurship and against human action”.

we choose the right solution? There are no static realities, as in a game of chess, when, identifying a solution to a previous problem, you are able to apply it to the next move or match. In the real world, the context is always changing, always unique and the uncertainty of the future is an axiom which should temper the state planners' appetite for experiments. Macro-mastering future is illusory, and the thesis that "people" choose, not the "rulers", is insincere.

v. *"Otherwise, we can put a stop to them and be done with it. We can stop them all at once or gradually, totally or partially. What is there to be afraid of? So long as we keep this attitude, everything will be all right, and we shall not make any major mistakes"*. This pragmatic method of determining and channelling human behaviour has a bleak history and perhaps politicians in their role as organizers of "legitimate coercion" towards individuals are up to a certain degree protected from masses fury, but all others should fear it. Think only about what the experiments done on people have provoked throughout history, even if they were packed under the utilitarian ("the greatest good for the greatest number"), Machiavellian ("the ends justify the means"). From the economists' guild, there are a lot of exponents who very proudly praised them¹.

vi. *"We should not hesitate to draw on the achievements of all cultures and to learn from other countries, including the developed capitalist countries, all advanced methods of operation and techniques of management that reflect the laws governing modern socialized production"*. Under the mask of objectivity of these imitations, there are an entire plethora of "models", related to conjectural knowledge, that are systematically delivered as truths that could exported under controlled conditions among societies. There is a great need of understanding the fundamentals of social systems and systemic change, for the plain "know-how" transfers risk to bring only surface-scratch changes. As viewed several times in history, management without property blows up rational decision-making, condemning it to bureaucracy, which is the chaos of rules.

6. Conclusions

China was, for over a decade, the engine of the world's economy, even when the West got acquainted to the "great recession". But, recently, the signs of some systemic fatigue became suddenly visible and worrying. These signs are concentrated in the field of the exchange rate and the stock exchange – the

¹ North (2012) reminds that Felix Somary mentions, in his autobiography, a discussion he had with the economist Joseph Schumpeter and the sociologist Max Weber in 1918. Schumpeter was an Austrian economist who did not study in the Austrian economic schools. He is the one who wrote, later, the most influential monograph about the history of economic thinking. Weber was the most prestigious sociologist in the world until his death in 1920. Schumpeter expressed his joy on the Russian revolution. USSR would be a test for socialism. Weber warned that it would attract a lot of misfortune, but Schumpeter replied: "It is possible, but it would be a successful experiment". Then Weber rose the stake: "An experiment crowned by corpses!". Schumpeter ironically replied: "Each anatomy course means the same thing".

allegedly “symbolic economy” –, although this does not mean that its deep roots are not to be found within the *structures* and the *institutions* of the economy as a whole. They are an expression of some severe tensions perpetuated by this kind of mixed economy, caught, as recently featured in an article from *The Economist*, “in a dangerous no-man’s-land between the market and state control”. Obviously, a weakening economy, a quasi-fixed exchange rate and relatively loose capital controls are a TNT combination, but, at least for now, Beijing’s epic foreign currency reserves, the vast margin of manoeuvre in tightening capital restrictions, the historical trade surplus, and bold interventionism remind us that China is far from a crisis by the book. Still, the “core fundamentals”, not the “conjuncture envelope”, determine finally the economic performance and everywhere and every time “half-measures” and “mid-roads” are an instable interventionist aggregate. In our brief scrutiny, we have pointed out that the commitment shown up to now from the part of Chinese government is not necessarily towards free markets, but to a balance of market freedoms and state controls, a “whole” that shall never be superior to its “parts”. Putting it otherwise, it looks like all the healing efforts from the Communist Party were done so as to save both the “patient” and the “disease”, and all what was surely accomplished, until now, is that the “doctor” is still alive.

Our analysis assessed the fundamentals of the “Chinese economic model” in order to understand the essential sources of the troubles experienced by this “surrogate capitalism/socialism”, expression that could cover, obviously in different degrees, all mixed economic systems labelled as “capitalistic”. Our line of reasoning was the following. Firstly, we had a scrutiny on the momentum of China’s divorce from the too obsolete Maoist representations of the material and moral life under communism, remembering the cultural traditions that helped the nation to regain confidence in the force of the individual, while keeping intact the respect for an authority which turned its face to the people. Secondly, after presenting the essence of the pro-market “marginal revolutions” allowed for, not orchestrated by the state, we observed Chinese inter-regional competition, an element perceived as one of the pillars of the new dynamism, and drawn attention on the limitations that political competition has in relation to the entrepreneurial, economic one. Thirdly, we had an epistemological inquiry into the soundness of the allegations that in social matters truth can be sought from facts and that experiments are a wise thing in the quest for the right institutions upon which to build a peaceful and prosperous society, holding that, in social sciences, principles are “prior to” and “against to” any kind of lab. Fourthly, we had an economic-hermeneutic analysis of the qualification that Deng Xiaoping made with respect to the orientation of China’s economy, arguing that, by no rhetorical conflation, market principles and state principles can be considered as reversibly substitutable or complementary, but they are deeply conflicting, and that any attempt to facilitate them “work together and forever” cannot be “Made in China” nor anywhere else.

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