Hu Ping | Zhu Rongji's State- Owned Enterprise Reform and the Privatization of the Powerful

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Source: author's X (Twitter) account, @HuPing1

Zhu Rongji has died. Many observers have offered high praise for the role he played in China's economic reforms — particularly in the restructuring of state-owned enterprises (SOEs). Any assessment of Zhu Rongji, however, is inseparable from an assessment of China's economic reforms as a whole. On this point, a few additional comments are necessary.

As its core, economic reform in communist states amounts to converting public ownership back into private ownership, and a planned economy back into a market economy. This is easy to say and extraordinarily difficult to do. Observers noted this difficulty at the very outset of economic reform in the communist world, likening the task to "turning fish soup back into fish."

Broadly speaking, there are three ways to convert public property into private property: restitution, sale, and distribution.

Restitution means returning property to its original owners — compensating them, restoring what was taken. When the Communists first came to power, they collectivized landlords' land and confiscated capitalists' factories; restitution would mean returning that land and those factories to the original landlords and capitalists, or to their descendants. Where the original property can no longer be returned in kind, compensation is paid in cash instead.

Yet restitution has only limited application. Decades have passed; people and circumstances have changed beyond recognition, and much of what once existed can no longer be restored. Moreover, the Communist Party, once in power, built new structures, established new enterprises, and reclaimed new farmland — assets with no original owner to whom they could be returned. For this reason, the privatization of communist economies has had to rely chiefly on the other two methods: sale and distribution.

Sale means putting assets belonging to the whole people out to public tender and auction, with the proceeds directed toward public expenditure — public services, social security, and the like.

Sale, too, has its problems. In the early stages of reform, there were too few wealthy individuals, and even those who had money did not have enough of it; a great many state enterprises found no buyers able to afford them. There are several ways around this. One is simply to wait — to wait until private enterprise develops, until private capital accumulates, until buyers capable of purchasing state enterprises finally emerge. But this means that, for a considerable period, large numbers of state enterprises cannot be sold and must instead be kept on life support, neither thriving nor closing.

A second approach to sale is to let prospective buyers borrow from banks, using the enterprise itself as collateral, with the debt to be repaid in installments. But this raises the question of which borrowers a bank should lend to and which it should refuse — and what happens if a borrower later cannot repay? As the saying goes, a debt large enough ceases to worry the debtor: the larger the sum owed, the less anyone can do about it.

Still another approach is to sell state enterprises to foreigners. If the country cannot produce its own tycoons quickly enough to afford state enterprises, why not let foreign tycoons buy them instead? The difficulty here is obvious: if a country sells off all its major enterprises to foreigners, does this not amount to selling out the nation itself?

Since both restitution and sale carry serious limitations, former communist states, in converting public assets to private ones, have relied chiefly on the third method — distribution.

Distribution means equal division. Assets held under "ownership by the whole people" are divided among every member of the population; assets held under collective ownership are divided among every member of the relevant collective. China's rural reform — the division of land among individual households — followed this method. Peasants did not gain ownership of the land, but they did gain the right to work it. But could distribution solve the problem for industry the way it did for agriculture? Could a single state enterprise be resolved simply by being "divided"? No. Divide one large field into ten smaller fields, and each remains a field. Divide one lathe into ten pieces, and it becomes nothing at all. Dividing a factory equally among its workers means dismantling a large, indivisible unit — which amounts to destruction, to waste. For this reason, distribution in practice has more often meant converting social assets into shares valued in monetary terms, then distributing an equal number of shares to everyone.

"Shares for all, one share per person" is a genuinely equitable method of privatization, but it, too, carries serious defects. Chief among them: ownership becomes too dispersed to improve management. Everyone holds a share in the enterprise, but only one share each — with the result that no one has a strong stake in the enterprise's performance, a condition scarcely different from the original public ownership. Converting a state enterprise into a private one means, in the end, converting an enterprise belonging to everyone into one belonging to a small number of individuals. This requires a period of competition, through which shareholding gradually concentrates and capitalists emerge. In the interim — before capitalists appear — enterprise performance does not improve; if anything, it deteriorates.

The above account is, of course, highly schematic, but it is sufficient to demonstrate just how complicated and difficult the conversion of public into private ownership actually is.

Beyond the three methods already discussed — restitution, sale, and distribution — is there another way to privatize a communist economy? There is: giving it away. As early as the 1980s, the Hong Kong economist Steven N. S. Cheung (Zhang Wuchang) explicitly proposed exactly this: "Simply let certain cadres get rich first and grant them clearly defined property rights." Worried that there were no capitalists? Then why not simply let Party secretaries become capitalists? Once a Party secretary becomes a capitalist — that is, once the enterprise becomes his private property — he will naturally begin to behave like a capitalist, and the enterprise's performance will naturally improve. The privatization of public ownership would then be accomplished in a single stroke.

But on what grounds should state enterprises be handed over to Communist Party cadres for nothing? Cheung's answer was this: "China's reform cannot proceed while disregarding cadres with vested interests — not because they deserve special treatment on economic or moral grounds, but because their opposition would be sufficient to block institutional improvement." Of course, if you hand cadres the enterprises, they are guaranteed to become reformers. But while this approach fully accommodates — more than accommodates — the vested interests of cadres, it unmistakably violates the vested interests of the broader public. Why should the vested interests of a small number of cadres be inviolable, while the vested interests of the general public may be violated at will?

The reason Cheung declined to state explicitly, of course, is that the opposition of the general public is not sufficient to block institutional improvement. And if the public should choose to resist, to protest? The only logical answer is: suppression. What Cheung's proposal amounted to, stripped of euphemism, was robbery — robbery conducted under the protection of authoritarian power, robbery at gunpoint.

To be sure, the Chinese Communist Party could not openly adopt the Cheung proposal — particularly before June Fourth — for fear of provoking fierce popular resistance. Before June Fourth, officials were already, in the name of reform, converting public property belonging to the people into their own private property, but at that stage they still dared only small, furtive maneuvers. After June Fourth, the situation changed entirely. As the saying goes: "Once the guns have fired, theft becomes robbery." With June Fourth behind it, the Party calculated that ordinary people would no longer dare resist — and that even scattered, isolated resistance would amount to nothing. From the 1990s onward, the Party accelerated the pace of economic reform, in large part by implementing — under a different name — precisely the Cheung proposal.

After Deng Xiaoping's Southern Tour in 1992, China was swept by wave after wave of privatizing economic reform. Lacking even the most basic democratic participation or public oversight, China's privatization inevitably degenerated into naked crony privatization.

The first wave was a speculative land boom. Certain figures of power and privilege — chiefly the children of high-ranking cadres — used their connections and influence to acquire vast tracts of land at extraordinarily low prices, then resold it for enormous profit. Overnight, a cohort of millionaires, multi-millionaires, and eventually billionaires emerged.

The second wave was the privatization of state enterprises. Under slogans such as "downsizing and redeployment," "staff reduction for efficiency," and "enterprise restructuring," officials at every level — large and small — devised endless schemes, each more inventive than the last. Some enterprises were nominally "sold" to private buyers, but not at market prices: accounting firms and state-asset appraisal agencies would systematically undervalue the state enterprise, which was then sold to a locally powerful figure, with the intermediaries pocketing handsome fees. Some state enterprises were declared bankrupt and dissolved — only for a private firm producing identical products to spring up next door, its owner none other than the former factory director or Party secretary, or one of their relatives or associates. Vast numbers of other state enterprises, under the banner of "management buyouts" (MBOs), had their ownership or controlling stake handed directly to the very factory directors and Party secretaries who had previously run them. As the sociologist Huang Jisu summarized it: "The Party secretary becoming the boss is one of the fundamental mechanisms and principal driving forces of China's reform."

At the same time, tens of millions of state-enterprise workers were laid off, and the "leading class" of Marxist theory became, in practice, a vulnerable underclass. In his essay "Observations and Reflections on China's Working Class," Huang Jisu quoted a circulating online gloss on the many names for China's working class: officially, the "working class"; formally, "the leading class of socialist China"; in economic terms, the "low-income stratum"; in Western terms, "blue collar"; colloquially, "manual laborers"; affectionately, the "vulnerable group"; derisively, the "ant tribe"; sociologically, "subsistence-level livers"; politically, a "factor of social instability"; routinely, "the unemployed"; officially again, "laid-off workers"; per the Ministry of Civil Affairs, "subsistence-allowance households"; and, in truth, simply "the poor."

The Party's SOE reforms provoked fierce resistance among state-enterprise workers. Chen Hong, a laid-off worker from Changsha, wrote on his blog: "For us, reform means unemployment and layoffs; reform means the wealth we created and the benefits we already had are being stripped away; it means our burden of living grows heavier; it means the powerful and the wealthy are carving up and plundering public and state property. Why should we welcome this kind of 'fake reform'?"

Some argued that because public ownership and the planned economy had demonstrably proven inefficient, reform was necessary — and that reform inevitably requires someone to pay a price. Certain mainstream economists declared outright: "To achieve the goals of reform, one generation must be sacrificed — and that generation is the tens of millions of older workers."

Chen Hong's rebuttal: the planned economy should indeed be reformed. Reform inevitably carries a cost. But the planned economy was not invented by us workers — it was invented by you, the Communist Party. If a price must be paid, it is you, the Communist Party, who should pay it. Why should we workers be made to pay it? On what grounds does the Party itself remain in power while we workers are the ones cast out of our jobs? On what grounds do officials large and small get to become capitalists, while we become hired hands?

Against the protests and resistance of state-enterprise workers, the Party responded with an iron fist. In the past, whenever the Communist Party suppressed popular protest, it invoked "the dictatorship of the proletariat." The Party has also redefined the meaning of human rights, declaring that "the right to human rights is, above all, the right to subsistence." Yet laid-off workers were precisely the proletariat in the most literal sense, protesting precisely for their basic right to subsistence. The Party, therefore, could find no justification for suppressing the protests of laid-off workers — and so it simply cast aside foundational doctrines like "the dictatorship of the proletariat" and "human rights as the right to subsistence," and openly treated the people — who were, moreover, explicitly designated the "leading class" in both the Party constitution and the state constitution — as the enemy. Huang Jisu recalled attending a forum in the late 1990s: "At that forum, mainstream economists, ministers, and provincial governors discussed the economic situation with great enthusiasm, entirely unconcerned about any possible resistance from the working class. I remember one mainstream economist remarking that Mao Zedong's uprising at Jinggangshan had genuinely been difficult to suppress in its day — but now, in the age of high technology, the moment a Mao Zedong figure raised his head, satellite positioning and precision missiles would take him down."

After Deng Xiaoping's 1992 Southern Tour, China embraced capitalism and privatization with open fanfare. Having been dealt a crushing blow by June Fourth, public morale was subdued and lacked the strength to resist. As a result, China's privatizing economic reform — lacking even the most basic democratic participation or public oversight — inevitably became naked crony privatization. Officials at every level, large and small, in the name of reform, brazenly converted public assets belonging to the entire people into their own private property.

And so the most absurd spectacle unfolded before our eyes: the Chinese Communist Party, which had originally risen to power by overthrowing landlords and capitalists, had itself become the greatest landlord and the greatest capitalist of all. Decades earlier, in the name of revolution, the Party had converted the private property of ordinary citizens into so-called public property belonging to the whole people. Now, in the name of reform, it converted that public property, belonging to the whole people, back into its own private property. First it robbed in the name of revolution; then it divided the spoils in the name of reform. Two opposite crimes — and somehow the Communist Party managed to commit both within the span of sixty years. Is there anything more shameless, more contemptible, than this?

The irony is that China's crony privatization, however shameless and contemptible on moral grounds, may have been the most effective and expedient method of economic transition. The economic reforms of Russia and Eastern Europe took place against the backdrop of political reform, and their privatization was, on the whole, mass privatization — public assets held in the name of the entire people were divided equally among every citizen. This approach had the virtue of fairness and broad public acceptance. But it carried a serious drawback: it fragmented assets excessively, and for a period, rather than promoting economic growth, it actually caused economic decline.

China's crony privatization avoided this excessive fragmentation of assets. Officials at every level transformed themselves into capitalists overnight; Party committees became boards of directors; officials at every level became CEOs. In this way, China avoided the kind of economic contraction seen in Russia and Eastern Europe. Spurred by the incentives of a capitalist mechanism, China's economy grew continuously. Because of the trading of power for money, those with the greatest power were also those most able to accumulate substantial capital in a short period — which in turn facilitated the building of large enterprises, or the privatization of existing large state enterprises, to the benefit of overall economic development.

China also caught the express train of globalization, aggressively attracting international capital and advanced technology, exploiting its "low-human-rights advantage" of low wages and minimal welfare, all while unleashing a nationwide, fully released appetite and energy for getting rich. The result: the worst variant of "capitalism" ended up with the strongest competitiveness. And so we arrived at the so-called "China Model," the so-called "China Miracle."

A Communist regime that achieved its economic development by these means is bound to hold human rights, democracy, and justice in still greater contempt; it is bound to become a more self-assured, and therefore more arrogant and more powerful, authoritarian regime — and such an arrogant, powerful authoritarian regime inevitably poses a grave threat to human freedom and peace.