China’s Market Transformation and Classical Liberalism

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China and State Capitalism

• The economic rise of China re-ignites the debate on state capitalism.
• Capitalism, Chinese style, is viewed as a paradigmatic example of state capitalism.
• China is the nemesis of classical liberalism.
Did Beijing Engineer the Rise of China?

• “The secret to China’s boom: state capitalism” (*Reuters*, Nov 4, 2011)
• “China’s state capitalism” (*The Economist*, Nov 6, 2012)
• “The US must learn from China’s state capitalism to beat it” (*The Atlantic*, Nov 5, 2012)
Turn of the Tide

• *How China Became Capitalist* (Coase and Wang 2012)
• *Capitalism from Below* (Nee and Opper 2012)
• let the market play a “decisive role” -- Third Plenum of 18th Central Committee (Nov 2013)
• *Markets over Mao* (Lardy 2014)
• “The China that works”, *The Economist* (September 12th 2015)
How China Became Capitalist

• Marginal revolution vs. “top design”
• Cross-country comparison vs. historical comparison
• Economic rise of China has been made possible by the gradual withdrawal of the state.
• Market forces, entrepreneurship and limited government made China a story of success.
China’s Unfinished Agenda

• State owned enterprises
• Chinese Communist Party
SOEs

• Foundation of China’s socialist market economy vs. predator of market order
• SOEs are welcome to exist as long as they are subject to competition.
  – Monopoly is the root problem.
• SOEs may serve as an agent of change if they are subject to the rule of law.
  – John Hicks on the rise of city-states
CCP

• CCP has been flexible and adaptive.
• China is poorly governed.
• Political reform starts by introducing the rule of law.
  – This is more difficult than the introduction of markets and entrepreneurship.
  – CCP embraces the rule of law.
  – Is the rule of law possible?
From Capitalism to Capitalisms: Challenges of China

• Capitalism is an open system, the “beginning of infinity”
  – Freedom, entrepreneurship and growth of knowledge keep capitalism evolving.

• The market economy is path-dependent.
  – Convergence has its limit.
  – History brews diversity.
Politics without Parties?

• Dark side of party-politics/democracy
  – Knight, Hayek, Buchanan, Coase, Cheung, Olson
• Post-party governance
• Politics without parties
  – Is party-less politics possible?
  – Is “天下为公” more than an ideal?