

From Scholar to Official

Cui Zhiyuan and Chongqing City's Local Experimental Policy

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An interview with a Chinese political scientist trained in American universities gives us an insight into China's pragmatic policy of local experimentation. It chronicles how officials in the municipality of Chongqing have seized the opportunity offered by its special status to launch a unique blend of liberal and socialist economic policy.

In the mid 1990s, the social consequences of the intensification of the Reform and Opening policy that took place in the wake of the 1989 repression precipitated fierce discussions in the Chinese intellectual sphere. It marked the end of the broad consensus on liberalism and democracy of the 1980s. A variety of groups emerged, roughly divided into anti-welfare Hayekian liberals - generally labelled as market liberals or Liberals - and political liberals advocating some kind of social democracy - they were called the New leftists as they did not question the need for a market economy, contrary to the Chinese old left. On this new fragmented political spectrum, Cui Zhiyuan's views are located on the far left. The political economy and political philosophy scholar from the School of Public Policy and Management of prestigious Tsinghua University is commonly categorized as a New Leftist but prefers to be called a liberal socialist, after John Stuart Mill and James Meade. Mill developed the concept of liberal socialism in the chapter, "On the probable futurity of the labouring classes" where he significantly qualified private property rights in means of production and recommended a market economy dominated by decentralized democratic cooperative firms. James Meade was a British Keynesian economist who won a joint Memorial Nobel Prize in Economics in 1977 with Bertil Ohlin. Cui Zhiyuan is an explicit admirer of his efforts to reconcile economic efficiency and a fair distribution of income¹.

¹ Meade designed labour-capital partnerships, where outside shareholders own Capital Share Certificates and inside workers own Labour Share Certificates, and social dividend to replace the demand for job tenure by an enhancement of the resources and capabilities of the individual citizen Cui Zhiyuan, "Liberal Socialism and the

After completing his PhD on soft budget constraint² under the supervision of Jon Elster, Adam Przeworski and Lester Telser at the University of Chicago in 1995, Cui taught political science at MIT for six years, where he became acquainted with Charles Sabel, the leading American specialist of post-Fordist production who wrote Second industrial divide. At the Harvard Law School, he also met Roberto Unger, who took leave from his position at Harvard from 2007 to 2009 to serve in Lula's government as minister of Strategic Affairs. Cui's research focuses on the issue of economic democracy. To him, "China and worldwide exploration of institutional and theoretical innovation are closely connected". It is one of the reasons why he finally decided to go back to China, where "there is more plasticity and things are not so fixed" (February 1st interview with the author). There, his articles have triggered fierce reactions among Liberals such as Zhu Xueqin, Xu Youyu and Qin Hui, who belong to an older generation and whose political views are closely connected to their bitter experience of the Cultural Revolution. Indeed, Cui is among the only scholars in China who have dared talk of some positive elements in the legacy of Mao Zedong's era, from which, he thinks, institutional innovation can stem. In an article on the Angang constitution³, the internal charter written in the 1950s by the Anshan Steel Company in China's North-East region, Cui claims that its principles – *liangcan* (two participations: executives of the company have to participate in productive labour, and workers have to participate in the management of the company) yigai (one reform: reform unreasonable regulation in the workplace) sanjiehe (three combinations: workers and engineers should be combined etc.) – prove that the ideas of codetermination and economic democracy are not new to China and could be further developed.

China's Innovation Strategy and Chongqing's Experiment

On the occasion of the 30th anniversary of the Reform and Opening policy and of the 60th anniversary of the People's Republic of China, a myriad publications set about to find

Future of China: A Petty Bourgeoisie Manifesto", Tianyu Cao (ed.), *China's Model for Modern Development*, Routlege, 2005.

² János Kornai, a Hungarian economist, first observed the Soft Budget Constraint phenomenon in the Hungarian economy of the 1970's, a socialist economy experimenting with the introduction of market reforms. "Although state-owned enterprises were vested with a moral and financial interest in maximizing their profits, the chronic loss-makers among them were not allowed to fail. They were always bailed out with financial subsidies or other instruments. Firms could count on surviving even after chronic losses, and this expectation left its mark on their behavior." (János Kornai, Eric Maskin and Gérard Roland, "Understanding the Soft Budget Constraint", *Journal of Economic Literature*, American Economic Association, 41 (4), 2003).

³ Cui Zhiyuan, "Anshan xianfa he hou Futezhuyi" (The Angang constitution and post-Fordism), *Dushu* (Reading) 1, 1996. Cui Zhiyuan is also known for advocating the importance of Dazhai, a star commune in Mao's time, and even of the Cultural Revolution.

China's recipe for success. Some scholars, such as Sebastian Heilmann and Wang Shaoguang, have emphasized the pragmatic experimental approach – encapsulated in Deng Xiaoping's famous "groping for stones to cross the river" – that the Chinese government has adopted. Heilmann focuses on China's "distinct mode of governance" described as "experimentation under hierarchy". Wang Shaoguang claims that the "adaptive capacity" of China's political system is what enabled the country to overcome countless institutional and policy obstacles. He argues that policy makers in China have proven responsive to emergent problems and have greatly learnt from controlled experiments conducted on a small scale to discover effective problem-solving tools. This incremental approach may be related to the fact that leaders belonging to this generation were mostly trained as engineers, but also to their own (often bitter) experience of revolutionary methods. Indeed, "while preserving political unity, the system allows for decentralized decision making in as many areas as possible and thus creates an institutional condition for seeking different problem-solving methods through decentralized practices and experiments". Local governments are prone to experiment, as their performance is no longer solely assessed in terms of economic growth. They are expected to gain sufficient legitimacy among the social groups in their jurisdiction to maintain social stability, without which they cannot hope to be promoted to higher positions. In the backdrop of widespread and multitudinous local experimentation, scholars like Cui Zhiyuan have found new outlets for their theoretical proposals. In an article entitled "How to comprehend today's China: An interpretation of the 'comparatively well-off society'", Cui develops the idea that China is propitious ground for institutional innovation, especially in terms of a socialist market economy; that is, a unique blend of socialized assets and market economy distinct from social democracy because it takes place at the level of primary, not secondary, distribution. The scholar has recently found a propitious avenue for his theoretical propositions and has focused on what he calls the Chongging experience (Chongging *jingyan*). As he explains in an interview conducted in Chongqing last April,

"Chongqing is a very important city in China. It is one of the four municipalities directly under the jurisdiction of the Central government with Beijing, Shanghai and Tianjin (*zhixiashi*). Chongqing is the newest and the biggest one. The total population is 33 million people while Beijing's is about 20 million. It gained this status in 1997, when the municipality of Chongqing was separated from Sichuan province to manage the construction of the Three Gorges Dam. More importantly, in 2007, Chongqing, along with Chengdu, was designated by the State Council as an experimental zone for

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⁴ Wang Shaoguang, "Adapting by learning: the evolution of China's rural health care financing", *Modern China* vol. 35 n°4, July 2009; Heilmann, Sebastian. "From Local Experiments to National Policy: The Origins of China's Distinctive Policy Process", *The China Journal*, No. 59, Jan 2008: 1-30.

integrating rural and urban development (chengxiang zonghepeitao gaige shiyanqu). But Chongqing is bigger and it has a large rural population. 70% of people still live in the countryside. It has a better size and population distribution as far as this experiment of integrating urban and rural development is concerned. Therefore, Chongqing's experiment has national significance, and all the more so after the global financial crisis, since stimulating Chinese domestic demand has become urgent. It can also help reduce trade frictions between the United States, Europe and China. If China's domestic demand could be developed, China would rely less on foreign market and foreign exports, and it would reduce the so-called global imbalance. But the key to raise our domestic market is to raise the revenue of peasants. This is why Chongqing's experiment is of special importance.

In recent articles, I have described the "Chongqing experience". We are now in the headquarters of Chongqing's municipal government commission for state-owned assets (guoziwei). The Central government but also the local governments own state-owned assets. I am now a special assistant to the commission director. For one year, I will work as a deputy director. I accepted this official position without hesitation because I find it much more interesting than being at a university. Most people there are more detached from reality. In the main provinces in the last ten years, there has been large-scale privatization led by local governments. But in Chongqing, even though there has also been large privatization, the local state-owned assets have multiplied six to eight times. At the same time, local private entrepreneurship has developed very quickly. So Chongqing's experience shows that public ownership of assets and private entrepreneurship are not necessarily contradictory and that they are not substitutes for each other. I think this isn't a relationship of substitution but complementarity. One of the key mechanisms is that the municipal government gets market revenue from public owned assets, which allows them to reduce the tax on private enterprises and individuals. They don't need to tax them heavily since the state-owned assets have increased their revenue eight times in the last eight years".

Opening Up the West Policy

In the 1990s, some Chinese scholars warned political leaders that inequalities, notably interregional inequalities, were growing at a dangerous pace. In *Political economy of uneven development: the case of China*, Wang Shaoguang and Hu Angang identified the western part of China as a significant region of underdevelopment and called for a political reaction: "increasing inequality is not fated. Policy matters". Their move was a landmark of the New Left movement. In January 2000, the State Council created a Leadership Group for Western China Development to help the West catch up with the coastal regions, which had benefited greatly from the economic reforms. The policy covers six provinces (Gansu, Guizhou, Qinghai, Shaanxi, Sichuan, and Yunnan), five autonomous regions (Guangxi, Inner Mongolia, Ningxia, Tibet, and Xinjiang) and one municipality (Chongqing), and aims at boosting endogenous economic growth, reducing socio-economic inequalities, and ensuring social and political stability among non-Han areas.

"China has a development strategy for the West of the country (xibu da kaifa). This policy started in 2001. Chongqing is one of the key western cities and has the rank of a

province. The Central government gave special policy privileges to all twelve entities, allowing them to levy only 15% of enterprise income tax while the national average for enterprise income tax was 33% until 2008 and is now 25%. Some of the Western provinces voluntarily gave up this privilege after enforcing it for two or three years and went back to 33% because they had undertaken too much privatization and they worried that if they did not levy 33% of enterprise income tax, they would not be able to fulfil their necessary social functions like paying the teachers, paying the roads and so on. Only Chongqing went on with the 15% rate for local enterprises. This is why Chongqing has attracted huge foreign investment from Hewlett-Packard and Foxconn. The firms will produce 8,000 computers a day in Chongqing and Hewlett-Packard has moved its financial accounting centre from Singapore to Chongging. This is very unusual because foreign investors have never set up their financial accounting centres in China before. They are usually located in Singapore or Hong Kong. This is because the enterprise income tax in Singapore is 17.5%. Therefore, low taxation is good for private local entrepreneurship, but paradoxically it is only possible because the government benefits from the revenues of public-owned assets. This is why we can talk of a new model. It is not a return to the pre-reform period, because back then China's many public assets did not generate market revenue. It gives some substance to this concept of a socialist market economy, and the coexistence of market forms of ownership. It used to be just a slogan, most people thought, and was exactly like a competitive market environment. This is an interesting aspect of the Chongqing model".

Chongqing's status and economic success have allowed for the development of various pilot schemes. While populist measures such as a massive crackdown on local corruption have been widely reported by the local, national and international press, the coverage of other policies regarding land exchange and welfare housing was only minimal before the municipal government and Cui Zhiyuan launched an impressive publicity campaign.

A New Kind of Land Certificate Exchange

In China, farmland is currently collectively owned, and meted out to farmers in small plots with 30-year leasing contracts. Village governments headed by local Communist Party secretaries hold real decisional power. However, villagers have started electing their local leaders directly in the 1980s. As a result, they can control local resources better and bolster their independence and self-sufficiency, including the creation of cooperative village businesses and management of village land, encompassing homesteads, arable land, and forests⁵. In October 2008, the Chinese Communist Party unveiled a land reform policy to uplift the lagging incomes of the 750 million people living in the countryside, encouraging them to lease or transfer their land-use rights under a to-be-built land market. The policy extends pilot projects in Guangdong province and the municipality of Chongqing that allow such collectively-owned land to be traded without first going through government acquisition.

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⁵ For further reading on grassroots democracy: Gunter Schubert, "Democracy Under One-Party Rule", *China Perpectives*, 46, 2003; O'Brien, Kevin J. and Li, Lianjiang, *Rightful resistance in rural China*, by. New York and Cambridge: Cambridge University Press, 2006

Indeed, before the law was passed, local governments acquired such land at extremely low prices and made huge profit through selling it to developers at much higher prices. The CCP now promotes land-use right transfer because 226 million of the 500 million rural labourers are no longer engaged in agricultural production as they find work in other places, which has caused inefficiency or under-utilisation of cultivated land. The policy can speed up China's urbanization process if migrant farmers find it easier to transfer their land-use rights and to get stable income from land leasing to subsidize their expenses in the cities where they now live (Sarah Y. Tong & Gang Chen, "China's land policy", *East Asian Institute Background Brief* No. 419, 11 December 2008). Chongqing's pilot experiment can therefore give us an insight into what is likely to happen at the national level now that the law is implemented. Cui Zhiyuan explains:

"A crucial aspect of Chongqing's experiment is a particular policy related to the integrating urban and rural development policy; that is, sharing more the benefits of urbanization with the peasants. Indeed, urbanization necessarily leads to an increase in the value of land. Next year is the 100th year anniversary of the 1911 revolution. The economic part of Sun Yat-sen's main theory, the three principles of the people, explicitly comes from American land reformer Henry George. He had that interesting theory that since land value increase is not due to landowners efforts - it is usually because the government built a road or because many private individuals set up shops in one place and the aggregation of many different people has a conglomerative effect – therefore the main source of land value increase should not be given to any private individual. Only society as a whole should capture most of it. He argued that if government can represent society as a whole to capture the major part of land value increase, the government does not need to rely on any other tax. He called it the single tax movement. Sun Yat-sen, when he studied medicine in Hawaii, became acquainted with a friend of Henry George. He wanted to meet him in person but Henry George died of a heart attack while he was running for New York City mayor. He had a very elaborate scheme for land reform and for capturing land value increase. Chongqing has worked out an interesting method related to this basic idea of capturing land value increase and realizing Henry George and Sun Yatsen's ideals of land rent socialization. In December 2008, Chongqing set up the first land exchange in China. Both Shanghai and Shenzhen have stock exchanges. But Chongging has established the first land certificate (dipiao 地票) exchange. Two major national policies are in tension. China wants rapid urbanization but China does not want to rely on the import of food. As a result, leaders have decided on a red line of minimum arable land not to be crossed. Arable land all over the country cannot be reduced below 1.8 billion mus (120,000 hectares). These two policies are in contradiction. Chongging has tried to reduce the tension between the two, as it was allowed by the State Council to try out pioneering experiments – that's the whole point of this experimental zone. But at first, it did not want to publicize it too much before the full results were out. Chongqing did not to reduce existing arable land, but increased urban land use instead. The only possibility was to reconvert rural construction land back to arable land, since rural land is divided into arable land and rural construction land, which is also divided into land for rural factories and rural residence. So peasants have started reconverting old damaged or useless factories and roads into arable land. They can also reassemble their living space, which is usually very scattered, and live in rearranged more compact but actually more comfortable homes in terms of water supply facilities. They can then reconvert their former residence land into arable land. Now, this means that the total amount of arable land has increased and they can sell the land certificates of the added land in the land exchange without reducing the total amount of arable land. Anyone - developers, public or private buyers - can compete in auction in Chongqing land exchange in Chongqing's Financial district. Since December 2008, ten auctions have already been held. Last time was April 28, only a few days ago. The auction price is RMB 140,000 for a one-mu land certificate. This price is given to the peasants (the village) who converted back arable land. This is a way for the peasants to share some of the land value increase due to urbanization because, usually, in Beijing for instance, or other places, only people who live near the cities, in the suburbs, can share some of the land value increase of urbanization when their land is confiscated, even though people complain that the compensations are too low. But here, even people living far from the city can get their share and get payment as long as they can convert rural land back to arable land. The money they get from this land exchange is paid to the whole village. They can use it for whatever purpose. It depends on what is approved and voted by the village committee. It has to be approved by two thirds of the village".

Public Rent Buildings

As far as accommodation for urban dwellers is concerned, after the in-kind allocation of public housing was abolished in 1998, units were sold to tenants at subsidized prices and a housing supply system was established, consisting of low-rent public housing, affordable commodity housing and ordinary commodity housing. Other measures were taken to relax the regulation on home mortgage loans and develop a second-hand housing market and a rental market. The housing condition of urban dwellers has greatly improved. However, the housing need of low-income groups remains mostly unmet in many cities. A shift in the government policy to stimulate economic growth and improve people's welfare since 2007 has given welfare housing programs a major boost. Cui Zhiyuan explains that Chongqing has developed its own welfare accommodation program because nowadays one of the first concerns of people in China is the high commercial apartment price:

"Before the reform, all the houses were publicly owned and rent to the people at a very low price. But after the reform, privatization of public assets was undertaken in fair conditions. For instance, my parents in Beijing rent their apartment for about 40 years and in the middle of the 1990s, they bought their rental house at a very cheap price because they had worked for their work unit (danwei) and rent that place for so many years. The house ownership percentage in Chinese cities is actually higher than in the United States. There is some kind of tradition in China in the cities. The expectations may be too high. I married my wife in the United States, because we both studied there. My American colleagues were perfectly happy to get married without owning a house. But here in China, many young people think that they first have to buy an apartment before getting married. I guess neither it is the case in France. Most people complain about the price of commercial apartments now in China. Many young people want to buy better apartments. Of course, there are some so-called affordable housing complexes (only 5%) reserved to lower-income people. But this is not enough. Therefore, Chongqing has launched a twotrack system this year. One comprises commercial apartments while the other one includes public rental apartment supposed to provide 35-40% of the housing. The public rent scheme aims at providing reasonably priced apartments for young university graduates. They are not really poor but they won't have to get heavily into debt to buy their own apartment. So Chongqing has started building these complexes on twenty

different sites and aims at building 40 million m² of public rental apartments. They will be provided for by the state-owned enterprises managed by the state-owned asset commission here. Since this scheme will not make profit, commercial builders and developers were not interested. They could not make much money out of the controlled rents. Other large cities cannot embark on this kind of schemes because they do not have local state-owned enterprises."

From Scholar to Local Official

Chinese academics have been torn between two scholarly traditions: the Western idea of the university which emphasizes autonomy, introduced in the Qing dynasty by government officials trained in the West; and the legacy that developed from the Confucian value of training scholars to be government officials, encapsulated in the principle of "being an official after being an excellent scholar" (xue er you ze shi). Both legacies can be found in today's Chinese academic field. Some scholars focus on purely academic research while a kind of marketplace of ideas has developed, in the sense that some other scholars are striving to contribute and find solutions to the numerous problems and obstacles the country faces in its fast-pace multi-faced rush to modernization and development. They are very much encouraged to do so by the pragmatic and technocratic nature of the government, where leaders, in their attempt to cling to power, do their best to identify, analyze and solve issues as they rise. Various communication channels therefore coexist between scholars and officials. Confidential ways of getting the leaders' attention through internal (neibu) publications and personal connections have now been mostly superseded by open publicity. As leaders keep a close eye on Internet and traditional debates and publications, they get to know what various economists, sociologists and legal scholars - to mention the disciplines regarded as most relevant by Chinese leaders – have to say and regularly invite them to speak out and even participate in the elaboration or revision of new policies. These practices take place both at the Central level, and at the local level, where experimental practice allows for more innovation and flexibility. In the case of Cui Zhiyuan, Chongqing government had launched its various policies before getting in touch with him:

"Actually, in November 2008, I attended the annual meeting of the Chinese economists association that was held in Chongqing. During this meeting, the party secretary Bo Xilai, and then the first deputy mayor, who has now become the mayor of Chongqing, Huang Qifan, met five of us. We had a long discussion and that's how I first learnt about this Chongqing experiment. Then I came here eight times in 2009, trying to do more research and I participated in meetings organized by the local government, and wrote some articles. I became very interested in Chongqing and I started to make some research to understand what they were doing, but I also helped them summarize it all. These people are doing very well but they do not necessarily fully appreciate the implications of what they are actually doing and they do not see the bigger picture. It usually happens. The main ideology among Chinese economists, especially in Beijing, is very much influenced

by neo-liberal thinking. So Chongqing policies were under quite a lot of criticism. Economists in Beijing said that the municipal government should privatize more without understanding that the private sector increases in Chongqing even faster than the state sector. Economists only saw that the state sector is expanding too. I consider this model as co-development of both public and private enterprises. This needs some theoretical justification because the dominant thinking, also in the West, views them as mutual substitutes.

I had already started communicating on this before I started working here. Publishing articles about Chongqing's experience is part of what I'll be doing this year, communicating both internally to government officials, and to the general press⁶. Many things are going on in Chongqing right now. But there are still many problems and the starting point is very low. But Chongqing benefits from some assets too. For instance, during the Second World War, Chongqing was the war time capital city and culture and traditions matter here".

China's Method of Local Experimentation

The People's Republic of China is administratively divided into governments at province (省 sheng), prefecture (地区 diqu), county (县 xian), township (乡xiang) or town (镇 zhen) levels. Villages (村 cun) constitute a fifth informal political division. The performance of local governments used to be based on economic growth, but Chinese society has become growingly fractured (duanlie), as sociologist Sun Liping famously warned, and priorities have slightly shifted⁷. Daunting inequalities led to mounting instability. China's Public Security Ministry reported 87,000 mass incidents in 2005, up 6.6 per cent compared to 2004, and 50 per cent compared to 2003. The ministry has not released the latest figures. These so-called incidents are often prompted by patent cases of government corruption or abuse of power, unfair expropriations, police and judicial mistakes, environment pollution and so on. It is crucial to keep in mind that protesters call for redress at higher levels of government as they do not conceive the state as a monolith. They expect the central government to solve or arbitrate their disputes with local or provincial authorities⁸. Conversely, local cadres can lose all chance of promotion if unrest outbursts affect their jurisdiction. They have therefore implemented institutional innovations to pacify social conflicts and boost their legitimacy. The most successful ones are emulated and experimented in other places before being implemented at provincial or national scale.

"In the European Union, in the Lisbon agenda, "open methods of coordination", which constitute a kind of political review, are mentioned. Basically, it is said that each EU member has to satisfy basic EU goals but they will be subjected to annual review by a

⁸ Kevin O'Brien, ed., *Popular Protest in China*, Cambridge, Harvard University Press, 2008.

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⁶ To mention the most recent examples, 21st century business Herald and Outlook weekly published special issues on Chongqing.

⁷ Sun Liping. *Duanlie* (Division), Beijing, Shehui kexui wenbian chubanshe, 2003.

delegation of other member countries. Although the overall goal of the EU agenda is set, each member country can have large freedom in experimenting different ways of achieving these common goals. However, they are subjected to periodical review. I think this is a good formal mechanism that China can learn from, as in China there is no formal mechanism for this. We should set up some kind of policy conference.

There are many examples of local social unrest in various Chinese provinces. For instance, an event in Jilin province caught national attention because the privatization of a local steel factory had allegedly been corrupted. After this corrupted privatization, the new manager was killed by workers because he tried to fire many of them. It is a complicated legal case, because some people argue that workers did not kill this manager. Some other man in the crowd was said to have been sent by competitors. It is an example that helped local governments realize that when they are engaged in too much privatization at too fast a pace, they generate social unrest and also lose much potential revenue from public assets and have to levy high tax on enterprises, which many private owners feel unhappy about. Initially, after privatizations, local governments expected that they would gain the support of private owners at least, but it turned out not to be the case. Therefore, many other provinces, like Shandong province, have come here to learn how the Chongging state-owned asset commission has managed state-owned assets. At the level of the Central government, people are starting to be interested in the Chongqing experiments. Because, as you know, the Party secretary who came here, Bo Xilai in late 2007-early 2008, is a member of the political bureau and his father is Bo Yibo, who belongs to the first generation of leaders. And this has added to the prominence of the Chongging experience even though this is not the only reason".

For further reading:

Cui Zhiyuan's articles available are available online: http://www.cui-zy.cn/pub.php

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Published in Books & Ideas, 6 December 2010. © booksandideas.net