Working Paper

China and the (Human) Developmental State

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> "several developmental states are alive and kicking in East Asia. The most dynamic among them is the People's Republic of China…" *Amiya Kumar Bagchi* (2000)

1. Introduction. Amiya Bagchi has addressed the issue of the developmental state in China on a preliminary basis in Bagchi (2006). There, Bagchi calls attention to three fundamental foundation posts of China's rapid economic development, both before and after the reform period began in 1979. The first is China's land reform of the 1940s and early 50s, which eliminated landlordism and greatly reduced inequality of land access. Second was the commitment, since the Communists took power in 1949, to spreading basic education widely among the population. And third was the commitment to achieving national autonomy on the world stage. I would add that this applied not only to the capitalist world; indeed, a telling example is the speed with which China threw off dependence on the Soviet Union by the late 1950s, after it had originally and reluctantly accepted such a relationship out of necessity when the People's Republic was first formed.

I think this argument is fundamentally correct and it belongs at the beginning of any discussion of the role of the developmental state in China. There is much more to the story, of course. Stimulated by Bagchi 2006, 2004, 2000 inter alia, this is an essay on the developmental state in China, how it has changed over time, and what are some of the problems of evaluating it. The next section gives a bit of theoretical and historical background. Section 3 discusses the developmental state in the pre-reform years of the People's Republic, 4 ponders the question of evaluating it, and 5 deals with the changes of the reform era. The issue of the relation between result and intent in the latter is taken up in section 6. Finally, section 7 discusses the recent apparent turn toward a more human development-oriented approach by China's leaders, and section 8 concludes.

2. Background. Theorizing the role of the state has been complex and problematic. To what degree does the state express the interests of powerful classes and groups within society; or the national polity as a whole, say, in overcoming barriers to development or in protecting the

national interest in dealings with the rest of the world; and to what extent does it constitute an autonomous force with its own interests and objectives? These have been much discussed questions and I do not intend to rehash them here (Skocpol, 1979; Evans et al, 1985). The very concept of "developmental state" implies either substantial autonomy or a de facto national (as opposed to interest-oriented) role for the state. But even this way of looking at it leaves many questions to be answered. For instance, a progressive ruling group may control the state, subordinating it to that group's own interests, but in doing so move the entire society toward industrialization and development (even if with considerable "collateral damage" to non-members of the ruling group); in which case the state could be said to express in some sense the interests of society as a whole because of the progressive objectives of the ruling group. From the same perspective, a state in the hands of a moribund and reactionary ruling class would be out of alignment with the long-term interest of the nation.

These very basic issues vis a vis the state are briefly rehearsed in order to set the stage for the important question of what the Chinese state is doing and for whom it is doing it. In China, the long-term and intimate relationship between the state and the Communist Party further complicates the issue. Perhaps the only obvious observation about the role of the state in China is that it has changed greatly since 1949. Both the *extent* and the *nature* of the state's role have changed.

The modern Chinese state emerged from an imperial bureaucratic tradition that dates back to the third century BCE when the imperial bureaucracy was established by the first Qin emperor. The leading role of the "gentry" who exercised local rule, having advanced to office by means of a complex examination system, is generally dated to the Song dynasty (960-1279). Under this system powerful monarchs ruled the country, while the ability to enter the local ruling bureaucracy and acquire high social and political status in general were achieved by means of an arduous examination system, success in which required lengthy study of Confucian texts. This in turn required the possession of considerable economic means. The bureaucracy, which was

complex and functionally specific, administered justice, collected taxes, oversaw education, controlled water flow, grain transportation and the salt trade, etc.[1]

While the Chinese revolution of the late 1940s and early 1950s uprooted the vestiges of imperial rule and the adaptations that had occurred under the Republic after 1911, aspects of the culture of the traditional ruling system inevitably persisted into the new era. In some ways, bureaucratic central planning, the leading role of Communist Party cadres throughout the country, and the extraordinary deference demanded from ordinary people by state officials all resonated with customary practices familiar to the population from centuries of history, cultural atavisms rooted in the traditional state system. For this reason, there was more than a grain of truth in the often asserted explanation in China of the autocratic and authoritarian rule of Mao Zedong, namely, that it was the result of atavistic "feudal" attitudes of Chinese, such as "blind worship of authority."

During the Republican period (1911-1949) the state dominated modern industry. The Guomindang government forged close links with big capitalists and, after the end of the war, took over the enterprises of the defeated Axis powers so as to control two-thirds of modern industrial capital, including manufacturing, mining, banking, utilities and transport. However, the modern sector remained a very small share of the overall economy, and elsewhere private enterprise and market forces both flourished (Rawski, 1989). Moreover, the Republican state, while in one respect epitomizing "bureaucratic capitalism," also had a rather more complex character, for instance playing an active role in spreading basic education, expanding the number of government schools and bringing educational administration down to the county level, financing urban teachers' salaries and promoting vocational education for villagers.

3. The Developmental State before Reform. The early years of the PRC were marked by a replication of the Soviet experience of using the state to bring about revolutionary changes in property ownership and socio-political institutions along a broad front, including replacement of the market by administrative central planning, which enabled the state to exert direct control of

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[1] For some basic reading on the development of the state in pre-modern China, see Dull 1990; Ho 1964; Mote 1981; Kuhn 2002; Shambaugh 2000; and Wong 1997.

resource allocation in the modern sector. This facilitated basic structural changes in the economy, such as a massive increase in the investment rate and concomitant shift of resources from consumer goods to capital goods production as well as a shift in the locus of investment from the relatively developed eastern coastal regions to the backward interior. For a time, roughly 1952-57, this system worked to produce rapid economic growth and improvements in living standards of most Chinese. But the central planning model adopted was at bottom a naïve one, which assumed that the entire national economy could be administered as if it were a very large single enterprise. The role of markets was minimized and the problem of inadequate information facing the planners was chronic, the more so as the economy expanded in size and complexity and as the state, itself, through nationalization and socialization campaigns, seized control of ever larger shares of total economic activity. The highly centralized system gave rise to social stratification and problems of motivation among the essentially passive workforce. It was a top-down system with authority and initiative monopolized by a small layer of technical and administrative personnel. Hierarchical in nature, it reinforced a hierarchical social structure. The high degree of centralization, which worked early on in bringing about structural change, fit poorly in the longer run with China's conditions of large size and disparate and often remote localities. Nor did the capital intensity of the technology supplied by the Soviet Union, which itself had become a labor scarce society after World Was II, match China's condition of "unlimited supplies of labor" and consequent need for rapid employment creation. Ideologically, the Soviet central planning approach was fundamentally incompatible with Mao's developing idea of the "mass line," in which the population at large was expected to participate fully in the development effort, albeit on condition of accepting Mao's program. Seeing Soviet planning as elitist and top-down and as giving rise to a new "bourgeoisie" of bureaucrats and technicians who were above the people and who inevitably grabbed power and privilege for themselves, Mao became a vigorous critic of it (Mao, 1977).

The period of "late Maoism" that began around 1958 and lasted until Mao's death in 1976 was an attempt to fashion a different kind of "model" of development, including a different role for the state, in which the function of specialized bureaucracies was vastly diminished in favor of direct ideological links between top leaders and masses. This produced a downsized state and a radically decentralized economy with widespread local self-sufficiency and minimal inter-regional and inter-sectoral links. As an overall approach to economic organization and

development, it proved to be deeply flawed by a fundamental lacuna – it lacked any mechanism for coordinating economic decisions in the absence of either planning or markets, as if (as Mao himself was to admit) "coal and iron could walk by themselves" (Riskin, 1987, 1990).[2] If the central planning model was naïve, this one was breathtakingly so. Nevertheless, Mao succeeded in knocking down the "developmental state" and largely replacing it with this new model, although he did attempt to preserve a vestige of the former for purposes of national defense, by retaining control of the military and by means of the centrally directed "Third Front" program of heavy industry development in the remote interior (Naughton 1988). The overall results were something close to economic collapse in the terrible famine of 1959-61, which was largely self-inflicted as a result of the extraordinarily ill-conceived great leap forward policies (Riskin 1998). Interspersed with these policies, many of which were resurrected in the cultural revolution of the late 60s, were periodic emergency returns to a truncated version of the former planning system. From the end of the cultural revolution proper in 1969 until Mao's death and the subsequent arrest of the "gang of four" in 1976, a political stalemate between the warring factions of the Party/state leadership generated an ongoing paralysis of policy initiative. When the post-Mao political situation was finally sorted out and Deng Xiaoping emerged as the new supreme leader, China turned sharply away from both the Maoist and the central planning approach and toward "transition to a socialist market economy."

4. Problems of Evaluation. What had been accomplished by this dramatically fluctuating treatment of the developmental state by the end of the "collective period" in 1978? In answering this question, it is necessary first to give proper weight to the great famine. Costing upwards of 15 million lives,[3] it constitutes the greatest single blot on the record of Mao's rule, and one which has never been addressed with anything like the attention it requires by China's government. Criticizing Japan for refusing to acknowledge culpability for the Nanjing Massacre

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[2] A sophisticated combination of plan and market along Lange-Lerner lines, or in Scandinavian mode, was never considered an option by a leader who considered the market itself an institution that bred enemies of socialism.

[3] This figure derives from the officially published mortality rates of the famine years. Attempts to estimate unreported deaths have stretched the figure to almost 30 million. Higher estimates have been circulated, but they have no firm foundation. See Riskin, 1998.

of 1937-38, the government itself is similarly derelict in burying the history of the famine for which it was largely responsible, and which cost far more lives than did the events in Nanjing.

Two basic problems faced by China provide context for evaluating the developmental state during the first twenty-five years of the People's Republic. First, there is the domestic organizational problem of unifying a very large, populous country and organizing it in a way that could stimulate rapid economic development. Second, there is the autonomy issue of safeguarding China's economic and political independence in a bi-polar world of increasing complexity and decreasing effective size. These two issues are necessarily intertwined. Thus, as discussed above, China's early tutelage under the Soviet Union produced an approach to economic organization that, while effective for a few years in building an industrial base, soon began pinching like an ill-fitting shoe. Its rejection by China was tied politically, economically and even militarily to the rupture of relations with the Soviets.

There are at least two respects in which China's record differed from that of most developing countries at the time. First, at great cost to itself, China maintained national autonomy in a world dominated by two superpowers. With considerable help from a hostile Washington, it had avoided being sucked into the U.S. orbit, while also fending off a subordinate role under Soviet tutelage. Its policy options, however poorly executed and however constrained by hostility on all sides, had remained in its own hands. The hostility was costly first in denying China access to resources and technology through the ordinary channels of international trade and investment and thus greatly complicating its development mission; and second, because it fostered a siege mentality among the Chinese leadership which contributed to the socio-political turmoil that reigned for much of the period. For instance, the famine of 1959-61 was materially worsened by leadership neglect due to its preoccupation with the developing Sino-Soviet dispute.[4] Another

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[4] "[D]uring 1960 the Chinese leadership had unwisely neglected domestic problems to engage in the polemics with the CPSU" and "this isolation increased the tension under which the Chinese leaders worked as they strove to deal with their grave internal problems." McFarquhar, 1997, pp. 22, 134. Speaking of Mao's reluctance to abandon the GLF despite evidence of starvation, Bernstein (2006) writes, "A well-known third explanation, offered by Mao himself, was that the escalating Sino-Soviet conflict distracted the leadership from domestic issues." Evidence of this can be found in the sharp drop in entries devoted to domestic matters in *Mao Zedong's Manuscripts since the*

example is provided by the Third Front policies, which were enormously wasteful in their effort, for reasons of national defense rather than economic rationality, to locate heavy industries in remote and undeveloped interior regions lacking in the most basic infrastructure.

Second, despite these problems and Mao's mismanagement of the economy, China nevertheless managed to achieve high scores on some very basic human development targets. Average life expectancy at birth had risen from 40 years in 1949 to exceed 65 years in 1978, well above the norm for countries at China's level of per capita income. A publicly financed healthcare system made primary health care widely accessible, especially for mothers and children. Infant mortality had fallen steadily from 250/1000 in 1950 to between 40 and 50 per 1000 in 1980, according to UNICEF (1995). Literacy rates also exceeded the norm. Primary school enrollment had risen from about one-quarter of the school age population in 1950 to over 90 percent. By 1978, even the relatively neglected rural population was 80 percent covered by a cooperative medical system that provided rudimentary healthcare to the majority of Chinese for the first time. These accomplishments in advancing human development were in large part due to the improvements in security, employment, nutrition, incomes, public health and education that had been achieved in the early years of the People's Republic and partly sustained and in some respects improved after the recovery from the famine of 1959-61. They were basic but very substantial achievements.

Yet it proved impossible to go beyond them. The Sino-Soviet split left China proudly independent but quite isolated in the world and without access to the benefits of trade with either the Soviet bloc or the West. From the collapse of the great leap forward (1958-60) until after Mao's death in 1976, the Chinese state was, though determinedly independent, constantly in a state of turmoil with intermittent deadly factional strife that ruled out anything approaching a "developmental" mode. Whereas national autonomy may be a necessary condition for mobilizing the power of the state on behalf of development, the way this power was wielded was distorted and development was truncated. Despite high nominal growth rates of GDP, there was no improvement in food consumption or real wages from the mid-1950s to the mid-1970s, and housing conditions

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Establishment of the State during the height of the famine in 1960 and the period when the Soviets pulled their experts out of China. See Bernstein, 2006, pp. 442-443.

deteriorated. Without effective planning or any means of responding to demand, production bore no "fruits" [5] other than the achievement of arbitrary growth targets. By the end of 1978 many crippling distortions in the economy had been identified and the government abandoned a new and ambitious ten-year plan in order to address the need for reform and restructuring. It is speculative to try to assign ultimate causes to the distortions, but the impact of international isolation and hostility must have played a role, illustrating again the price of China's autonomy. Also, of course, there was the megalomania of Mao Zedong, especially in his later years. Mao's enormous prestige within China was a result of his historical role in leading China through war and civil war to Liberation, in leading China in finally "standing up" (*qilai*) in the world, in fighting the world's greatest military power to a standstill in Korea, and in redistributing the largest amount of land ever to the largest number of recipients. Mao's prestige also stemmed from his writings, many of which spoke eloquently to the felt needs and hopes of much of the population. But if one takes Mao's ideological cum political objectives seriously, then he was essentially attempting to accomplish the impossible and, when rebuffed by objective conditions as well as by widespread resistance, he made things worse by using his unique prestige to force his will on China at a very high cost.

What I have labeled "impossible" objectives include the attainment of a classless communist society that had supposedly transcended the need for "bourgeois rights" (such as wage differentials, markets and money) in a very poor, pre-industrial country. There are two perspectives from which to view this. The first concerns whether the theoretical goal of such a society is coherent in the first place.[6] This is a much debated issue[7] and one that is beyond the scope of the present paper. Even if one believes that the ultimate goal is a feasible and coherent one, however, one must then confront the extreme skepticism of its original progenitors regarding whether it could possibly be instituted before its historical time had come, i.e., before there had been a full development of the "forces of production," which was regarded as the historical task of

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[5] In the aftermath of the change of regimes following Mao's death, a lively literature grew up in the press and journals around the axiom that economic growth ought to bear "fruit" of some kind, such as rising living conditions and improved productivity, but had not done so for many years.

[6] This goal remained speculative in any case in the minds of Marx and Engels, who were more concerned with analyzing the capitalism of their day than in blueprinting the distant future.

[7] E.g., see Nove (1983), Part I for a humane but skeptical view of this issue.

capitalism. Marx today sounds very prescient in stating that a successful revolution without first having achieved "the material conditions . . . which make necessary the abolition of the bourgeois mode of production" will be "only a temporary victory, only an element in the service of the bourgeois revolution, itself…." (Meisner, 1982, p. 37). Is there a better capsule description than this of the connection between China's communist revolution and the developments of the past two decades?

Whether one regards it as a rejection of Marxian utopianism or of the feasibility of these ideas in a pre-industrial society, I have argued that Mao's denunciation of both central planning and the market left China without any institution or mechanism by which to coordinate the workings of its increasingly complex economy, and that this condition inevitably bred economic chaos. There is another issue, however, that is relevant to the choices facing China after Mao's death, namely, the nature of the technological change that was sweeping the capitalist world at that time. Like the Soviet Union before it, China had excelled during the collective period in what has come to be called "extensive growth," i.e., growth through expansion of inputs, especially capital accumulation. The process of building new industrial factories and shifting low-productivity farmers into them was one that central planning was effective in administering, and it had given rise to rapid growth in both countries. The new technologies that began to spread in the last quarter of the 20th century, however, were different. Electronics, information technology, computerization, telecommunications all emphasized the value of decentralized innovation, endogenous technical change going on within enterprises. That is an approach quite alien to the requirements of central administrative planning, which tolerated little decision-making initiative and generated little incentive to innovate in the hands of enterprise personnel. It was in this context that Russia and Eastern Europe, unable to match the records of the more dynamic capitalist countries, gave up the competition with the West. China, coming out of the Mao era with a central planning system that had been effectively destroyed by Mao, might under earlier circumstances have chosen to reconstruct it in the image of the successful First Five Year Plan (1953-57). But technology and the world had changed. The central planning approach that had looked so successful back in the 1950s, having industrialized the Soviet Union and enabled it to conquer Hitler and wage a vigorous economic competition with the West, had lost its luster by the late 1970s. The option of returning to central planning was no longer compelling in any way.

Moreover, by that time, after the lives lost and the suffering of the preceding two decades, and with the evident gap between Maoist ideology and actual political practice, the very idea of socialism had been dealt a blow from which it has never recovered in China. When popular commitment to socialist values of equality, security, solidarity melted away before the onslaught of market capitalism in the early reform period, a large part of the reason was the prolonged and thorough discrediting of those values by the realities of what had happened under their cover for two decades.

Thus, any discussion of the developmental state during the first quarter century of the People's Republic must come to mixed conclusions. Surely, the state was instrumental in safeguarding China's national autonomy, unifying the national market, implementing a massive land reform, inaugurating economic development, laying an industrial base, and improving basic HD indicators such as longevity and literacy. It also brought about a calamitous famine, generated social conflict and turmoil from which millions suffered and died, and maintained a regimen of draconian control over virtually all aspects of everyday life and thought. The degree to which responsibility for these negative features must be assigned to the person of Mao Zedong, to the ideology of Party control of state and society, to China's so-called "feudal" tradition of "blind worship of authority," to the underdevelopment of the economy and absence of an educated middle class, or to other causes is a worthy question for discussion. What seems clear is the complex role of the state – which itself was far from monolithic – during this period and the extreme range of results of its operation. No legitimate evaluation of the extraordinary achievements of the post-reform period can ignore the contributions to these achievements of the pre-reform state. But no legitimate evaluation of the pre-reform state can ignore the terrible wounds it inflicted on Chinese society, which were profoundly anti-human developmental.

5. The Reform Period. China's achievements since the reform era began in 1979 constitute a great and in some ways unprecedented economic success story, which includes the stratospheric growth rate of real GDP, reaching over 9 percent per year over some 25 years; the equally exceptional rise in exports, which advanced by 12.4 percent annually in the 1990s and 20.3 percent in the first four years of the new century (Silva-Ruete, 2006); the great inflow of foreign direct investment since the mid-1990s; the observable improvement in the living standards of most Chinese; and a

reduction in absolute extreme poverty of a record-breaking scale and speed. These developments constitute evidence of great success, indeed.

A different perspective on the reform period focuses not on the state's role in stimulating economic growth, but on its abandonment of its previous role in promoting human security, solidarity and equality. Thus, the retreat from the promise of full employment, old age security and universal health care, the emergence of large-scale open unemployment and urban poverty, the collapse of the cooperative medical system in the countryside and decay of the public health system generally and the rapidly widening inequalities between regions, urban and rural areas, and among personal incomes generally, all together amount to a profound weakening of the state's previous partial, episodic but serious commitment to many fundamental aspects of human development.[8] Along with the weakness of the domestic financial system, the resulting human development challenges have continuously threatened to spin out of control and bring the great development spurt to an end. These include, inter alia, rapid polarization of incomes; a huge surplus of workers seeking gainful employment; burgeoning unemployment in the cities; widespread rural unrest due to land-grabbing by local governments and elites; excessive fees, exactions and other inequities imposed on farmers;[9] the collapse of the public health system; poisoning of the natural environment, including air, land and water, by newly established industries and unwise agricultural practices; advancing desertification and a severe and growing shortage of fresh water in the north.

China's state has been deeply involved on both sides of this balance sheet. It has followed policies that have permitted and even stimulated the fast growth of the past quarter century, while at the same time it has allowed the kinds of problems enumerated in the previous paragraph to fester and grow. Things could have been much worse, however. The state took steps that effectively permitted a market economy to form and expand and the new institutional context for such an economy to be constructed gradually, while it simultaneously managed to

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[8] Other aspects, of course, were not promoted, such as individual liberty, political democracy and protection of the natural environment.

[9] The abolition of these fees and, later, of the agricultural tax, leaves open the question of where local governments in poorer areas are to obtain the resources to provide basic services, such as education and public health. See World Bank (2002) for a good discussion of the irrationality of China's central-local fiscal arrangements.

maintain aggregate demand and preserve macroeconomic and institutional stability. Thus, economic growth proceeded rapidly, incomes and living standards rose (although unequally), and prices remained stable throughout most of the transition. China famously declined to adopt the "big bang" approach of the EEFSU countries, namely rapid privatization, price liberalization and the elimination of the previously existing institutions for controlling the economy. Instead, a market economy was allowed to grow up around the plan, using the device of a "dual track system" in which state enterprises sold within-quota output to the state at fixed prices and were encouraged to sell additional output on the market at market prices. While predictably giving rise to corruption as those with access to resources at state prices could resell them at market prices, the "dual track system" also introduced market incentives into the state sector for the first time, instilled some entrepreneurial instincts there and brought about a kind of de facto price reform. But the government, central and local, retained a powerful role, and the main institutions that organized the economy remained state institutions. Privatization occurred but more gradually and it was not ubiquitous. This is a far cry from what was done in much of Eastern Europe and the former Soviet Union.[10] The state also brought into being a large body of economic laws and regulations and the beginnings of a legal system that meets the needs of foreign and domestic businesses, selectively imposed pro-growth relaxations of tax and other policies in favored regions of the country, and engaged in massive infrastructural investment there.

In addition, the state negotiated China's way into the World Trade Organization. Despite being forced to accept unfavorable terms of accession compared to other developing countries, especially vis a vis agriculture, China's accession stimulated even faster economic growth by reassuring foreign investors and thus provoking a large increase in FDI, as well as by enlarging

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[10] There has been a vigorous debate about the reasons for China's achievements, the differences between the Chinese case and that of other transition economies, and the relevance and applicability of the Chinese experience to the formerly centrally planned economies of Europe. See, e.g., Griffin & Khan, 1993; Jefferson, Rawski and Zheng, 1992; Sachs and Woo, 1994, 2000; Lin, Cai and Li (1996); Nolan and Ash (1995); Lau, Qian and Roland (2000). Whatever the differences among them, the writers on one side of this debate give some credit to China's relatively gradualist, pragmatic and experimental approach. The other side is represented most prominently by Jeffrey Sachs and Wing-Thye Woo, who see China's success as due only to its initial condition of surplus labor, its convergence toward standard capitalist market institutions and its integration with the global economy.

access to foreign markets for China's exports. The most obvious short-term cost of WTO accession has been the limits it imposes on China's ability to manipulate farm prices as a means of raising rural incomes. Agricultural prices in China have been at or near world market levels, which leaves the option of raising agricultural productivity and developing more off-farm employment opportunities as the principal tools available to help the lagging countryside.

On the negative side, until the administration of Hu Jintao and Wen Jiabao took office in 2002-2003, the state's response to the human development challenges enumerated above was essentially to try to grow out of them.[11] That is, rather than craft policies that would effectively address the destruction of the environment, the polarization of incomes and absence of social safety net and other redistributive institutions to replace the moribund and disintegrating "iron rice bowl" of the collective era, the government mainly sought to keep economic growth boiling along fast enough to create jobs, raise incomes and fend off social instability. However, the government at times acknowledged the nature and gravity of the problems confronting it, especially growing income polarization. Indeed, former Premier Zhu Rongji stated upon leaving office that his biggest concern had been trying to raise farmer incomes, but that they had not risen much and some had even dropped.[12] There were not enough resources available to the central government to expand its commitment to social and environmental programs, nor was there the political will to redistribute the resources that were available.

One way to put this is that, while "developmental," China's post-reform state has not been "human developmental." Advances in human development have come about mostly as a by-product of rapid economic growth starting from a position of relative income equality and a fairly high level of human capital accumulation. These initial conditions from which reform began in the late 1970s thus explain a certain substantial quantum of the advance in human development that occurred thereafter. Until the late 1990s, on the other hand, many policies and institutions that had purposely promoted human development during the collective era eroded:

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[11] This is a slight over-statement. In the late 1990s, largely in response to the "Asian crisis" the government inaugurated a program of massive investment in infrastructural development in poorer interior regions which constituted an effective anti-poverty program.

[12] See http://www.china.org.cn/english/2002/Mar/28910.htm, accessed 15 Sept. 2006.

the public health system atrophied, the quality of public education came to depend on the financial conditions of localities and both health care and education were increasingly privatized and put on a fee for service basis. The result was that as income inequality increased, so did inequality of educational and health status. By 2000, the World Health Organization's *World Health Report* of that year, dealing with national health systems, ranked China only 144th in terms of "Overall Health System Performance," 81st in level of health and 101st in distribution of health.

In addition to inequality and poverty, a growing human developmental issue has been environmental degradation and resource depletion. These problems had actually been growing steadily since the 1950s, with little state intervention. China's relative isolation had shielded it from the growing awareness of the environmental issue in the West from the early 1960s on. There was some early sensitivity to it in China, as public health authorities tried to control air and water pollution in some areas and the state tried generally to regulate working conditions in industry. Environmental protection was regarded as a part of public health and managed by that ministry (UNDP 1999). However, with the great leap forward environmental degradation reached the level of a disaster, including widespread destruction of local ecosystems, massive deforestation and serious desertification. Indeed, the famine of 1959-61 was partly caused by water logging, salinization and alkalization of much of the North China Plain, the country's largest agricultural region, due to ill-advised dam and reservoir construction without regard to the impact on the water table (Walker 1977). The long-lasting nature of this soil damage explains why a decade after the Leap the region had still not fully recovered. The opening by local governments of large areas of waste land, pasture and forest for cultivation in obedience to centrally-imposed goals of local foodgrain self-sufficiency greatly increased erosion and led to devastating floods on major rivers. Environmental destruction became worse still with the speeded up industrialization and increasingly profligate use of farm chemicals during the reform period. China currently uses some 400 kg. of chemical fertilizer per hectare of farmland, an intensity well above the use rates in Europe and the U.S. The director of the Ecology Institute of the Chinese Research Academy of Environmental Sciences has characterized this as "far above the safe limit" and stated that almost half of the nitrogenous fertilizer applied evaporates or runs off before being absorbed by plants. Between 1985 and 2000, nine million tons of it per year washed away into the country's groundwater supply. Pollution

affects three quarters of the country's lakes and half its groundwater.[13] Similar issues exist with respect to pesticides. Approaching the end of the last century, the World Bank (1997) estimated that air pollution alone caused some 289,000 deaths annually, and that air and water pollution alone cost China between 3 and 8 percent of its GDP each year. The government did begin to respond to the environmental challenge with major legal and institutional advances, as well as with administrative measures, such as the shutting down of some polluting industries, especially small local ones.[14] But the scale and rapid growth of the environmental problem has out-paced the response to it, while policies that are attractive on paper have yet to be transformed into effective constraints in the field.[15]

6. Problems of Establishing Intent. In examining the state's role in all this, we must distinguish intent from capability. Did China's leaders deliberately choose to forgo a progressive pro-human development stance in the belief, perhaps, that doing so was necessary to maximize investment and growth? Or were they prevented from carrying out a "pro-poor" and pro-human development approach for lack of the resources to implement it? An answer to this question would give us some insight into the nature of the Chinese state and whom it represents. Intent, which is notoriously difficult to establish, can perhaps in this case be inferred from explicit stances taken by the new leadership. For instance, the critique of Maoist policies that followed the shift in regime in the late 1970s, including contributions from Deng Xiaoping, made it clear that the reformers believed that far too much stress had been put on ideals of equality ("everyone eating from the same big pot") and security ("iron rice bowl"), that wage and income differentials were too small, and that better incentives encouraging productivity and individual initiative were urgently needed. These views were best summarized and represented by Deng's famous dictum, "let some get rich first". In his writings of the mid-1970s that preceded his last fall from power, Deng, criticizing leftist arguments that the only way to advance the "forces of

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[13] See http://english.people.com.cn/200607/05/eng20060705_280053.html (accessed 15 September 2006); also, UNDP 1999.

[14] There is some evidence that many of these shutdowns are reversed once the center's attention has shifted to other issues.

[15] See Smil (1993), UNDP (2002), Economy (2004) for good discussions of the scope and breadth of the environmental challenges facing China.

production" was continually to revolutionize the "relations of production," argued that the "relations" had in fact far out-paced the "forces" and that it was the latter that now required attention. Retreating from policies and institutions of equality and security may not have replicated in China – or been designed to replicate – the "dark satanic mills" stage of European capitalist development, but it was a deliberate step in that direction.

On the other hand, the state, by accident or design, also swiftly lost the capacity to engage in progressive policy formation, even if it had wanted to do so. In 1978, on the eve of reform, government budgetary revenues came to 35.8 percent of GDP. By 1995, they had fallen to only 11.2 percent, an extraordinarily low rate even for developing countries. This precipitous decline came about because the rapid erosion of state enterprise profits, the chief source of revenue under the pre-reform regime, had not been matched by new revenue sources tapping the newly emergent sources of rapid income growth. Furthermore, the decentralization of the fiscal system had deprived the center of revenues that it might have redistributed to help poorer regions, as in the past. By 1993, the center's share of total budgetary revenue was down to only about 20 percent (Wong, 2005). Local governments in developed areas had plenty of revenue to match their expenditure needs from the profits of their local industries ("township and village enterprises" or TVEs), but localities in the majority of less developed areas lacked such a revenue base and were forced to rely on extra-budgetary ad hoc fees and exactions imposed on their inhabitants (see Bernstein and Lu, 2003). If these off -budget funds are added to budgetary revenues, the total revenue of governments at all levels in the mid-1990s would have come to perhaps 20 percent of GDP, a more reasonable overall ratio. But the extra-budget revenues were mostly local in nature, opaque and subject to corruption and abuse, oppressive to the residents of poor areas, and highly regressive in their impact.

Thus, for much of the reform period, the state was fiscally disabled from pursuing progressive policies. Indeed, the state was not able fully to carry out its conventional responsibilities, such as provision of basic public goods and services, let alone taking on the array of extra duties inherent in a transition to a market economy,[16] investing in infrastructure, acting aggressively on the environmental issue or engaging in income redistribution. While it can be argued that China's

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[16] See the list of such state responsibilities in UNDP 1999a.

leaders deliberately allowed this fiscal atrophy to occur,[17] the process progressed faster and farther than intended, so that by the mid-1990s there were calls to remedy the fiscal crisis.[18] It had become increasingly clear that one important responsibility of an effective developmental state, at least in the contemporary world, is to cope with the spillover effects of rapid growth before they loom large enough to become socially and politically destabilizing. Regional income polarization, environmental destruction, burgeoning unemployment and other ills were beginning to pose such a threat, as evidenced by the multiplication of protests and demonstrations throughout the country, in both rural and urban areas.

The state began trying to reverse the trend of declining revenues as early as 1988, adopting a system of fiscal contracts with the provinces. These contracts stipulated that each province send a lump-sum remittance to the center, which would increase over time at an agreed rate, while all the rest of provincial revenue would remain with the province. In return, provinces must accept responsibility for funding their expenditure requirements from their retained revenues. This fundamentally changed China's fiscal system by de-linking the provinces' expenditures from central subsidies and putting them on a self-financing basis, "a de facto devolution of responsibilities that was later codified in the Budget Law (1994)" (Wong 2005). Now, provinces essentially kept what they collected, a system that, by ruling out substantial redistribution among provinces, redounded against the needs of poor areas. However, when this reform failed to increase the share of public revenue in GDP or the center's share of total public revenue, the government implemented a major tax reform in 1994. A value added tax (VAT) was established along with a "tax sharing system" in which the center was entitled to 75 percent of VAT proceeds. This formula allowed the center to reclaim the major share of total public revenues, but at the cost of still greater damage to the interests of the poorer provinces. The shared portion of the VAT was allocated to the provinces according to a flat rate by origin, which permitted the richer provinces to raise and keep more and the poorer ones less. Thus, between 1993 and 1998, wealthy Shanghai's per capita fiscal expenditures grew from 2.8 times the average of all provinces to 4.5 the average, while poor Gansu's ratio fell from 0.76 to 0.61, and Hunan's fell

[17] A parallel case in the U.S. is the Republican predilection to "starve the beast," meaning to deliberately engineer large budget deficits as an excuse to cut social programs and eliminate government's progressive role.

[18] See Wang and Hu, 1999, 2001.

from 0.60 to 0.52 (2005; World Bank 2002). Moreover, by re-centralizing a large share of total revenues but not expenditure assignments, the new system created a large budget gap in virtually all provinces, making them dependent upon revenue transfers from the center to meet their expenditure responsibilities. Unfortunately, the method adopted for effecting these transfers was "dominated by tax rebates that also favor the rich, reinforcing the disequalizing character of the tax sharing system itself" (Wong, 2005). Moreover, not only was the macro structure of the fiscal system now highly regressive. So was the micro structure: even at the household level the tax system put far a greater burden on poor households than on wealthier ones in both cities and countryside (Khan and Riskin, 2001).

7. A Human Developmental State? Thus, what I have elsewhere called "China's retreat from equality" (Riskin et al., 2001) was partly driven first by the fiscal crippling of the state and second by its adoption of a highly disequalizing fiscal structure. China's leaders began responding in the late 1990s to the increasing threats of social instability by trying to fashion an effective social safety net and less inequitable social policies. The new administration of Hu Jintao and Wen Jiabao called for shifting the emphasis of development to the *quality* of growth, making it balanced, sustainable and people-centered. A passage from Wen Jiabao's 2006 report on the work of the government gives an idea of the new rhetoric:

> We need to continue to put people first, maintain the "five balances" [balancing urban and rural development, development among regions, economic and social development, development of man and nature, and domestic development and opening wider to the outside world, tr.], pay closer attention to balancing development between urban and rural areas and among regions, developing social programs, and promoting fairness and stability in society, and enable all our people to share in the fruits of reform and development.[19]

The infrastructural investment program of the late 1990s, aimed at poorer western and interior provinces, and efforts by the Ministry of Finance in the early years of the new century to reduce

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[19] Wen Jiabao, 2006. The report puts great emphasis on improving the rural economy, protecting the environment, helping poorer regions and other progressive sounding goals.

the regressive character of the central-local fiscal sharing structure added billions of yuan to the resources directed toward poorer localities. Some independent surveys of income distribution in China have buttressed the view that some of the trends toward increased income inequality were indeed tempered and even reversed. Khan and Riskin (2001), e.g., found that the distribution of household income in both urban and rural areas had become somewhat less unequal between 1995 and 2002, although because urban incomes had generally increased their advantage over rural ones, the gini ratio for national income distribution had remained unchanged. The most important of the social policies that have had a somewhat equalizing impact on aspects of the income distribution have been public investment programs and improvements in tax structure. Social benefits programs, on the other hand, which ought to be the most progressive of government programs, were anything but: "their overall distribution has been highly and increasingly regressive. Some individual programs (e.g., cash transfers, especially public assistance) are exceptions to this pattern….But social benefits as a whole have yet to play a significant progressive role" (Gao and Riskin, 2006).

This observation, discouraging as it may be, is consistent with the argument of Christine Wong, the expert on China's fiscal system, that whatever redressing of inequality has occurred in China since the late 1990s is largely a story of unsustainable central bailouts to such programs as the new social security system, unemployment relief in the cities and the new urban poverty (minimum living stipend) program.[20] Whatever the aims of China's current leaders, they are hampered by a dysfunctional fiscal system. It must be remembered that the state in China encompasses both the central government and the governments of provinces, municipalities, rural prefectures and counties. These are not at all unified, and the center's writ does not run downward unimpeded. Local bureaucratic interests often trump national policies. The same corporatist links between local business and local officials that have stimulated very high growth rates throughout China are also responsible for ignoring central policies regarding such things as excessive fees and taxes imposed on peasants, land confiscation, environmental regulations, and pirating of intellectual property. Wong argues that the amount of transfer necessary merely to neutralize the disequalizing structure of the fiscal system is so large that it would provoke great resistance from the politically powerful richer provinces. Moreover, aside from the state

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[20] I would add the large infrastructural investments in poorer areas of the country as a significant factor, as well.

investments associated with the western development program, the vast bulk of equalizing transfers have gone to urban residents and very little, indeed, to the countryside. Even funds going to poor rural regions are mostly for wages of civil servants, which have risen greatly relative to local incomes. It is far from clear that the center will be able to engineer the thorough reform of the fiscal system that would be necessary to put China on a sustainable path of equitable development. Thus it is far too early to conclude that the developmental state in China has also become a "human developmental" state.

The very term, however, is a neologism with uncertain foundation. What would a "human developmental state" look like, other than the historically contingent result of a long process of social ferment in which workers, farmers, women, minorities, the poor, environmentalists, etc. struggle to advance their interests? This leads us back to the question with which our discussion began, namely, for whom or what does the Chinese state speak and act, whom does it represent? The government of the People's Republic came to power in 1949 with a peasant army, and much support from urban workers (still a small minority of the population) and intellectuals. Many of their early policies reflected this popular base. However, the state soon split into warring factions, and one of the issues in contention was the urban bias that had begun to characterize economic and social policy. Unlike the far more numerous peasants, urban workers and functionaries were provided with guaranteed employment, cradle-to-grave social security, education, health care, cheap housing and other subsidies. Their privileged status was protected by means of the *hukou* (population registration) system, a means of controlling population movement that, together with food rationing, effectively prevented rural-urban migration. Urban bias was one of the issues that Mao thundered loudest about at the beginning of the cultural revolution in the mid-1960s. And as a result of his assault, the cultural revolution years saw a significant albeit temporary reallocation of resources, such as doctors and hospitals, from cities to countryside.

However, in an authoritarian political system in which the Party/state and its representatives generally demanded and received deference from the population, the state developed its own interests and "service to the people" retreated to the status of lip service. Although Mao fought against bureaucratization of the Party and state, he did not support any genuine democratic alternatives to it. His populist direct appeals to the masses, over the heads of both Party and

government, did include some institutional innovations, such as enterprise and government "revolutionary committees," designed to equalize social and economic status among workers, managers and technicians. But Mao, by his own admission, knew little about economics, nor was he a statistician, engineer or technically trained in any way. Nor were his innovations widely discussed and debated before being instituted. A sudden, total, ideology-based re-design of the social division of labor from a base of technical ignorance was not likely to be a recipe for success. Moreover, much of Mao's program exploited popular resentments toward the bureaucracy in order to implement his own unfeasible policy agenda and eliminate his political enemies. In the end, Mao always restored rigid, top-down control as an alternative to continuing the anarchy his policies had wrought.

By the time the supreme pro-reform leader, Deng Xiaoping, returned to power in the late 1970s, China's state was in full-blown retreat from its previous formal stance of being a workers' and peasants' state. Nothing symbolizes this retreat so graphically, perhaps, as the continued claim in the 1990s that China's workers were "the masters of their enterprises" at the same time that millions of them were being laid off by the reform of state enterprises -- except perhaps the formal decision in 2002 to welcome capitalists into the Communist Party. One is reminded of Khrushchev's claim in 1961 that the "dictatorship of the proletariat" in the Soviet Union had now metamorphosed into an "all-people state" (Taubman, 2003), a claim attacked with ardor at the time by China. Widespread privatization of industry has proceeded often with little input or gain for urban workers. In the words of one student of this ongoing process:

> privatization in China has been carried out in opaque ways, with little regard to the principles of fairness and justice. The government has never made it an official national policy and no national legislation exists to dictate the process. There are only a few government guidelines, which are far from clear and whose enforcement is highly problematic. Local authorities and SOE managers are granted considerable discretionary power to decide how factory property is handled; workers, on the other hand, are totally excluded from the process (Chen 2006).

As for the rural population, although their living standards have risen during the reform period, they have generally been left far behind those of the city and town dwellers. China has one of

the widest urban-rural income gaps in the world and it has widened further under the reforms. Much of the countryside remains very poor, even if somewhat less so than in the past. Former Premier Zhu Rongji's regret at not having succeeded in raising rural living standards has already been cited. It is also true that China had followed a path of extraordinary equality of access to land since the demise of the agricultural communes in the early 1980s and the parceling out of their lands to villagers on an essentially equal per capita basis (Khan and Riskin, 2005). Equality of land access has countered the strongly disequalizing trends in other aspects of the rural economy and helped prevent the development of a class of poor landless laborers. But all that is changing as over 40 million farmers are said to have been expelled from their land already by alliances of local officials and private developers, a number that is growing by more than 2 million a year (*Asia Times Online*, March 9, 2006). This process is legally facilitated by the fact that farmers have only leased use rights to their land, which is formally owned by their "collectives" (villages). Under Chinese law, the state may expropriate collective land if doing so is in the public interest (Guo 2001). Under this rationale, local governments first expropriate farmers' lands, providing minimal compensation, and then sell the land to developers at huge markups. Even where corruption is not involved, the temptation is very great for typically cash-strapped local governments to engage in this practice, which has been one of the primary causes of the proliferation of peasant protests in recent years (see Rural Development Institute, July 2004). Efforts by the State Council (the central government's executive body) to restrict it have been largely ineffective.

8. <u>Conclusion</u>. What this changing relation of the state to the rural and urban working population suggests is that the state in China is now very much contested territory. It is being pulled in different directions by a variety of interests, including the bureaucracy itself, with its strong instinct of self-preservation, but also by a growing middle class, a small but wealthy elite of private entrepreneurs often linked to Party/state chieftains, and by increasingly militant urban and rural working people, as well as by foreign investors, international economic organizations such as the World Bank and IMF, and the surviving body of state enterprises (including banks). The Communist Party leaders want to preserve Party hegemony in an era in which socialist ideology has evaporated, and they have so far resisted any serious political opening up. Their remaining claim to legitimacy comes from their capacity to preserve social stability and raise living standards. These goals are threatened by the growing proliferation of losers in an

increasingly unequal society, by the rapid aging of the population and by the growing likelihood of environmental disasters. The state is responding to these threats by tweaking the allocation of resources in the direction of giving some help to losers, on the one hand, and cracking down on dissent and retreating further from democratic reform, on the other. There is no saying how long this balancing act can succeed. Five years ago, however, Gordon Chang published his prediction of "The Coming Collapse of China" (2001) and that book, along with the furious discussion that greeted it, is now history. China's developmental state has been remarkably successful in staving off the enormous challenges it faces. It appears to me, however, that if it is to survive as such it will have to become much more of a human developmental state, taking on the challenges directly rather than trying to out-race them with economic growth alone. While there has been a turn in that direction since the late 1990s, whether it can be scaled up enough and soon enough is an open question. Moreover, given the small likelihood that such a change would occur in an entirely top-down manner, the emergence of a human developmental state would require the opening up of the political system to provide channels through which interests and demands can be forcefully expressed and have some hope of changing policies. From this kind of transformation, China seems farther away than ever.

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