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## Socialism, capitalism, or Chinism?

Grzegorz W. Kolodko

*Transformation, Integration and Globalization Economic Research, TIGER, Kozminski University in Warsaw, Poland*

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## ABSTRACT

Is China still building socialism or has it already built capitalism? Or maybe both? Or maybe none of those two systems? Or maybe with the market reforms that deviate from the traditional socialism, it has created something different from the classical types of political and socio-economic regimes known from the 20th century? Some authors have proclaimed that there has been capitalism in China for some time; others claim that socialism has developed there, of course one with Chinese characteristics. Shortages have been successfully eliminated, but the economic system is unbalanced, showing surpluses this time. So, is it socialism, as the official Chinese authorities claim, or capitalism, as asserted by numerous economists? *Tertium non datur?* By no means, as there are yet other possibilities of system interpretations and the most fascinating of them is being offered by the present-day China, where a unique internal convergence is taking place. Features of socialism intermingle with essentials of capitalism and *vice versa*, creating a new, different quality. *Tertium datur.*

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## 1. Introduction

The dispute over the essence of the Chinese system is not new, at least beyond the borders of China itself as over there it has been consistently declared for three generations already, that we are dealing with socialism. At most, this word would be accompanied by adjectives, which changed over the years, or synthetic descriptions would be added. When I was in China for the first time, in 1989, I had no doubt that it was a socialist state, though that socialism was different from the one I knew better from the Central and Eastern European (CEE) countries and the Soviet Union. When I visit China these days, I do sometimes have doubts if it is still socialism and, at the same time, I have no certainty that it is already capitalism.

So what are we dealing with? Is it simply a period of transition from one formation to another, in this case from socialism to capitalism, or is it a different system, which deserves a name in its own right? A quarter century ago we used to joke in CEE countries that while the erstwhile transition from capitalism to socialism was possible, at least up to a certain point, a transformation in the opposite direction – from socialism to capitalism – is impossible, just as it is possible to turn a stallion into a gelded horse, but the reverse cannot be done ... However, it certainly proved doable, at least in the post-socialist economies which became part of the European Union.<sup>1</sup> China, though, is following its own path. Where has it brought the country, where is it leading to?

*E-mail address:* [kolodko@tiger.edu.pl](mailto:kolodko@tiger.edu.pl).

<sup>1</sup> There are eleven CEE post-socialist countries, which are now the members of the European Union. The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia joined it in 2004, Bulgaria and Romania in 2007, and Croatia in 2011.

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## 2. Economy – society – state

The literature on capitalism and socialism is enormous. There is no need to discuss it here, though it is worth pointing out that throughout the entire time those systems functioned and confronted each other in practice, for most of the 20th century, different meaning was attributed to those same terms, especially in intellectual, scientific, ideological and political debates. Such confusion in definitions and the lack of methodological discipline continue today. No wonder then that there has never even been a consensus in theoretical discussion as to what capitalism is and, especially, as to what socialism is. For definitions of capitalism, we would usually content ourselves with defining it as a socio-economic system based on private capital aspiring to maximize its profits (or, in other words, on predominance of private means of production) and free market exchange, whereas things were – and still are – more complicated with socialism.

The problem becomes muddled for many reasons, major one being the confusion resulting from watching the same matter from different perspectives or different matters from the same perspective. So, for a political scientist, of key importance are the observations and interpretations of the ways power is gained and wielded and of the functioning of the state and its institutions. Whereas, for a sociologist, the heart of the matter is the society and the mechanisms governing interactions of its component population groups. An economist, in turn, focuses mostly on observing and analyzing the recurring economic phenomena and processes and on explaining them and, if we go further, to normative (prescriptive) economics, on formulating recommendations for economic policy and growth strategy. Meanwhile, all three use the same terms: capitalism and socialism, though they do not mean the same. These words correspond, first and foremost, to an economic regime, but they also involve obvious references to society and culture as well as to state and law. As a matter of fact, not only the economy can be capitalist or socialist, so can be the society and the state.

Of key importance is the fact that we once had real socialism, or the one functioning in practice – from the Soviet Union to China, from Poland to Yugoslavia, from Vietnam to Cuba, from Cambodia to Ethiopia. Let us emphasize right away that even in those countries it differed, sometimes quite significantly. Furthermore, it differed not only in space – say between Mongolia and Hungary or Albania and Czechoslovakia – but also in time, say between Poland of the first half of 1950s and the second half of 1980s. But we had the same theoretical socialism, referred to by some, especially in the Soviet Union, as the scientific socialism. This was socialism that was meant to be, that should have been there but somehow was always in short supply.

By the way, speaking of real socialism, it would not be amiss to digress that it is the same with real capitalism. The one existing in practice, entangled in crises, economic disasters and political manipulations, scandals over negligence and dishonesty, the insurmountable distance between the declared goals and the practical targets, differs so much from the one described in textbooks or, if you will, the apology of this regime is at such great variance with the reality that we need an innovative theory of contemporary capitalism (Heilbroner and Milberg, 1995; Ormerod, 1997; Stiglitz, 2007; Csaba, 2009; Roubini and Mihm, 2010; Kolodko, 2011; Phelps, 2013; Galbraith, 2014; Tirole, 2017) which would eliminate the chasm between what takes place in the real world and what is written about it in books. Hence, what I call the new pragmatism (Kolodko, 2014b; Battowski, 2017; Galbraith, 2018).

After all, reality differed from the theoretic perspective, and sometimes so much so that subsequent editions of the same academic works, being unable to ignore reality, were increasingly unlike the earlier editions. It will suffice to compare textbooks of *Political Economy of Socialism* by European authors published during one generation – in the 1950s and 1970s. Oddly and importantly enough, they differed between one another much more in Poland and Hungary than in Bulgaria and East Germany (GDR). The reason is, most of all, that due to various reforms that loosened the straitjacket of nationalized and centralized economy, the face of real socialism was significantly changing in the former two countries as well as in Yugoslavia, which followed a different, but still a socialist path. Coupled with those changes, socialism's reflection in political narrative and scientific descriptions evolved as well. In countries that were less susceptible to reforms, the most orthodox ones being the Maoist Albania, the poorest country in Europe, and Romania, textbooks could be republished without major changes.

So, there are different countries – with their state, society, culture and economy – that are referred to as socialist. Let us pass over, the fact that on the one hand, the Nazi Germany once was created by a party which, though fascist in nature, had the word 'socialist' in its name, embellished with the addition of 'national'. On the other hand, socialism is associated by some with something positive, namely with the social market economy of the Scandinavian countries – Denmark, Finland, Norway and Sweden. In this context, to distinguish them from the CEE economies and from the Soviet Union, in western literature, more often that of political sciences than the economic one, the latter group is referred to as communist states and economies. This further complicates the deliberations as in this case we would have at the same time three socio-economic regimes: capitalism (for example Italy), socialism (for example Sweden) and communism (for example Czechoslovakia).

This is not a convincing perspective for a number of reasons. Communism also has many interpretations – from the specter haunting Europe according to Marx and Engels, outlined 170 years ago in the *Communist Manifesto* (Marx and Engels, 2012) to the, so-called, war communism in Russia a hundred years ago, to the utopian regime of abundance of goods and services and social justice, expected to supersede socialism one day. Throughout all the years of the Cold War, which was, after all, mostly waged on the ideological and political front, and thus it embroiled in its battles social sciences including economics and sociology, the reality east of the Elbe river was called 'communism' in the West, though in the East the term 'socialism' was predominant. So the two terms were used to describe the same environment.

Curiously enough, in most CEE countries hardly anyone called the socio-economic reality of 1945–1989 'communism', as the same was only to dawn one day (Walicki, 1995), whereas since 1990 the term 'communism' has been used quite universally with reference to the socialist era of those years and 'post-communism' for the contemporary period, after 1989. I

myself had dilemmas about that but they mostly stemmed from addressing some of my works to the Western public. Hence the title of one of my book contained the word ‘post-socialist’ (Kolodko, 2000a), and that of another, ‘post-communist’ (Kolodko, 2000b), though in both cases it was about the same period following the real socialist era. Interestingly, a decade earlier, János Kornai (1992) following his lecture at Harvard, put both these words in the title of one book: *The Socialist System: The Political Economy of Communism*.

Even though science, with its rigor and methodological and substantive clarity, should be the one to define the categories we use and interpret and explain the phenomena and problems we study and then impose the correct terminology on mass discussions, frequently the opposite is true. While newspapers should more often use the language of academic circles, it is academia that borrows the language of newspapers. Certain terms, sometimes uncritically and without much thought, diffuse from the popular parlance into the scientific discourse and become widespread (Wheen, 2004). That was the case of the term ‘post-socialist’ or ‘post-communist’. The attendant confusion led to a situation where, in 1990s, all of the republics of the former Soviet Union were treated as ‘post-socialist’ even those with a much lower share of private sector than in Polish economy in the 1980s, which accounted back then for no less than 20 percent of the GDP and, obviously, nobody would refer to it as post-socialist. It is nonsense, when in 2018 we hear that Poland or Hungary – countries with relatively free markets and liberalized economies three decades ago – were communist in 1988, and Turkmenistan, with a lower share of private sector than Poland and Hungary had back then, is a capitalist country. Unless we go on to add that it is a post-Soviet state capitalism, a unique new category on the taxonomic map of economic systems (type 1001, with post-Soviet characteristics).

In the meantime, nearly all post-socialist countries, including China, which itself still does not admit to be one – have been crammed into another category, mindlessly overused both by political commentators and in research papers: that of ‘emerging’ markets. So, here we are emerging – in Croatia and Vietnam, in Russia and China, in Kazakhstan and Serbia, in Armenia and Slovenia. So far, only Poland has emerged, since it ‘will no longer be ranked by FTSE Russell as an Emerging Market, but as a Developed Market. This will place the country, together with 24 other nations including Germany, France, Japan and Australia. Poland is the first Central and Eastern European economy to be upgraded to Developed Market status.’ (Emerging Europe, 2017).

Thus, emerging market is no longer socialism with its lack of free-market mechanism, but it is not yet capitalism with its mature market. When approaching the issue this way, the socialism-capitalism antinomy loses its validity as what matters is whether the market works or not. Instead, the discussion shifts from the plane laden with heavy ideological and political baggage into the plane of more practically oriented disputes. Hence, there is less emotion and political intransigence in the debate as to whether not only in the present-day China, but also in countries such as Uzbekistan or Azerbaijan, we are dealing with a reformed planned economy or a market economy, on the one hand, or, on the other hand, is this still a state economy or already a private one.

That is why further on I pass over those taxonomically important dilemmas and, not to complicate things even more, I will only make a side observation that one of the US presidential candidates in 2016, Bernie Sanders, calls himself a socialist, while Emmanuel Macron, elected president of France in 2017, used to be the minister of economy in the government of the socialist president, François Hollande. None of them, with their political views, would have been accepted into the parties that held power in CEE until 1989 or into the so-called Communist Party of China at present. I say ‘so-called’ because what kind of a communist party is it if it openly accepts or even endorses the attributes typical of capitalist economy, such as private capital's pursuit of profit, high unemployment rate, major areas of social exclusion and huge income inequalities, much higher than in many capitalist countries.<sup>2</sup>

This by no means exhausts the confusion over the application of the terms ‘socialism’ and ‘socialist’, as there once was the idea of utopian socialism, spawned, among others, by Henri de Saint-Simons (1760–1825) and Charles Fourier (1772–1837), and the attempts to implement it, for example by the same Fourier in the *La Reunion* colony in Texas or by the Welsh Robert Owen (1771–1858), first in New Lanark in Scotland and then also in the USA. It is fitting to add that there is no shortage of utopian socialists also these days, though due to the past disgrace of the real socialism and the current poor social resonance of the leftist program, they get almost no traction. This is shown by the miserable results of the recent elections in European countries, where parties with a socialist orientation – also Labor and Social Democratic – used to do in the past quite well.

Last but not least, presently we have hybrid and poorly performing or even crisis-prone systems, which are called socialism by their detractors, authors and proponents alike. I am not talking here about the caricature of socialism as practiced by the former president of Zimbabwe, Robert Mugabe, who in the beginning of this century, declared his willingness to introduce centrally controlled economy, while in fact his policy allowed extremely corrupt state capitalism to boom; rather than that, I mean the more noteworthy Latin American experiments, such as *socialismo del siglo XXI* of Hugo Chávez and his successor as the president of Venezuela, Nicolás Maduro, or *socialismo del siglo XXI* in Bolivia, Ecuador and Nicaragua.

These are mixed systems, pervaded with elements of a policy associated by some with socialism, but in essence it is a socially-oriented capitalist economy, which functions in less economically developed countries. José Mujica, once a Tupamaros guerrilla, later (2010–2015) leftist president of Uruguay, says that ‘There’s a fundamental problem there – you can’t make socialism by decree. We on the left have the tendency of falling in love with whatever it is we dream about, and then we

<sup>2</sup> Gini index in the United States stands at ca. 0.4, whereas in China it is around 0.46. Though for methodological reasons and there being no precise data, these measures are not exactly comparable, it can be assumed that they reflect quite accurately the disproportions in the income distribution of the world's two largest economies.

confuse it with reality' (Anderson, 2017: p. 42). Maduro himself, seeing how wretched the results of the Venezuelan version of socialismo del siglo XXI are, concludes: 'Speaking about the working class, Marx said that time was needed to change history. Marx was right. It's a long struggle' (Anderson, 2017: p. 53). It takes longer than there is a time for it.

While discussing the choice between the alternatives – capitalism or socialism – with respect to the poor (GDP per capita of USD 7200 according to purchasing power parity, PPP) and small (population of 11 million) Bolivia is certainly engaging, with respect to China, quickly getting richer (GDP per capita of USD 15,400 according to PPP) and populous (1.380 million citizens), it is fascinating. Bolivia will not affect the fate of mankind. There is no way China will not affect it (Halper, 2010; Kissinger, 2011, 2014; Shambaugh, 2016; Kolodko, 2017).

### 3. Socialism and the shortage economy

In a textbook socialism, effective central planning ensured economic equilibrium, however in the real one, as experienced by hundreds of millions of people, this equilibrium was by no means there. In fact, it was an economy of systemic shortages; there was a permanent surplus of the flow of demand over the flow of supply, with all of its negative consequences. This applied both to the sphere of production (enterprise sector) where shortages disrupted the continuity of production, contributing to efficiency being lower than in the alternative scenario of equilibrium (Kornai, 1971) and to the sphere of consumption (household sector), which took an especially heavy toll on the population. The scale of shortages was varied and temporally and spatially diverse. These were less acute in countries that did not experiment with even partial price liberalization and, at the same time, had rigorous wage and price control in place (Czechoslovakia and GDR) and the most severe as a result of inconsistent reforms in Poland in the late 1980s. (Kolodko, 2000a).

Shortages occurred in all socialist countries, that is in economies based on predominance and sometimes even omnipotence of state ownership, central planning of the volume and structure of production, and the wage and price control. The supply of goods, both products and services, was insufficient from the perspective of the requirement to balance the demand. Of course, the scale and intensity of shortages and their changes varied for respective goods.

The word 'shortage' was, in principle, foreign to economics textbooks in real socialism countries until Kornai (1980) gave it a status of one of the fundamental categories of centrally planned socialist economy.<sup>3</sup> Furthermore, he pointed to the inextricable link between those two economic categories – socialism and shortage. If there is socialism, there are shortages. If there are shortages, there is socialism.<sup>4</sup>

Though in no economy of the CEE region, let alone in the Soviet Union, insisting on heavy industry and engaging in high armament expenditure, shortages were successfully eradicated, periodically there were times where the supply of consumer goods was relatively suitable and close to equilibrium. This was not full-fledged consumer's market which would ensure sovereignty of the same, but this was not yet a drastic economy of shortages; this was a producer's market as, with a relatively narrow supply offered, it dictated to the consumer how to behave and what to buy.

The state of full, ideal market equilibrium occurs – only theoretically – at market-clearing prices; all supply ( $\Psi$ ) is sold, all demand ( $\Pi$ ) is satisfied:

$$\Pi_1 = \Psi_1 \quad (1)$$

Producer's market is a situation of a slight surplus of the flow of demand over the flow of supply, at times resulting in inconveniences such as forced substitution (for example buying a couch with burgundy upholstery, not with the desired beige, or warm rather than cold beer), wandering from one store to another in search of the wanted item, which will be found in the end, or buying a lower quality product. Or:

$$\Pi_2 > \Psi_2 \quad (2)$$

Consumer's market means consumer's advantage over the producer, supplier and seller. One can pick and choose, be fussy or even bargain before the purchase is concluded. This is a situation where we are not yet dealing with structurally excessive stocks and wastage of goods because they get sold in the end:

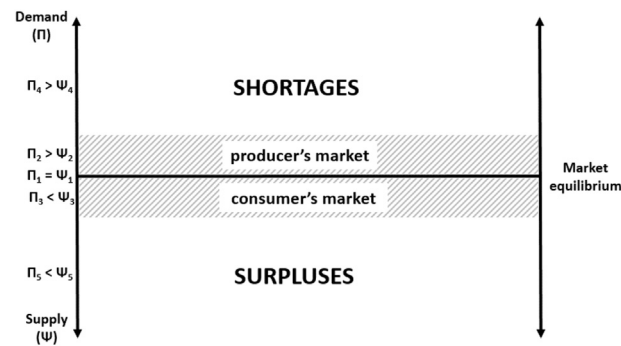
$$\Pi_3 < \Psi_3 \quad (3)$$

When the excess of demand over supply is high and structural, meaning a permanent inability to buy the desired goods and when the extent to which buyers' time is wasted can no longer be tolerated, we are dealing with an economy of shortages:

$$\Pi_4 > \Psi_4 \quad (4)$$

<sup>3</sup> By the way: it is symptomatic that the Polish edition of the *Economics of Shortage* does not have exactly that title as it was called less threateningly: *Niedobór w gospodarce* (Kornai, 1985). Retranslated, it reads *shortage in the economy*, and, after all, it's not the same as *economics of shortage*.

<sup>4</sup> Shortages occurred exceptionally also in capitalist countries, including the USA and Japan, and especially the Great Britain during World War 2 (Charlesworth, 2003). This was caused by the administrative measures adopted to suppress the inflationary price rise. Such shortages were accompanied by vast rationing schemes.



**Fig. 1.** Producer's market and shortages versus consumer's market and surpluses.  
Source: author's own.

And the other way round; when all the goods supplied to the market can no longer be sold – despite various marketing efforts and huge advertising expenses – and part of them goes to waste, we are dealing with an economy of surpluses:

$$\Pi_5 < \Psi_5 \quad (5)$$

These variants can be schematically illustrated as follows (see Fig. 1):

Crossing the fluid boundary from the producer's market to shortages was much easier than the returning process. It was also difficult to cross from the producer's market to relative balance. In Hungary, the latter, with the elements of the consumer's market, was successfully achieved due to pro-market reforms after 1968 and, in Poland, in the early 1970s, incidentally, thanks to a great degree to the loans quite eagerly granted by the capitalist West. Therefore, consumer market's symptoms were strengthened at the cost of generating an external imbalance resulting in a growing foreign debt until it became impossible to service it in the coming years.

By the very essence of real socialism, which dogmatically took care to ensure that prices should not be too high and intentionally guarantee access to products and services to all population groups, pricing reforms could not have been effective. They partly consisted in the state raising prices to a level that balances demand with supply, and partly in deregulating prices and allowing them to be driven by free market mechanism. When the unavoidable price increase was accompanied with moves to partly compensate the increased living costs, it was called 'price and income reforms'. This type of policy, which mainly dealt with the sphere of consumption as in the production sector the state's pricing rigor was much stricter, was able to temporarily improve the situation on the quasi-market. It reduced the symptoms in the form of shortages, without eliminating the causes of this systemic disease (Kolodko, 1986; Nuti, 1986).

Worse yet, in economies gradually moving away from the orthodox socialism model characterized by a high degree of decision-making centralization and strict bureaucratic price control<sup>5</sup> – a process that was in place, with varying intensity, already from 1956, especially in Poland and Hungary, less so in Bulgaria and Czechoslovakia – the tentative reformatory measures in the form of partial price deregulation led to price increases rather than to the elimination of shortages. Kornai wrote: 'There is a casual relationship in one direction: the shortage strengthens the tendency towards (upward) price drift. But there is no casual relationship in the opposite direction [ ...]. A constant price level, a fall in price, and a rise in price are equally compatible with the permanent maintenance of the normal intensity of shortage. Norms of shortage are not eternal, but no price change, in either direction can on its own alter them in the long run' (Kornai, 1980, p. 498). In addition to the repressed inflation, typical of state price control,<sup>6</sup> open inflation emerged, as well. The former resulted in households accumulating forced money savings and the latter in price inflation, as it was a classic increase of the general price level.

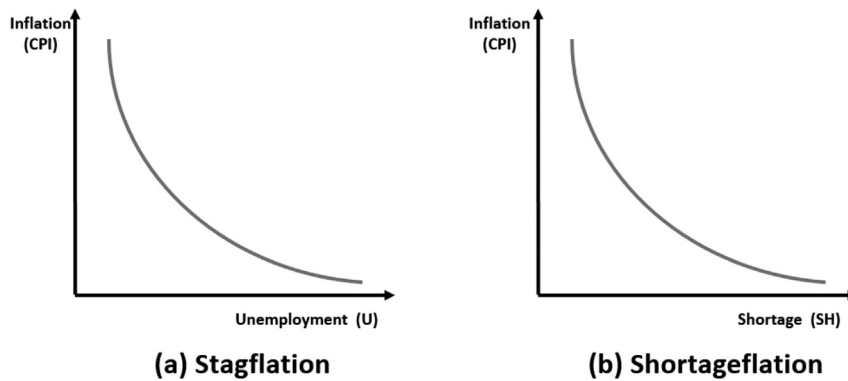
Meanwhile, in socialism that underwent reforms, both those ailments occurred at the same time; something unknown to free market economy, something quite unheard-of in capitalism. For this dual inflation syndrome, partially open, partially repressed, I coined the name shortageflation (Kolodko, 1986), per analogy to stagflation (Haberler, 1977): the co-existence of stagnation, that is, slow production growth and the attendant growth of unemployment and inflation, which are known from capitalism. The scope of stagflation is conventionally measured as the sum total of unemployment (U) and price inflation (CPI) rates:

$$SF = U + CPI \quad (6)$$

<sup>5</sup> I mean prices in the strict sense, that is, monetary expression of the value of consumer products and services exchanged on the market rather than prices in the broad sense, also inclusive of the price of labor, that is, wages, the price of money in the future, that is, the interest rate, and the price of foreign currency, that is, the exchange rate.

<sup>6</sup> Contemporarily, it can be observed in its extreme case in North Korea, on a lesser scale in Cuba as well as in Venezuela and Zimbabwe.





**Fig. 2.** Stagflation and shortageflation.  
Source: author's own.

whereas the severity of shortageflation is expressed by the sum total of shortages (SH) and price inflation (CPI):

$$\text{SHF} = \text{SH} + \text{CPI} \quad (7)$$

Comparing the rates of stagflation, SF, and shortageflation, SHF, controversial as it is, makes great sense (Kolodko and McMahon, 1987). In the former case, it's about choosing between the inflation rate and the unemployment rate, which dilemma is described by the Phillips curve (Fisher, 1973), while in the latter, between the rate of price inflation and the rate of suppressed inflation resulting in shortages, which is described by the shortageflation curve (see Fig. 2).

Without delving here into the methodologically complex issue of measuring shortages, it is reasonable to confront those two processes – as these are not so much situations as processes happening over time – because they show the systemic shortcomings of capitalism and socialism. Kornai refers to that in his book entitled *Dynamism, Rivalry, and the Surplus Economy. Two Essays on the Nature of Capitalism* (2014), when favoring capitalism as the lesser of two evils, because a system which, by its very essence, involves permanent overproduction with the attendant unemployment, is far from ideal. This is the real capitalism, which, in practice, cannot find the ideal that exists in theory, that is, full employment. In real capitalism, it reaches at most the so-called natural rate of unemployment.

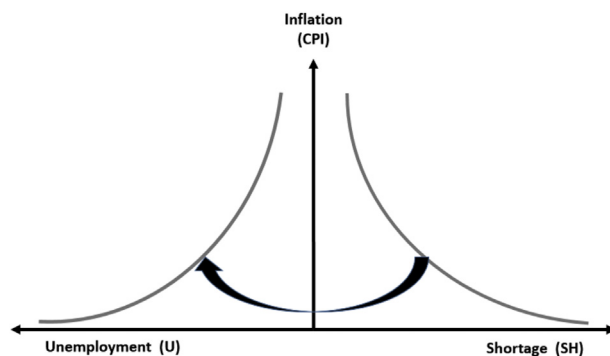
Protesting against queues and high prices, or shortageflation, and suggesting a transition to a free market economy, which quickly turned out to be a capitalist economy, many people, I guess the majority in socialist countries, including many economists,<sup>7</sup> did not realize that they were in favor of substituting structural unemployment for structural shortages. What happened is that post-socialist countries, dreaming of a balanced economy, one free of inflation and unfamiliar with shortages – a bit like Alice in Wonderland going through the looking glass – moved from the right hand side of the diagram, from the disagreeable alternative between open (price) inflation and suppressed inflation (shortages), to the left hand side, to differently disagreeable alternative between price inflation and unemployment (see Fig. 3).

There is no way to stop at the intersection of the X and Y axes – without inflation, without shortages and without unemployment. So, Kornai is right in saying that capitalism is the better of the two evils, being a system which, admittedly, does not guarantee dynamic equilibrium as it is characterized by permanent surpluses and underuse of manufacturing capacity and, most of all by unemployment but, in turn, ensures a higher economic efficiency than shortage-plagued socialism and, thus, a better long-term economic development and higher standard of living for the population.

When I look for a one-word answer to the question about the causes of the fall of real socialism, shortageflation is precisely that word. This syndrome was eating away, like cancer, this already not-too-healthy body of nationalized, overly centralized and bureaucratized socialist economy, in the end turning the lack of social acceptance for this regime into its utter renouncement. Shortageflation would so strongly erode the efficiency of the enterprise sector and reduce the households' satisfaction with the volume of consumption, even though the same was growing in line with the overall economic growth, that not only did the societies of those countries stop to support the system; their elites abandoned their attempts to reform it as well. The futile efforts to streamline the socialist system were replaced by departure from it, or a system transformation.

Kornai provides an accurate diagnosis of the causes of shortages in socialism, demonstrating that they have their source in the phenomenon of soft budget constraints (Kornai, 1980, 1986 and 1990). Price manipulations – more often bureaucratic than liberal ones – were of little avail if they were not accompanied by the systemic hardening of budget constraints, adjusting the financial flows going into enterprises and households to the economy's supply capacity. In the framework of

<sup>7</sup> It's worth recalling that the authors of the infamous shock without therapy in Poland at the turn of 1980s and 1990s announced the unemployment would amount 'only' to 400 thousand, and then – allegedly, after one-year moderate recession with a 3.1 percent GDP decline – it was supposed to stabilize or even reduce. Actually, unemployment was growing for five years, exceeding 3 million, that is, over 18 percent in 1994 (Kolodko and Nuti, 1997). At the end of 2017, after periodic ups and downs, the rate fell below 7 percent, amounting to slightly over 1 million.



**Fig. 3.** On the other side of the looking glass, or moving from the inflation-shortage alternative to the inflation-unemployment alternative. Source: author's own.

state ownership of means of production, supply of money was adjusted to demand for money, and the former was generated to the extent that could not be offset by the goods supply. If the state ownership is a fundamental and, according to orthodox views, inalienable characteristic of the socialist economy, then shortages, too, become its intrinsic feature.

In our day and age, there is basically a consensus that in the case of real socialism it was the state ownership of means of production that caused the soft budget constraints, and these, in turn, caused inflation – more or less repressed or more or less open, depending on time and place, so depending on the systemic and political context. That was the reality but did it have to be inevitably so? While Kornai claims it did, Nuti has his doubts. He believes that, theoretically speaking, market-clearing equilibrium prices could have occurred in socialism without the need to introduce the regime of hard budget constraints (Nuti, 2018a). And what if it was not successfully achieved? Then, it resulted from the deficiency of the economic policy rather than from the essence of the system.

In the Soviet Union and in the socialist economies of Central and Eastern Europe attempts were made but failed. Meanwhile, in China – as well as in Vietnam and in the very poorly developed Cambodia and Laos – it worked. So, is not Kornai wrong because market-clearing equilibrium prices are possible also in socialism? Where it works, does it happen with hard or soft budget constraints in place? What follows from the evolution of the Chinese economic system? Is it socialism with a balanced market, or, more accurately, a consumer's market since the flow of supply exceeds the flow of demand, or is it capitalism with a market characterized by overproduction and unemployment,<sup>8</sup> with still partly soft budget constraints?

#### 4. Socialism with Chinese characteristics or corrupt crony capitalism?

The case of China, the country accounting for nearly a fifth of global output, at PPP, is iconoclastic for at least two reasons. Firstly, if this is socialism,<sup>9</sup> then eliminating shortages in its framework has proven possible without changing the system. Secondly, if this is capitalism, then it can exist and, in economic terms, virtually thrive without democracy.

These days, in China one can buy both a bowl of rice and the latest Ferrari model; it is enough to have money or the purchasing power, which is balanced on the market by the supply. Furthermore, China successfully got out of the economy of shortages basically without stepping into the shortageflation, which devastated the economy of European socialist countries so much, even though, as yet, it has not managed to fully harden budget constraints. This is best evidenced by the mounting debt of the enterprise sector, fluctuating around 170 percent of GDP. Most of this debt is amounts payable by state-owned enterprises (SOEs) or companies with a majority state shareholding. So, the case of China shows that it is possible to break free from the shortage syndrome by creating a liberalized price system and elastic price policy while maintaining a significant SOE sector. Let's add that in that perspective, SOEs function amid hardened, though still not hard budget constraints. Like between white and black, there is a whole palette of colors and shades between soft and hard budget constraints.

Free market economy is a necessary but not a sufficient condition for democracy. Political correctness also calls for preaching the opposite view that democracy is an inalienable attribute of free market economy and that, by its essence, favors efficiency and, consequently, the economic growth, though, in itself, neither the market eliminates dishonesty, nor democracy precludes stupidity. Leaving political correctness aside, as it does not apply in science, which looks for truth, those propositions have to be at least brought into question, if not dismissed outright. As a matter of fact, economic growth is promoted by right decisions taken both at the microeconomic scale, managing enterprises where nobody is concerned with democracy,

<sup>8</sup> The official unemployment rate in China is 4 percent but it is certainly higher as a lot of those migrating from the countryside to cities find no job there but are not registered as unemployed. Thus, they are not included in the official statistics.

<sup>9</sup> In the West, China is still most often nonsensically referred to as a communist country, both in professional literature and in political commentaries. This error stems from the simple-minded practice of equating a single-party system with a communist state, and a meaningful role of the state sector with a communist economy.

and at the macro scale, running the economic policy, which in the contemporary Western-style capitalism, incessantly gets entangled in democratic disputes. It is not enough to be right (and those ruling as a result of democratic elections often are not), one also needs to have majority.

Experience shows that democracy in itself by no means guarantees that and often it virtually complicates the process of taking the right decisions. It is no accident that the financial crisis at the turn of the first and second decade of the 21st century was caused by the country where liberal democracy reigns supreme – the USA. It does not follow from this that democracy should not be cherished; it should be, as it is a value in itself, even when it makes it more difficult to take rational economic decisions. It also does not follow that lack of democracy favors economic growth. It can happen but it does not have to. And these days it happens rarely.

It is hard to quote other examples than Singapore (not a democracy until recently) and still a few relatively successful Middle Eastern states, such as United Arab Emirates, Qatar, Oman or Kuwait, where market is functioning pretty smoothly without democracy and, which must be emphasized, this happens with a clearly dominant role of the state sector. However, the fact that it has been this way does not mean that it will continue also in the future. The Arab Spring from the beginning of this decade has failed, but in some geopolitical zones there are even more than four seasons.

In China, even though its political system is not democratic as it is actually authoritarian, good things do happen; for over a generation the country has enjoyed an economic growth that every decade more than doubles the value of production and consumption. In terms of economic growth, the Middle Country is the greatest success story in the history of mankind. Something like that has never happened in the past at such a scale and never for so many in the future. The case of China confirms that of crucial importance to the dynamic, long-term social and economic development is the proper synergy between market and state, a creative harmony of the market spontaneity and state regulation. And what 'proper synergy' means depends on the context. There is no single universal rule; each country has to work out their own synergy, taking into account the cultural, historical, geopolitical and environmental context (Kolodko, 2014a).

Using the ownership relations as the decisive criterion, Kornai believes that we have had capitalism in China since dozen years or so. According to the data provided by the Organization for Economic Co-operation and Development (OECD), private sector generated a greater part of the national income as early as at the end of the previous century, in 1998 (see Table 1).

If such dynamics of structural ownership changes were to be maintained, at present we would have an overwhelmingly greater part of assets and, consequently, also production, employment and budget revenues related to the private sector. However, it is not the case as the pace of private sector expansion has slowed down in the last decade or so. In a way, it is natural as the fewer assets are left to denationalize, the slower the private sector is growing. That is one aspect and the other one is that the policy of the Communist Party of China deliberately limited the scale of privatizing state assets, being of the opinion that keeping them in the state's possession or at least under its control will better serve the state's strategic goals which, according to the party, boil down to developing and strengthening socialism rather than dismantling it.

One can estimate that private sector's share is presently not much higher than it was a dozen years ago; maybe it fluctuates over two thirds of GDP. The official sources say that private business generates over 60 percent of the Chinese GDP and provides more than 80 percent of jobs. Fragmentary data of the National Bureau of Statistics inform that in the first half of 2017, private sector investments grew by 7.2 percent compared to the first half of previous year, representing 60.7 percent of total expenditure. At the same time, the considerable importance of the state sector is emphasized by the Chinese authorities. The value of SOE assets exceeds 150 trillion RMB (USD 23.1 trillion), which is the equivalent of Chinese GDP for two years (according to the current market exchange rate) and SOE investments in research and development account for 25 percent of total R&D expenditure (China Daily, 2017a). China Public Private Partnerships Center, promoting the practical usefulness of

**Table 1**

Proportions of private and state sectors in China (percent of value added, by form of ownership).

	1998	1999	2000	2001	2002	2003	Change
<i>Non-farm business sector</i>							
Private sector	43.0	45.3	47.7	51.8	54.6	57.1	+14.1
Public sector	57.0	54.7	52.3	48.2	45.4	42.9	-14.1
of which:	40.5	40.1	39.6	37.1	35.2	34.1	-6.4
state-controlled							
collectively-controlled	16.5	14.7	12.7	11.2	10.1	8.8	-7.7
<i>Business sector</i>							
Private sector	53.5	54.9	56.3	59.4	61.5	63.3	+9.8
Public sector	46.5	45.1	43.7	40.6	38.5	36.7	-9.8
of which:	33.1	33.0	33.1	31.2	29.9	29.2	-3.9
state-controlled							
collectively-controlled	13.4	12.1	10.6	9.4	8.6	7.5	-5.9
<i>Economy-wide</i>							
Private sector	50.4	51.5	52.8	55.5	57.4	59.2	+8.8
Public sector	49.6	48.5	47.2	44.5	42.6	40.8	-8.8
Of which: state-controlled	36.9	37.1	37.3	35.7	34.6	33.7	-3.2
collectively-controlled	12.7	11.3	10.0	8.8	8.0	7.1	-5.6

Source: Kornai, 2008, p. 149 (after OECD, 2005).



public private partnership (PPP) reports that in 2017 over 13.5 thousand PPP projects worth 16.3 trillion RMB (USD 2.5 trillion) were implemented.

There are no grounds to question those data especially that we do not have any better. It must be emphasized, though, that because of the Chinese example the taxonomy of forms of business ownership has become even more complicated. The solution to the dilemma of how to define state- and privately owned assets is often a matter of convention. The matter is greatly complicated here as in many cases it is hard to judge clearly: are we dealing with private or state ownership? That is because even in this area there is a spectrum of in-between and mixed forms. The differences between the state-owned and the private are not clear-cut; the distinguishing features of those categories are getting blurred and the boundaries are becoming fluid. In this context a special focus is placed not only on the traditional perspective on ownership forms but also on changes in the sphere of management and in state corporate governance. It is possible that actual corporate governance over somebody's formally private ownership is exercised by the state and it cannot be ruled out that a state-owned enterprise (more often one with mixed ownership) is managed by a private company, which mostly takes care of its own earnings rather than of the state's income and of furthering its other purposes, such as employment, environmental protection or contribution to social cohesion.

It is symptomatic that when I was looking for current data necessary for relevant analysis, one of the Chinese economists told me: 'As the public and private sectors are gradually mixed together, China no longer emphasizes the ownership in most industries and stopped publishing related statistic information. Therefore, it's not easy to calculate their share of GDP. Many researches use enterprise number, fixed-asset investment, taxes, main business income, and total assets of industrial enterprises in public/private sectors.'

The multitude of forms of ownership in China – including the hybrid ones which some authors qualify as private while others prefer to see them in the group of SOEs – is illustrated by the data demonstrating the size of employment and its changes in the years 1978–2016 in different types of enterprises. Currently, the Chinese government's statistical administration distinguishes ten types of ownership:

- 1) state-owned units,
- 2) collective-owned units,
- 3) cooperative units,
- 4) joint ownership units,
- 5) limited liability corporations,
- 6) shareholding corporations Ltd.,
- 7) private enterprises,
- 8) units with funds from Hong Kong, Macao and Taiwan,
- 9) foreign funded units,
- 10) self-employed individuals.

Without thorough analyses and certain compromises on definition, in some cases it is impossible to explicitly decide if it is private property or state-owned one. Such oversimplified alternative is no longer reasonable.

It is worth adding that from the breakthrough reforms launched in 1978 by Deng Xiaoping (Vogel, 2013), a major part of China's economic growth resulted from increased productivity of non-agricultural sectors of the economy. However, such enormous economic success would not have been possible if it were not for the substantial changes in agriculture, where work efficiency also increased significantly, though for a much smaller scale than in industry. Both of those processes were accompanied by the greatest migration in history during which hundreds of millions of peasants left the countryside and moved to cities. Currently, urban population already represents the majority of Chinese population (58 percent). Nevertheless, what mattered even more to the economic growth than the shift in population from agriculture to industry was the shift in ownership of the means of production from state-owned enterprises to private companies (Lardy, 2014; Cheremukhin et al., 2015).

That implies that still as much as 42 percent of the Chinese population lives in the countryside or, more accurately, in the rural areas. Do they live in capitalism or socialism? Both. Altogether, 314 million people work in agriculture; that is 40 percent of the country's workforce. Yet, agriculture contributes less than 9 percent of GDP, which shows how low labor productivity is. One reason for such backwardness is that, due to ideological concerns rather than economic arguments, the farm land is still owned collectively. It is regarded as a socialist type of property and as such cannot be traded at the market and cannot become a source of income for the farming population. There is no such thing as agriculture's profits from selling the land or derived from it capital gains due to the rising non-agricultural land prices, which definitely would influence the farming land prices if the farm land was commercialized. Interestingly, despite the enormous boom in the sectors of industry and non-agriculture services, the decline of the farming population has recently slowed down. If in the decade of 1997–2006 it declined by 100 million, in the following ten years, 2007–2016, it shrank only by 28 million. In other words, while in 1996, 36.3 percent of the country's population was farming, this ratio declined to 22.8 percent twenty years later.

Kornai formulated his view of China as a capitalist economy a decade ago, founding his reasoning on the data on the rapid growth of the private sector, which as early as in 2001 reached a majority position in the national economy (Kornai, 2008). I myself maintained back then that upon joining the World Trade Organization (WTO) in 2001, 'China committed itself to a full-

*fledged market economy*' (Kolodko, 2011, p. 229) and later, I concluded, that to do so it is possible only for a capitalist economy (Kolodko, 2014a), in particular Chapter XIV: 'An Asian Era with the Euro-Atlantic Civilization as a background?' (p. 146–170), which some authors disagreed with on principle, claiming that the case of China actually proves that one can be at the same time a full-fledged market economy and a socialist one.

When speaking of full-blooded market economy, I meant its more sophisticated and institutionally advanced form than the one achieved so far by China. It turns out that the path to a mature market is longer than we might think. The World Trade Organization still has not accorded to China the status of a market economy and, though a great majority of WTO member states are in favor of it, and rightly so, it is hard to expect a change on this issue since the president of the USA, Donald Trump, refers to China together with Russia, as a rival power. Also, the European Union remains reserved about granting formal market economy status to China.

While those with a more skeptical opinion on the Chinese economic, social and political reality point out to practices in breach of the WTO market economy standard, such as exchange rate and currency market manipulations, restrictions on organizing free trade unions and strikes, huge corporate debt and excessive production capacity in some sectors, others emphasize rescuing hundreds of millions of people from poverty and allowing, by using market mechanisms, a wider range of opportunity to benefit from the economic growth. Some focus on the authoritarian and, at times, oppressive political system (Ringen, 2016), while others argue that rather than that, it is a functional meritocracy (Bell, 2015). While some are afraid that the great program of the so-called New Silk Road<sup>10</sup> is a manifestation of Chinese imperialism, others emphasize assistance offered by China to poor economies in their struggle to overcome backwardness, often one resulting from prior capitalist exploitation. Some get overenthusiastic about the advancement level and international competitiveness of Chinese private high-tech companies, others show cases of intellectual property violations which are far from being isolated.

Hence, we have doubts as to how to define the contemporary Chinese system. Kornai didn't have any as he concluded that even though this was still a deficient market, over a decade ago it was already capitalism. He derives this declaration not only from relationships between core economic sectors, state and private ones, but also from the fact that shortages have been eliminated. His judgment is clear: there are no shortages in China as it is already capitalism with basically hard budget constraints, which is demonstrated by the predominance of private sector in the economy.

Opinions on that matter are divided among the Chinese economists. An overwhelming majority of them publicly supports what the party declares. Many of them, privately, are aware that there are more and more capitalist fundamentals in their surrounding reality. Still, they approach the issue less ideologically and more pragmatically. Call it what you will, the heart of the matter is about efficiency and competitiveness rather than ideological and political disputes. WTO may continue to unjustly claim that it is not a market economy but it is a market with Chinese characteristics, whose essence – and, obviously, the supremacy – the West is unable to fathom.

The issue needs a broader perspective, as the share of private ownership in the economy is by no means the only criterion for declaring socialism or capitalism. An equally important question relates to the nature and function of the state, and those can vary for different levels of private production and employment. In specific cases, their share of GDP may be relatively higher in country A than country B but, at the same time, the nature of the state, its functions, tasks and activities may determine that there are more elements that are typical of socialism. To settle the matter, one needs to take a broader look around. In particular, it's necessary to assess the scope of the state's interference with the economy. From this perspective, several types of states can be distinguished. In addition to the classical socialist state, four models are identified (Block, 1994): 1) public goods state; 2) macroeconomic stabilization state; 3) social rights state; and 4) developmental state.

Without going into an in-depth analysis of those models, their names themselves lead to the conclusion that all these attributes are present in China. The two former spheres – provision of public goods and concern for macroeconomic stabilization – are unquestionably a matter of state responsibility also in capitalism, something even neoliberal economists must concur with (though they will surely argue with their social-liberal colleagues over the scope of public goods). The latter two spheres – the area of social rights and developmental policy – are associated with the prerogatives of a socialist state. Or, which further complicates the matter, with state capitalism (Bremmer, 2010). This shows how fluid the distinction is in some cases. Certainly, from such perspective China falls into the category of socialist economy, unlike the Middle-Eastern style state capitalism, such as the one in Saudi Arabia, or in Central Asia, as in Kazakhstan.

Anyway, on the long path from orthodox socialism to liberal capitalism, one that is longer than it seemed *ex ante*, there are many intermediate stops, the most significant ones being market socialism and state capitalism. To confuse the scene even more, they partly overlap; in this same place and time interval, something already is there and something else not yet.

## 5. Whither China and what business is it to others?

China is actively getting involved in reforming the floundering global governance system. If globalization is irreversible – and that is the case – the imperative for the coming years is to re-institutionalize it (Kolodko, 2004). Undoubtedly, China will

<sup>10</sup> The New Silk Road, or OBOR, that is *One Belt, One Road*, as it is known under the official name, is a vast infrastructure investment program supposed to facilitate the trade between China and its foreign partners to the west, south and north. The program addresses 65 countries in Asia, Middle East, North and East Africa, and East Central Europe (so-called *16 + 1 Initiative*, including 16 post-socialist countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia).

play a major role in this field (Xinzhen, 2017), though it will definitely not be a ‘globalization with Chinese characteristics’. It is striking that at the same time as the American president being sworn into the office on the steps of the U.S. Capitol, shouted *America First!*, at the Global Economic Forum in Davos, the president of supposedly communist China declared that his country champions free trade and new-era globalization – not the one promoted by neoliberals, which enriches the few wealthy at the expense of many poorer ones, but one that is multilaterally beneficial.

Similarly, the Chinese imported a slogan from the West, talking of a *win-win* globalization. Cynics add that this *win-win*, which incidentally sounds nice and kind of familiar in Chinese, will mean 2:0 for China, but the idea is to have an inclusive globalization in which China will undoubtedly play one of the leading roles in the coming decades. This is one of the purposes of the *One Belt, One Road* program, envisioned with so much flair and engaging both the state and private business. It is neither socialist, nor capitalist, but surely it is practical.

The globally growing economic power of China is clearly visible from many angles. Not everybody realizes that the essential change in the structure of major corporations that has taken place over the past decade or so, towards more than doubling the number of state-owned enterprises among the top 500, was mainly due to the dynamism of Chinese companies see (Table 2).

While in 2004, out of 49 SOEs listed on the *Fortune Global 500* (meaning they accounted for 10 percent of the list), 14 were Chinese companies. In 2016, in the group of 101 globally important state-owned enterprises (representing already 20 percent of that group) there were 76 Chinese companies. And the question, again, is: is this a sign of expansion of socialism or state capitalism?

However, the system evolution and the policy followed as part of it in the Middle Country will be subordinated to something else than creating international power of China. Whatever is and will be in the foreseeable future, of greatest importance is an improvement of the internal economic situation. The Chinese expression *mei hao sheng huo*, which can be translated as *better life* or *happier life*, was used 14 times by the Chinese leader Xi Jinping in his opening report at the 19th National Congress of the Communist Party of China in October 2017. He emphasized that ‘China’s socialist democracy is the broadest, most genuine, and most effective democracy to safeguard the fundamental interests of the people [...]. We should not just mechanically copy the political systems of other countries’ (China Daily, 2017b). Dissociating himself from the *one size fits all* rule, typical of the neoliberal Washington consensus, he added with the characteristic Chinese imagery: ‘Only the wearer knows if the shoes fit or not’ (China Daily, 2017b).

While rightly saying ‘no’ to having too large or too small shoes imposed on them, and being aware of its own memorable achievements and strength, and at the same time sensing the needs of other countries looking for an effective path to development, China suggests that it may lead the way and that it will be a socialist one. ‘Xi’s vision of ‘a great modern socialist country’, which aims for socialism’s triumph over capitalism, not only guides China to avoiding the middle income trap but is a reference for the governance of other socialist countries’ (China Daily, 2017b, p. 7). At the congress of the party, Xi Jinping (2017) said: ‘

The path, the theory, the system, and the culture of socialism with Chinese characteristics have kept developing, blazing a new trail for other developing countries and nations to achieve modernization. It offers a new option for other countries and nations who want to speed up their development while preserving independence; and it offers Chinese wisdom and a Chinese approach to solving the problems facing mankind’ (China Daily, 2017b., p. 8).

China is eager to borrow from abroad not only cutting-edge technologies but also popular mental shortcuts or symbolic slogans. No wonder then that the state president and the chairman of Communist Party of China, rolled into one outlined a roadmap for the coming decades (Zhang, 2017). By condemning on principle one of the worst sides of the Chinese real economy, which is more associated by external observers with capitalism than with socialism, namely the wide-ranging corruption for which as many as 1.4 million people (*sic!*) were punished in various ways in the last five years, Xi Jinping indicated how in two giant steps China is to become in 2050 ‘a great modern socialist country’. ‘Socialism with Chinese characteristics for a new era’ is already there, a ‘great modern socialist country’ is under construction. Unfortunately, from party documents and official governmental materials we will not learn more about what these two giant steps should be about, except that in 2020, there will be a ‘moderately prosperous society in all respects’; then, after 2035, a ‘socialist modernization’

**Table 2**

Number of state owned enterprises from selected countries on the *Fortune Global 500* list in the years 2004–2016.

Country/Year	2004	2006	2008	2010	2012	2014	2016
China	14	22	32	52	72	78	76
India	4	5	5	5	5	5	4
Russia	1	2	3	3	3	4	3
France	6	4	4	3	3	3	3
Japan	2	2	2	2	2	2	2
Brazil	2	2	2	2	2	2	2
Mexico	2	2	2	2	2	2	1
Germany	6	4	5	3	2	2	1
South Korea	1	1	1	1	2	2	1

Source: *Fortune Global 500*, ‘CNN Money’, <http://fortune.com/global500> (subsequent years).

will be carried out, and in the following fifteen years, by 2050, a 'great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious and beautiful' will be created (China Daily, 2017b, p. 5).

If we assume that we already have a social market economy in China (Berger et al., 2013) or, as preferred by Chinese authorities, socialism with Chinese characteristics for a new era, then such an ambitious vision, of course with many reservations, may be worth considering. If we assume, however, that what we have there is capitalism with Chinese characteristics, or even an utterly corrupt crony capitalism (Minxin, 2016), then we are faced with quite different questions.

I believe that deliberations such as capitalism versus socialism, with respect to China are becoming less and less fertile and lead us astray. If every economist agrees with the view that the ownership of means of production is of key importance to the way economy functions, then every good economist must agree that of no lesser importance are culture, institutions and policies. This, on the one hand, confuses the picture and the object of the analysis and, on the other hand, makes the analysis easier as it enriches the field of observation by adding new elements. After all, things happen the way they do because a lot happens at the same time ...

Meanwhile, one cannot but agree both with some Chinese economists (Lin, 2004, 2012; Huang, 2017) and with critical external observers (Jacques, 2009; Moody, 2017) who show the *differentia specifica* of China and try to explain what and why is happening there without resorting to the regime categories: socialism and capitalism. I am inclined to go in that direction, when formulating the theoretical outline and practical recommendations for new pragmatism also for China (Kolodko, 2017). In fact, resolving this dichotomy in a clear manner is not the key to understanding the heart of the matter in this case; the key is this typically Chinese commentary: "with Chinese characteristics." Hence, a toughening of ideological and political position is all the more interesting in a situation where new grounds for dialog are opening in intellectual and academic community. We heard from the Chinese leader at the congress of the ruling party that 'Socialism with Chinese characteristics is socialism and no other -ism' (Berthold, 2017, p. 31).

I believe that the capitalism versus socialism disputes are, on the one hand, a specific legacy of the Cold War period which real socialism evidently lost, as real capitalism evidently won it. However, this does not mean the end of history (Fukuyama, 1989), as history will be with us for as long as we are surrounded by conflicts of interests and the attendant clashes. It is good, as it will make economists always in demand because wherever there are conflicting interests, there is room for their research and activities. Also, this does not mean that those two regime t must be inevitably in constant confrontation, whose fetters are so difficult to mentally break free from.

Some time ago, there were lively discussions over three alternative systemic megatrends and transformations: divergence, subvergence and convergence. The first one was supposedly a case where the opposing systems, capitalism and socialism, coexist and the challenge was to make this coexistence peaceful. In the second case, one system was to dominate the other and though many believed for some time that socialism would be the dominant one, it happened otherwise. In the third case, a systemic convergence was to occur, with each system drawing on and assimilating some elements, including culture, from the other and, thus, they would become alike over a long historic process. Certainly, it partly happened as various aspects of capitalism were adopted by socialism and *vice versa*, certain feature of socialism trickled into real capitalism and settled there. This applies especially to the social reorientation of this regime, which, these days, is so different from what Dickens described in *Oliver Twist* or half a century later Reymont in *The Promised Land*.

## 6. Instead of conclusions

No doubt, China has significantly reduced public ownership, though it is still dominant in the banking sector and a blurred division between public and private sectors exists. It is no longer egalitarian, the way it attempted to be during the Mao times. It has limited economic democracy and participation. It is exposed to internal and international market discipline. It has retained extended control over economic performance through traditional instruments of market economic policy (Tinbergen, 1956), such as fiscal and monetary policies, interest and exchange rate management, price setting and SOE investments as well as some forms of direct controls. Hence, it seems justified to claim that China is the economy in transition from successive forms of socialism to market capitalism (Nuti, 2018b). But how long such 'transition' can last? In Central and Eastern European post-socialist economies it has taken a decade or two. So, what about China? Will it take a generation or two? Or maybe an entire century or two?

During the landmark visit of the American president Richard Nixon to Beijing in 1972, Zhou En-lai was asked by Henry Kissinger about the impact on his country of the recent student uprising in France in 1968, calling it 'French revolution'. China's Prime Minister thought that he meant the French Revolution of 1789 and, although 180 years had passed since, he replied: '*It's too early to say.*'<sup>11</sup> And that was not the first time when the Chinese showed their unique ability to look at things over very long periods, from the perspective of historical processes. It is similar now; it is too early to assess the impact of the Soviet Union's collapse and post-socialist transformation in Central and Eastern Europe on the China's course into the future.

These days, China is the one undergoing a sort of convergence. It is experiencing a process of gradually infusing the social and economic reality with fundamentals associated with capitalism, but capitalism is being opposed or sometimes pushed

<sup>11</sup> That popular story about Zhou En-lai omits an important clarification, given years later by Chas Freeman, the State Department interpreter, to the effect that Kissinger's question was translated as referring to the student uprisings in France in 1968, not to 1789. When Zhou's answer came back, Freeman decided that the misunderstanding was '*too delicious to invite correction.*'



out by elements associated with the mentality typical of socialism. One can say that a hybrid in the form of socialist capitalism or – if you will – capitalist socialism is developing there; a sort of Chinism. Does it sound like *contradictio in terminis*? A contradiction in terms? By no means; we are just stuck in the mental trap of a sharp but also false alternative: socialism or capitalism – *tertium non datur*. Meanwhile, something systemically different, though in its nature not entirely devoid of elements of those both systems, can be born.

While not giving up on specific values, differing in diverse places of this wandering world, which always guide human beings and societies in their economic activities, and bearing in mind the imperative of caring for dynamic balance, what matters most from the economic point of view is effectiveness and pragmatism. That is what Deng Xiaoping meant, when he said: *'It doesn't matter if a cat is black or white, as long as it catches mice.'* *Tertium datur*.

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