

Grzegorz W. Kolodko*

Socialism or capitalism? *Tertium Datur*

Abstract

Is China still building socialism or has it already built capitalism? Or maybe both? And maybe none of those two systems as, 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's 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*.

Keywords: comparative economics; capitalism; socialism; communism; post-socialist transformation; state; ownership; enterprise; shortages; shortageflation; Kornai; China

JEL classification indices: A13; B14; D50; E3; N14; P10; P20; P30; P50

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The dispute over the essence of the Chinese system is not new, at least beyond the borders of China itself as over there it's been consistently, for three generations already, declared that we're 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 Central and Eastern European, CEE countries and the Soviet Union. When I visit China these days, I do sometimes have doubts if it's 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's 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.¹ China, though, is following its own path. Where has it brought the country, where is it leading to?

1. Economy – society – state

The literature on capitalism and socialism is enormous. There is no need to discuss it here, though it's 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

¹ 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.

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 won't be amiss to digress that it's 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, Bałtowski 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 (also in Yugoslavia, which followed a different, but still socialist path) and, coupled with those changes, its 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, incidentally the poorest country in Europe, and Romania, textbooks could be republished without major changes.

Allow me to digress here. I know of a case where due to imperfect planning in the Soviet Union, after publishing a book entitled “Economics of a Transition Period” in the 1980s, there were stocks of unused covers left. Red, with gilded letters, because it discussed the period of transition from capitalism to socialism. Using those covers, in the early 1990s, a book with the same title was published, but this time it dealt with the period of transition from socialism to capitalism...

The diversity and an interesting classification of types of capitalism and socialism is presented by Mario Nuti, who points out that “the original socialist project is made up of four constitutive elements in different proportions:

- a) dominant public property and enterprise,
- b) equality and large public consumption,
- c) economic democracy and participation,
- d) social control of the main economic variables (employment, income, accumulation, growth, inflation, internal balance, external balance).

Let's consider only systems characterized by 0 = absence or strong attenuation, and 1 = significant presence of each of these four elements. Sixteen alternative models can be generated in this way: some never existed, others no longer exist, others are still extant." (Nutti 2011)

In accordance with the taxonomy proposed, one of the variants was socialism with Chinese characteristics, put in place in 1980s and 1990s; this is type 1101. Meanwhile, since the beginning of this century, considering that state ownership is still dominant in the banking, which controls the access to and cost of investment credits, China is type 1000, which is more associated with state capitalism than with socialism. In such methodological perspective, Soviet-style central planning in the years 1928-1990 is type 1101, and Yugoslavia in the period 1950-1990 qualifies as 1011. Classical capitalism is type 0000, while ideal communism – the utopia, which has never and nowhere been realized: without the state as the redundant coercive apparatus, with economy of abundance, so with planning no longer necessary, with universal shared ownership, with the rule of “from each according to his ability, and to each according to his need” – this is type 1111. The ideal social democracy, also not yet fully realized to date, is type 0111.

Present-day Poland and Hungary – as well as the other post-socialist European Union member states – are already capitalist economies of type 0000, while it can be seen clearly that this classification needs some nuancing, which the binary system precludes. Indeed, someone else could insist that those two countries – the erstwhile pioneers of market reforms in the 1970s and 1980s – are type 0101, considering the relatively low scale of income inequalities and quite significant scope of social control over economic process, which cannot be ignored. Of course it makes little sense to add, let's say, 0.5 to 0 and 1 as then we would have as many as 81 variants rather than 16. Instead, when making a binary classification, it's better to complement the typology with a specific description to characterize the choice made.

So there are different countries – with their state, society, culture and economy – that are referred to as socialist. Let's pass over, on the one hand, the fact that 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 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 than 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. Well, 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, 2011) 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’s about the same period following the real socialist era. Interestingly, a decade earlier, 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’s 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, having a lower share of private sector now 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 (FTSE Emerging All Cap), but as a Developed Market (FTSE Developed All Cap Ex-US). 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’s 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’s 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 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 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.²

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 the French 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'm not talking here about the caricature of socialism as practiced by 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 guerilla, 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 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.” (*ibid.*, p. 53) It takes longer than there is a time for it...

While discussing the choice between alternative: capitalism or socialism with respect to the poor (GDP per capita of USD 7,200 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 won't affect it (Halper 2010, Kissinger 2011 and 2014, Shambaugh 2016, Kolodko 2017).

2. 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

² 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.

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, in 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 János Kornai (1980) gave it a status of one of the fundamental categories of centrally planned socialist economy.³ Furthermore, he pointed to the inextricable link between those two economic categories – socialism and shortage. If there’s socialism, there are shortages. If there are shortages, there is socialism.⁴

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 (Ψ) is sold, all demand (Π) 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:

³ By the way: it’s 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*.

⁴ 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.

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

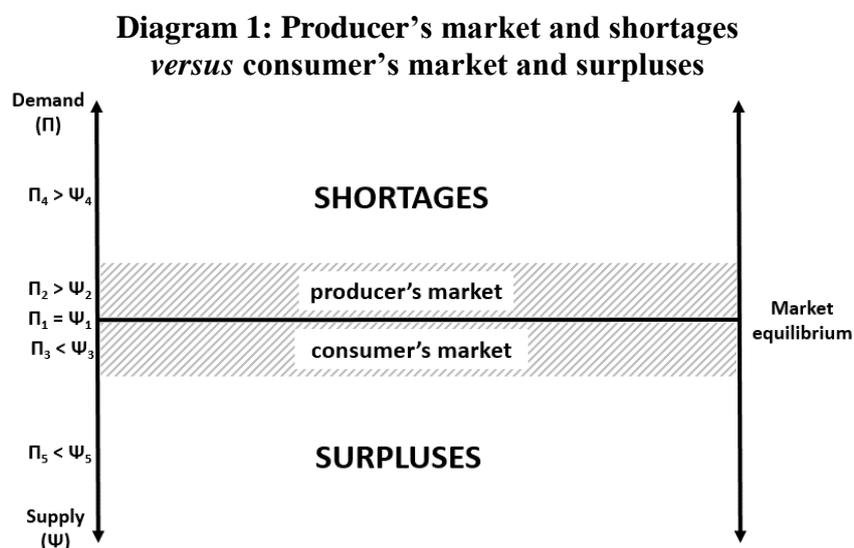
When the excess of demand over supply is high and structural, meaning a permanent inability to buy the desired goods and when the extent to which buyers' time is wasted can no longer be tolerated, we are dealing with an economy of shortages:

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

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:



Source: author's own.

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.

Yet even in the case of Poland in the first half of 1970s we travelled from Warsaw to Budapest, and think, not without a reason, that in this respect the situation was even better over there. However, when one didn't find jeans in the right size and had to squeeze into one size smaller, or instead of the desired long-playing record of Led Zeppelin one left the store at Lenin utca with a record of Procol Harum, even there one became aware of shortages. Of course, in market sectors which cannot be observed on the spot, with a naked eye – such as apartments, cars, phones, foreign currency for trips abroad – shortages were relatively much higher. Be it as it may, they were relatively low in Hungary, which makes it all the more interesting that the author of the theory of the economics of shortages is no other than a Hungarian economist,

though Romanians and Bulgarians, Russians and Ukrainians, Slovaks and Czechs certainly had more opportunities to make relevant observations...

It is beyond any doubt that “Economics of Shortage” by Kornai had a major impact on the state of mind and, consequently, on the economic policy in socialist countries. Not right away, not in all of them, not to the same degree, but, in general, the impact was immense. Unfortunately (or at least unfortunately for real socialism), the attempts to eliminate shortages by ensuring greater elasticity of prices and making them partly market-driven ended in failure. Partly market-driven because nowhere – not even in the most pro-market economies of Poland and Hungary – were they fully and completely deregulated.⁵

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 control⁶ – 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. János Kornai wrote: “There is a causal 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,⁷ 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, i.e. 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:

⁵ In Poland in the mid-1989 about half of the prices, in terms of market value, were already deregulated. In countries like Albania or Romania at that time free market prices were almost not existing.

⁶ I mean prices in the strict sense, i.e. 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, i.e. wages, the price of money in the future, i.e. the interest rate, and the price of foreign currency, i.e. the exchange rate.

⁷ 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.

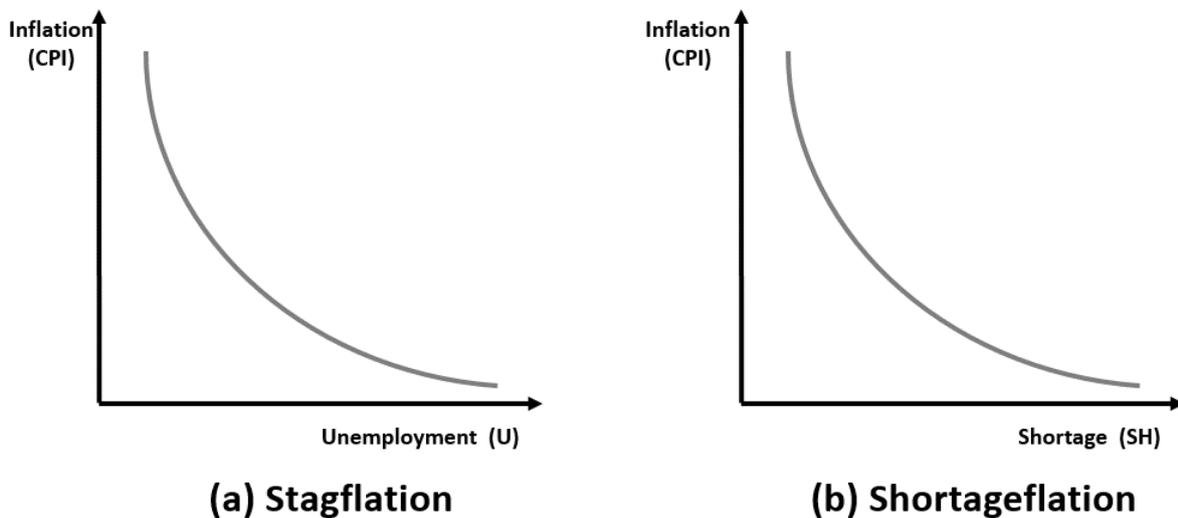
$$SF = U + CPI \quad (6)$$

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

$$SHF = SH + CPI \quad (7)$$

Comparing the rates of stagflation, SF, and shortageflation, SHF, controversial as it is, makes great sense (Kolodko-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.

Diagram2: Stagflation (a) and shortageflation (b)



Source: author's own.

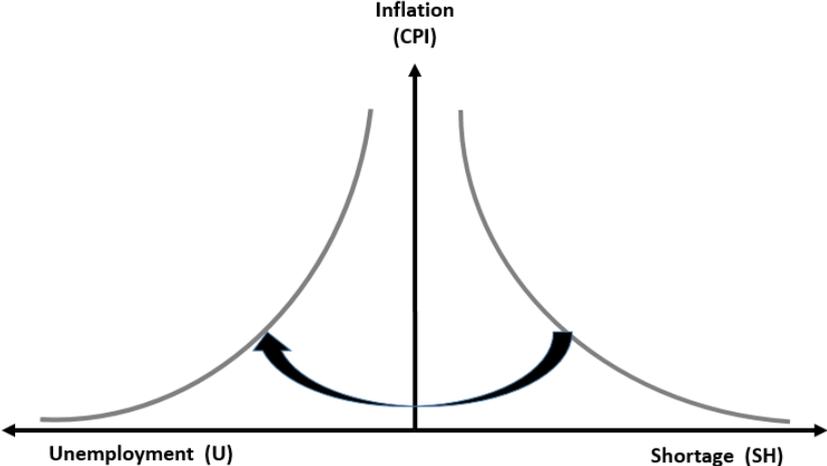
Without delving here into the methodologically complex issue of measuring shortages, it is reasonable to confront those two processes – as these are not so much situations as processes happening over time – because they show the systemic shortcomings of capitalism and socialism. Kornai refers to that 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, i.e. full employment. In real capitalism, it reaches at most the so-called natural rate of unemployment.

And this word, natural, greatly irks Kornai because what is natural in this huge capitalist wastage that is systemic unemployment? He writes: “To this day, I cannot read without irritation (even outrage) that oft-repeated, canonized expression the *natural* rate of unemployment. Natural? Did the green Nature of forests and hares, rocks and earthquakes decree at the same time that there should be unemployment? I have been for decades a sharp critic of the socialist system, but friends and enemies alike of it should realize that it was marked by a chronic shortage of labor, not by chronic unemployment and a sizable surplus of labor.” (Kornai 2014, p. 92-93)

Well, the proponents of the term *natural rate of unemployment* certainly don't mean to associate unemployment with Mother Nature, they just state the unpleasant fact that, by the very essence of capitalism, unemployment is its inalienable feature, one that is always and everywhere inherent in it. In other words, such is its nature... The same as, according to the Kornai theory of economics of shortage, socialism is naturally associated with shortages. In other words, such is its nature...

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 economists⁸, 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.

Diagram 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.

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 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.

⁸ 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 (Gomulka 1991) (on the early critical appraisal of ill-advised "shock therapy" see Frydman, Kolodko and Wellisz 1991). Actually, unemployment was growing for five years, exceeding 3 million, i.e. 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.

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.

János 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 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, Mario 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 2018). And if it wasn't 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 socialist economies of Central and Eastern Europe the attempts were made but failed. Meanwhile, in China – as well as in Vietnam (Kornai i Qian 2009) and in the very poorly developed Cambodia and Laos – it worked. So isn't 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 unemployment⁹, with still partly soft budget constraints?

3. 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 socialism¹⁰, then eliminating shortages in

⁹ 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.

¹⁰ 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-

its framework has proved 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's 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 the necessary but not 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, it 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, and at the macro scale, running the economic policy, which, in the contemporary Western-style capitalism, incessantly gets entangled in democratic disputes. It's 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's no accident that the financial crisis of 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 doesn't 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 doesn't follow, either, that lack of democracy favors economic growth. It can happen but it doesn't 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, at such a scale, happened in the past, and never will so much happen for so many in the future. The case of China confirms that of crucial importance to the

minded practice of equating a single-party system with a communist state, and a meaningful role of the state sector with a communist economy.

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 account of 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, private sector generated a greater part of the national income as early as in the end of previous century, in 1998.

**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:							
state-controlled	40.5	40.1	39.6	37.1	35.2	34.1	- 6.4
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:							
state-controlled	33.1	33.0	33.1	31.2	29.9	29.2	-3.9
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).

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's not the case as the pace of private sector expansion was made to slow down in the last decade or so. In a way, it's natural as the fewer assets there are left to denationalize, the slower the private sector is growing. That's 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 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 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 the taxonomy of forms of business ownership has become even more complicated. The solution to the dilemma of how to define state- and private-owned is often a matter of convention. The matter is greatly complicated here as in many cases it's hard to judge clearly: are we dealing with private or state ownership? That's because even in this area there's 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 (Bałtowski and Kwiatkowski 2018). 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's 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, 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. Nowadays, 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.

Table 2: Number of Employed Persons in China in Urban and Rural Areas

Year	Total	Urban Areas											Rural Areas				
		Subtotal	State-owned Urban	Collective- owned Urban	Cooperative Urban	Joint Ownership Urban	Limited Liability Corporations	Shareholding Corporations Ltd.	Private Enterprises	China with Foreign Investment Share and Revenue	Foreign Private Urban	Self- employed Individuals	Subtotal	Private Enterprises	Self- employed Individuals		
																State-owned Urban	Collective- owned Urban
2013	42 152	9 514	7 471	2 043											30 638		
2014	42 361	10 529	8 519	2 010											31 832		
2015	48 873	12 808	8 980	3 828											37 065		
2016	64 749	17 041	10 248	3 793											47 708		1 491
2017	68 995	19 040	11 261	3 147											49 934		3 044
2018	72 985	23 151	8 102	1 469											48 834		2 914
2019	72 797	24 123	7 640	1 291											48 674		2 629
2020	73 230	25 159	7 163	1 122											48 121		2 414
2021	73 736	26 220	8 878	1 000											47 506		2 282
2022	74 294	27 280	8 710	887											48 071		2 066
2023	74 847	28 339	8 488	810											48 258		2 121
2024	74 978	29 400	8 400	794											48 348		2 147
2025	75 321	30 503	8 424	718											44 268		2 187
2026	75 994	32 100	8 447	662											43 461		2 167
2027	76 628	33 322	8 420	618											42 526		2 341
2028	76 108	34 087	8 518	587											41 418		2 342
2029	76 420	35 814	8 704	550											40 526		2 718
2030	76 877	36 240	8 268	588											39 877		2 885
2031	77 203	36 210	8 212	577											37 843		3 079
2032	77 491	42 403	8 268	491											37 941		3 082
2033	77 803	41 428	8 170	493											36 175		4 232

Source: National Bureau of Statistics, Beijing.

It's worth adding that in that time – 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 weren't for the fundamental changes in agriculture, where work efficiency also increased by leaps and bounds after all. 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 the city. 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 2015).

János 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's only possible 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 actually the case of China 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's hard to expect it since president of the USA, Donald Trump refers to China, together with Russia, as a rival power. Also the European Union is still 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, also by using market mechanisms, a wider range of society to benefit from the economic growth. Some focus on the authoritarian, and at times, oppressive political system (Ringen 2016), 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 Road¹¹ 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. János Kornai didn't have any as he concluded that even though this was still a deficient market, over a decade

¹¹ 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).

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 aren't any 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 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,
- 4) developmental state.

Without going this time 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 Middle-Eastern style state capitalism, such as the one in Saudi Arabia, or Central Asian one, 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.

4. Whither China and what business is it to others?

China is actively getting involved in reforming the floundering global governance system (Lan 2017). If globalization is irreversible – and that's the case – the imperative for the coming years is to re-institutionalize it (Kolodko 2004). Undoubtedly, China will play a major role in this field, though it will definitely not be a “globalization with Chinese characteristics”. It's striking that at the same time the American president being sworn into the office on the steps of the U.S. Capitol, shouts *America First!*, at the Global Economic Forum in Davos the president of

supposedly communist China declares 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.

Also this time, 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's 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.

Table 3: 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: Bałtowski and Kwiatkowski 2018 (based on *Fortune Global 500*, “CNN Money”, <http://fortune.com/global500>, subsequent years).

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 (now they represent already 20 percent of that group) there are as many as 76 Chinese companies. And the question, again, is: is this a sign of expansion of socialism or state capitalism?

Table 4: Changes in SOE share of 500 top world enterprises

No.	Item	2004		2016	
		value	% share	value	% share
1	Number of enterprises	49	9.8	101	20.2
2	Revenues (USD bn)	1,342	8.0	5959	21.6
3	Staffing (thousands)	8,855	18.4	20,117	30.1
4	Net profit (USD bn)	75.9	8.2	247.0	16.3

Source: Bałtowski and Kwiatkowski 2018, table 7.4.

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. What 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.” (Xi Jinping 2017) 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 he leads Xi Jinping 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.” (*ibid.*, 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 soon, in 2020, there will be a “moderately prosperous society in all respects”, then, after 2035, a “socialist modernization” 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, Cho and Herstein 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 (Minxim 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 and 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 myself 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’s good as it will make economists always needed because wherever there are conflicting interests, there’s room for their research and activities. Also, this does not mean those two regimes 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,
- 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 is, these days, so different from what Dickens described in “Oliver Twist” or half a century later Reymont in “The Promised Land”.

5. Instead of conclusions

No doubt, China has significantly reduced public ownership, though it is still dominant in banking sector and a blurred division between public and private sectors exists. By all means, 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 “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?

When during the landmark visit of American president Richard Nixon to Beijing in 1972, China's Prime Minister Zhou Enlai was asked about the influence of the French Revolution on his country, although 180 years had passed since, he replied: "It's too early to say." And that wasn't 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 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. It sounds 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's 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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Социализм или капитализм? *Tertium Datur*

Аннотация

Продолжает ли Китай строить социализм? Или уже построил капитализм? А, может быть, и то, и другое? Или, возможно, не то и не другое, поскольку в ходе рыночных реформ, существенно отклоняющихся от традиционного социализма, сформировалось нечто совершенно отличное от классических политических и социально-экономических конструкций, известных с XX века? Одни авторы считают, что в Китае уже некоторое время существует капитализм, другие убеждены, что в стране развивается социализм, конечно, с китайской спецификой. Дефициты были успешно устранены, однако экономическая система не сбалансирована и в данный момент демонстрирует излишки. Так это социализм, как утверждают китайские власти, или капитализм, как считают многие экономисты? Третьего не дано? Совсем нет, существуют и другие варианты интерпретации китайского политического и социально-экономического устройства, и самую завораживающую из них предлагает современный Китай, демонстрирующий на протяжении последнего поколения уникальную внутреннюю конвергенцию. Элементы социализма неразрывно связываются с элементами капитализма, и наоборот, создавая иное, новое качество. *Tertium datur.*

Ключевые слова: сравнительная экономика; капитализм; социализм; постсоциалистическая трансформация; права собственности; государство; предприятие; шортегфлеишен; Корнаи; Китай

JEL: A13; B14; D50; E3; N14; P10; P20; P30; P50

社会主义还是资本主义？ *Tertium Datur*

摘要

中国仍然是建设社会主义还是已经建立了资本主义？或者两者兼而有之？又也许这两个体系都不是，市场改革导致其偏离了传统的社会主义，因而创造了不同于传统的20世纪政治和社会经济制度？有些作者声称中国社会有一段时间已经存在资本主义，其他人认为，社会主义的发展，当然是有中国特色的。缺陷已经被成功地消除了，但经济体系不平衡，这次出现了盈余。那么，正如中国官方宣称的那样，是社会主义，还是如许多经济学家所断言的那样，是资本主义？*Tertium non datur*？没有办法，尚未发现对中国社会体系解释的其他可能性，而当下最吸引人的说法是由中国提供的，一个独特的内部融合正在中国发生。特色社会主义与资本主义的混合，反之，创建一个新的，本质上不同的新体系。*Tertium datur*.

关键词：比较经济，资本主义，社会主义，共产主义，后社会主义转型，状态，所有权，企业，缺陷，通货膨胀缺陷，科尔奈，中国

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