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# Deng Xiaoping: The Economist

Barry Naughton

Deng Xiaoping's economic legacy is overwhelmingly positive and quite secure – in this, it stands in contrast to his troubled and ambiguous political legacy. Of all of Deng's achievements, the transformation of China's economic system is the only one that is currently judged to have succeeded, and to have benefited large numbers of people. Deng presided over the Chinese government during a period of enormous economic change. Under his leadership, the government extricated itself from a legacy of massive economic problems and began a sustained programme of economic reform. Reforms transformed the economic system and initiated a period of explosive economic growth, bringing the country out of isolation and into the modern world economy.

Yet it is deeply paradoxical to credit Deng Xiaoping primarily with economic success, for he has never said anything original about economics or economic policy, and rarely displays any particular insight into the functioning of the economy. The relatively infrequent discussions of economic matters in Deng's speeches are usually either very broad generalities, or simple restatement of points made by others.<sup>1</sup> There is no Deng Xiaoping *vision* of the economy or the economic system. Thus, while he has intervened repeatedly and forcefully to keep the economic reform process moving forward, these interventions have always been precisely calculated for political effect, and extremely vague on economic content. Deng was a politician, a manager and a generalist whose most successful role was as the political godfather of economic reform.

Though Deng lacks vision, there are nevertheless certain areas where he is extremely clear-sighted. The most striking example is his insistence on the need for real incentives and delegation of authority in order to motivate individual effort. More broadly, there are several consistent themes that have marked Deng's career in economics. These make it possible to sketch out some aspects of the economic world according to Deng Xiaoping. Moreover, because the Chinese political system is so hierarchical, the themes of the person at the top inevitably shape long-term policy outcomes. This is true of China's economic reform process after 1978: it bears the stamp of Deng's personality. Like Deng himself, China's economic reforms have consistent themes, but no over-arching design or vision.

To a remarkable degree, the apparent failings of the reform process have turned out to be advantages. Lacking a clear objective, reforms unfolded in a gradual, evolutionary fashion, avoiding much of the economic trauma that characterized economic reforms in Eastern Europe and

1. David Bachman notes that "there is remarkably little discussion in Deng's [1975–1982] *Selected Works* on economic affairs." *Chen Yun and the Chinese Political System* (Berkeley: Institute of East Asian Studies, China Research Monograph No. 29, 1985), p. 156.

the former Soviet Union.<sup>2</sup> Similarly, absence of vision can be seen as Deng Xiaoping's personal strong point. Without a vision of his own to impose on society, Deng has been willing to adopt policies of non-intervention. He has allowed economic (but not political) developments to unfold without constant interference from the Party or government. Deng was willing to delegate economic decision-making, and he used capable subordinates effectively. He has expressed admiration for foreign economic accomplishments without defensiveness. Deng has displayed a personal talent for *laissez-faire*: he has mastered the ruler's art of non-acting.

The following takes Deng Xiaoping's career in roughly chronological order, while looking for patterns that extend across that career. The first section covers his activities in 1957–66 when he was an important, but junior, member of the small group of top leaders. The second section discusses his first brush with absolute power in 1975. The bulk of the article covers the post-1978 "era of Deng Xiaoping." Five consistent themes are seen to mark Deng's attitudes toward economic issues. These are the paramount importance accorded to economic development; the need for rapid growth; the importance of clear delegation of authority in order to utilize human resources; the importance of non-intervention; and the need to open to the outside world.<sup>3</sup> These simple themes do not add up to much of a theory of economic reform, but as general guidelines or reference points in rapidly changing situations, they are probably adequate. The final sections consider the overall legacy of economic reform, and Deng's role in shaping the reform process. Since Deng may be said to have provided the basic orientation for a generally successful programme of economic reform, we may give him some of the credit for China's recent string of economic successes.

### *Deng the Organization Man: 1952–67*

Deng Xiaoping has been a member of the small group of top Communist Party leaders during most of the post-1949 period. He was the first of the major regional leaders to be brought to Beijing, in July 1952, and he rose rapidly to a position of great influence under the overall command of Mao Zedong. By mid-1953, at the latest, Deng was supervising crucial aspects of economic decision-making. As Vice-Premier, he was assigned to oversee the transport sector. Moreover, in September 1953 he was

2. On this aspect of the reforms, see Cyril Lin, "Open-ended economic reform in China," in Victor Nee and David Stark (eds.), *Remaking the Economic Institutions of Socialism: China and Eastern Europe* (Stanford: Stanford University Press, 1989); and John McMillan and Barry Naughton, "How to reform a planned economy: lessons from China," *Oxford Review of Economic Policy*, Vol. 8, No. 1 (spring 1992).

3. We should note that our list is not too different from the official Chinese list of Deng's accomplishments. The hagiographic literature credits Deng with four economic innovations: legitimizing economic development as the main task of government; setting effective long-run economic objectives; initiating economic reform; and supporting the open door policy. See Yao Ping (ed.), *Xin shiqi Deng Xiaoping zhanlue sixiang yanjiu (Studies in the Strategic Thought of Deng Xiaoping during the New Era)* (Xi'an: Shaanxi renmin chubanshe, 1989).

appointed to serve concurrently as Minister of Finance, replacing Bo Yibo, who was under fire for political errors. During late 1953, Deng worked with Chen Yun to implement the monopoly purchase of grain and cotton in the countryside, a key element of state control over the economy. Important as these responsibilities were, they were only one part of Deng's steady rise to a key position as political generalist at Mao's right hand. In April 1954, Deng was appointed Secretary General (*mishuzhang*) of the CCP Central Committee and head of the organization department, directly controlling the Party personnel function. Finally, in September 1956, following the Eighth Party Congress, he became General Secretary (*zong shuji*) of the Central Committee, a position he maintained until 1967, when he was deposed during the Cultural Revolution. With these positions at the core of the Party organization, Deng had responsibility for hands-on management of an extremely broad range of issues, including economic issues. As General Secretary, he routinely controlled the assignment of responsibility over important tasks, as well as presiding over promotions and demotions through the Party personnel system. Deng was thus a generalist whose responsibility for aspects of economic policy was but one part of his broad portfolio.<sup>4</sup>

Given Deng's positions, all important economic decisions flowed through his management system, and there is evidence that he participated in virtually every important economic decision made between 1957 and 1966. Yet the nature of his position was such that he rarely had sole authority over any area of economic policy. Like all central officials, Deng had to ascertain Mao Zedong's position on important issues, and fall in line when the Chairman expressed his views. Deng's senior colleague Chen Yun had far greater expertise on economic issues, and there is considerable evidence that Deng routinely deferred to Chen's views on important matters.<sup>5</sup> In addition, authority over ordinary management of economic affairs was shared with Premier Zhou Enlai, who presided over the government bureaucracy and outranked Deng within the Party. Deng was able to maintain remarkably good relations with these three individuals. Zhou and Deng co-operated particularly well, and after December 1963 Deng was formally designated to serve as Acting Premier in Zhou's absence.<sup>6</sup>

4. Li Xinzhi and Wang Yuezhong, *Weida de shijian, guanghui de sixiang: Deng Xiaoping geming huodong dashiji* (*Great Practice and Glorious Thought: A Chronology of Deng Xiaoping's Revolutionary Activity*) (Beijing: Hualing chubanshe, 1990), pp. 102, 104, 109. Han Shanbi, *Deng Xiaoping pingzhuan* (*A Critical Biography of Deng Xiaoping*) (Hong Kong: Dongxi wenhua shiye gongsi, 2nd ed., 1988), p. 283. An interesting perspective on Deng's role and ascent during the early years is provided by Frederick C. Teiwes, *Politics at Mao's Court: Gao Gang and Party Factionalism in the Early 1950s* (Armonk: M. E. Sharpe, 1990), esp. pp. 21, 70, 87–88, 117, 134, 145, 286.

5. See, for example, Deng Liqun, *Xiang Chen Yun tongzhi xuexi zuo jingji gongzuo* (*Study Economic Work from Comrade Chen Yun*) (Beijing: Zhonggong zhongyang dangxiao, 1981), p. 9.

6. Li Xinzhi and Wang Yuezhong, *Great Practice and Glorious Thought*, p. 132. The association between Zhou Enlai and Deng Xiaoping dates back to their time in France in the 1920s. Deng Xiaoping had in effect served as Acting Premier on occasion in the late 1950s as well. Han Shanbi, *A Critical Biography*, pp. 258–59.

To the extent that an individual Deng Xiaoping contribution to economic policy can be discerned during this period, it has to do with the design of incentive systems. During his brief tenure as Minister of Finance, Deng supported the introduction of incentive measures into the fiscal system. He supported having lower levels of government guarantee (*baogan*) revenues and expenditures, and allowing local governments to retain surpluses of planned revenues over expenditures for use in the following year. This last provision in particular represented a modest but significant departure from the standard Soviet practice of highly centralized control of the budget.<sup>7</sup> Another case of Deng's individual input occurred during the immediate post-Great Leap Forward crisis, during 1960–62. At that time, the top leaders divided among themselves responsibility for overseeing different aspects of the economic rehabilitation. Deng's responsibility was the reform and rectification of enterprise management and the rehabilitation of the labour union system. As part of this process, Deng personally supervised the drafting during 1961 of a document on enterprise management that emphasized clear definition of tasks and responsibility within industrial enterprises. This document, the 70 Articles on State Industrial Enterprise Work, stressed the need for regularization of management systems (for which it was denounced during the Cultural Revolution as a conservative and bureaucratic document).<sup>8</sup> The need for regular systems of responsibility and authority, along with appropriate motivational devices, is thus a consistent feature of Deng's approach to economic problems. Such an emphasis was certainly related to his position in the Communist Party system. As General Secretary, Deng presided over the Party's day-to-day operations, of which arguably the most important was running the Party's personnel system. The Party controls all important jobs in society, most of them in government or urban enterprises, with industry a particular focus. By at least 1961, Deng had staked out special expertise in the operation of personnel systems, and began thinking about ways to improve systems of authority and responsibility.

Yet apart from this modest area of specialization, and in spite of Deng's active involvement with the *process* of economic decision-making, there is remarkably little evidence of an economic viewpoint that can be specifically attributed to him. It is worth emphasizing how surprising this is. During this period of over a decade, the Chinese leadership grappled with economic issues of tremendous importance and great complexity. The prevailing policy shifted several times, and created great successes and enormous disasters. Yet in all these issues, there is virtually no case where there can be seen an independent position advocated by Deng Xiaoping. A short list of the most crucial economic policies developed during this period – the policies toward capitalist business

7. Deng Xiaoping, "Six directions for fiscal work" (12 January 1954), in *Deng Xiaoping Wenxuan (1938–1965)* (*Selected Works of Deng Xiaoping, 1938–1965*) (Beijing: Renmin chubanshe, 1989), pp. 182–83.

8. Yu Guangyuan, "Develop economic sciences," *Jingji yanjiu*, No. 10 (1981), p. 4; Li Xinzhi and Wang Yuezong, *Great Practice and Glorious Thought*, p. 121.

established during 1953, the acceleration of collectivization and nationalization in 1955–56, the economic readjustment and liberal policies of 1956–57, the formation of communes and beginning of the Great Leap Forward in 1958, drastic rehabilitation of the economy following the catastrophic Great Leap collapse, and then renewed radicalization first of rural policy in late 1962 and subsequently of growth policy with a new Five-Year Plan in 1964 – shows in each case Deng participating in the implementation of policy, but nowhere influencing the making of policy. In none of these important issues can we discern a viewpoint specifically attributable to Deng Xiaoping.

Deng always carried out the established policy, vigorously and effectively, whatever that policy was. This was notoriously true in the case of the Great Leap, which Deng supported from the beginning, as he himself has repeatedly acknowledged.<sup>9</sup> Subsequently, after the Leap collapsed, Deng played an active role in carrying out the effective policies that began China's economic recovery; and Deng's Secretariat produced a draft Third Five-Year Plan in 1964 that stressed continued priority to restoring agriculture and recovering pre-Leap levels of consumption. But in late 1964, in response to Mao's intervention, this Plan was abandoned and the emphasis shifted sharply toward militarization and accelerated heavy industrial investment, and the drafting of the radically revised Third Five-Year Plan was also supervised by Deng's Secretariat.<sup>10</sup> It is not unusual to find Deng on both sides of a single issue at different times; however, he is always following the prevailing line, without regard to his previous position. His record was one of unprincipled but effective implementation of whatever policies were adopted by the Centre.

Deng's approach to economic problems should be clearly distinguished from what we might term "principled pragmatism." Deng was pragmatic and effective in carrying out whatever policy was set by the central government (in most cases, ultimately by Mao Zedong). But this pragmatism did not apply to the definition of economic problems themselves. Rather, Deng let other top leaders define the economic problems, and then confined his skills to the implementation of policies they had established. The contrast here is especially great with Chen Yun. Chen, like Deng, never overtly opposed any of Mao Zedong's policies, but Chen's activity and visibility among the elite fluctuated dramatically. When policies congenial to Chen's consistently-expressed ideas were being implemented, he played a major role; when policies conflicted with his views, he tended to become invisible. As a result, Chen's consistent

9. Deng Xiaoping, "Adhere to the Party line and improve methods of work," *Selected Works (1975–1982)*, pp. 262–63; "Remarks on successive drafts of the 'Resolution on Certain Questions in the History of Our Party'," *ibid.* p. 281. For more on Deng Xiaoping during the Great Leap Forward, see Roderick MacFarquhar, *The Origins of the Cultural Revolution, 2: The Great Leap Forward, 1958–1960* (New York: Columbia University Press, 1983), pp. 60–61, 121, 166, 176, 323.

10. According to Li Yue, cited in *Jingjixue dongtai*, No. 2 (1981), p. 14, the original plan was drafted "according to the ideas of Chen Yun and Deng Xiaoping." Yan Mingfang, "The compilation and fulfilment of the Third Five-Year Plan," *Dangshi yanjiu*, No. 6 (1986), pp. 38–39; Li Xinzhong and Wang Yuezong, *Great Practice and Glorious Thought*, pp. 136, 140.

views on economic affairs could be fairly readily deduced, even if he had not written extensively on a wide range of economic issues.<sup>11</sup> No such patterns are discernible in the case of Deng. He played a major role as manager, fixer and enforcer under a wide variety of policy orientations.<sup>12</sup>

The view of Deng Xiaoping as above all a pragmatist has been crucially bolstered by his statement, "it doesn't matter if a cat is black or white, so long as it catches mice." This statement was indeed made by Deng, and moreover made in the context of a crucial economic issue with explosive political connotations. It was said in July 1962 in the course of a speech in which he supported the experimental policy of contracting farmland to individual peasant households.<sup>13</sup> Subsequently, this policy was condemned by Mao Zedong as a serious deviation from the correct Party line, and during the Cultural Revolution an entire public relations offensive against Deng was drummed up on the basis of this one quotation.

In fact, in this speech Deng was simply echoing statements that Mao Zedong had been making over the previous year and a half. Mao had explicitly supported contracting land to individual households in Anhui province on an experimental basis, and he called for a flexible and experimental approach to rural policy in general. In March 1961, referring to an explicit request for guidance on contracting land to households, Mao told the Party secretary of Anhui, "Try it out! If it doesn't work, you'll do a self-criticism, and that'll be the end of it. If it works, and you can produce an extra 500,000 tons of grain, that will be a great thing."<sup>14</sup> Mao's commitment to open-minded experimentation was doubtless be-

11. As a result of Chen's consistence and importance, we have two excellent English language studies of his life. Bachman, *Chen Yun and the Chinese Political System*; Nicholas Lardy and Kenneth Lieberthal, "Introduction" in *Chen Yun's Strategy for China's Development* (Armonk: M. E. Sharpe, 1983).

12. One commonly-held view is that after 1962 there was increasing divergence of views between Mao and other leaders, including Deng. See Wang Nianyi, "A tentative discussion of the origins of the Cultural Revolution," *Dangshi yanjiu*, No. 1 (1982) pp. 24-31. That may indeed be true, but there is no real evidence to substantiate it with the evidence currently available. In fact, it is still difficult to make any confident assertion about Deng's views during this period given the current state of our knowledge. Because Deng was not the top person in the hierarchy, his speeches have been less abundantly published and studied until very recently. Nearly all his important statements currently available have been subjected to high selective editing. See Michael Schoenhals, "Edited records: comparing two versions of Deng Xiaoping's '7,000 Cadres Conference Speech'," *CCP Research Newsletter*, No. 1 (1988), pp. 5-9, and below on factory manager systems. The selection of documents available is systematically biased to project certain images of Deng - for example, the official *Selected Works* contains no speeches between May 1957 and March 1960, in spite of Deng's intense activity during this period. Finally, since the most characteristic feature of Mao's proclamations during this period was *inconsistency*, and the most characteristic feature of most other Party leaders (including Deng) was *slavish subordination* to Mao's proclamations, it follows that selective compilation can produce almost any kind of historic record. All we can say is that there is currently no reliable evidence to support the view that Deng independently advocated *any* significant policy position before 1967.

13. Deng Xiaoping, "How to revive agricultural production," *Selected Works (1938-1965)*, p. 305.

14. Liu Yishun, "Ceng Xisheng and the responsibility fields in Anhui," *Dangshi yanjiu*, No. 3 (1987), pp. 26-27; Liu Yishun and Zhou Duoli, "The question of 'responsibility fields' in Anhui in 1961," *Dangshi yanjiu*, No. 5, (1983), pp. 35-40.

ginning to fade somewhat by the following year when Deng spoke, but it was still official Maoist policy. Only in the following months did Mao reverse himself.<sup>15</sup> Similar conclusions follow whenever Deng's statements are carefully matched with the policy lines prevailing at the time the statements are made. For example, Deng as General Secretary supervised the drafting of a programmatic document on rural policy in September 1963, which came to be known as the "Second Ten Points." Denounced during the Cultural Revolution as a revisionist document, it seems clear that it was routinely drafted under Deng Xiaoping's general supervision, and was seen as a refinement and polishing of existing policies, rather than a new departure.<sup>16</sup>

Thus, in the period before 1967, Deng operated as the consummate organization man. With a crucial position in the organization, he exemplified the effective bureaucrat, accepting a delegation of authority from above and carrying out tasks with great responsibility. Meanwhile, he gave attention to extending effective bureaucratic mechanisms into the state-run industrial economy, seeking to expand the scope for delegation of authority and responsibility. At the same time, Deng was the organization man in another sense: responding to the needs of the organization, he seems to be without a personal vision, and possibly without personal principles.

#### *Deng's Interlude: Power, Purge and Return, 1975–78*

Deng was recalled to Beijing in February 1973 to work in foreign affairs.<sup>17</sup> His role gradually expanded, and in December 1974 Mao – after reportedly concluding that Wang Hongwen was not sufficiently competent to run the country – designated Deng Vice-Chairman of the

15. In fact, in this speech, Deng is very careful to specify that the policy of open experimentation is in effect only until a scheduled August Party meeting, which will develop more specific (and restrictive) rural work methods. Deng Xiaoping, "How to revive agricultural production," p. 305. Much later, Deng specifically noted that at that time "it seemed that Comrade Mao Zedong was then earnestly correcting 'Left' mistakes . . . . At the Beidaihe Meeting of July–August [1962], however, he reversed direction again, laying renewed and even greater stress on class struggle." "Remarks on successive drafts of the 'Resolution on Certain Questions in the History of Our Party'," *Selected Works of Deng Xiaoping (1975–1982)*, (Beijing: Foreign Languages Press, 1984), p. 281.

16. Indeed, the document served as the basis of policy for over a year without significant controversy, until it was swamped by the intensifying tensions between Mao and Liu Shaoqi, with their contrasting "experiences" and approaches to rural policy formulation. It may be, as some have argued, that the document represents a subtle shift towards greater acceptance of rural commercial activities than might have been envisaged by Mao, and argued for some safeguards to protect cadres. Even if true, such subtle shifts of emphasis were well within the general policy framework. Richard Baum, *Prelude to Revolution: Mao, the Party and the Peasant Question, 1962–66* (New York: Columbia University Press, 1975), pp. 43–59. Baum's summary of Deng's position on p. 165 still seems right: "Above all, Deng seems to have been concerned with establishing routinized bureaucratic norms and procedures and with regularizing the channels of communication between higher and lower levels within the Party – in short, with perfecting the instruments of 'rational' public administration."

17. The fact that Mao was willing to recall Deng in early 1973 may also serve as indirect evidence that Deng played "by the rules" before 1967. If Mao seriously believed Deng had ignored Mao and pushed his own agenda, as charged by Cultural Revolution radicals, he surely would not have advanced him to positions of great power during the 1970s.

Communist Party, Vice-Premier, and vice-head of the Military Commission. Deng was effectively replacing Zhou Enlai, who was already incapacitated by the cancer that would prove fatal a year later. Throughout 1975, Deng possessed enormous power, second only to that of Mao; no longer was there any presumption that Deng would implement the policies of others. He was undoubtedly constrained by what was acceptable to an increasingly erratic Mao, and by the need to pay lip-service to Cultural Revolution principles. But overall he was primarily responsible for the policies adopted during 1975 and, in sharp contrast to the past, the policies adopted bear the unmistakable stamp of Deng Xiaoping.

In the economic sphere, policy was dominated throughout 1975 by two consistent themes: rectification and accelerated growth. Rectification was not just an economic policy – it began with the military and extended into nearly every part of society as part of “overall rectification.” Part of it was reshuffling personnel: firing incompetents and political opponents and promoting capable individuals and loyal supporters. But it was also an important economic policy, in that it involved rebuilding clear systems of command, responsibility and incentives. The focus of rectification in this sense was the industry and transport complex, and it began with the railways. Deng’s programme for the railways rested on explicit centralization of authority, combined with clear rules governing responsibilities and power. He turned to his old friend Wan Li, making him Minister of Railways and head of the rectification work group. A Central Document “Decision on Strengthening Railway Work” (*zhongfa* No. 9) gave additional authority to Wan Li and was also used as a model for extending rectification to other sectors. It was applied in succession to steel, petroleum and military industries during the first half of the year.<sup>18</sup>

After mid-year, Deng sought to expand the ongoing rectification with a programmatic document that would cover all industrial sectors. He had the State Planning Commission begin drafting “On Several Questions of Accelerating Industrial Development.” Deng took a direct personal interest in the revision of this document, and pointed out that it should be based on the 70 Articles of 1961.<sup>19</sup> This document stresses centralization of authority and comprehensive planning of economic activity. Above all, though, it can be seen as a return to principles of personnel management that call for clearly delineated responsibility and authority.<sup>20</sup> The stress is on rules and regulation, and on central control, rather than delegation of

18. Wang Nianyi, *1949–1989 nian de Zhongguo 3: da dongluan de niandai (China from 1949–1989, III: The Period of Great Chaos)* (Zhengzhou: Henan renmin chubanshe, 1989), pp. 516–523. I am grateful to Kam Wing Chan for providing a copy of this source. Li Xinzhi and Wang Yuezong, *Great Practice and Glorious Thought*, pp. 178–183, 187.

19. Wang Nianyi, *China from 1949–1989*, p. 526.

20. A draft version of the document is reprinted in Chi Hsin, *The Case of the Gang of Four* (Hong Kong: Cosmos Books, 1977), pp. 239–272. See also Deng Xiaoping, *Selected Works, 1975–1982*, pp. 45, 8–11, 28–31. As Bachman points out, “Beginning in 1975, Deng has consistently advocated rectification of leading bodies in factories.” Bachman, *Chen Yun*, p. 156. As we have seen, this advocacy can be traced back to 1961. See also Kenneth Lieberthal, with James Tong and Sai-cheung Yeung, *Central Documents and Politburo Politics in China* (Ann Arbor: Michigan Papers in Chinese Studies, No. 33, 1978), esp. pp. 27, 44–49.

authority and decentralization. This can be seen as the outcome of an attempt to establish clear, well-functioning authority systems in the wake of Cultural Revolution chaos.

The other consistent theme was the desire to accelerate economic growth. In order to provide a broader legitimacy to the growth objective, Deng reaffirmed the goal of the “four modernizations.” The four modernizations were a visionary programme introduced by Zhou Enlai in 1965, designed to be the second stage of a two-stage, long-term development strategy. During the first stage (1965–80), China would build a self-sufficient industrial base and be relatively autarkic – out of necessity, since it had few export products and little hope of aid from the superpowers. Zhou then envisaged China emerging from isolation around 1980, and beginning a period of accelerated growth and a renewed opening: this he called the four modernizations. He had thus tried to build into the long-term development strategy the idea that economic growth and opening to the outside world would return to the top of the agenda. Shunted aside during the Cultural Revolution, the idea was revived by Zhou himself during the Fourth NPC in January 1975, in what was virtually his last major personal initiative. Deng immediately seized on the theme, and made the idea of the transition to the second-stage “four modernizations” one of his major themes from February 1975.<sup>21</sup>

Yet the specific strategy that Deng pushed to accelerate economic growth was deeply flawed. Planners under Deng in the autumn of 1975 drew up a “Ten-Year Plan” for development of the economy from 1976 to 1985. This was a terrible plan: it was unrealistic and inconsistent, and it reflected a single-minded concentration on the heavy industrial sectors that had been top priority under the Stalinist (and Maoist) development strategy of the past. Very high targets were set for steel and petroleum, and planners were unable to reconcile supplies and demands for key commodities even in 1975, the first year of implementation.<sup>22</sup> In any case, significant improvement in the economy became impossible as, in 1976, Deng was purged again and open struggle raged over the succession to Mao.

Deng returned to positions of significant power from July 1977. Between then and December 1978 he exerted substantial influence, although he was formally outranked by Hua Guofeng.<sup>23</sup> One of the most distinctive characteristics of this period was the revival of the Ten-Year Plan drawn up under Deng in 1975, which was dusted off and declared operational again. A few targets were raised to even more unrealistic levels, and the export of petroleum in exchange for imports of Western machinery, present in the original plan, was given greater prominence. But this was essentially Deng’s plan brought back to life. It was finally

21. Li Xinzhi and Wang Yuezong, *Great Practice and Glorious Thought*, pp. 177, 179–180.

22. Barry Naughton, “China’s experience with guidance planning,” *Journal of Comparative Economics*, No. 14 (1990), pp. 746–48.

23. On this period, see Kenneth Lieberthal, “The politics of modernization in the PRC,” *Problems of Communism*, May–June 1978, pp. 1–17.

abandoned at the end of 1978, more or less collapsing under the weight of its own contradictions. It was quickly forgotten, and those who thought of it tended to pin responsibility on the hapless Hua Guofeng. By this time, Deng was leading the way toward economic reform, and it would have been unnecessarily backward-looking to burden him with responsibility for a failed economic plan.

*After 1978: The Era of Deng Xiaoping*

At the end of 1978, during the Third Plenum of the 11th Central Committee, Deng emerged as the paramount leader. From that point until the present (1993), no major policies were adopted of which Deng did not approve, and Deng himself was the initiator of many important policies. In that sense, the entire reform period is legitimately seen as the era of Deng Xiaoping. Yet Deng has not managed economic policy on a day-to-day basis. In spite of occasional interventions into economic policy, he must be thought of as presiding over policy-making, rather than controlling it directly. In this sense, Deng's role after 1978 is something of a mirror image of his role before 1967. Before 1967 he was a hands-on administrator with little ability actually to make policy, while after 1978 he was a hands-off leader who established a general orientation for policy, but left the details to others.

While Deng's direct interventions in economic policy-making were rare, they were always crucial. This was particularly so at the very beginning, when, at the end of 1978 and beginning of 1979, he allied with Chen Yun and Li Xiannian to initiate the twin policies of economic readjustment and reform. Chen Yun in particular was advocating ideas with which he had long been associated, and which he had been vocally upholding since mid-1978. Deng, on the other hand, clearly moved to distance himself from a faulty economic plan with which he was closely associated, and embraced economic ideas with which he had no past association. Deng's change of heart began the economic reform era. Shortly thereafter, he was able to promote Zhao Ziyang to Premier, placing an effective administrator in the key economic policy-making role. With a capable subordinate in charge of daily affairs, Deng resumed his preferred role as presider over the policy process. He intervened forcefully again in 1984, laying the groundwork for the crucial October 1984 Party decision on urban reform and jump-starting the stalled reform process. Again, during 1987–88, Deng repeatedly made comments designed to give added momentum to the reform process. Finally, immediately after the Tiananmen massacre, he began trying to repair the damage to the economic reform process. By December 1990, he was actively meeting top leaders, trying to get the economic reform programme going again, and at the beginning of 1992 he made his famous trip to the Shenzhen Special Economic Zone in order to re-ignite the economic reform process. Thus, over a 15-year period, Deng personally shaped economic policy in only four or five instances, but each instance was crucial.

Given this general pattern, it makes no sense to survey Deng's activities over those 15 years in chronological fashion. Instead, it is more appropriate to identify several consistent themes that have characterized the general policy environment that Deng has created. Five stand out.

*The central importance of economic development.* One of Deng Xiaoping's greatest accomplishments was to shift the focus of the Communist Party to economic construction. This new goal was enshrined in the declaration of the Third Plenum in December 1978, and in various permutations has been included in all successive programmatic documents. Deng was not the first, nor the most articulate, advocate of economic development within the Chinese Communist Party. If any individual deserves that credit, it is Zhou Enlai.<sup>24</sup> But in any case, giving it priority is a practical accomplishment, rather than an intellectual one. In the highly politicized atmosphere of the immediate post-Cultural Revolution, Deng succeeded in making Zhou's objective into Party policy. Central to that accomplishment was the effective neutralization of competing Party objectives. Initially there were three competing goals: political mobilization and transformation, equity of income distribution and military strength. Deng was able to push each of them to the margins of the political agenda.

The Third Plenum ushered in an era of political relaxation, at least until the June 1989 Tiananmen incident. Deng described this pretty well in 1992: "Not to engage in debates – this was an invention of mine. Not to debate – this is in order to get more time to accomplish things."<sup>25</sup> Distributional considerations were effectively sidelined after Deng began proclaiming the necessity to "let some people get rich first." He never abandoned the idea that equity was a fundamental characteristic of socialism and one that showed the fundamental superiority of socialism to capitalism: this became a recurrent theme of his in 1985–86. But he redefined the notion of equity, moving it away from simple egalitarianism towards less politically constricting notions. He described the superiority of socialism in terms of avoiding polarization, achieving common prosperity and eliminating poverty.<sup>26</sup> Each of these formulations allowed Deng to maintain a long-run commitment to broad-based income growth, while insisting that in the short run equity should be subordinate to economic construction. Finally, he shifted the focus of Party and governmental activity away from the military. Deng's successive declarations during the early 1980s that a period of extended peace was possible – backed by his prestige with the military – were essential in obtaining a

24. Deng's 1957 speech was, however, an articulate expression of the importance of economic development: "From now on, the main responsibility is to carry out economic construction" (8 April 1957) in *Selected Works (1938–1956)*, pp. 249–257.

25. Deng Xiaoping, "1992 nian 1 yue 18 hao zhi 2 yue 20 hao Wuchang, Shenzhen, Zhuhai he Shanghai shi de jianghua" ("Speeches given from 18 January to 20 February 1992 while visiting Wuchang, Shenzhen, Zhuhai and Shanghai"). Internally circulated study materials, p. 9.

26. Deng Xiaoping, *Fundamental Issues in Present-Day China* (Speeches, 1985–1986) (Beijing: Foreign Languages Press, 1987), pp. 124, 127, 178.

substantial reduction in the flow of resources to the military and military industry.

The central importance of economic construction is stressed by Deng not only in opposition to political mobilization by the left, but also in opposition to active democratization of society. Political activity outside strictly controlled bureaucratic channels is seen merely as a diversion of energy from economic construction: it can create chaos but cannot make a positive economic contribution. Deng told former United States President George Bush on 26 February 1989:

There are so many Chinese people, and each has his own viewpoint. If there's a demonstration by this one today, and that one tomorrow, there'd be a demonstration every day, 365 days a year. In that case, economic construction would be entirely out of the question.<sup>27</sup>

In a sense, Deng's stress on economic construction can be seen as another sign of his lack of an affirmative vision of the good society. Economic development is a good thing, but, unusually for a political leader, Deng has never even hinted at his ideas about what kind of society ought to emerge as its product.

*Authority and responsibility should be clearly delegated.* The importance Deng gave to issues of authority and responsibility in 1961 and 1975 have already been seen. This focus re-emerged as soon as he returned in 1977. Again, in one of the few instances in which there is evidence of a distinct personal contribution by Deng, it is related to the clarification of authority and responsibility. His important March 1978 speech on science and technology was drafted by aides, but he personally added two points to the draft: the need to rely on science and technology to develop production, and the need to adopt a research institute director responsibility system.<sup>28</sup> This was the first of the various "responsibility systems" that so strongly characterized the reform decade of the 1980s. Clearly delineated authority, reinforced by increasingly significant material incentives as the reform process went on, is the most characteristic "Dengist" element of reform.

Of the various "responsibility systems," the most important was the "factory manager responsibility system." Its importance lay in the fact that the alternative to factory manager responsibility was authority held by the Party secretary, or diffused among the various contenders for power in the factory.<sup>29</sup> In a major speech on leadership on 18 August

27. Li Xinzhi and Wang Yuezong, *Great Practice and Glorious Thought*, p. 297. Cf. *ibid.* p. 282.

28. This is according to Lin Zixin, who wrote the original draft. Informal remarks at Meridian House workshop on economic policy-making during the 1980s. Washington, D. C., 24 October 1991; Deng Xiaoping, *Selected Works (1975–1982)*, pp. 112–13.

29. A 1980 description held that "in general, the current system is that the Party secretary is the number one man, and the factory manager is the number two man. Even when the number one man doesn't give direct orders, the number two man has to secure his agreement when managing production and doing administrative work." Yan Chongzong, "Reform of

1980, Deng proposed that the system in which managers were subordinate to Party committees (and secretaries) be replaced:

[We must] progressively and with preparation change the system of factory manager responsibility under the leadership of the Party committee and, after testing, gradually implement the system of factory manager responsibility under the leadership of the factory management committee or board of directors.... This reform will take the Party committee out of day-to-day affairs, and allow it to concentrate on political and ideological work and organizational supervision.

This is a clear case where Deng is personally setting the agenda. Indeed, he was sufficiently out in front on this issue that when the public version of his *Selected Works* was printed, this passage was omitted.<sup>30</sup> The idea was shelved for four years while the focus of work shifted to enterprise rectification within the existing framework: regularizing management positions and appointing a whole new group of managers. Widespread implementation of factory manager responsibility did not begin until May 1984. Again Deng was personally involved, appointing a work group under his close associate Peng Zhen to supervise gradual implementation. After some delays during 1985–86 caused by political scuffles, the factory manager responsibility system became nearly universal in 1987–88.<sup>31</sup>

A clear sustained pattern emerges from these incidents. Deng is consistently concerned with the personnel function, and just as consistently advocates clear delegation of authority to specified individuals. Moreover, he is primarily concerned with organizations that are directly part of the state/Party bureaucratic chain of command, that is, with urban rather than agricultural organizations. To a certain extent this is understandable in terms of Deng's political position: as the real top leader of the Communist Party, he is the only individual who can order the Communist Party out of factory management. But, significantly, Deng has seen authentic decentralization of authority as the fundamental principle of economic reform. As early as 1978 he said: "Whoever is given responsibility should be given authority as well."<sup>32</sup> Even retrospectively, Deng has propounded a view of responsibility for mistakes committed under Mao: "Whenever we had the right to speak, we must bear some of

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*footnote continued*

the factory management system cannot be delayed," *Gongye jingji guanli congkan*, No. 2 (1980), p. 26.

30. Deng Xiaoping, *Selected Works (1978–1982)*, pp. 322–24; the original version is cited from System Reform Commission, *Zhongguo jingji tizhi gaige shinian (Ten Years of Economic System Reform in China)* (Beijing: Jingji guanli, 1988), p. 24.

31. System Reform Commission, Enterprise Reform Section, *Zhongguo qiye gaige shinian (Ten Years of Enterprise Reform in China)* (Beijing: Gaige, 1990), pp. 458–59; Zhang Zhanbin, *Xin Zhongguo qiye lingdao zhidu (New China's Enterprise Leadership System)* (Beijing: Chunqiu, 1988). There was some erosion of this accomplishment after 4 June 1989, which is discussed below.

32. Deng Xiaoping, *Selected Works (1975–1982)*, p. 163.

the responsibility.”<sup>33</sup> This also became Deng’s favourite explanation for the success of rural reforms: “The main idea is to delegate power to lower levels. The reason our rural reform has been so successful is that we gave the peasants more power to make decisions, and that stimulated their initiative.”<sup>34</sup>

In the reform era, Deng’s stress broadens from clear lines of authority to encompass incentives – including, but not limited to, material incentives. Deng is a manager and a leader: he is concerned with exhortation, discipline and reward. David Bachman points out that with Deng, “the CCP is a major actor ... Deng is constantly exhorting the Party ... this mobilizational view in Deng’s thought can probably be traced back to his days as a political commissar ... in this sense, he is the most Maoist of China’s major leaders today.”<sup>35</sup> This is true, but there is an important difference from the Maoist view in that Deng appears to believe genuinely that real decentralization of authority is essential in order to achieve the mobilization of initiative that he seeks. It is his willingness to countenance this decentralization that separates him so sharply from Mao. Deng appears to have recognized early on that the existing system stifled creativity, and that only economic and administrative reform of a fairly radical character could ever resolve the problem.

Finally, the central importance of personnel management in Deng Xiaoping’s career can be traced in his use of subordinates. Deng was able to listen to good advice, and willing to let go of control over economic matters. He has been willing to allow specialists in economic policy-making to make economic decisions without much interference on his part. In 1978–79, the crucial innovations in economic policy were made by Li Xiannian and Chen Yun, with Deng serving rather to orchestrate the overall political conditions that made these changes possible. Beginning in 1981 and extending to the end of 1988, most concrete economic policy was made by Zhao Ziyang, who enjoyed Deng’s support until the end of this period. These individuals, from their very different perspectives, all had substantial economic expertise, and Deng was wise to rely upon them.<sup>36</sup> The stress on his direct management of personnel also draws attention to an aspect of his accomplishment that might otherwise be missed. Not only did he remove “political correctness” as the criterion guiding overall Party policy (in favour of economic construction); he also largely removed political correctness as the criterion guiding appointment and promotion within the system. During the 1980s, Deng directly or

33. Huang Kecheng, “On the question of the appropriate attitude to Chairman Mao and Mao Zedong Thought,” *Dangshi yanjiu*, No. 2 (1981), pp. 2–10.

34. Deng Xiaoping, *Fundamental Issues*, p. 195.

35. Bachman, *Chen Yun*, p. 159.

36. In this respect, the most telling contrast is with Mikhail Gorbachev. Gorbachev also had a weak grasp of economics, but unlike Deng he did not have good instincts with respect to the use of subordinates in economic matters. Gorbachev jumped from one fashionable economic adviser to another, each promising a quick solution to economic problems. Nothing was done, and the Soviet economy went to pieces. By contrast, Deng allowed Zhao Ziyang to chart a consistent policy course, and the Chinese economy responded well to effective policy-making.

indirectly promoted a large group of qualified and effective managers and local officials to replace the former Party hacks. This leadership turnover contributed substantially to China's improved performance in the 1980s.

Deng's stress on authority and responsibility may also help explain his narrow interpretation of political reform. He has always supported "political reform" of a sort: "Whenever we move a step forward in economic reform, we are made keenly aware of the need to change the political structure.... So unless we modify our political structure, we shall be unable to advance the economic reform or even to preserve the gains we have made so far."<sup>37</sup> But this has rarely gone beyond simple clarification of authority relations – which explains why he believes it is so closely linked to economic reform. In another sense, Deng's consistent belief in clear delegation of authority may explain some of the problems he had with his subordinates Hu Yaobang and Zhao Ziyang. Because Deng was so effective carrying out policies decided by Mao, he had expected his subordinates to carry out his policies, without regard to broader principles or alternative visions of the future. With respect to economic policy, this expectation was not misplaced. As Deng commented on Zhao Ziyang and Hu Yaobang, "Both men failed, and it wasn't because of economic problems. It was on the question of opposing bourgeois liberalization that both men came a cropper."<sup>38</sup> Put another way, both men had visions of a more comprehensive process of social reform to which they attached more importance than unquestioning obedience to the views of Deng Xiaoping.

*Rapid economic growth is best.* Deng Xiaoping has a strong tendency to push for unsustainably rapid economic growth rates. There was evidence of this in his support for the Great Leap Forward in 1958, and his advocacy of the unrealistic Ten-Year Plan in 1975 and 1977–78. This was also true generally in the post-1978 period, but during one crucial instance, Deng was willing to modify his high growth advocacy. In 1979, he deferred to the views of Chen Yun and Li Xiannian, and supported the policy of economic readjustment that resulted in a period of slow growth. These policies were implemented even more strictly in 1981 – clearly with Deng's acquiescence – and resulted in a brief recession. The readjustment period was essential for China's subsequent development. As Chen Yun argued, the economy needed a "breathing space" to release resources for consumption and rebuilding of reserve capacities.

By 1982, though, Deng's eagerness for more rapid growth was becoming apparent. At the 12th Party Congress, Party Secretary Hu Yaobang formally advanced the goal of quadrupling China's output by the year 2000, which clearly reflected Deng's views. This was an ambitious but not entirely unrealistic target and thus stimulated realistic long-term thinking about the capabilities of the Chinese economy. Doubtless Deng's objective was mobilizational rather than to serve as a stimulus to long-run

37. Deng Xiaoping, *Fundamental Issues*, p. 149.

38. Deng Xiaoping, "Speeches given in 1992," p. 17.

planning, but his judgment was sufficiently practical to enable the target to serve as a positive stimulus to realistic planning.

In the mid-1980s Deng pushed repeatedly for more rapid growth and reform. There is at times a fundamental confusion between rapid growth and rapid economic reform in Deng's mind. Both are seen as the outcome that prevails when minds are liberated and individuals move boldly and energetically toward their objectives. This confusion was particularly evident during 1988, when Deng pushed for additional economic reforms – particularly price reform – during a period when inflationary pressures were already building up in the economy. The price reforms were desirable, but they could be most effectively implemented during a period of slack economic demand. Up to at least the end of July, Deng was repeatedly arguing that officials must be bold in attacking problems of growth and reform – meanwhile inflation was steadily accelerating out of control. Only after it surged to annual rates above 50 per cent and the crisis was plain to all did Deng finally recognize, in September, that officials were now “bold enough” and more stability was required.<sup>39</sup>

By 1992, Deng was willing to use the imperative of economic growth to criticize the overly conservative policies of hardliners. Indeed, during 1992–93 the desire for growth was used to divide conservatives and reformers, and each time the planned growth rate was increased, this was rather bizarrely interpreted as a triumph for the reform camp. However, at the same time, Deng's conception of growth appeared increasingly sophisticated.

From our experience of these last years, it is entirely possible for economic development to reach a new stage each few years.... During the 1984 to 1988 period ... our national wealth was increased by a large amount and the whole economy reached a new stage.... While the accelerated development during these five years could be considered a kind of “flying leap,” it was different from the Great Leap Forward because it did not harm the organism or mechanism of economic growth: the achievement was not small.... Rectification of the economic environment also has achievements ... but if we had not leaped forward during the preceding years, if the economy had not reached a new stage, the subsequent three year rectification could not have been smoothly carried out.... It is important to pay attention to economic stability and co-ordinate development, but stability and co-ordination are relative, not absolute. Development is the only hard truth (*ying daoli*).<sup>40</sup>

Although the political motivation of this statement is transparent, the more important fact is that it is true. During the 1984–88 period the Chinese economy became much bigger, more flexible, more market-oriented and more successful. Those successes have propelled the economy through a period of necessary, but uninspired, retrenchment policies without serious difficulties. Before 1978, Deng pushed for rapid growth in ways that were often harmful; since the 1980s, he has moderated his growth advocacy. More important, though, is that the economy has

39. Li Xinzhi and Wang Yuezong, *Great Practice and Glorious Thought*, pp. 287, 290, 291–92.

40. Deng Xiaoping, “Speeches given in 1992,” pp. 11–12.

caught up with Deng's advocacy. It is now more diverse and capable of rapid growth. Deng's statement here is thus quite perceptive.

*The importance of non-intervention.* Why was Deng willing to abstain from intervening in broader economic processes? In a sense, this is merely an extension of his belief in the decentralization of authority. What is striking, however, is the surprising tolerance for not deciding things, for allowing a period of "muddling through" – even to accept the idea that there might not ever be a definitive resolution of theoretical problems. "Not to engage in debates" about unresolvable principles is in fact one of Deng's guiding principles.

At crucial junctures when economic policy was changing and uncertain, Deng had the wisdom to proclaim temporary non-intervention. This was most apparent in two episodes, both primarily involving rural economic policy. It is important to note at the outset that Deng initially did not take much interest in rural reforms. His speech before the Third Plenum never mentions markets or economic laws, and barely mentions peasants at all. In 1980, when he does discuss rural policy, he argues strongly in favour of a continuation of the collective system.<sup>41</sup> But subsequently, during the spread of agricultural responsibility systems – household farming – during 1980 and 1981, Deng was willing to take a hands-off attitude, in spite of his own misgivings about the process. An anecdote about his attitude at this time is revealing. In early 1980, during a discussion of rural reforms, Deng Liqun passed on to Deng Xiaoping the report that the peasants were saying "*Mao rang women shenfan; Deng rang women chifan*" ("Chairman Mao led us to stand up; but Deng Xiaoping allowed us to fill our bellies"). An obviously pleased Deng Xiaoping is reported to have nodded, and declared that it was necessary to wait and see how the rural reforms unfolded. Deng subsequently allowed the rural responsibility system to spread, even though no official document to this effect was ever promulgated. Instead, the fundamental decision was communicated through the personnel system. At the end of 1980 Zhao Ziyang was promoted to Premier and Wan Li to head of rural work. Since both men had been closely associated with the development of rural responsibility systems in their provinces (Sichuan and Anhui respectively), it was obvious that their promotion implied official acceptance of the new system.

During the mid-1980s, as private businesses spread, Deng again called for a "wait and see" attitude toward the private economy. As he himself describes it:

During the early period of rural reform, there was the question of "Blockhead Melon-seeds" (*shazi guazi*) in Anhui [a successful private business that sold dried salted melon seeds, and greatly exceeded the stipulated size for household businesses]. At that time, many people were uncomfortable – said this guy's made a million – and advocated intervention. I said, don't intervene, if you intervene people will say policy has changed and the benefits would not be worth the costs. There are

41. Bachman, *Chen Yun*, pp. 157–58.

still many problems like these and if they are not handled appropriately it would be easy to shake our direction and influence the whole reform situation.<sup>42</sup>

This is a pretty accurate recounting of events. Deng was instrumental in allowing relatively spontaneous changes to go ahead.

Deng's greatest contribution to rural reform was simply in allowing it to go forward. In fact, he does not seem to have ever been much interested or involved in rural reforms. Particularly telling is a remark he subsequently made about the growth of rural industries.

Our greatest success – and it is one we had by no means anticipated – has been the emergence of a large number of enterprises run by villages and townships. They were like a new force that just came into being spontaneously.... The Central Committee takes no credit for this.... If the Central Committee made any contribution, it was only by laying down the correct policy of invigorating the domestic economy. The fact that this policy has had such a favourable result shows that we made a good decision. But this result was not anything that I or any of the other comrades had foreseen; it just came out of the blue.<sup>43</sup>

This is a charming statement, and it is often quoted, but has one problem: it simply is not true. The idea that nobody anticipated the growth of rural industry is easily refuted if one goes back to the earlier literature. The State Council document on township and village enterprises in 1979 says clearly: "We should raise the share of commune and brigade enterprises in the total gross income in the three-level rural system from 29.7 per cent in 1978 to around 50 per cent in 1985." Clearly, policy-makers *did* anticipate the emergence of a large number of enterprises run by villages and townships, and in fact the share of commune and brigade enterprises actually fell somewhat short of this target in 1985.<sup>44</sup> Deng's direct policy involvement in rural reforms was modest. As usual, he was more concerned with the more formally organized and predominantly urban Party and governmental system. But he allowed rural reforms to go ahead without imposing ideological obstacles.

*Opening up to outside.* The fifth area in which a specific accomplishment directly linked to Deng Xiaoping can be identified is in the area of opening up to the outside world. Deng's commitment to the open door policy has been early and consistent, and more thorough than most of his colleagues. He appears to approach foreign countries without defensiveness. He is not sensitive about national sovereignty considerations

42. Deng Xiaoping, "Speeches given in 1992," p. 5.

43. Deng Xiaoping, *Fundamental Issues*, p. 189.

44. The share of gross income accounted for by rural enterprises was 33% of total rural income in 1985. *Zhongguo tongji nianjian (Statistical Yearbook of China)* 1986, p. 221. The document is "Draft regulations relating to several problems in developing commune and brigade enterprises," (Guofa (1979) No. 170) in System Reform Commission, *Jingji tizhi gaige wenjian huibian 1977–1983 (Collected Economic System Reform Documents, 1977–1983)* (Beijing: Zhongguo caizheng jingji, 1984), pp. 97–104. The lower proportion of rural income accounted for by rural enterprises than targeted was due primarily to the more rapid growth of household agricultural income than anticipated – but clearly rapid growth of township enterprises had been anticipated.

implied in the policy of Special Economic Zones, and he is willing to give generous and apparently heartfelt praise to advanced foreign experiences. Much of this appears to be related to his respect for science and technology. This was evident early on in a March 1978 speech:

Profound changes have taken place and new leaps have been made in almost all areas. A whole range of new sciences and technologies is continuously emerging ... we have lost a lot of time as a result of the sabotage by Lin Biao and the Gang of Four.... Backwardness must be recognized before it can be changed.<sup>45</sup>

Deng has no problem acknowledging outstanding foreign performance. When he visited Nissan in Japan in 1978 he said, “today I have learnt what modernization is like.” When he came to write an inscription, he said, “learn from the great, diligent, valiant and intelligent Japanese people.”<sup>46</sup> This is recognizably the same Deng Xiaoping who shortly thereafter toured the United States and was photographed in Texas wearing a cowboy hat.

This openness is apparent in the policy of Special Economic Zones (SEZs). According to one authoritative account:

It was Deng Xiaoping who proposed (*changdao*) the Special Economic Zones. During the April [1979] Central Work Conference, Xi Zhongxun and Yang Shangkun, the people in charge of Guangdong, talked about bringing Guangdong’s advantages into full play. Deng brought up the question of special zones, and said, “we can carve out a patch of land and call it a special zone. Shen-gan-ning [the Communist revolutionary base area] was a special zone! The Centre doesn’t have any money, though, and wants you people to do it by yourselves; squeeze out a bit of precious cash.”<sup>47</sup>

Clearly, this account overstates Deng’s originality somewhat. Deng could not have been the first to make the proposal, since various concrete steps had already been taken in Shenzhen in the first months of 1979, and Deng himself credits the leaders of Guangdong province with the idea.<sup>48</sup> But top policy-makers are not required actually to invent ideas – all they need do is quickly adopt and support the good ideas proposed by advisers. In this sense, the thrust of the anecdote is basically true. Deng is seen here giving strong support to his close associates Xi Zhongxun and Yang Shangkun and legitimizing the use of the honest term “special zone.”

In subsequent years, Deng repeatedly gave support to the SEZs, using them as a metaphor for the economic reform and open door policies as a whole. During 1984 he responded to criticisms of the existing SEZs by travelling to Shenzhen and declaring the decision to develop them

45. Deng Xiaoping, *Selected Works (1975–1982)*, pp. 103, 106. According to Lin Zixin, Deng also said he wished to serve as “general head of logistics” for science and technology work. I have been unable to locate this remark in the published version of the speech.

46. Hua Sheng, Luo Xiaopeng and Zhang Xuejun, “Chinese reform and state socialism,” unpublished book manuscript, Oxford University, 1990, ch. 2.

47. Li Zhining, *Zhonghua renmin gongheguo jingji dashidian 1959.10–1987.1 (A Dictionary of Major Economic Events in the PRC, October 1949–January 1987)* (Changchun: Jilin renmin chubanshe, 1987), p. 453.

48. Deng Xiaoping, *Fundamental Issues*, p. 190; George T. Crane, *The Political Economy of China’s Special Economic Zones* (Armonk: M. E. Sharpe, 1990), pp. 26–27.

“correct,” then moving to extend elements of them to an additional 14 coastal cities.<sup>49</sup> Again, at the beginning of 1992, he intervened directly in the political process by travelling to the Shenzhen Zone. A swing towards renewed reform had been under way since 1990, but Deng’s trip was used symbolically to bolster reform and provide an appropriate platform for a pro-reform manifesto. His commitment to openness seems never to have wavered. In 1992 he said, “looking backward, one mistake I made was that when we developed the four Special Economic Zones, we didn’t add on Shanghai.”<sup>50</sup>

### *Deng Xiaoping and the Legacy of Economic Reform*

The foregoing has outlined ways in which Deng contributed personally to the evolution of economic policy in China. In a broader sense, one might ask whether China’s economic reform reflects any of the personal characteristics of Deng’s approach to economic issues. Here the answer must be yes. Paradoxically, the most important characteristic is simply the lack of an over-arching vision of the reform process or its goal. China’s reform has proceeded gradually and experimentally, and without a clear sense of ultimate objective. Indeed, it was not until the end of 1992 that a Communist Party Congress even endorsed the goal of a market economy. Instead, each phase of reform has been directed at solving certain limited problems and moving the economy in the general direction of greater openness and market orientation. The Chinese have called this “crossing the river by groping for stepping stones.”<sup>51</sup> It is not unreasonable to link the process of reform without a clear blueprint to Deng’s absence of vision in the economic realm.<sup>52</sup>

At the same time, the reform process has turned out to be remarkably resilient and constructive. The experimental aspect of reform has meant that local governments have had significant latitude to experiment with economic policies, and successful policies were then adopted on a nation-wide basis. Even more fundamental has been the growing sphere of economic activity outside the traditional state-controlled sectors. The growth first of rural enterprises and subsequently of private and foreign-invested enterprises has been one of the most dynamic and constructive aspects of the whole reform process. The Chinese government under Deng Xiaoping has been willing to accept the growth of a by now quite large sector of the economy that escapes from direct state control. This phenomenon can surely be linked to Deng’s willingness to accept policies

49. Li Xinzhi and Wang Yuezong, *Great Practice and Glorious Thought*, pp. 254–56.

50. Deng Xiaoping, “Speeches made in 1992,” p. 10.

51. On this aspect of the reform, see Nicholas Lardy, “Is China different? The fate of its economic reform,” in Daniel Chirot (ed.), *The Crisis of Leninism and the Decline of the Left: The Revolutions of 1989* (Seattle: University of Washington Press, 1991), pp. 147–162; and Lin, “Open-ended economic reform in China.”

52. The contrast is particularly acute with reformers in Poland and Czechoslovakia at the end of the 1980s, who stated clearly at the outset that the objective of the reform process was to create a market economy with mixed ownership forms, but based primarily on private ownership.

of non-intervention and his general lack of defensiveness, particularly when it is noted that there have been many opportunities to reverse the trend. Problems with corruption, growth of private businesses beyond stipulated sizes, and competition between non-state and state firms for scarce inputs could all have been used as the pretext to clamp down on the vigorous non-state sector. Indeed, China's conservatives have repeatedly suggested doing just that. But under Deng's general leadership, most experiments – provided only that they have been reasonably successful economically – have been permitted to survive.

This growing non-state sector has been crucial in creating a more competitive and dynamic environment even for the state sector. Yet it should remain clear that one of the distinctive characteristics of China's reform has been precisely that the state sector has continued to operate. While its relative share in the economy has declined, its absolute size has increased. At no point has it been cut loose, either abandoned or privatized, as in Eastern Europe. Instead, the government has made persistent efforts to restructure managerial incentives within the state sector. The government has tried to prod state enterprises to become more oriented to profit and the market, by creating incentive systems that link managerial pay to profitability and sales. Moreover, there is substantial evidence that this effort has been at least partially successful, and has produced significant improvements in state sector productivity.<sup>53</sup>

It is reasonable to link the persistence of a workable incentive system within the state sector to Deng's approach to economic issues. His persistent attention to personnel matters has understandably meant that the management system has been a consistent focus of attention and of attempts at reform. As a result, the chain of command within the state sector has been maintained intact. The coexistence of a large state sector with a rapidly growing non-state sector has been the most important single element of China's dual-track economic system. In turn, the dual-track economic system is the most characteristic element of the pattern of China's economic reform.<sup>54</sup> Some observers of the Russian reform experience argue that Russia could not follow a Chinese reform strategy precisely because Russia was unable to maintain discipline over state firms. Thus, for better and for worse, it is possible to argue that Deng's attention to workable personnel systems was an important factor allowing China to follow its more gradual reform strategy.

Another characteristic of reform in China has been its persistently outward-looking character. Bold moves to open the economy to outside forces characterized the earliest stages, and particularly since the mid-

53. On managerial incentive systems, see Theodore Groves, Yongmiao Hong, John McMillan and Barry Naughton, "China's evolving managerial labor market," University of California, San Diego, Department of Economics Discussion Paper 92-36 (September 1992). On state sector productivity, see K. Chen, G. Jefferson, T. Rawski, H. Wang and Y. Zheng, "Productivity change in Chinese industry, 1953-1985," *Journal of Comparative Economics*, No. 12 (December 1988), pp. 570-591.

54. On these characteristics, see McMillan and Naughton, "How to reform a planned economy." Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform, 1978-1992* (New York: Cambridge University Press, forthcoming).

1980s, impressive progress in foreign trade reforms have paced the progress of reform overall.<sup>55</sup> Finally, China's reforms have taken place within the context of sustained and accelerating economic growth. While all the Eastern Europe countries and former Soviet republics experienced sharp contractions in economic activity for at least three years following the initiation of their reform programmes, China has reformed gradually with increasing economic growth. Of course, that record reflects differences in the initial economic conditions facing different countries. But it is also an artifact of China's particular approach. Indeed, within China, reform and accelerating growth have gone hand in hand, alternating with reform retrenchment and slower growth.

China's economic reform can thus be characterized as proceeding experimentally, without a blueprint. Its most distinctive characteristics have included a dual-track economic system with a resilient state sector co-existing with a vibrant growing non-state sector. Paced by growth of foreign trade, the entire economy has displayed vigorous growth throughout the reform process. Each of these characteristics can be plausibly linked to one of Deng Xiaoping's persistent themes. Perched at the top of the Chinese political system, Deng has ended up stamping the economic reform process with some of his own personal characteristics. In the process, economic reform has inevitably become one of the most important parts of his legacy. Not guided by Deng's vision, economic reform in China was nevertheless shaped by his personality and by his characteristic approach to issues.

One way that is probably less useful in understanding Deng is to think of him as a pragmatist. It is unlikely that Deng is any more pragmatic than most world leaders. However, he is a master at presenting himself as a pragmatist: nobody cultivates more ardently the image of Deng the pragmatist than Deng himself. Some examples of this self-presentation from his talks are the following: "There is no other solution for us [than economic reform]. After years of practice it turned out that the old stuff didn't work." Or alternatively: "We began with the countryside, applying the open policy there, and we achieved results very quickly. In some places it took only one or two years to get rid of poverty. After accumulating the necessary experience in the countryside, we shifted the focus of reform to the cities."<sup>56</sup> This "gee-whiz" attitude really amounts to a cheerful miscasting – a wilful misinterpretation – of the Chinese reform experience into a mode of progressive learning and pragmatism. No doubt it is an attractive image. But it clearly misrepresents the actual process of economic reform in China, as well as the evolution of Deng Xiaoping's personal attitudes. We should be very suspicious of an overly simple interpretation of Deng as the supreme pragmatist.

55. Nicholas Lardy, *Foreign Trade and Economic Reform in China, 1978–1990* (New York: Cambridge University Press, 1991).

56. Deng Xiaoping, *Fundamental Issues*, pp. 187, 176.

*Deng Xiaoping in Contrast with Others*

Deng can be usefully contrasted with three other Chinese leaders: Mao Zedong, Chen Yun and Zhao Ziyang. There are a number of important similarities between Mao and Deng. Both were superb leaders and manipulators, with an instinctive grasp of motivation. Mao was able to act as pragmatically as Deng when he chose, and Deng was almost – but not quite – Mao’s equal in terms of strategic cunning. Mao however was consumed by his visions, and in the end, in spite of his understanding of human motivation, proved utterly incapable of allowing individuals or parts of society to strike off in independent ways outside the scope of his vision. He repeatedly lauded the spontaneity of the masses, but ultimately nothing displeased him more than genuine spontaneity at the “bottom.” Both Mao and Deng possessed, at best, erratic insight into economics, but Mao insisted on imposing his flawed economic visions on society, while Deng did not. As a result, Mao led China into repeated economic disasters while Deng, without Mao’s presumption, has presided over China’s economic revival.

Deng can also be contrasted with Chen Yun. Chen Yun has had an extremely clear vision of the economy as a whole. Understanding the interactions among the various sectors of the economy, he has persistently seen the dangers of overly rapid growth, and also the importance of markets as a safety valve, co-ordinating resources when planners fail to make the right decisions. But Chen’s macro vision occludes his micro vision. He pays little attention to incentives and motivation. He has a rather bleak view of human nature, stressing the need for controls to prevent selfishness from getting out of hand.<sup>57</sup> Deng, on the other hand, is primarily a micro-economist: he gives attention to the design of effective incentive systems. Among China’s gerontocrats, only Deng emerges as an individual genuinely willing to accept spontaneous economic activity among the masses.

Finally, Deng can be contrasted with Zhao Ziyang. Deng’s vision of economic reform never had much content, and as a result, it never changed or evolved very much. His hands-off attitude toward policy-making meant that he was never forced to develop a more detailed and practicable notion of what reform was to mean. He never articulated a conception of economic reform that went beyond the simple notion of decentralization of authority. By contrast, Zhao Ziyang’s understanding of economic reform can be seen growing and evolving through the 1980s. By some time in the mid-1980s, Zhao Ziyang had clearly become convinced that China had to move to a true market economy. He managed repeatedly to push forward the process of marketization, opening up China’s economy to the increasingly open play of economic forces. Ironically, the great merit of Zhao’s policy-making was that it was

57. Chen’s real attitude to spontaneous action is captured by his own simile, comparing plan and market to a caged bird: without a cage, the bird will fly away. Without controls, spontaneous activity will lead to degeneration into chaos. For full discussions of Chen’s rich economic thought, see Bachman, *Chen Yun* and Lardy and Lieberthal, “Introduction.”

completely “hands-on,” continuously involved in realistic compromise and progress. As a result, Zhao’s views and understanding of the economy also became increasingly sophisticated. His economic vision included both the macro and the micro level. He had insights about the interrelation of politics and economics, and understood the need for macroeconomic stability, even when he failed to achieve it. At the micro level, Zhao, like Deng, seemed to understand the need for motivation and diversity; unlike Deng, this belief led him to accept the need for substantially more open society as well as economy.

The comparison between Deng and Zhao may lead naturally to consideration of the damage to his own economic legacy that Deng did at Tiananmen in June 1989. His abandonment first of Hu Yaobang and then of Zhao Ziyang was a serious violation – even betrayal – of his own principles about delegation of authority. Moreover, after June 1989 reassertion of Communist Party control led to widespread regression in the reform of authority relations, with damage most evident within the state system. Indeed, ironically, the single reform measure most directly attributable to Deng personally – the factory manager responsibility system complete with the sidelining of Party secretaries in the factories – was reversed in 1989. For nearly two years, the government advanced the silly slogan that the factory manager should be the “centre” but the Party secretary the “core” of the factory leadership group. This ridiculous distinction was incomprehensible to most Chinese, but particularly meaningless in the context of Deng’s long-term drive toward clarification of authority relations. In a broader context, there was serious regression as well in the hard-won but still tentative independence of state-run enterprises. The reassertion of political correctness and “equity” in income distribution led to a significant back-peddling in the realm of state enterprise reform. Deng in this respect curtailed and undermined his own most positive legacy.

Yet acting against these negative effects was the undeniable fact that Deng had already fully identified his own legacy with the process of economic reform. His conception of economic reform is rather thin and abstract. Yet precisely because he was more associated with the vague abstraction “economic reform” rather than any specific reform measures, he has a strong vested interest in seeing that the *overall* programme of economic reform succeeds, whatever that may turn out to be. As a result, despite his own complicity in the post-Tiananmen crackdown, by the end of 1990 Deng was already beginning to intervene again in a positive way to reignite the general reform process. Fortunately, the massive changes set under way in China under Deng Xiaoping are not subject to the control of a single leader, and in that sense, Deng’s positive economic legacy is likely to survive the limitations of any single individual. China’s society and economy have become more diverse, more complicated and more resilient after 15 years of reform. As China’s economy repeatedly escapes from the limits that its political handlers attempt to impose on it, the economic reform process appears increasingly well suited to serve as a positive legacy for Deng Xiaoping.