As far as I am aware, the review of my *Capitalism with Chinese Characteristics* by Joel Andreas in New Left Review is the most detailed and thorough to date.¹ Most other reviews, especially those that appeared in the financial press, have tended to pick up one or two things from the book and to highlight connections with the current economic downturn, which is their real interest. Andreas focuses closely on the differences between Chinese government policy in the 1980s and in the 1990s, which are at the heart of my reasons for writing the book in the first place. For that, I greatly appreciate his critique.

Andreas disagrees most strongly not so much with the factual account I provided in the book, but with how I framed the issue. I have, he argues, an almost instinctive leaning toward an explanation based on free-market economics, whereas his preferred interpretation derives from a Marxist perspective. First, let me point out that Andreas seems to have a similar normative view of the 1980s and 1990s to mine. That is to say, both of us view the former decade more favourably than the latter. I would venture to say that this fact alone sets the two of us apart from about 90 per cent of China specialists. So despite the strong criticism that Andreas has levelled at my book, it is important to point out that we do have some things in common.

Second, although we agree on larger factual issues, we disagree on some critical facts. These are not minor details: they have an important role in adjudicating between the two conflicting perspectives on China’s reforms. Andreas claims that the real damage to the rural health and
educational system occurred in the first half of the 1980s, and criticizes me for ‘deftly’ skipping over this crucial failing of that decade. This is both unfair and untrue. First of all, I did not ‘skip’ the question; indeed, I provided the facts that animate Andreas’s criticism. Secondly, I cited both data and research by other scholars to show that withdrawals from rural primary education in the early 1980s were due to the rising 

*opportunity* costs of education. Thanks to the rural reforms, the income potential of rural households rose sharply; in response, parents began to withdraw children from schools and put them into the labour force. As I pointed out in my book, this did not last long. By the mid-1980s, the enrolment ratio had pretty much recovered to the level prevailing before the reforms.

This gets us to the critical difference between the 1980s and the 1990s. In the 1980s, withdrawals from rural education were voluntary—they were a response to rising economic opportunities. In the 1990s, as indicated by the detailed data I provided in my book, the Chinese government increased sharply the surcharges on education and healthcare, deterring rural households from sending their children to school. To draw an analogy: I would have thought that there is a fundamental difference between, for example, students dropping out of Johns Hopkins because they found lucrative earning opportunities elsewhere—think of Bill Gates, a famous college dropout—and students dropping out because they could not afford the tuition fees. A reasonable reader would agree that the second scenario is far less desirable than the first, as I did in my book. But apparently not Andreas.

*Chronologies*

Another—seemingly minor—factual detail revolves around the timing of the demise of Chinese rural economy. Andreas questions my argument that the decline of the rural economy had its origins in the post-1989 ascendance of a group of new, urbanite leaders. He points out that the rural economy began to falter not in 1989 but around the mid-1990s. His theory is that the demise of the rural economy—and that of the Township and Village Enterprises in particular—was related to a fall in grain prices in 1996 and to the large-scale privatization of the TVES in the late 1990s. I say ‘seemingly’, because the question of timing

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is not minor at all. This version of the chronology would indeed fit with Andreas’s view that the faltering of the rural economy was not due to urban biases in government policies, but to capitalistic practices such as TVE privatization.

The problem, again, is that the facts are unfortunately not in Andreas’s favour. While his explanation might fit with the conventional view that TVEs were mostly run by the local governments, this picture is factually incorrect. It is particularly incongruous for an argument along these lines to be used as an indictment of Capitalism with Chinese Characteristics: as far as I am aware, the book was among the first to produce carefully examined documentary evidence to establish the true ownership origins of the TVEs and to demonstrate that they were largely a private-sector phenomenon in the first place. This is a matter in which I take some pride. As a proportion of the total number of TVEs, the state-run TVEs were minuscule; it defies common sense to attribute the demise of the entire TVE sector to the privatization of a small number of state-run firms.

Andreas objects that state-owned TVEs accounted for a larger share of employment. This is true on average, for the country as a whole. But the national average is less important than the situation in the poorer provinces; after all, it is poor provinces that need development the most. Here, private TVEs were far more important. Moreover, the demise of the TVEs took place across the board, and was not limited to the state-owned sector. Another factual detail is even more damning: the state-run TVEs that were privatized in the late 1990s were incurring massive losses at the time of their sale; the government privatized them precisely because they were already doing very badly. In this light, it is rather strange to argue that privatization itself contributed to their bad performance. Privatization can no more explain the demise of the state-run TVEs—let alone those TVEs that were private in the first place—than chemotherapy can explain the demise of a patient with terminal cancer.

How to explain the temporal mismatch between the 1989 political transition and the demise of the rural economy in the mid-1990s is a more legitimate question. But there is nothing there that cannot be answered with some digging into the data and the facts provided by my book. I concede that the issue is sufficiently specialized to raise questions in the mind of the casual reader; it is more puzzling that Andreas, who paid much closer attention to its minutiae, should have
failed to note my explanation. I documented two developments since 1989. One has to do with immediate policy changes in that year, mostly macroeconomic in nature—curtailing loan growth, for example. For some reason these policies had a huge instantaneous effect on rural incomes (more than on urban incomes, although the latter were also affected). The other development is more long-term and has to do with a financial reversal in rural China. Based on my reading of a multitude of bank documents, I dated that financial reversal to around 1993 and 1994. One person who is widely credited—if I can use that term—for the massive crackdowns on small-scale, informal rural lending is Zhu Rongji, Vice Premier and then Premier between 1998 and 2003. When did he become the official in charge of financial policies? In 1993, when he took over the governorship of China’s Central Bank. There is no mismatch in timing at all.

Urban emphases

Let me now turn to the fundamental difference between my views and those of Andreas. He sees the urban bias of the 1990s as the natural and inevitable product of capitalistic development, whereas my own view is that this is the result of a semi-exogenous shift of policy emphasis—and of high politics—unrelated to the development of capitalism per se. There is a flavour of ‘he says; she says’ here. I presented a perspective and Andreas presents an alternative one. This is entirely fair: much scholarly debate in social-science research consists of ‘horse races’ between different ideas, to see which pulls ahead. My own book is a horse running against the view, prevalent among China scholars, that the PRC’s reforms are best described as a gradual, ever-deepening process of capitalistic development. Although on a normative level, Andreas seems to agree with me that the 1990s represented a deterioration in the country’s economic situation, on a positive level he is in the same camp as the gradualists—that is to say, the reforms continued to deepen the path to capitalism. The difference is that while the gradualists celebrate this development, Andreas deplores it.

In an ideal situation, the way to resolve the two conflicting perspectives proposed by Andreas and myself would be to collect data and somehow come up with a measure of ‘capitalistic development’. Then the horse race could consist of correlating this measure with the urban and rural biases on which we both focus. This is unrealistic, however, and I suspect
that the readers of NLR would not be too enamoured of the approach. I propose a different method: to step back and think about the general plausibility of Andreas’s idea—that an urban bias is the natural product of big capitalism. Let us take some concrete examples: the United States, the European Union and Japan. Are these economies afflicted with urban biases in their policies? I imagine that Midwestern farmers would be surprised to learn that they are powerless victims in the American capitalist system. It is well known—and this should not be news to Andreas—that the US Congress showers billions of dollars on the country’s farmers every year. In fact, the subsidy to corn-growers is so outrageous that it is now blamed as a contributing factor to the rising levels of obesity in the United States, since cheap, subsidized corn is the basis of so many junk foods.

Similarly, the populations of developing countries would be amazed to hear that European farmers are powerless, since one of the biggest issues in the current Doha round of trade negotiations is the unwillingness of the EU countries to stop subsidizing their rich farmers through the multibillion euro Common Agricultural Policy, thus rendering agriculture in poor countries uncompetitive. And in Japan, it was the political support of the farmers—a tiny fraction of the overall population, but with an entirely disproportionate political weight—that sustained the Liberal Democratic Party in power for so many decades after the Second World War. The same point can be made in terms of the logical postulate that, if big capitalism leads to an urban bias, then we would expect ‘big socialism’ to be the natural ally of the rural sector. Here the history is pretty nasty: Joseph Stalin and the famines in Ukraine, or the Great Leap Forward in China, in which an estimated 30 million rural Chinese perished.

Andreas is simply asserting an idea that has absolutely no empirical basis; in fact, all the available empirical evidence directly contradicts it. To be sure, I have not explicitly related his idea to China in the 1980s and in the 1990s, but when an idea is bereft of basic factual accuracy and analytical plausibility in general, it is wrong in specific situations too. My idea—that high politics in China, in the wake of Tiananmen, was the underlying reason for the urban bias of subsequent economic development—may still be proved wrong; but Andreas’s criticisms do not come close to debunking it.