The 1989 Social Movement and the Historical Origins of Neo-liberalism in China

WANG HUI*

SINCE THE END OF THE 70S, and especially since 1989, the Chinese state promoted radical marketization at home and became one of the most enthusiastic participants in the global economy. On the one hand, the making of market economy in China was highly praised, the stagnancy of political reform remains to be criticized. There are only few who pay their attention to the interaction between the role of the state and the shaping of the Chinese market economy. Chinese reform, notably the urban reform from 1984 onwards, as a paradoxical process of the making of market economy, has led to a redistribution of wealth and a transfer and privatization of resources previously held by the State to the benefit of new special interest groups who seized the reform process and bent it to their own ends. Sharp new inequalities emerged as seen in the decline in social security, the widening gap between rich and poor, mass unemployment and inter-provincial migration from rural to urban areas. None of the making of market economy and the social differentiation could have occurred without the intervention of the State, a state that perpetuated the political system but shifted its other functions in society.

Following the process of Chinese reform (the new stage is China's entry into WTO), neo-liberalism has become the hegemonic discourse in China, which has deep influence on policy-making and media orientations. In the Chinese context, this dualism, political continuity and economic and social discontinuity, has lent a special character to Chinese neo-liberalism: it established its ascendancy thanks to state directed economic and social reforms, of which one of the principal purposes was to resolve...
the State's crisis of legitimacy after 1989. To understand the historical origin of neo-liberalism in China that preempts all debates about alternate perspectives and goals, one must go back to the economic transformations (mutations) that took place from 1978 to 1989 and the failure of the 1989 social movement whose social and democratic aspirations were crushed on June 4 for observing the interaction between the role of the State and the making of market economy.

Though most studies have emphasized the role of students, intellectuals and of "reformist" pockets within the State, the social movement that led to Tiananmen in fact mobilized wider sections of society. Students did play a role of course, the intellectual liberation and enlightenment of the 80's having undermined old ideologies and opened new vistas for critical thought. But the spontaneity and the scope of the 1989 mobilization demonstrates a far broader and differentiated social origin. in fact, as a group, intellectuals proved unable to propose social goals that could be realistically implemented; indeed, they did not fully comprehend the real depth of the social mobilization.

Having made the socialist State the principal target of opposition, critical social thought was unable to perceive and understand the special characteristics of China's new social contradictions: while the pre-Reform State protected systemic inequality under the guise of equality through coercion and planning, the new "Reform State" transformed systemic inequality into income differences among classes and social strata, giving rise to sharp social polarization. In particular, critics failed to grasp that there were deep socialist leanings in the social mobilization of the 80's: not the "socialism" of the old state ideology, characterized by the system of state monopoly, but a new and not fully articulated socialism striving for social security, equality, justice and democracy in a context of continuing state monopoly and rapid market expansion. Despite its contradictions and the differing agendas of various interest groups, the movement was directed against monopoly and special privileges, and advocated democracy and social security.

It included workers, individual entrepreneurs, state cadres, teachers, and others. Even members of the Central Party Committee, of various Ministries of State Affairs, of the People's Congress, of various organs of the People's Consultative Congress (including such 'mouthpieces' as the People's Daily, the Guangming Daily, and the Xinhua News Agency) participated. With the exception of the peasants, who were not directly involved, people from all social classes in large and medium-sized urban areas were drawn into the movement. We are therefore speaking about a very broad mobilization of large cross sections of society that revealed growing contradictions within the State.
The phases of reform

The social mobilization emerged out of the reform process itself. Without attempting a comprehensive survey of the successes and failures of the Reform, it is necessary to outline its main stages. The first phase, from 1978 to 1984, involved China's rural areas. The second, urban phase, began in 1984. The first proved somewhat of a success. By raising the price of agricultural products, encouraging consumption in rural areas, and developing local industry, the rural reforms gradually reduced the income gap between urban and rural residents. Though the partial introduction of market mechanisms played an ancillary role in the process, the reforms were in fact rooted in traditional Chinese land distribution practices based on principles of equality. The Chinese countryside moved from the people's commune model whose salient feature was State monopoly to a "small peasant socialist" anti-monopolistic model. This led to increased agricultural productivity and, for a time, mitigated the country's rural-urban polarization.

The urban phase (1984 onwards) that followed has been widely interpreted as the decisive moment of market expansion. But, from the perspective of its real social content, its core was the "decentralization of power and interests" [fangquan rangli], that is, the redistribution of social advantages and interests through the dispersal and transfer of social resources that used to be controlled and coordinated by the State. This can be seen in the decline in public spending that occurred after 1978. Public spending averaged 34.2 percent of GNP between 1953 and 1978 (37.2 percent in 1978), but dropped sharply to 19.3 percent in 1988. In deflationary conditions where the scope of foreign investment and capital was greatly increasing, local governments were granted more autonomy and power.

This trend led to tax evasion, mandatory fundraising for local government [tanpai chengfeng], local government control over bank payments, and even the large-scale development of smuggling. According to a Chinese sociologist, "the reform policy of decentralizing power and interests did not in any way reduce the power of public entities (governments of all levels and their organs) in the distribution of people's revenue; it merely reduced the power of the central government... the use of administrative means to intervene in economic life was not in any way weakened, but rather strengthened. Moreover, this type of intervention was even more direct than that of the central government. The decentralization of power and interests in no way led to the disappearance of the traditional command economy, it merely led to the miniaturization of this traditional structure."
The major emphasis was the reform of state-owned enterprises (SOEs) which were given greater autonomy and were pushed to reorganize their activities and alter their management modes. Later on, mergers, asset transfers and plant closures changed productive relations themselves. Under the pressure of growing unemployment, the State privileged transfers over closures, but the basic direction was maintained. Because of the structure of China's industrial system, once the State started to relinquish its prerogatives in the arena of industry and commerce, moving from plan definition and implementation towards macro-economic adjustment, the inequalities in resource command of the old system immediately translated into new inequalities in benefits.

Urban industrial reform involved the whole national economic structure. In the absence of democratic supervision, and without a suitable economic system, it was almost inevitable that the process of redistribution of resources and of production would generate extreme social inequalities. The position and interests of workers as a group, and even of government officials as a stratum, were seriously undermined. This was expressed primarily in their reduced economic position, internal polarization within strata, the stagnation of workers' benefits, and the inability of the old, weak, ill, disabled and pregnant to receive security in their employment, among other manifestations.

The Makings of 1989

Nonetheless, the reforms were given an aura of legitimacy thanks to their undeniably liberating effects, the intellectual debate they stimulated and the participation of grassroots society. The stability of the State through the 1980s was not only based on coercion but on its ability to maintain this momentum.

In the mid 80's rising inflation and the threat of economic chaos and large scale social instability sparked a debate over how to proceed. The two issues were: choosing between radical property reform or structural adjustment under State guidance, and whether to move towards a market pricing system or the large scale privatization of State Owned Enterprises. The choice was to have price reforms lead market conditions while continuing to reform rather than privatize the SOEs. This path was successful in the main, because price reform posed obstacles to the old monopolies while also animating market mechanisms. The significance of these successes become apparent when compared to Russia's "spontaneous privatization".

However, it also created a series of problems. China had a "two-track
price system”, the prices of means of production being set by the State plan, and prices of consumption items being set by the market. This dual system generated official malfeasance (that is, corrupt underground activities carried out by the state bureaucrats and official organs which used the dual price structure to their advantage). Meanwhile, despite official rhetoric about separating politics and economics, the SOE reform merely separated ownership and management. A majority of state-owned resources were “legally” and illegally transferred to benefit the economic interests of a small minority. In the power for money exchange, publicly-owned resources found their way into the pockets of “rent-seekers.” Moreover, the expansion of the “contract” system in 1988 allowing SOEs, local governments and government departments to contract foreign trade agreements and financing, led to inflation and inequalities in social distribution through the conversion of products within the state plan into market products.

To deal with these problems, the government announced in May and June 1988 that it would end the dual pricing system and move towards complete market pricing. But this led to panic purchases and large-scale social instability and the State soon after shifted back to greater supervision of the economy. The result was sharpening contradictions between the State and the creature of its own making: local and departmental special interest groups. But the motivating factor behind the 1989 social movement was the emergence of new deep social inequalities. In urban areas, income levels among the different strata became extremely polarized: the workers’ “iron rice bowl” came under dire threat and incomes fell. Unemployment of SOE workers rose (though not to today’s dramatic levels) and inflation raised costs while social benefits stagnated. Workers were not the only victims: it also had a big impact on the everyday lives of ordinary government officials by generating an income gap between ordinary government workers and other strata and between government workers who entered the market and those who remained in the public sector.

Accompanying these trends were growing clashes of interest within the State itself. These contradictions affected intellectuals incorporated into the State system who participated in defining the reform process and in devising reform ideology and propaganda. Moreover, the transformations in State function and in the social division of labor altered employment trends and social attitudes among intellectuals in important ways. If one adds the growing disenchantment in urban reform and the stagnation of rural reform from 1985 on, one has all the ingredients for a full scale crisis of legitimacy.
That crisis was shaped by the shift towards a market economy. That is not meant to imply that people approved of the previous planned economy. Merely that the systemic transformation started in the late 70’s became suspect when the inequalities of the reforms became apparent. People began to question their legitimacy and their legal and political foundation. Whose interests was the State promoting? What were the criteria of redistribution? What procedures were being followed?

**The demands of the movement**

The basic demands of the students and intellectuals included such constitutional rights as workable democratic politics, press freedom, freedom of speech, freedom of assembly and the rule of law (as opposed to the “rule of man”). In addition, they demanded that the State recognize the legality of the movement as a patriotic student movement. While the other social strata also supported these demands, they filled them with much more concrete social content: opposition to corruption and official malfeasance, to the princeling party (special privileged class); demands for stable prices, the reining in of Yangpu in Hainan Island (an area that was rented out to foreign capital), for social guarantees and social justice. The demand for democracy, in short, went hand in hand with demands for an impartial and fair redistribution of social benefits.

The point here is that while the 1989 social mobilization clearly criticized the traditional system and the “old State”, it directed its demands to the new “reform-minded State” and the consequences of its policies. The distinction between “old” and “new” is not intended to deny aspects of continuity of the State, but rather to point out the transformations in State functions. For, in reality, the “new” State that was promoting markets and social transformation was utterly dependent upon the political legacy of the “old” State as well as upon its method of ideological rule.

As a movement for social self-preservation, the 1989 movement was a spontaneous protest against the proliferating inequalities spawned by the market’s expansion and a critique of the State’s handling of the process of reform. As a movement of social protest, however, it also carried out a critique of authoritarianism and the methods of authoritarian rule.

However, just as the distinction between different types of State above does not mean that there were in reality two States, the social protest movement also was a social movement that contained a number of complex elements. Among those strata participating in the 1989 social movement were special interest groups who had been big winners in the 1980s process of decentralization of power and benefits and who were now dissatisfied.
with the impending adjustment policies. These special interest groups pressed their own demands, aiming to get the State to carry out yet more radical privatization programs.

Their demands unfolded in the space between the upper echelons of the State and the social movement: they used their ability to attract funds and to have a speaking platform to convey information and messages between the movement and the State. Hence, they were able to use (instrumentalise) the social movement to shift internal power arrangements within the State in directions that were beneficial to them (witness the role played by such groups as the Kanghua Company and the Sitong Company in the movement). This phenomenon was also evident among those intellectuals who had an intimate relationship to State power.

"Neo-liberal" ideology began to sprout here. Its core content was the radicalization of the trend towards the decentralization of power and benefits and, in the absence of democratic supervision, to push forward wholesale privatization, using legislative procedures to render it legal. This market radicalism, occurring in a time of crisis in State legitimacy, was initially articulated as "neo-authoritarianism" and "neo-conservatism" (that is, the use of State power and elites to radically expand the market). Chinese neo liberals recognized that the State plays a protective adjustment role in the context of globalization and the expansion of the domestic market. Market expansion demands State intervention. For their world audience, Chinese neo liberals painted themselves as opponents of the State, as fighters against "tyranny". But within the country, they counted on the extraordinarily conservative State to push through their policies. We are talking about a complex relationship of mutual dependence.

The failure of the movement

The problem was not reform itself but what type of reform. No matter whether it was students, intellectuals, or other social strata, all supported political and economic reform and democratization. They all wanted a deepening of reform. But what they expected of and what they understood by reform, and how they stood in relation to the benefits of reform, differed widely. From a wider perspective, the broad masses of the people expected far more than a set of proceduralist political and juridical arrangements. They hoped to re-organize politics and the legal system so as to guarantee social justice and the democratization of economic life.

They indeed wanted economic reform, albeit upon the basis of democracy and justice. And these demands were in fundamental conflict with those put forward by the special interest groups demanding more
radical privatization. At the time, this conflict was not grasped completely. These special interest groups had gained most from the reform process and participated in the movement to pursue their own advantage. In that sense, it is quite impossible to use a paradigm of "pro" and "contra" reform to understand the characteristics of the 1989 movement.

As we know, the demand for democracy, social equality and justice was crushed by State violence. And, because of the collaborative relations between Chinese "neo-liberalism" and the world order, the dominant analysis of the 1989 social movement became the one suggested by the special interests advocating radical privatization. This faction of self-proclaimed "radical reformers" concealed their complex relations with State power, and presented themselves to the world as the progressive expression of global markets and democracy.

The global significance

The June 4, 1989 Tiananmen Incident undermined the historical possibilities contained within the movement. Its failure is directly attributable to the use of force by the State. Yet, indirectly, it is also attributable to the social movement's inability to establish bridges between the demands for democratic politics and demands for social equality. Moreover, it failed to form a stable social force.

In the context of the expansion of the domestic and global markets, the movement should be seen as part of a continuum leading up to the November-December 1999 Seattle, and the April-May 2000 Washington protests against the WTO and IMF. All of these mobilizations expressed the utopian hope for an association between egalitarian democratic reform and freedom. But rather than seeing this dual significance of the 1989 movement, the dominant global narrative of 1989 was monocausal: it was simply seen as proof of the excellence of the Western system. That took the real meaning and the critical edge out of the event, its historic significance as a critique, a protest against the new historical relations, the new hegemony, and the new, not merely the old, tyranny.

After 1989, the neo liberal narrative thus became hegemonic in China and the world. The modern Chinese market did not emerge spontaneously but was a product of State intervention and violence. The State continued to pursue reform and re-adjustment, accelerating it after Deng Xiaoping's Southern Tour in 1992. Because of the threat of violence, social dissent was compressed into a very small space. In September 1989, three months after June 4, the State implemented the two unsuccessful price reforms of the 1980s. Currency policy became one important tool of control; there
was a big adjustment in the price of foreign exchange, and exchange rates began to be unified, which promoted exports. Competition in foreign trade gave rise to the birth and growth of management companies; differences between the "dual-track prices" were reduced; Shanghai's Pudong district was opened for development, and development areas soon sprouted everywhere.

The violence of 1989 put an end to the social upheaval that the market system had brought into being, and the pricing system was basically completed.

**Neo-liberalism as a ruling ideology and uneven development**

In following years, income gaps among all strata of society, groups, and regions widened, and a new population of the poor grew quickly. This historical turning point placed the old ideology (that is, the socialist ideology based on equality) into direct contradiction with practice, and the old functions of ideology could not be salvaged. After 1989, the State implemented the so-called "strong on two fronts" (ideological and economic) [liangshou ying] strategy, which, combined with the economic reforms, turned into a new method of tyranny. "Neo-liberalism" substituted itself for State ideology and became the new ruling ideology, providing basic direction and rationality to State policy, international relations, and the emerging values of the Chinese media.

The formation of a market society in the 90's did not eradicate the conditions that caused the 1989 social movement. It legalized them. The basic problems that caused the 1989 social movement were never resolved. All the main social crises of the 1990s — corruption, privatization, the influence of special interest groups in public policy making, speculative real estate development in Shanghai, Hainan and other places, financial bubbles, the social welfare system, ecological crises, unemployment, etc. — are intimately related to pre-1989 social conditions. If anything, they have gotten worse, the scope of problems has become bigger and, because of globalization, the arenas involved are wider. Market expansion, in short, has played a key role creating social polarization and unevenness in destabilizing the foundations of society. And that expansion helped create conditions for authoritarianism and monopoly. In that sense, privatization is intimately tied to authoritarian politics.

This kind of authoritarian marketization is also visible in the rural sector, where agricultural labor has been commodified. Excess agricultural labor was channeled into the urban areas in the 80's for infrastructure or
real estate projects, but migration was limited in scope by regional and local government regulations — recreating discriminatory policies based on socially fixed identities. The policy guaranteed the supply of labor while limiting the pressures on urban areas. Today, one tenth of China’s population is constantly on the move in cross- and intra-provincial migration and the economic downturn since 1996 has made the surplus rural labor into a huge social problem. This is the fundamental premise of contemporary China’s “uneven development.”

Rethinking modernity

Of course, the economic reforms and opening have not only had negative effects. They freed China from its previous constraints and from the distortions of the Cultural Revolution and achieved great economic development. They have had liberatory effects and have been largely welcomed by Chinese intellectuals for that reason. However, seen from a historical standpoint, they have also left deep scars.

For the generation that grew up after the Cultural Revolution, the only worthwhile knowledge comes from the West, notably the United States. Asia, Africa, Latin America, not to mention Eastern Europe, Southern Europe, places of vital knowledge and culture, have completely fallen out of the intellectual purview of people. Repudiating the Cultural revolution has become a method of defending ruling ideology and state policy: nearly all contemporary critiques are dismissed as irrational regressions back to the Cultural revolution. Inversely, critiques of socialism and the Chinese tradition have become a kind of post Cold War justification for the adoption of Western developmental models and teleological modernization narratives.

But Western capitalism and its history of global expansion cannot become the standard against which China measures itself. It must, to the contrary, become the object of critique, not for the sake of critique, but to appreciate anew the significance of history and its new possibilities. The point is not to reject the modern experience, which is first and foremost a movement of liberation from historical teleology, historic determinism and system fetishism. The point is to render the historical experiences of China and other societies into resource for theoretical and system innovation.

Historically speaking, the Chinese socialist movement was a resistance movement and a modernizationist movement. To understand how the pursuit of equality and freedom ultimately slid into systemic unevenness
and social hierarchies, one must question the process of modernization itself and find a real path towards democratic processes that can avoid social polarization and social disintegration.

Translated by Rebecca Carl


NOTES
1. See Zhang Wanli, “Twenty Years of Research on Social Class and Strata in China” Shehuiwue janjie, 2000, pp. 28-29. Zhang Wanli stresses the emergence of groupings from outside the old structural system and the great increase in the proportion of resources they commanded and, second, the transformation in position of groupings from within the old structural system.
8. On the main goals of the policy of “consolidation of control” [zhili zhengdun], see “Zhonggong zhongyang guanyu jin yi bu zhili zhengdun he shenhua gaige de jueding” [Chinese Communist Party Central Committee Decision on the Continuation of Consolidation and Control and the Deepening of Reform]—published on November 9, 1988; In Zhongguo jinrong nianbiao 1990 [Yearbook of Chinese Banking and Finance 1990], Shimian jihua tizhi gaige gailan [Outline of Ten Years of Reforming the Planning System] (Zhongguo jihua chubanshe, 1999).
9. On the changes in the cadre stratum before and after the reforms, see Li Qiang,

10. Of the people who played important roles during the period called "the new era" (1978-1988), the majority were older intellectuals who were university and research institute leaders. Some of the disputes among economists had their origins in intra-State policy debates. The labels of "left" and "right" in the intellectual arena actually arose from intra-State debates and factions. These splits were often mistaken for "left"/"right" splits among intellectuals in general. Even these days, some people use the model of intra-Party struggles to understand China's social polarization in terms of "left" and "right."

11. The "income distribution" group for economic research at the Chinese Academy of Social Sciences (Zhao Renwei, et al) has studied the differentials between peasant incomes from cash farming and gross rural income: the differential is one to two between those peasants who engage in cash farming and those who work in rural industries; of 2-5 with those who engage in commerce or are service-industry workers; of 5-8 with those who engage in the hauling business or in construction. Regional differentials are also very marked. For instance, peasant incomes in the Eastern, Central and Western regional incomes (where the Western region = 1), were 1.39, 1.11, and 1. In 1980, the average annual peasant income was 199.33 yuan. In 1983, average annual peasant incomes reached 921 yuan, but the differential expanded to 2.25, 1.75, and 1, respectively (or 1,380 yuan, 786 yuan, and 604 yuan). The income differentials between workers and owners expanded. The income differential among urban residents also expanded across the board: First, regional disparities expanded: for example, in 1983, the disparity in income for personal consumption between the Western/ Central and Eastern regions was 80 to 50 yuan (respectively 458 yuan, 493 yuan, and 543 yuan); while by 1994, these incomes had reached, respectively, 2402 yuan, 2805 yuan, and 4018 yuan, the differential had reached 1616 yuan and 1213 yuan, where, in comparison to the previous numbers, the disparity had increased by 14.2 and 32.3 times. Second, the disparity in incomes derived from different occupations grew; for example, such occupations as finance and insurance overtook such previously high-paying occupations as electric, coal and water production, and was more remunerative by 2.4 times than agriculture, forestry, husbandry and fishery work; the difference in the absolute value of these two types of occupations is even greater. Third, the incomes of workers in different ownership types of enterprises also differ; for example, in 1986, workers in mixed ownership enterprises had average incomes of 1527 yuan, representing 1.14 times the income of all other workers, with the absolute difference between the two being 200 yuan. In 1994, from January to February, the incomes of employees of mixed ownership and other economic enterprises continued to grow; thus, while the average growth of worker income in China in that year was 26.3 percent, the income growth of mixed ownership enterprise workers rose by 92.2 percent, over 41.7 percentage points faster than others. By 2000, the incomes of workers in mixed ownership and rural enterprises had exceeded the incomes of Party and state officials, researchers, and others by 2-3, or even more times. Fourth, the disparity in incomes of different types of workers within enterprises grew. This situation has two aspects: one is the disparity between owners and workers in private and mixed ownership enterprises; the other is the disparity among factory
directors, managers and workers in publicly-owned enterprises. In China, the
incomes of middle managers in foreign-owned enterprises on average have already
reached US$6600, which represents approximately 10 times the incomes of regular
workers; and the disparity between managers and workers in publicly-owned
enterprises is commensurately large, represented by the fact that managers derive
significant amount of income from various extra-salary benefits. Fifth, there is
the emergence of the newly impoverished, which primarily indicates workers let
go from reformed enterprises, temporarily unemployed workers, workers in
bankrupt or half-bankrupt enterprises, retired workers, some portion of those
who derived their livelihood from skimming from enterprise budgets, and migrant
workers who have no residency in urban areas, etc. In sum, by 1994, the
percentage of workers in difficult straits had risen from 5 percent to 8 percent of
all workers nationally, with one hundred million citizens in impoverished
circumstances, representing 8 percent of the Chinese population. The above
research results are derived from Zhao Renwei, et al, Zhongguo jumin shouru fenpei
yanjiu [Research on Income Distribution in China], Beijing: Zhongguo shehui
kexue chubanshe, 1994. In addition, Zhang Yuanli's "Zhongguo shehui jieji jieceng
yanjiu ershi nian" [Twenty years of research on Chinese social classes and strata]
has a summary of these figures; see Shehuixue yanjiu [Sociology Research] 2000:
1, p36.

12. See Wang, "Chengshi fazhan yanjiu de huigu yu qian?" [A review of urban