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How China Made Its Great Leap Forward

Some observers praise its 'state-led capitalism.' But the truth is that leaders, starting with Deng Xiaoping, loosened Beijing's control.

By Ronald Coase and Ning Wang

China's post-Mao market transformation is one of the most dramatic and momentous events of our time. It has lifted hundreds of millions out of extreme poverty, freed one fifth of humanity from ideological radicalism, revived one of the oldest civilizations, and inspired all of us to explore the benevolence of the market.

Yet capitalism as currently practiced in China suffers a severe failing: the lack of a marketplace for ideas. China's market transformation flourished at the ground level without much help from Beijing—contrary to its leadership's claims. But the free flow of ideas has faltered. Until that changes, China will never reach its full potential.

At Mao Zedong's death in 1976, few, if any, could have foreseen that China, then one of the poorest and most isolated countries in the world, would become a dynamic market economy in just three decades. An added surprise is that all this happened under the auspices of the Chinese Communist Party, which was committed along the way to modernizing socialism.

When China started reforming and opening up, it had little knowledge of the market economy. Mao's grandiose but disastrous policies had gravely impoverished the country materially and intellectually. China had been isolated from the West and cut off from its own traditions. With no blueprint, it had no choice but to work within the ruins of socialism, through tinkering and improvisation. This experimental approach was helped along the way by the resuscitation of the Confucian tradition of "seeking truth from facts."

China's road to capitalism was forged by two movements. One was orchestrated by Beijing; its self-proclaimed goal being to turn China into a "modern, powerful socialist country." The other, more important, one was the gross product of what we like to call "marginal revolutions." It involved a concatenation of grass-roots movements and local initiatives.

While the state-led reform focused on enhancing the incentives of state-owned enterprises, the marginal revolutions brought private entrepreneurship and market forces back to China. Private farming, for example, was secretly engaged in by starving peasants when it was still banned by Beijing. Rural industrialization was spearheaded by township and village enterprises that operated outside state control. Private sectors emerged in cities when self-employment was allowed to cope with rising unemployment. Foreign direct investment and labor markets were first confined to Special Economic Zones.

All these marginal forces had been either harshly oppressed or heavily regulated during Mao's era. Fortunately, post-Mao Chinese leaders—most notably Deng Xiaoping—embraced change. Mao's failure taught them to stay away from ideological hubris and re-embrace pragmatism. Under their leadership, Beijing admitted its lack of experience in reform. Local initiatives were first allowed, and later encouraged, to play a leading role in market-

oriented experiments.

Inadvertently, this process led to the relatively thriving market we see in China today. When Beijing still preached socialism, local authorities explored new, market-oriented approaches to revive local economies. While Beijing held tight to political power, it was no longer a central planner. As provinces, cities and counties all competed for economic development, China became a giant laboratory of regional competition.

China's leaders have never given up on socialism, which in their minds calls for public ownership to ensure shared prosperity (even though state-owned enterprises have exacerbated inequality and corrupted politics). They insist on keeping key sectors—including banking, energy, communication and education—under state monopoly. As a result, many characterize the Chinese economy as "state-led capitalism." But it was really the marginal revolutions and regional competition that ushered in China's economic rise.

In the years to come, China will continue to forge its own path, but it needs to address its lack of a marketplace for ideas if it hopes to continue to prosper. An unrestricted flow of ideas is a precondition for the growth of knowledge, the most critical factor in any innovative and sustainable economy. "Made in China" is now found everywhere in the world. But few Western consumers remember any Chinese brand names. The British Industrial Revolution two centuries ago introduced many new products and created new industries. China's industrial revolution is far less innovative.

The active exchange of thoughts and information also offers an indispensable foundation for social harmony. It is not a panacea; nothing can free us once and for all from ignorance and falsehood. But the free flow of ideas engenders repeated criticism and continuous improvement. It also cultivates respect and tolerance, which are effective antidotes to the bigotry and false doctrines that can threaten the foundation of any society.

When China started reforming itself more than three decades ago, Deng rightly stressed the "emancipation of the mind" as a prerequisite. But that has yet to happen. It's time for China to embrace not just the market, but the marketplace of ideas. This will help not just China reach its full potential, but the world as well.

Mr. Coase is a Nobel laureate in economics and professor emeritus at the University of Chicago Law School. Mr. Wang teaches global studies at Arizona State University. They are co-authors of "How China Became Capitalist," out this month by Palgrave Macmillan.

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