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East European "Big-Bang" Revisiting East Asia? Why Chinese "Gradual Transition" Can End Up with "Shock Therapy"

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Abstract

Polish and Russian "shock therapy" policies in 1990 and 1992 respectively were in fact forced deregulation packages aimed at preventing total macroeconomic and institutional collapse. Some important features of these packages were contrary to neo-classical prescriptions, since the "shock therapists" operated in unprecedented setting of imploding "command economy". This setting as such never was a subject of neo-liberal theoreticians before it became empirical reality. Marxist-Leninist single party-state regimes are prone to macroeconomic implosion, since the socio-economic actors they create during forced "transition to market" prefer neither "plan" nor "market", but a grey "no-man's land" between the two. This position allows them to "privatize the profits" and to "nationalize the costs", contributing to accumulation of tremendous macroeconomic imbalances on the aggregate systemic level. It also creates socio-economic, political and institutional impasse of financial deleveraging, which may eventually turn into a forced "big-bang" package amidst systemic implosion. Chinese "gradual transition" – with all singularities – still fits quite well into this dynamic empirical pattern. Sharp decline in the Chinese growth rate since spring 2013 was a man-made phenomenon. The leadership intends to deregulate interest rates and upgrade financial discipline of scared investors, making them to withdraw money from the state and non-state assets. The overall systemic setting increases the chances of financial deleveraging in China to turn eventually into a forced "big-bang" upheaval.

Keywords: *China, Russia, economic models, shock therapy*

1. Some Reflections on Neoliberal Economic Theory – "Big-Bang" Reforms and Transitions in Eastern Europe, Russia and China

> "I have talked to Yegor [Gaidar – Prime Minister of the Russian first post-Communist government, author of the Russian "big-bang" price deregulation in January, 1992] and he agreed: he did neither market reforms, nor "shock therapy"… He did exactly what any responsible government would have done in his place… There is no politics in deregulating prices, just as there is no politics in appendectomy. If you don't do it, the patient will die."
>
> (Aven and Koch, 2015: 20-21)

> "Bankruptcy and default are, perhaps, the only unexpected choices which may be able to break the hidden security guarantees in China [and] save the Chinese economy and financial system."
>
> (Zhu, 2016: 418)

The students of political economy of anti-neoliberal breed are especially merciless in their critique of "shocking" market-oriented reforms, which accompanied the very last stages of communist regimes in Russia and Eastern Europe and effectually marked their transition to post-communism. The following extensive quotation from Adam Przeworski is quintessential: "The neoliberal ideology, emanating from the United States and the multinational agencies … is not justifiable in the light of contemporary economic theory … [it] value efficiency over distribution to the extent of justifying social horrors, it places economic considerations over political ones. If the ostensible purpose of market-oriented reforms is to increase material welfare, then these reforms must be evaluated by their success in generating economic growth. Anything short of this criterion is just a restatement of neoliberal hypothesis, not its test … Yet, unless we insist on thinking in terms of growth, we risk suffering through a long period of tension and deprivation only to discover that the strategy … was erroneous … The ultimate economic criteria for evaluating the success of reform can only be whether a country resumes growth at stable, moderate levels of inflation … Standard neoliberal recipes … induce economic stagnation, they incur unnecessary large social costs, and they weaken the … democratic institutions." (Przeworski, 1995: viii, 69, 85)

To our mind, this passage has at least two important logical discrepancies. First, Przeworski denounces "neoliberal reformers" for placing economic considerations over political ones, while the "ultimate criterion for success" emphasized by him – economic growth – is of purely economic and – we would argue – abstract economic character. Abstract in the sense that it indeed does not consider vicissitudes of political institutions and constellations of social actors. Second, the eloquent author seems to be very much worried about the "weakening of democratic institutions" in the countries where – at the time of "shock therapy" implementation – these institutions were basically non-existent.

We are very far from soliciting in favour of (or against) neoliberal economic theory regarding post-communist transitions. We take it as *just an economic theory*, whose influence on practical policy decision-making in Eastern Europe or Russia in respective period – contrary to post-factum assertions – should not be exaggerated. In fact, market reforms in Marxist-Leninist one-party regimes were never a special subject for the partisans of the economic neoclassic. Their main point of preoccupation was "structural adjustment" in developed or developing non-communist economies. It seems that the eloquence of Przeworski, for example, betrays rather his passionate rejection of capitalist inequality as such, than profound understanding of the practical alternatives available for the imploding "socialist countries". Hence his – to say the least – disputable statement, that "[the] relation between the state and the public firms in Eastern Europe was not qualitatively different from that between state and large private and public firms in Latin America …" (*ibid.*: 67)

Only when empirical history has – quite unexpectedly – staged the dramas of communist regimes' collapse, the "network" of neoclassical theories was stretched to East-Central Europe and Russia. However, in this region the "network" turned out rather leaky. First, only the countries with overt macroeconomic catastrophes (in fact, not even all of them) employed "shock therapies". Second, even if the "neoclassical recipe" was in the air of this region at that time, it was perceived by reformist policy makers rather in the sense of ideologically attractive goal setting, than in terms of consistent package-style practical implementation. As far as the latter – i.e. practical implementation – is concerned, quite a lot of its actual dimensions could not help but run counter to neoclassical implications designed for the economies with already existing market institutions and were clearly inappropriate for the economies where such institutions were still to be constructed. Paradoxically, in this region it was the representatives of ideological opponents and the "losers" of transition in the broadest sense who were in the deepest way convinced and outspoken, denouncing and depicting "shock" and "non-shock therapies" as consciously and consistently implemented "alien theories imported from overseas" (Grachev, 2015: 348-351).

On the contrary, the proponents of "big-bang" policies were much more reticent in this respect. They either tried to explain the "inevitability" of radical change or pointed to its actual "inconsistency" due to specific conditions of original "non-market" institutional setting of communist regimes and to the extreme "weakness" of state capacity amidst macroeconomic implosion (Aslund, 1995: 6). Some of them went as far as to argue that what was done was not the "shock therapy" derived from neoliberalism, but the least costly – in the given situation – deliverance from the overall socio-economic collapse and even probable civil war (Gaidar, 2012: 465-564; Aven and Koch, 2012: 20-21).

Anyway, for those deeply dissatisfied with the social costs of "big-bang" transition and its impotence to generate economic growth in the East-Central Europe and post-communist Russia there seem to have been a good example: gradual market-oriented reforms in China. Chinese dynamic gradualism, so runs the argument, brought the country to the fore of socio-economic progress and increased immensely its global power without transitional recession and institutional collapse. In other words, it will not be far-fetched to assume that the Chinese – gradually – managed to solve the set of systemic issues, which turned out to be totally or partly unsolvable in the East of Europe either in "shock" or in "non-shock" way.

Not only Beijing propaganda machine, but also quite authoritative Chinese economists and social scientists elaborated at length on "political economy of gradual market reforms", their "much less costly success" and even "international importance" (Fan, 1996: 150-160; Zhang, 1997: 45-90).

These Chinese calculations were echoed in the West by a variety of respective theoretical conceptions. In 1995 Peter Nolan lamented "Russian fall" due to the policy of irresponsible "shock therapists" and saluted "China's rise" thanks to the country's attempt at finding the "third way between socialism and capitalism" (Nolan, 1995: 5-7). Also in 1995, Barry Naughton put forward the idea of market economy gradually "growing out of the plan" in China (Naughton, 1995: 123-129). In 2004, Joshua Ramo argued in favour of existence of the so-called "Beijing Consensus", which put in the forefront institutional continuity and social stability in defiance of neoliberal "Washington Consensus" emphasizing economic efficiency, budget balance and private property (Ramo, 2004). In 2006, Csanadi elaborated the scenario of the Chinese planned economy system's gradual "self-withdrawal", leaving more space for the "forces of market" (Csanadi, 2006: 70-71). Lamentations regarding delay in political liberalization were certainly present, however this was somewhat downplayed by asserting the "authoritarian resiliency" of the one-party regime in Beijing (Nathan, 2013: 65-76).

In fact, after the hopes for democratic transition in China were dashed in 1989 and the country entered two decades of impressive growth, the positive discourse on the regime's "resiliency" became almost overwhelming among Western China watchers (Laliberte and Lanteigne, 2008: 159, 165, 170-176). Doomsday prophesies were out of the mainstream. Predictions about China's collapse failed literally each time they were made, while some of them indeed looked not very convincing from the beginning (Chang, 2001).

A few other researchers of East European and Chinese market transitions seemed trying to find deeper explanation for their different dynamics and outcomes: "[There] is no relationship between the speed and breadth of economic reforms and the rate of economic growth … Eastern Europe and the former Soviet Union were already industrialized urban societies, with state employment covering 80% or more of the labor force … China and Vietnam were overwhelmingly subsistence peasant agricultural economies. The lesson is that economic reform in Hungary, Poland and Russia meant inducing structural adjustment, while economic reform in China and Vietnam meant allowing normal economic development" (Parker, Tritt and Woo, 1997: 14-15). That all sounds fine, except for the lack of conceivable detailed explanation of what is "structural adjustment" and "normal economic development", especially bearing in mind that we deal here with one-party states, originally designed to implement Marxist-Leninist or Maoist utopias without market economies whatsoever.

It is only rather recently that the tune of optimistic expectations regarding China's future development started to change (Pei, 2006, 2016; Walter and Howie, 2012; Shambaugh, 2015; Karpov, 2016). Attention was gradually shifted from "the delay of democracy" or "unsustainable growth" to fundamental problems of the Chinese systemic setting. However, according to our knowledge, so far nobody dared to predict that "gradual transition" in China may plausibly end up with the forced "shock therapy". So, here we dare to do exactly this.

2. Why Marxist-Leninist Regimes Implementing Market-Oriented Reforms Are Prone to Macroeconomic Implosion?

In our opinion, depicting "big-bang" economic "therapies" at the end of communist regimes as "structural adjustment" is indeed too obscure, albeit a sophisticated language. In fact, these were *forced* financial deregulation measures, very often ad-hoc and inconsistent, dictated by the perception of exacerbating systemic collapse. They aimed to secure market-based exchange of goods amidst speedy overall macroeconomic and institutional implosion.

To comprehend the practical imperatives of "big-bang" transition strategies in former socialist countries, it is pivotal to sort out the fundamentals of given political regimes. It may be perfectly true – albeit in purely technical sense – that "[there] is no politics in deregulating prices, just as there is no politics in appendectomy" (Aven and Koch, 2015: 21). However, all such technicalities are driven very much by political circumstances of institutions and players.

"Resource creating reforms" (Csanadi, 2006) in Marxist-Leninist one-party regimes are actually a political undertaking, since "[The] key to explaining the classical socialist system is an understanding of the political structure. The starting point is undivided political power of the ruling party, the interpenetration of the party and the state, and suppression of all forces that depart or oppose the party's policy." (Aslund, 1995: 3)

The term "totalitarian regime", proposed by several experts at the early stages of the former Soviet studies, carries somewhat ambiguous connotations due to serious drawbacks in its explanatory potential (Friedrich and Brzezinski: 1956). So, here we propose to call such regimes integrative – clearly differentiating them from the liberal democratic and corporatist authoritarian. In an integrative regime, the ruling party-state, legitimized by teleological Marxist-Leninist ideology, not simply controls but integrates all socio-economic and socio-political institutions, corporations and players. In other words, there is no clear – either institutional or practical – boundary between the latter and the ruling party-state.

What is of pivotal importance for our analysis is that the key mechanism of such an integration is an ideologically based and consistent policy aimed at elimination (extreme marginalization) of the market economy. This policy has been implemented for years and even decades – quite often by openly terrorist means – by the ruling party at the initial stages of its domination in respective countries. In our view, it was the underestimation of the overall systemic consequences of exactly this policy that brought some Eastern Block watchers in the West to conclude that political regime in the Soviet Union after Stalin became "authoritarian" and to explain its internal dynamics in terms of "corporatism", "institutional pluralism" etc. (Mueller, 1997)

Due to the systemic consequences of the soft-budget constraint, the classical socialist system at a certain point starts to face fundamental resource shortages, which force it to embark on "transition to market", i.e. resource creating reforms (Kornai, 1992; Csanadi, 2006). However, since bureaucratic coordination on the systemic level has already substituted market coordination, institutions as well as actors of the market economy are either non-existent or too small in scale, weak, marginal or even squeezed out into criminality. That is why the ruling party-state, embarking on "transition to market", is inevitably compelled to create the "long forgotten" actors and institutions of the "new socialist market economy" basically from scratch and from within herself, forcing or allowing growing number of her part and parcel to participate in revisiting "market transactions".

It would be, however, premature and optimistic to suppose, that these new "socialist marketers" would rush to the opportunities and responsibilities of free capitalist competition. More specifically, they would grab the opportunities of "no-man's land" between "plan" and "market", in which they would inevitably find themselves in the "transition" setting, contriving to privatize the profits and nationalize the costs. Party-state in its turn would try to minimize the damage of nationalized costs by repression or by introducing new "transition measures". However, even doing the latter, it never would "cut the leash" connecting it with the "socialist marketers", since this would mean disintegration of the existing political system and inevitable socio-economic implosion. The "socialist marketers" would, perhaps, like to make "the leash" longer, while the intentions of the party-state with regard to the "length of the leash" may be rather ambivalent. However, due to different reasons, neither the party-state nor its "marketers" are indeed interested in cutting the "leash" for good and starting to travel on the waves of "democracy and free competition".

Such a situation perpetuates soft-budget constraint and leads to accumulation of growing macroeconomic imbalances detrimental to the quality of the assets. Moreover, contrary to the view of some economists and political scientists (Csanadi, 2006), the "transition to market" setting in socialist countries does not weaken, but, in fact, strengthen mutual dependence between the ruling party-state and its "marketers". Party-state needs more and more resources, created by the "marketers". The latter, while jumping at every opportunity to look for resources "on the side", are still well afraid of losing benevolent generosity of the party-state. In such a case, their budget constraints will be hardened and opportunities to nationalize the costs automatically evaporate.

Rational calculations of the players on both sides of the "leash", connecting the party-state with its "marketers", on more aggregated systemic levels turn into utmost irrational macroeconomic behaviour. This, in turn, paves the way to institutional and assets' decay, macro implosion and subsequent possibility of forced "big-bang" "structural adjustment". Here, however, much depends on the scale of macro imbalances and degree of the party-state's legitimacy crisis.

Regarding the reasons for Russian "big-bang" strategy, Anders Aslund, for example, wrote: "Gorbachev managed to break down a multitude of old Communist and Soviet institutions. [His] capacity for peaceful destruction was truly remarkable, but he left the old bodies of government in tatters rather than definitely finishing them off. His legacy was one of institutional chaos… [In] the second half of 1991, the USSR and Russia faced complete financial ruin. There were grave shortages, and most state shops were nearly empty. Queues were unbelievably long, and people could stand in one line for goods for up to a week. The monetary overhang was enormous… [Even] so, open inflation raged, and prices doubled or tripled in 1991." (Aslund, 1995: 36-49)

Eyewitnesses testify to the fact that when supplies of foodstuff were delivered to the state shops, self-organized brigades of the consumers distributed the food in equal portions to the people who stayed in the lines in front of the shop doors. Thus "corrupt" shop accountants were prevented from ferrying the foodstuff to "black" marketers. Although the perspective of mass physical starvation was, perhaps, not very real (as another eyewitness put it, he never saw a carcass of a horse or a dog carved in the street, as it happened in Petrograd in 1918), however, institutional and macroeconomic collapse was full.

Mikhail Gorbachev's truly "remarkable capacity for peaceful destruction" without "finishing" the "old institutions" completely lay in the fact that he made the leash between party-state and its newly born marketers, which grew like mushrooms after the rain since 1988, rather long within a very short period of time, but uncut. In our view, it was his very much rational choice, since both party-state and marketers were eager to stretch the leash, but neither meant to cut it for good. Academician Leonid Abalkin, Deputy Prime Minister of the USSR and a key mastermind behind Gorbachev's early economic reforms, recalled how controversial was the position of the enterprise directors about implementation of the so-called *khosraschet* or the producers' cost self-accounting. "On the one hand, all speakers demand [economic] autonomy, abolition of the ministries' dictatorship, decrease in state order quotas. And simultaneously insist on guaranteed state material and technological supply … [It] should have been clear, however, that since you achieved the abolition of state order, by means of which the state collects resources, you cannot enjoy the right to demand from the government to guarantee your supplies." (Gaidar, 2012: 369)

Gorbachev's and the party-state's, perhaps, sole rational choice turned into totally irrational behaviour of the whole bunch of actors in the given systemic constellation. Wholesale prices were de-facto freed between 1988 and 1991. By the end of 1991, the Soviet government could not subsidize retail prices anymore. Key systemic players still did not want to cut the leash connecting them. There were two strategic alternatives: either to liberalize retail prices in a "big-bang" way, or the state must have commenced *prodrazverstka* – the term known from the time of Bolshevik revolution which meant the stoppage of market mechanisms and forced confiscation of produce. Nobody at the top wanted these alternatives; more exactly, most were terrified by both perspectives. "Big-bang" price liberalization was fraught with unpredictable social consequences, while there were well-founded doubts regarding the potential of state capacity in case of macro-confiscation. This latter path, proposed by Gorbachev's another adviser Yuri Skokov, could have even exacerbate the speed and scale of institutional implosion and, perhaps, could indeed lead to a severe civil conflict.

The famous Russian political analyst, Georgy Sattarov compared political and economic discussions of that time to the endless council of physicians at the bedside of a virtually dying patient. When the latter was already in the state of a clinical death, the doctors suddenly parted and allowed a group of their young and seemingly inexperienced colleagues to undertake a complicated surgery. The surgery turned out to be successful in the sense that the patient survived, albeit with severe postoperative complications. However, ironically enough, when the death retreated, the older and apparently more experienced physicians again closed their ranks by the patient's bedside and went on even more eloquently discussing what should have been done and if the undertaken surgery was indeed necessary and useful. (Nechaev, 2010: 104-105) This group of young and inexperienced physicians was exactly the team led by Egor Gaidar.

Personal views of Gaidar regarding economic theories may well have been neo-classical, or Keynesian or – most probably – both to a degree. However, what was done by his team in the given circumstances cannot be described in terms of either neo-classical or Keynesian economics. As a matter of fact, it ran contrary to both. The government of Gaidar undertook one-stage retail price deregulation in the economic setting still de-facto monopolized by the state assets. Implementing privatization in any form was at that moment out of question due to complete lack of time, space and respective actors.

One certainly may look at it technically as a "financial deregulation". In fact, it was something much more than simply this. The package of "deregulating" measures was a forced and in many ways indeed reckless attempt to save "normal" market commodity exchange on the micro-level. At the same time, by means of freeing retail prices in the given setting, "deregulation" cut the leash between the collapsing party-state and its marketers resolutely for good, thus laying the foundations to a qualitatively new socio-economic and political institutional arrangement. This arrangement – contrary to all of the doomsday prophesies – survived and became sustainable in the years to come. Unfortunately, it did not consolidate in the shape of liberal democracy (could it after all, by the way?), but clearly in the shape of a market economy driven by demand.

So, the questions are: were Russian "shock-therapists" indeed crazy neo-liberals and were their "big-bang" deregulation a complete disaster? Sober analysis of all factors and parties concerned may lead us to the answer "No" to both enquiries. In our view, "big-bang" deregulations in the socialist countries at the last stage of their one-party regimes are perhaps arduous, however, inevitable prices to be paid by societies for the decades of integrative non-market development with its soft-budget constraints and uncut leashes.

3. China as "Agreed Economy": "Big-bang" Perspectives Revisiting?

The Chinese case of "market transition" – with all its undeniable singularities – fits very well into the dynamic pattern of relationships between the party-state and its "marketers", which is of utmost detriment to the country's macroeconomic situation.

Chinese mechanism of perpetuation of the soft-budget constraint includes two dimensions. The first one is party-state political and financial monopoly, what I tend to call simpler "party-money symbiosis". It is embodied in still penetrative institutional characteristics of the Chinese party-state in general, and such characteristics of it in the national financial system, particularly displayed by decisive role of administrative macroeconomic regulation. Politically motivated repression on capital in China is still of pivotal importance to guarantee systemic socio-economic and political stability.

The second dimension is a very specific "market-oriented" price reform, which Chinese experts usually call "double-track", meaning the parallel existence of "plan" and "market" pricing in the national economy.

In fact, instead of "double-tracking", what emerged from this gradual reform was rather a "multiple-track" price setting. Each "track" is, in fact, a sum of conditions on which different units-players of the system participate in the domestic "market". This sum of conditions for a certain unit is achieved through non-transparent bargaining between this unit and the related level of party-state authorities or between mutually depending units under control and patronage of the related party-state organs. By such bargain economic players in the given setting define the scale of quotas of raw materials and processed produce to be procured or sold on "plan" and "non-plan" prices. (Karpov, 2014: 159-185)

Although the setting looks queer and opaque, there is clear regularity in one aspect. Both producers and sellers have been eager to get raw materials and equipment at "plan" prices and to sell their production at "market" prices. As early as in the mid-1990s Chinese experts pointed out: "So far as currently market prices are considerably higher than planned prices, the producers want to sell their produce at market prices but to buy raw staff at planned prices. Volume proportions of used planned and market prices for the most part is subject to bargain between enterprises and the government. Thus, it is extremely difficult to say what these proportions are." (Yang and Li, 1993: 111)

The practice of such bargain became indeed the genetical code of the Chinese version of "market socialism", having penetrated not only the commodity pricing mechanisms, but also those of credit, stock market, property relations etc. As a matter of fact, bargain over price "track" is also, perhaps, the most important leash, connecting party-state and her "marketers", which both sides by no means want to cut. The whole edifice of the Chinese "market economy" is nothing else but a queer setting of "agreements" between the "marketers" and the party-state under politically and financially guaranteed integrative control of the latter. Moreover, the so-called "deepening of market reforms" in China through the whole period of recent 30 years was nothing more than structural and dimensional multiplication of "multiple-track agreements". Any reform or "market experiment" undertaken in China through all these years was constructed in the way to guarantee the dominant integrating positions of the existing Leninist one-party state with rather long (sometimes, indeed, very long) but uncut leashes to its "marketers". If any measure in the process of Chinese "transition to market" imperilled party-state dominance or threatened with cutting the leashes, it was either abolished or reformatted to include both these key systemic elements. Hence, it would be more correct to call Chinese economy not a "market" one, but rather an "agreed" one.

This structural and multidimensional "agreed" character of the Chinese economy which has been growing and increasing since, at least, early 1980s, produced and is still producing tremendous macro-economic tensions and greatly complicates macro-economic regulation. Chinese domestic debt, by most conservative estimations, has exceeded 200 percent to GDP and monetization of the Chinese economy (M2 to GDP) is also around 200 percent – one of the highest in the world. (Walter and Howie, 2012: 214)

The debt – which in given conditions is virtually a debt of the party-state to herself – is constantly written off or swapped, while low penetrability of the "multiple-track" deals decreases the level of trust and increases moral hazard between the parties concerned, forcing them to prefer operating in cash. Macroeconomic regulation in China in the recent three decades has been invariably a trade-off between preserving overall macro stability and financial or – sometimes – administrative and political repression against those "marketers" who either "violated conventions" or simply could not be financed anymore by the party-state. Macroeconomic regulation "with Chinese characteristics" inevitably involves direct administrative actions like politically motivated pointwise money distribution and stoppage or limiting of certain credit lines. Moreover, empirical experience testifies that these administrative actions indeed play the decisive role in achieving relative balance in each period of macroeconomic instability. Each cycle of investment-led growth ends up in administratively orchestrated austerity campaign, coinciding with "political cycle" running from relative liberalization to renewed repression against real, potential or imaginary opposition within the party-state and outside of it.

In such a setting one should not expect "mass democratic movement" or a "global conflict" to topple the regime. Sheer inadequacy of macroeconomic adjustment on level ground may very well sparkle some signal catastrophe, forcing the parties of "track deals" to non-normative action.

Most recent events of 2013-2016, with Chinese GDP growth rate sharply decreasing, testify to rather low adaptive capacities of the constructed setting. This fall in GDP rates was largely a man-made phenomenon: key economic players got frightened by the new leadership's intentions to experiment with the partial credit interest rate and capital account deregulation. What followed was money withdrawal from the economy and subsequent decrease in growth rates. The actual quality of Chinese assets turned out to be too bad for the investors to allocate their money without the "integrating guarantees" of the ruling party-state.

In fact, the original motivation of the party-state to experiment with partial financial deregulation was indeed very much market-oriented. At the heart of it there was a perception that after four billion Yuan stimulus packages in 2008 internal debt grew inadequately high and moral hazard in the field of finance increased to unacceptable dimensions, almost completely ruining budget discipline, especially at the provincial and sub-provincial levels. It was technically impossible to punish administratively all violators. So, the decision was made to clamp first the so-called "shadow banking" – private or quasi-state legal or semi-legal financial institutions operating predominantly with the state money, which they received through white, grey or openly black channels from the big state-owned banks (Zhu, 2016: 39). Between March and May 2013, the State Council (People's Republic of China's key executive body) made it clear to the big banks that their current accounts will not be refinanced from the state budget, as it was the rule before. The banks were advised to work more actively on the market and to look for stock options, instead of placing their hopes on the generous party-state. In other words, the State Council of PRC openly announced that to improve budget discipline on the eve of the planned partial deregulation, it was ready to cut the traditionally existed leashes between the party-state and its biggest financial "marketers".

What followed was de-facto technical default. By means of such statement the party-state's leading executive body made the party-state break its fundamental systemic commitments as the lender of last resort and key financial (and, certainly) political integrator. All this led to an abrupt credit crunch and shortfall in the cash market in the country, where M2 to GDP stands no lower than 200 percent! Shanghai interbank overnight lending rates (SHIBOR) rose from 3 percent to 30 percent with repo rates exceeding 25 percent (Quah, 2015). Subsequent sharp decrease in growth rate and the whole bunch of negative events such as stock market crashes in 2015 and 2016 were the direct or indirect consequences of this governmental threat to cut the financial leashes of soft-budget constraints and political integration. To put it simply, key "marketers" in financial and real sector got terrified by the perspective of the party-state to cut unilaterally the leashes connecting the former to the latter. Needless to say, announced plans for partial financial deregulation never came true. Since late 2015, the party-state renewed showering money into the Chinese economy, thus helping to normalize the situation to a certain degree.

These circumstances raised fundamental questions regarding ability of the Chinese "agreed" economic and political setting to conduct systemic reform. *The Economist* commented in 2016: "It is hard to say precisely, when or why, but deleveraging [in China] at some point is inevitable … Chinese adjustment would require either a really big depreciation, or would be slower and more painful, or a bit of both." (*The Economist*, 2016)

With given scale of macroeconomic imbalances and the constellation of political and economic actors looking not much yielding to change, the chances of the Chinese gradual transition turning at some future point into forced "big-bang" deregulation have increased. And for sure, in case it indeed happens, it will not be provoked by the Chinese inspirations in neo-liberal economic theories or "Washington consensus".

4. Some Concluding Remarks

In the light of what was said above, those observers, who place too much hope on successes of Chinese gradual "transition to market" so favourably different from the "failures" of East European and Russian "neo-liberal" "big-bang" strategies, may be fundamentally wrong.

Despite all clear cultural, institutional, social and demographic peculiarities, systemic megatrends of Chinese transition are very much like those of the USSR and former countries of the Eastern Bloc in the respective times. Despite almost three decades of impressive economic growth and indeed tremendous infrastructural, social and even mental changes, the Chinese gradual reformers were and are still unable to overcome the historic curse of all integrative, originally non-market party-state models – to cut the leashes of soft-budget constraints and political integration connecting ruling party-state and its "marketers" without institutional disorder, financial upheavals and transitional recession. This apparent inability in China – as previously in Gorbachev's Soviet Union or other Eastern bloc countries – aggravates fundamental macroeconomic misbalances and paves the way for possible forced "big-bang" deregulation sometime in the future.

Be it in Poland, in Russia or possibly in China, these forced "big-bang" transformations are something much more significant than simply "structural adjustments" or "financial deleveraging". These are without exaggeration institutional and social revolutions, qualitative leaps from "totalitarian" integrative settings into not necessarily liberal democratic but undoubtedly more free and multi-polar forms of social existence. They were and will be by no means inspired by "neo-liberal" economic theories per se, but led by critical existential perceptions of ruling elites and social groups under the conditions of deep and, perhaps, extremely traumatic systemic crisis or even catastrophes of the respective party-state integrative models. So, the key criteria for the "successes" or "failures" of such qualitative leaps cannot be purely economic, like growth rate or rate of inflation, etc. Technical economic side is surely important, but in these cases more significant dimensions of positive or negative results should be the overall ability of the new non-integrative settings to survive and consolidate. This by no means should do with any economic theories – neo-classical, Keynesian or any other – or with "Washington" or "Beijing" consensuses. It depends on the arithmetic mean of such aggregate factors as political culture, constellation of actors, institutional arrangement, new political class formation and, undoubtedly, on the results of economic performance, however, in somewhat longer run.

Note

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