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Shooting for an Economic "Miracle": German Post-War Neoliberal Thought in China's Market Reform Debate

Isabella M. Weber
Economics Department, University of Massachusetts Amherst

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Isabella M. Weber, University of Massachusetts Amherst

Abstract

This paper develops a comparative and connected history of the debates over transition to a market economy in West-Germany after World War II and in China during the first decade of reform and opening up under Deng Xiaoping (1978-1988). At both historical moments the political aim was to reintroduce market mechanisms into a dysfunctional command economy. The question what kind of price reform this required was subject to heated debates among economists. This paper shows how the West-German 1948 currency and price reform was introduced into the Chinese reform debate by German ordoliberals and neoliberals like Friedman. It traces how the West-German case study was mystified as "Erhard Miracle" and became a metaphor for the vision of universal overnight price liberalisation in China – a core element of shock therapy.

Keywords: Neoliberalism, Socialism, China, Germany, Market transition, Price theory

The tide of neoliberalism that swept the globe under the aegis of the Bretton Woods institutions from the late 1970s onward transformed planned and mixed economies profoundly. The quintessentially neo- liberal shock therapy of this period, however, has an antecedent a generation earlier: in the postwar West German price and currency reform of 1948. Indeed, 1948 should be seen as the true origin of the shock therapy doctrine. Although postwar West Germany may be associated with the "social market economy," the qualification "social" is commonly misunderstood as denoting an interventionist, welfare- oriented form of capitalism. Yet as scholars have shown, the social market economy finds its intellectual foundations in ordoliberalism and constitutes a precursor to the rise of neoliberalism as a global pol- icy paradigm at a time when most capitalist economies were organized along Keynesian lines.[1]

In this chapter, I explore the case of China's market reform under Deng Xiaoping and show that the so-called West German "economic miracle" was mobilized as an archetype to promote the neoliberal pol- icy of wholesale price liberalization, the sine qua non of shock therapy. As I argue elsewhere, China ultimately escaped shock therapy and has only partially assimilated itself to global neoliberalism.[2] Yet the Chinese market-reform debate reveals a previously underappreciated

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thread in the origins of the policy central to the global neoliberal turn.

The revival of market mechanisms was fundamental to the creation of new economic orders after World War II and under socialist reforms such as those in China after 1978. Both periods of transformation began against a backdrop of comprehensive economic controls. Each engendered bitter debates around the question of whether markets require universally free prices and the relevance of price controls for the gradual introduction of a constrained market mechanism. Neo- liberal and ordoliberal visions of a free market encapsulated in the free movement of prices to be achieved by rapid liberalization at all costs competed with more pragmatic liberal and socialist outlooks that saw a positive role for price regulation and proposed a gradual transition.[3]

The postwar transition to a peacetime economy presented economists and social theorists with distinct choices about how to construct a market order. Great Britain and West Germany came to represent two alternatives: gradual liberalization under an interventionist state[4] or overnight ordoliberal liberalization to create a social market economy.[5] The West German postwar economic boom eventually over- shadowed the grave economic difficulties and deep social tensions that followed on the heels of the 1948 currency and price reform.

Ordoliberals were quick to attribute the boom to Ludwig Erhard. The wholesale price liberalization that had, in fact, unleashed a general strike and that drove the young German Federal Republic into a pro- found political crisis was refashioned as the “Erhard Miracle.” Disputes over the nature of the postwar German reforms were invoked in later theoretical debates over how to transition from a mixed or planned economy, and their example as an apparent success was mobilized in favor of radical price reform by Milton Friedman, among others.

The West German postwar experience was of great relevance to China’s political leadership and reform intellectuals after the Cultural Revolution. It was understood as an exemplary transition to a new market-economic order. In what follows, I examine the role that the so-called Erhard Miracle played in China’s price-reform debate in the first decade of economic system reform, 1978 to 1988. I show that the West German postwar reforms were schematically presented as the deed of one man and mystified as a policy that generated immediate and automatic economic prosperity. As such, the Erhard Miracle (艾哈德奇迹) developed into a powerful metonym for a radical form of price liberalization akin to what came to be known as the "big bang" when later imposed on Russia.6 I trace the contributions by prominent German ordoliberals such as Wolfram Engels and Armin Gutowski, as well as Milton Friedman, during their travels to China, and analyze the subsequent instrumentalization of the metaphor of the Erhard Miracle by prominent Chinese free-market reformers such as Wu Jinglian.

The chapter contributes to a growing body of work in global intellectual history that studies the dissemination of ideas.7 Rather than conceptualizing China's reform debates as isolated by foregrounding its purported "Chinese characteristics," this chapter demonstrates that the fierce struggle in China over how to carve a path for economic reform has been fundamentally linked to international debates regarding market orders. This chapter constitutes a first step toward a new historiography of the intellectual foundations of the transition out of centrally planned economies: the question of plan and market under state socialism is reconnected here with debates over the postwar order and therefore indirectly with what is known as the "socialist calculation debate" of the interwar period.

I draw mainly on German-language scholarship to provide a brief overview of the intellectual origins and actual course of the 1948 West German currency and price reforms. Against this backdrop, I explore how ordoliberal and neoliberal economists introduced the Erhard Miracle into the Chinese reform debate, then turn to how these arguments were employed by Chinese economists lobbying for radical price reform in the 1980s. This analysis is based on Chinese primary sources and synthesizes insights from an oral history project for which I have interviewed more than fifty Chinese and international economists who contributed to China's reforms.8

THE "ERHARD MIRACLE": INTELLECTUAL ORIGINS AND POSTWAR REFORMS

In the midst of World War II, economists around the world had already begun to envision a postwar order and to devise methods for a transition to peacetime reconstruction. F.A. Hayek's *The Road to Serfdom* (1944) was perhaps the most significant and powerful statement of this view.9 In this work, Hayek argued that only two mutually exclusive ways of organizing economy and society are possible: either central planning or a free society of free competition. Not only must central planning necessarily lead to fascism, he argued, but even minimal concessions to it would lead society down this dangerous path.10 The debate over the postwar order and price liberalization may be considered an extension of the socialist calculation debate (SCD). Hayek's mentor, Ludwig von Mises, had launched the SCD in the 1920s by claiming that rational socialism is impossible because the price problem is unsolvable with- out markets.11 As regards postwar price liberalization, Mises argued along similar lines to those of Hayek. He warned that the "middle-of- the-road policy leads to socialism," as one of his titles put it, and that the government control of only a single commodity's price, such as that of milk, would be sufficient to set in train a process of central planning, thereby destroying the conditions of free competition.12

The German ordoliberal agenda of a "social market economy," as promoted by Ludwig Erhard, the Freiburg school, and others at the end of the 1940s, could be mistaken for such a "middle-of-the-road policy." Yet the ordoliberals agreed with neoliberals such as Mises and Hayek about the centrality of freely or market-set prices. In terms of plans for practical reform, the "real conflict of opinion was between those who felt that the price mechanism must be reintroduced into Germany as quickly as possible . . . and those who thought it must be severely limited in its applications so as to fulfil social and economic priorities."13

Occupation authorities and the emerging West German political parties considered and vetted a wide variety of proposals for how to reform the German postwar economy.14 Ordoliberals, who tended to operate in the American zone, argued in favor of rapid and wide-ranging price reforms, while Social Democrats, whose stronghold was in the British zone, favored a gradual release of price controls and continued direct intervention of the state.15 Currency reform was to be combined with tax reform and entail the introduction of a new currency, while all existing monetary claims and assets would at once be reduced to 10 percent of the prereform value.

The West German currency reform was implemented on June 27, 1948. While the reform is often attributed to Erhard, it was essentially the making of the U.S. military administration, working in concert with its Western allies.16 By contrast, the decision to impose price liberalization beyond currency reform alone was made by the Economic Council under Erhard's directorship. Its aim was to rationalize not only the price level, but also relative prices. Erhard announced the liberalization of the majority of prices on the day of the currency reform, without the legal approval of the Allied forces or the Länder Council. Only afterward did he secure retroactive authorization from General Clay.17

Ordoliberal and neoliberal economists have promoted a mystified conception of the 1948 German currency and price reform by attributing it to the singular figure of Erhard himself. In a 1977 pamphlet advocating the effectiveness of shock treatment for Britain, Milton Friedman saluted the "German Erhard episode in 1948" as a historic breakthrough that demonstrated the effectiveness of this policy. Fried- man claimed that Erhard had "terminated *all* wage and price controls over one weekend."18 In fact, the 1948 German price reform did not liberalize *all* prices, and crucially, it kept control of the prices of essential production and consumption goods. Indeed, essential foodstuffs, raw materials, rents, and traffic charges continued to be subject to price ceilings for several subsequent decades.19 One scholar estimates that 30 percent of consumer-goods prices were regulated by the state in the period from 1948 to 1963.20 Contradicting Friedman's recollection of the Erhard reforms, wages were likewise excluded from liberalization at the moment price controls were selectively scaled back.21

In fact, the immediate effect of the Erhard reforms was to provoke social unrest. Despite the congruent currency reform, aggregate excess demand caused prices to rise rapidly.22 With wages capped and prices rising, workers suddenly faced falling real incomes on top of lost savings, as well as a sharp rise in inequality. Unions challenged the foundations of the new economic order. On November 12, 1948, West German workers launched a general strike, demanding economic planning and renewed price controls.23 The unions' actions were ineffectual in blocking the impending liberalization, yet the economic fate of West Germany was left undecided until 1950. Only the outbreak of the Korean War finally induced the boom that set the Federal Republic's economy on a path of export competitiveness and surpluses.24

In sum, Erhard's price reform was clearly inspired by the ordo- liberal vision for a social market economy, but critically, the prices of scarce and indispensable industrial inputs, as well as those of essential consumer goods, were never fully liberalized through Erhard's efforts. Rather, they were controlled at a lower level than what prevailed during the war. This policy, in turn, enabled wage repression. Cheap material and labor inputs were the prerequisites for the development of the Ger- man export model, and these inputs were based partially—but never- theless decisively—on price controls. It was this peculiar feature of the German path to liberalization that came to be seen as instructive for those who studied the "Erhard Miracle" from abroad.

THE "ERHARD MIRACLE" IN CHINA

At the height of the Great Proletarian Cultural Revolution, Mao Zedong rejected both central planning and the market as all-encompassing economic coordinating mechanisms. The rural communes, the ideal of local self-sufficiency, and the placement of revolutionary politics ahead of economics instead formed the guiding principles for organizing society and the economy.25 Yet the prospect of a new kind of political economy was revived in intellectual circles in the years before Mao's death in 1976. As early as three years before Deng Xiaoping's ascent to power in December 1978—commonly understood as the beginning of reform and opening up—a Fudan University research group compiled a major publication on the economies of capitalist countries in which the West German transition after World War II was subjected to close study.26

The Fudan research group's work was not simply an academic account of recent economic history, but bore an important, albeit implicit message regarding the group's view of Chinese history. Although the book labeled West Germany a capitalist and imperialist country, as was customary at the time, the parallels with China were evident to any attentive reader. China had a centrally planned economy within which the chains of command and order had collapsed as a result of the Cultural Revolution, just as Germany's had after World War II. As the Cultural Revolution and the explicit rejection of a national economic coordinating mechanism came to an end, the question presented itself: How was a new economic order to be estab- lished? The challenge faced by China from the mid-1970s onward was confronted from a purely economic perspective; at a certain level of abstraction, where the radically different political and ideological con- texts could be de-emphasized, China could be seen as comparable to postwar West Germany.

But the West German case was not only of interest to Chinese intel- lectuals and political leaders due to the resemblance to the challenges Germany had faced. It was particularly worthy of study because of the great economic success of the West German economic recovery, the so-called Erhard Miracle. Approximately contemporary with China's revolution and the birth of the New China, Erhard had implemented his reforms, which were said to have enabled his country to rise like a phoenix from the ashes of World War II. By comparison, the New China had undergone a series of attempts to push ahead to new levels of development, which had succeeded in erasing the worst aspects of poverty, but had fallen short of achieving a hoped-for prosperity.

After a period in which the market was banned as an economic mechanism during the Cultural Revolution, reform-minded economists in the second half of the 1970s set out to revive Chinese debates from the 1950s and 1960s regarding the use of market mechanisms and the law of value.27 Already in 1979, Deng Xiaoping had described to a foreign journalist the ways in which China could indeed develop a market economy under socialism.28 In a surprising way, the German ordoliberals and intellectual fathers of the concept of a social market economy were of interest in this regard. Unlike Hayek or Mises, who rejected the compatibility of socialism and the market, Alfred Müller-Armack, who coined the term "social market economy," articulated an instrumentalist argument for how a free-market economy could still be considered socialist. In 1946, he wrote "It appears to me to be a mere matter of terminology whether one calls a free-market economy socialist or not. The decisive question is what order is expected to solve our social problems. If this order is the free-market economy, one could no doubt see it as a social, or if you like, a socialist instrument."29

As China began opening up to the West in the late 1970s, a notable event was the visit of the delegation to West Germany in May 1978, headed by Vice Premier Gu Mu, a veteran of the revolution and a leader of economic reform. Gu's mission was to study what China could learn from Germany's economic development path.30 His report drew much interest among Chinese leaders and intellectuals in the economics underlying Erhard's postwar reforms. The Third Plenary Session of the Eleventh Central Committee of the Communist Party of China in December 1978 marked both Deng's ascent to power and the official sanctioning of reform and opening up.31 One of the most pressing questions under the new agenda—that of putting economic development first, instead of revolutionary politics—concerned the rationalization of the price system as a condition for the reintroduction of economic incentives while simultaneously avoiding inflation. In this regard, Erhard's reforms were thought to hold important lessons.

SPREADING THE "ERHARD MIRACLE" IN CHINA: VISITS BY GERMAN ORDOLIBERALS AND MILTON FRIEDMAN

Among the Chinese delegates to West Germany were Vice Pre- mier Fan Yi and Vice Foreign Minister Zhang Wenjin. In an effort to learn from Erhard's postwar reconstruction, both approached the West German ambassador to China, Erwin Wickert, and requested he arrange for them to meet top experts in German economics.32 Wickert, a member of both the Nazi paramilitary wing, the Sturmabteilung (SA), as well as the NSDAP, the Nazi Party itself, had previously briefly served in Shanghai for Hitler's government. Wickert had found his way back into the diplomatic service after the war, thanks to the backing of other former high-ranking Nazi diplomats.33 Zhang Wenjin and Wickert had both attended school in Berlin at the same time. It was there that Zhang first become interested in Marxism; later, he studied under Werner Sombart. The two men were friends and openly dis- cussed the question of economic reform during Wickert's tenure in Beijing.34 Wickert promptly delivered on the request for experts on the postwar transition and invited Wolfram Engels, a descendant of Fried- rich Engels's brother, to China as his private guest in March 1979.35

Engels was a prominent German ordoliberal professor of economics. Shortly after his visit to China, he founded two research institutes, the Frankfurt Institute (now the Stiftung Marktwirtschaft) and the Kronberger Kreis.36 The collaboration of these two institutions was vital for preparing the ordoliberal renaissance in Germany after a succession of Social Democratic governments.37 At the embassy in China, Wickert hosted a talk by Engels for Chinese economists on German reconstruction after World War II. The lecture sparked so much interest from the audience that several other presentations were arranged, and Engels was invited for a private dinner with Vice Premier Gu Mu.38 Wickert had initiated the exchange with Engels with the support of the Social Democratic chancellor, Helmut Schmidt.39 On the occasion of Engels's exchange with Gu Mu, Wickert reported in a telegram to the chancellery: "Gu said...that China had to com- bine the current system with a market economy. The question was only how this could be done. The principle that the means of production were publicly owned, however, was to be adhered to. He asked himself, if the laws of a market economy could work under this condition, to regulate economic activity. Professor Engels affirmed this and gave several examples."40

Once the decision to reform China's economy had been reached by the leadership in 1978, the question of *how* a market system could be combined with China's planning system dominated the question of whether to use the market at all.41 In this regard, the West German reforms could be instructive.

In his presentations, Engels offered one implicit answer to the question. His key message was that the West German Miracle could be replicated in China by implementing policies akin to what he saw as Erhard's reforms: dramatic stabilization policies in the form of austerity and monetary control, combined with radical and universal overnight price reform. Engels told his Chinese audience that while postwar West Germany was experiencing a period of unprecedented prosperity, the real economic miracle had been brief, unforeseen by most, and only induced by the 1948 currency and price reform.

Engels attributed the miracle solely to Erhard. He argued that after the war, the Allied powers had continued to administer the planned economy of the Third Reich. Casting the ordoliberal reforms as anti- fascist, Engels stressed that putting an end to this system had been decisive for West Germany's subsequent trajectory. The country had lacked a democratic government and had faced powerful political forces in favor of the nationalization of all industries and planning, making Erhard's establishment of a free-market economy all the more spectacular. In his efforts, the liberalization of prices was an absolute necessity. Suppressing the fact of Erhard's real caution regarding essential consumer goods and production inputs, Engels attributed the persistence of limited price controls for essential raw materials such as coal, steel, and iron to orders by the military occupation regime. But, Engels argued, despite these constraints, and in contrast to the mixture of socialist planning and Keynesianism that dominated in the postwar UK and United States, the West German Miracle had helped to spread free-market economics globally.42

Shortly after Engels's talk, in July 1979, another German ordoliberal economist, Armin Gutowski, the director of the Hamburgische Welt-Wirtschafts Archiv (HWWA), an institute of international economics, a former member of the German Council of Economic Experts, and a founding member of the Kronberger Kreis, and his wife—an editor at *Der Spiegel*, Renate Merklein—were invited to China.43 Gutowski extended the line of argument developed by Engels, but was more subtle in adapting his message to the Chinese context and thus was even more warmly appreciated by the Chinese reformers. Gutowski was even made an adviser to the Chinese government and was perhaps the first Western economist to play this role. He returned to China repeatedly and was invited to high-ranking Chinese delegations until his early death in 1987.44

In a 1979 speech published in Chinese in the journal World economy (世界经济), Gutowski, like Engels, stressed the critical importance of Erhard's price and currency reforms for the West German economic recovery. He described the immediate postwar German economic challenges in terms that must have sounded familiar to the Chinese audience: There was severe aggregate excess demand, since production had been aimed at supplying material for the war effort, and not consumer goods. With most goods still rationed, money was of limited use outside of black markets. China's socialist planned economy, focused on heavy industry, had produced analogous conditions.

Gutowski conceded that Germany had experienced high inflation in the immediate aftermath of Erhard's reforms, but he omitted the general strike from his discussion altogether. He claimed that the inflationary upswing had precipitated hardly any social disruption, because the population was aware at the time that it was only a transitional phenomenon.45 The lacunae in Gutowski's report were diplomatically significant. Social unrest was a top concern for Chinese leaders as they contemplated economic reforms.

During a subsequent visit, Gutowski addressed the question of the compatibility of the market with socialism and focused on what China might learn from the German experience.46 In 1979, he had argued that the success of Erhard's reforms could be attributed to their establishment of an economic order based on the principle of competition. Although some would insist that a market economy entails capital- ism, Gutowski argued, German advocates of the social market economy had rejected this connection as unnecessary. The public provision of social welfare under its program was a case in point.47 In 1981, he elaborated his position regarding the market's relation to socialism. Tactfully, Gutowski sided with Oskar Lange's position in the SCD: "Public ownership can remain unchanged, but there must be competition for economic vitality."48 For the purposes of fostering competition—in addition to suppressing inflation—price reform was essential, as Erhard's success had shown. It could only follow, then, that the rationalization of the price system would decide the success or failure of China's reforms.49

Gutowski's emphasis on the compatibility of competitive prices with socialism resonated with some of China's most prominent economists of the first generation of revolutionaries, such as Xue Muqiao, who had argued since the late 1950s for restoring the law of value under Chinese socialism by increasing the use of competitive prices as a regulating mechanism.50 Xue and Gutowski were in fact in close contact, and Xue organized some of Gutowski's visits to China, while Gutowski arranged for the German translation of Xue's major contribution to reform thinking.51 In his German preface to Xue's work, Gutowski stressed that even though Xue had begun from a Marxist outlook, he shared many of the author's conclusions regarding China's reform.52

A third important ambassador of the Erhard Miracle in China was Milton Friedman.53 While Engels and Gutowski had both occasionally advanced some arguments concerning the origins and consequences of the West German currency and price reform that today do not withstand close historical scrutiny, Friedman took the embellishment of Erhard's Miracle and the mythologization of the West German reforms to an even higher level. Before coming to China, Friedman had already invoked the West German postwar recovery as vindication of the shock treatment of rapid liberalization backed by budget cuts, as in Pinochet's Chile and the crisis in the UK of the late 1970s.54 As part of the Chinese reformers' policy of "opening the minds to the out- side world," Milton and Rose Friedman were invited to China in 1980. During his first visit, Friedman relayed the following anecdote to his audience at the Chinese Academy of Social Sciences: "The so-called economic miracle produced by Ludwig Erhard in 1948 was a very simple thing. He abolished all price and wage controls and allowed the market to operate while at the same time keeping a strict limit on the total quantity of money issued."55

Friedman acknowledged some transitional inflation immediately after the 1948 reforms, but as a monetarist, he argued that a relative increase in the quantity of money was the only cause of sustained inflation. As long as the quantity of money was controlled, an increase in the price of one commodity must always be compensated by a relative decrease in other prices and as such was negligible. Friedman ruled out the validity of cost-push inflation theories and did so with reference to Erhard's reforms.56 Yet Friedman's claim that Erhard had eliminated all price controls was simply false. As we have seen, the prices of essential production inputs as well as of basic consumer goods were not liberalized under Erhard, and neither had wages been liberalized simultaneously, as Friedman contended. These points are especially important, because a source for cost-push inflation would have originated from scarce essential production inputs such as steel and coal, for which demand was inelastic. Similarly, the supply of basic consumer goods was limited, and demand was inelastic, as well, so if these prices and wages had not been controlled, they could have catalyzed a wage-price spiral and sustained inflation.57 As we will see in the next section, the Chinese anticipated the danger of cost-push inflation and a wage-price spiral and considered these to be significant risks of the mythologized version of Erhard's radical price reform pro- moted by Friedman.

Unlike the visits by Engels and Gutowski, which were the starting point for repeated exchanges, Friedman's 1980 tour in China elicited no commitments from the Chinese side. Friedman's discussion of the Erhard reforms was innovative in that it was the first to analyze them from a consistent monetarist perspective. In this regard, it was theoretically more sophisticated when compared with the anecdotal contributions of Engels and Gutowski. But Friedman's theoretical erudition was advanced at the cost of historical accuracy. It is likely that Fried- man's presentation did not fit with Deng Xiaoping's new paradigm of "seeking truth from facts."58 Friedman's portrayal of Erhard may have appeared to his Chinese audience to lack sufficient realism.

The Chinese price system had been basically frozen over the course of the Cultural Revolution from 1966 to 1976. In the first years of reform, the price system was adjusted by central command, and the market, as the new regulating mechanism, was introduced at the mar- gins of the system. But a wide-ranging or even universal one-stroke overnight liberalization emulating the mythologized Erhard price reform was not implemented, even though some reform leaders and economists, as well as some World Bank and other foreign advisers, thought that this was the best—indeed, necessary—path for China. Economists such as Wu Jinglian repeatedly invoked the Erhard Mir- acle metaphor to argue for radical price reform. At the famous 1985 Bashanlun conference co-organized by the World Bank, the former director of the Bundesbank (1976 to 1979), Otmar Emminger, who had helped shape the German monetary policy since 1950, once more advised China to pursue a so-called "big bang," justifying his policy recommendation with reference to the Erhard Miracle.59 China came close to pursuing shock therapy in 1986 and again in 1988, but ultimately averted this radical policy choice.60

CONCLUSION

From the late 1970s on, three distinct dimensions of the so-called Erhard reforms aroused interest among Chinese intellectuals and reform leaders. Each motivated intense exchanges with ordoliberal and neoliberal economists about the nature of price reform. First, the apparently unexpected economic success of West Germany after the destruction of World War II seemed to the Chinese to be the break- through that the Great Leap Forward and Big Push Industrialization had intended, but failed to deliver. This misleading representation of spontaneous West German recovery cannot withstand critical scrutiny today, because it is by no means settled whether the cause of success was the leap in the dark or the preexisting industrial foun- dations, combined with foreign assistance.61 Nevertheless, Germany's economic boom resonated with the Chinese who were attempting to jump-start rapid economic development at the dawn of the reform era.

The second dimension of the Erhard reforms of special interest to the Chinese was the evident similarity of the two cases in the implementation of price controls. From a technical point of view, the post- war German problem was similar to that of the beginning of Chinese reforms. In both cases, chains of command and order within a centrally planned command economy had collapsed, even if for radically different reasons and in drastically different contexts. Nevertheless, in both cases, the question arose of how to create a new economic order that could allow for a greater role for market mechanisms. Since market competition required some degree of price flexibility, price flexibility quickly became a focus: How was it to be achieved, and to what degree was liberalization necessary? In this regard, the radical West German 1948 price reform was a relevant experience for China.

Third, despite the vastly different ideological contexts of postwar Germany and post–Cultural Revolution China, the ordoliberal vision of a social market economy spoke to China's debate over the compatibility between socialism and the market. The ordoliberals had insisted, rightly or wrongly, that the existence of a market economy did not necessarily entail full-fledged capitalism. As Keith Tribe has observed with regard to the Freiburg school, the ordoliberals had a "conception of economic organization that represents a genuine effort to move beyond the sterile contraposition of market to plan and vice versa."62 Those ordoliberals who visited China in the 1980s knew how to adapt their vision to the Chinese context by way of economic diplomacy.

This chapter has demonstrated that the German ordoliberals Wolfram Engels and Armin Gutowski, as well as Chicago school economist Milton Friedman, introduced the concept of the so-called Erhard Miracle to China. At the beginning of their efforts, neoliberal overtures mainly took the form of a sugarcoated case study of the postwar West German reforms. Neoliberal advice was solicited by Chinese leaders and economists who thought the German experience held lessons for China, but the West German case was increasingly transformed into a metaphor for the ostensible success of a drastic price liberalization known as the Erhard Miracle. The Erhard Miracle came to play an important role in China's fierce reform debate, mobilized as anecdotal evidence for an essentially magical solution to a complex problem. Over the course of this process, historical details, especially regarding the critical question of the range of the price reform and the continuity in controls of essential consumption goods and industrial inputs, were increasingly disregarded. The Erhard Miracle came to stand for the wonders of overnight and all-encompassing price reform as invoked by Friedman. Such a radical, one-stroke reform was repeat- edly prepared, but never implemented in China. From the mid-1980s onward, however, the group of economists who campaigned for radical price liberalization gave the Erhard Miracle a prominent place in their narrative.

As I describe elsewhere, adulation of the Erhard Miracle was once again part of the economic discussion in China in 1988, after an aborted attempt at far-ranging price reforms, when Friedman made his second visit to the country in the hope of assisting the Chinese in their final push toward a "big bang," one component of the "shock therapy" administered to Eastern Europe and Russia.63 The ordoliberals who contributed to China's search for a market reform approach were not all united in their mystification of the postwar West German experience, however. Wilhelm (Willy) Linder and Hans-Karl Schneider, who had both done extensive research on industrial prices such as energy, approached the question of what China could learn from the West German experience not from the angle of the overall eco- nomic order, but from the feasibility of liberalizing specific prices. They warned that essential industrial prices could not be abandoned without risking runaway inflation. Even the leader of the Mont Pelerin Society, Herbert Giersch, cautioned that the institutional reality in China had to be considered carefully before taking a sudden step toward wholesale liberalization.64 The warnings of prominent ordo- liberals resonated with the group of Chinese economists who sought to defend China's experimentalist, gradual reform against shock therapy. Both the proponents of shock therapy and the opponents of this approach to "big bang" marketization based themselves on the West German model. The underlying and competing interpretations of Erhard's reforms of the immediate postwar period thus returned in China's internal debates over the world-making decision to introduce the market into its economy.

NOTES

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