

Presentation on Lang Xianping and the Debate over MBO (management buyout)  
Margaret Woo

The debate over Lang Xianping brought up three questions on the issue of MBO of SOEs.

1. What's the value of privatization in economic development? They challenged the neo-liberals' assumption of private property as a key to economic efficiency
2. What about the issue of the hidden social costs? What's the relationship between "privatized enterprises" and the government? This raises the "public/private" issue. The "public" here refers to both the government and to the general public.
3. How does private interests conflict with other liberal values (i.e., accountability, legitimation, and fairness)?

### **The Value of Privatization**

1. Neoliberalism, in particular the "Washington consensus" on economic reform in developing nations, dominated economic discourse, backed by international organization and private capital. It is argued that markets are a necessary (though not a sufficient) condition for successful democracy. Market reforms that reduce the state's direct role in the economy are perceived as fundamental to the emergence of autonomous interest groups that are necessary for democracy. When imported to the developing countries, neoliberalism took the form of 国退民进
2. Neo-liberal economic reform backers all focus on 3 elements: stabilization (slow down inflation and improve state finances); liberalization (structural reforms to increase efficiency of resource allocation); and privatization of SOEs
3. Lang Xianping claims (1) SOEs are just as efficient if they employ market managers; (2) the hidden cost of MBO is borne by society; (3) the importance and feasibility of separating ownership from management as right

### **Hidden social cost (the 'public'/'private')**

Are the costs of MBOs and other likely practices of privatization outweigh the gains?  
Are there ways to have social costs borne without discrediting the whole economic reform program? Privatization leads to greater unemployment. Lang argues that such social costs should not be pushed to the public.

- need greater transparency, exchange of information; fiduciary duties
- how to prevent private monopolies from replacing public ones
- lack of financial institutions and sources of domestic capital has led to enterprises passing to the criminal 'mafia' or the 'nomenklatura' of former managers and party officials, neither of whom are likely to exercise improvements of the economic efficiency of enterprises

Are there intrinsically some areas that should remain under government ownership?  
Roads, air, water, mail? Government does better either because it is more efficient than the market, and because the principle of universal service should be held.

The `public` generally refers to organizations that we associate with state power such as government agencies; `private` refers to organizations that we associate with the pursuit of profit, such as firms, ideological goals, such as environmental organization. Civic republicanism views the state as a moral force for the common good; public choice theorists view state as “captured” by special interest groups. Thus, the fear of private powers.

**Critical legal scholars seek to erode the public/private divide as evidenced by the extent of regulation in arenas thought to be beyond the state’s reach, such as the market and the family.**

**Are there spheres that markets can’t go, inherently public?**

**Are there spheres that the state can’t go, inherently private?**

**Are there spheres that the private can’t go, inherently public?**

**Are there spheres that the public can’t go, inherently private?**

Is public control equated with public ownership? Can privatized firms still retain public control? How? For instance, the possibility of encouraging the emergence of new public institutions for the regulation of corporate behavior, and the necessity for competition law. what regulatory design is necessary especially if the enterprise is running basic services?

### **“Privatization” and Other Liberal Values**

- how to recognize and reward individual contributors (managers) – “fairness”
- how to spread out ownership to render legitimacy for privatization – “distributional concerns”
- how do we structure corporate governance so that control can go back to society and public shareholders?

Increased economic efficiency required improved corporate governance and closer scrutiny of management. But such a neo-liberal drift toward “efficiency” is also contradicted by the societal need toward wider ownership in order to legitimate privatization. There is a conflict between concentration of ownership (in order to permit effective corporate control) in the neoliberal regime and the stress on the widening of shared ownership proposed by Lang Xianping and the New Left. In Eastern Europe, intermediaries of investment funds act as intermediaries in managing holdings on behalf of individual investors. Can we hope for such a mechanism to take place in China?

.....  
**Seminar Discussion Notes**

- There is an equation of ownership with management in socialist countries like China. The quick assumption that the change of ownership produce better efficiency. There is a secondary equation between the productive motivation of the firm with the motivation of managers. There is a lack of understanding among the Chinese neo-liberal economists about the complexities of the incentives and ownership issues in modern

- Those economists also tend to use the mental model of a small firm (i.e., firm = management) and to apply it to big corporations
- There is a history of privatization in former socialist countries of centrally-planned economy. More attention needs to be paid to that literature.
- Why did China not provide clear-cut policies? Why did China always resort to piecemeal treatment? There was a debate over this issue. Kate Hartford argued that there is always a general policy direction (政策方针). It is thus problematic to say that China does not have “policies.” Jing Wang argued that such an assumption about China ignores the power of the age-old cultural discourse (因地制宜 *yindi zhiyi* `each place according to its geo-culture) and the impact of that discourse on china’s emphasis on the implementation aspect of a policy directive from Beijing rather than an explicitly defined policy. It is useless to have such a centralized policy since there has always been an expectation that those who govern each locale will have a corrective cushion to adjust the central policy directive according to specific local needs/interests. The principle of ‘each place according to its geo-culture’ is different from the simple notion of diversity (such as in the US) because the former is deeply ingrained in an **agriculture-dominant** economy to which “geography,” “soil,” “geo-culture” (靠天吃饭) matters much more than industrialized countries. The Chinese (both commoners and policy makers and rulers from the imperial times to the present) have taken that principle of flexibility for granted. One may critique this is merely a construct. One may say that such a ‘fuzzy’ attitude toward policy making is unacceptable to the rationally minded, etc. But one cannot ignore the impact of such a discourse. Jing wanted to alert those who say “China does not have ‘policies’ to the existence of some cultural factors, although she did not attribute the ‘fuzzy’ phenomenon to *yindi zhiyi* alone. What Western analysts call the ‘informal mode of policy implementation’ says “flexibility” to her.
- Edward Steinfeld argued that Chinese policies as related to SOEs, although appearing to be less coherently stated than we expected them to be, are in fact much more coherent in practice than we can tell from reading a few articles on the debate over SOEs. Things change quickly. The population of the SOEs in the category of SOEs changed from decade to decade. The general direction of the process of ‘privatization’ points to the movement/migration of state assets onto JVs and other non-state-ownership models, but the constellation of firms look different now from that in the 1980s. In other words, on-the-ground practices in China are very complex. The Chinese are very aware of the complexities and have been debating everything we academic intellectuals have thought of. For instance, who are the relevant stakeholders in a given firm? What is the hidden cost for privatizing those firms? How to formalize the shadow equity positions of a given firm? Should they be explicit about defining assets? etc. Questions like those are being discussed all the time. In short, whether the privatization process that Margaret discussed is a good or bad policy is always debatable in China. But the Chinese knew well that debates paralyze action (i.e., what is ‘transparency’? how to measure it and

how to achieve it, etc.) . So they prod on. Everything seems messy, but China moves along.

- We cannot say that China “does not have a policy” as if they didn’t know what to do and couldn’t identify the problems, etc. We can also tell that the subjective sense of well-being of the Chinese population about the switch to privatization is high.
- Suzanne Ogden came up with another explanation for the ‘wishy-washy’ policies in the sectors of law and business. Those sectors’ strategies are defensive and extremely cautious because they are afraid of making the same mistakes again. Rob Weller added that making “fuzzy” policies has a useful political function. It guarantees that no system protest from the populace would arise to challenge the central state. The state benefits by being inarticulate and inexplicit about public policies -> the notion of deliberate ‘fuzziness’