

# Acceptance of Liberal Thought in the Course of Economic Transformation: Comparative Analysis of Russia and China

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## 1. Introduction

American historian of social thought, Peter Gay says “I think it is now apparent that politics presented the enlightenment with a dilemma of heroic proportions. The philosophes stood for reform; they stood, at the same time, for freedom in its many guises – freedom of thought, speech, and the press, freedom to participate in the shaping of public policy, to pursue one’s career and realize one’s talents. Reform and freedom were for them two faces of a single hope: freedoms were among the reforms to be accomplished, reforms were among the happy consequences of freedom. But the realities tore this alliance apart: with the overpowering presence of the illiterate masses and the absence of the habit of autonomy, freedom and reform were often incompatible. Libertarians seemed to have no way of initiating reforms; the most effective among the royal reformers were self-willed paternalists who made improvements in their own way and for their own sake. The road to the realization of the philosophes’ political program thus led through the devious and embarrassing detours of repression and manipulation that were a denial or a mockery of the world they hoped to bring into being; the very methods used to distribute the fruits of enlightenment seemed calculated to frustrate enlightenment itself” (Gay, 1973, p. 497). This is an excellently clear presentation of “contradiction of enlightenment”, because it would lead us to an ironical conclusion that

the trial of enlightenment could only be realized by anti-enlightenment measures. This contradiction is one of the most important issues to remember when we examine how the imported social thought would function in a country, where deep social reforms are under way.

Here I would like to emphasize the importance of “translation”. Let us take a Japanese example in the period of Meiji (1868-1912). Many Japanese social activists, thinkers and teachers endeavored to “translate” western European notions into Japanese notions in the Meiji period. It was not only a linguistic matter. For example, the word “philosophy” was translated into Japanese “哲学” [Tetsugaku] by Amane Nishi, Japanese “philosopher”. Nishi did not only connect one European word with one Japanese word. At that time Japanese knew neither the word of “philosophy” nor the notion of “philosophy”. Of course there had been many Japanese who had thought about the structure of the universe, the relation between mind and body, meaning of life and death, etc. They, however, did not call themselves “philosopher” and the domain of their thinking was different from that of western European “philosophers”. Therefore Nishi had to “invent” a new word “Tetsugaku” by borrowing an idea from ancient Chinese classics. In this translation process, Nishi or Japanese people in general, had to experience deep intellectual struggle between the new notion and old way of thinking.

In this regard, it would be interesting to investigate the process of translation of western European notions into Russian and Chinese society in comparative perspective. Here we are very much interested in the fact that peoples speaking Indo-European languages can find out a domestic equivalent to a western European word easily. Japanese or Chinese cannot. This comparison would lead us to understand how was the contradiction of enlightenment reconciled in Russia and China.

This paper does not intend to assert that Chinese model had to be applied in Russia. It was impossible for many reasons, though Russians could have taken some lessons from Chinese experiences. The purpose of this paper is to highlight difference of the way to introduce foreign social thoughts in the two countries both in social transition and show that the difference had played an important role to produce the difference of the Russian and Chinese system today.

## 2. Foreign Advisers to Russia

As is well known, the foreign economic advisers led by Jeffrey Sachs had played a considerable role in policy making of the transition to a market economy in Russia in the first years of 90s. According to Anders Åslund, who was also a member of the Sachs team, right after Yeltsin's new government of the Russia Republic was set up in July 1991, Jeffrey Sachs proceeded to Moscow, and then Åslund followed him in November. They were given offices in the Council of Ministries located near Kremlin (Åslund, 1995, p. 19). On December 11, 1991, a meeting took place between Yeltsin, Gennady Burbulis and Yegor Gaidar on the one hand and seven foreign advisers on the other. At the meeting, Sachs talked about four important points the Russian government had to take into consideration. Among them Sachs mentioned a possibility of mobilizing \$15-20 billion per year in international financial support (Åslund, 1995, p. 333). It must have pleased Yeltsin much.

At the beginning of 1993, Boris Fedorov had become Minister of Finance and Sachs and Åslund set up the Macroeconomic and Finance Unit (MFU) at Ministry of Finance. The organization ultimately had about thirty employees, half of whom were Westerners and half Russians. They worked directly for Fedorov until Fedorov and Gaidar were compelled to leave the government in January 1994 (Åslund, 1995, p. 20).

Judging from the course of things above, the participation of the Sachs team in the policy making in Russia was half-official one and the way of their activities was not only moral support but a kind of “working together” style assistance. It is different from an example of China, where some famous American and European professors visited occasionally and held one-day lectures in universities. Therefore Sachs team's activities must have been testified by open discussion, but they have not yet been exposed to any open testimony.

Secondly, we must note the personnel contents of the advisers. In the Sachs team were included David Lipton, Marek Dabrowski, Jacek Rostowski, Andrei Shleifer, Richard Layard (Åslund, 1995, 19). Stanley Fischer, Lawrence Summers and Peter

Oppenheimer were also said to have been “valuable interlocutors” (Åslund, 1995, pp. xi-xii). On the one hand, we must note that famous Harvard professors coming to Russia had got authoritative power in the political games in Russia. Relatively long and continuous close commitment of many famous foreign scholars is the very characteristic of Russia’s efforts of transition. On the other hand, it might be an evidence of traditional charm of Russia, which attracts Westerners to go there to give help. It reminds us of the case of Leonhard Euler, German great mathematician, who was invited to the Russian Imperial Court and lived there for more than 30 years in total in the time of Enlightenment of the 18<sup>th</sup> century.

Thirdly, what they really did in Russia is still in secrecy. Åslund says, “Shleifer worked on privatization” (Åslund, 1995, p. 19). In the chapter on privatization of his book, however, he never referred to the name of Shleifer (Åslund, 1995, pp. 223-271).<sup>1</sup> On the other hand, an overall account of the Russian transformation from the Gaidar side (Gaidar, 2003), there are a very little references to Sachs and Shleifer. The problem of the secrecy of advices is important, because some of important decisions in Yeltsin’s economic transformation were not conducted by laws passed in the congress, but by presidential decrees, decisions of Council of Ministries and instructions of the central bank. It would raise a doubt that some of “good” market-oriented measures should have been imposed from above in an undemocratic way. Of course there may be another hypothesis that Gaidar, Chubais and other Russians did not listen to advisers’ words and that the advisers could not affected the policy making in Russia in the practical sphere. Therefore any tracks of concrete relation between the two sides could not be found. There are, however, some evidences of direct involvement of foreigners in the policy making of Russia. For example, Black, Kraakman, and Tarassova (2000) report the activities of legal advisers for the Russian government. They were recruited by Shleifer

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1 In another book, Åslund testifies that “the idea of voucher privatization for Russia was born at a conference at Harvard University ... in February 1992 in a conversation among Chubais’ main advisors on privatization”. Here the advisors are Maxim Boycko, Andrei Shleifer and Dmitri Vasiliev (2007a, p. 109).

and Vishny to work on the legal structure for Russia's capital markets, though they became critical to the privatization policy of Russia afterwards (pp.1733-34).

Considering the above mentioned three characteristics, the behavior of the foreign advisers to Russia can be named "Enlightenment from above". The Enlightenment from above believes power of osmosis. Shleifer writes, "Youth and novelty alone are not sufficient for enlightened views of the economy... One of the most difficult problems is how to keep young, intelligent politicians from getting confused, or from switching their ideologies away from liberalism. The only real answer is transfer of knowledge through education and training. Some education occurs by osmosis, as politicians and business people become exposed to more and more Western ideas" (Shleifer, 2005, p. 92).

Here Shleifer does not care the contradiction between educational enlightenment and "osmosis". The principles of economics can be educated easily from a foreigner. The believers of power of osmosis take it for granted that a language can be translated into another language easily.

### **3. Chinese Economists Returning Home**

The relation between economists and policy making in China is far different from the case of Russia. Uniqueness of China in this regard lies in the fact that ethnic Chinese scholars having studied abroad (mainly in the USA) have come back to Main Land China and that they deeply have been directly involved in the reform activities.

One of the leading figures of such scholars is Jinglian Wu (吳敬琏), who went to the USA to study at Yale University in 1983 when he was 53 years old. After he came back to China, he has been actively participating in the policy making process. In July 1984 he wrote a part of the report named "Reexamination of China's commodity economy under socialist system" at the Institute of Economic Studies of State Council of PRC (国务院). The report is considered as a basis for new initiative of the Communist Party of China since the third reading of the eleventh term in October 1984 (Kwan, 2007,

p. 116).

After this, J. L. Wu organized many study groups, held conferences and wrote for the Communist Party of China. It, however, does not necessarily mean that Wu is “a scholar under the government’s (or party’s) thumb”. He is a professional economist on enterprise economics, which he learned during the stay in the USA. He has been actively talking about the importance of corporate governance (Kwan, 2007, p. 121). Considering the immature situation of stock market, the importance of corruption problems, and the urgent tasks of state enterprise reform in general in China, a deep insight into corporate governance is badly necessary both theoretically and practically. He also initiated the study of “rent seeking” in China (Kwan, 2007, p. 123) and under his influence younger economists published a thorough study of rent seeking in Chinese economy in English (Ngo and Wu, 2008, p.7).

One of his influential publications, *Chinese Economic Reform Today* (Wu, 2007) is a comprehensive expression of his thought on Chinese economic reform. This book is a balanced history of economic reforms of China and unbiased explanation of disputes among Chinese economists since Deng Xiaoping. Among the disputes “the camp for urgent enterprise reform” vs. “the camp for comprehensive regulative reform” was the one which Wu himself participated in. He took sides with the latter and supported the three sphere reforms (enterprise, market system, and macroeconomic management) in a set. It was theoretical basement of Zhao Ziyang (赵紫阳)’s new policy in 1986 (Wu, 2007, pp.70-74).

Another leading figure is Justin Yifu Lin (林毅夫). He is one of the scholars of the younger generation, whereas Wu belongs to the older generation, who was born in 1930. Lin was born in Taiwan in 1952 and as an official of Taiwan Army he defected to Main Land China in 1979. After finishing Beijing University, he went to the USA and got doctorate from Chicago University in 1986. He is called the first “Returning-Home Doctor” (Kwan, 2007, p. 175).

He has been extensively publishing academic articles in leading economics journals in the USA. His study field is mainly agricultural economics and development

economics, which he studied at Chicago University under Theodore W. Schultz. One of his famous articles was published in *American Economic Review*, which treats rural economy and agriculture in China by using econometrics. This article attempted to assess the effects of the household-responsibility system since 1979 in increase of agricultural production by using the production-function approach of Avi Griliches (Lin, 1992, pp. 34-35). The main message of this article is that “the household farm has advantages of its own. Since the household farm leads to a more productive use of inputs, it may be a more appropriate institution for the growth of agriculture in developing countries, including China” (Lin, 1992, p.48).

Besides genuine academic articles, he has published policy-oriented books including *China Miracle* (Lin *et al.*, 1997), in which he attributes China’s “success” to clever application of comparative advantage of China. He also attributes “failure” of Russian and East European transition to big bang approach neglecting costs and risks. He criticizes Jeffrey Sachs for emphasizing the difference of preconditions at the beginning of the reform between China on the one hand and Eastern Europe on the other.

In short, he is a prominent supporter of the official policy line of the Chinese government: gradualism and double track system, with a prestige of Returning-Home Doctor.

It would be not fair to assert that most Returning-Home Doctors are working for and authorizing the official policies of China. For example, Zang Weiying (张维迎), who got doctorate from Oxford University, has been criticizing halfhearted official policy for privatization using modern enterprise theory. He is considered as “neoliberal” economist (Kwan, 2007, p. 259-260, p. 265-267).

The first characteristic of the relations between scholars and policy making in China is that the core members of the scholars have an experience of going to US and UK universities in 80s and came back to China usually with PhDs. Although Russians are now going to foreign universities to get PhDs,<sup>2</sup> it is impressive that the movement of

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2 New Economic School of Moscow has been actively working to help young Russians to go to the USA and Europe to take PhD courses since 1992.

studying abroad in China had begun a decade earlier than that in Russia.

Secondly, Chinese scholars write genuine scientific articles in leading academic journal in the USA and Europe, and at the same time, they give advises to the government. In Russia we don't see such examples as for "Russian" scholars. Of course, the foreign advisers to Russia had written many professional articles in academic journal, which made them famous and brought them to Russia. However, we cannot find any intellectual feedbacks from their experiences in Russia to their academic articles. Whereas there have been intercourses of theory and practices in China, for the foreign advisers to Russia, the Russian problems were as simple as introductory economics and their highly academic papers are not necessary in Russia.

Thirdly, it is interesting that we don't see any generation struggle between old and young economists in China. Economists of older generation are not necessarily "conservative" in the reform movement, and vice versa. In Russia older economists like Leonid Abalkin, Nikolai Petrakov, Oleg Bogomolov, Stanislav Shatalin were, as old believers, replaced by younger economists like Gaidar, Anatoly Chubais, Aleksandr Shokhin at the beginning of the reform. The change of composition of pro-government economists occurred under the political initiative of Yeltsin administration even before the demise of the USSR. The fact that theoretical discussions among economists have not appeared as generation struggle in China has kept the arguments from being politicized excessively.

Fourthly, some of Chinese scholars are still stubborn supporters for leftist policy, and advocates of stronger state control. Of course this is a result of political setting of China, but it has strengthened the theoretical power of mainstream economists and even neoliberals. The mainstream economists and neoliberals have been obliged to discuss with leftists on social disparity, outflows of state assets through MBO, speculative stock market and other social problems in China (Kwan, 207, p. 3), which forges their economics into more subtle combination of genuine theory and practices.

In short the Returning-Home Doctors of China have not shown an attitude of "Enlightenment from above" so much as in the case of Russia in a sense that they have



tried to discuss in an open forum at least among intellectual people and policy makers.

#### **4. What Kind of Economics?**

The word neoliberal is often used to refer to the foreign advisers or their Russian counterparts. They, however, do not have consistently pursued Chicago style or anti-Keynesian economic policy. Russian neoliberalism was “not a tightly integrated policy package, nor an intellectually cohesive economic philosophy” (Rutland, 2011, p.1). Here we investigate what kind of economics was applied to the policy advises in Russia. We are also interested in how was the situation in the case of China.

Jeffrey Sachs went to Poland and gave policy advises to the Polish government before coming to Russia. His advises are summarized in Sachs and Lipton (1990). According to them the strategy for a “leap to the market” for the Polish economic transformation includes,

- (1) The budget deficit and easy credit policies had to be ended;
- (2) Prices had to be decontrolled and subsidies eliminated;
- (3) A regime of free trade with the West had to be established in order to “import”;
- (4) Restrictions on the private sector had to be done away with and specific sectors targeted for rapid de-monopolization;
- (5) Privatization should proceed as rapidly as possible (Sachs and Lipton, 1990, p.55).

The items (1) - (4) are ordinary contents of macro stabilization measures supported by the IMF in developing countries and Latin America. It is not strange that such measures are recommended also to Russia, which was in a huge macroeconomic gap. The point was that all the measures were to be done by one stroke, which we can call neoliberal as it is on the line of Latin American experiences. Sachs positively quoted Bolivian Planning Minister Gonzalo Sanchez Lozada’s words, “If you are going to chop

off a cat's tail, do it in one strike, not bit by bit.” (Sachs & Lipton, 1990, p.56).

The item (5) can be regarded as a main factor of neoliberalism, which has been attempted in the advanced countries since Margaret Thatcher. The privatization of Russia is, however, much different from that of England. The effect of the latter would be testified by profitability and productivity of the privatized enterprise and it usually accompanies partition of enterprise. On the contrary the privatization of Russia was to be done because the core of communism had to be destroyed. Therefore the privatization in Russia was highly politicized and the advisers admitted it. Shleifer honestly confessed that the greatest impact of Russian privatization has been to undermine the influence of the old-line politicians (Shleifer, 2005, p.48).<sup>3</sup>

Another factor of advises is concerning exchange rate system. Sachs already had an experience to stabilize Bolivian economy and the key of the success was introducing nominal anchor of fixed exchange rate (Sachs, 1997). In the case of Poland, Sachs seems<sup>4</sup> to have recommended the same thing. “On the first day of 1990 the official exchange rate was devalued sharply and the zloty was made stable, convertible currency. As was hoped, the fixed exchange rate has provided an effective ‘nominal anchor,’ stabilizing the price of traded goods in zloty terms.” (Sachs & Lipton, 1990, p.56). Stanley Fischer is also a prominent supporter of idea of nominal anchor of fixed exchange rate. At a conference in Stockholm in June 1993 Fischer clearly explained the advantages of the idea and recommended it to be started since October 1993 in Russia (Fischer, 1994, pp.22-24). Sachs attended the same conference and endorsed the effectiveness of fixed exchange rate as nominal anchor (Sachs, 1994, p.51). One of the difficult tasks to introduce fixed exchange rate system is to have a considerable amount of foreign exchange to intervene in the market and keep the domestic currency stable. Therefore in order to introduce the system, much financial resources had to be borrowed

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3 Ellerman states the same thing from the totally opposite side of political thought. He regards the privatization as “tool of Cold War” (Ellerman, 1999).

4 The article of Sachs and Lipton does not explicitly states whether a policy was done by their recommendation or independent decision of the polish government.

from the IMF. The IMF was reluctant to do it at this moment.

The idea of covering budgetary deficit by issuing governmental bonds was also attributed to the advisers. At the same conference in Stockholm Fischer argued that governmental bonds should be used to cover the budgetary deficit instead of issuing paper money and that the bonds could be purchased under the stabilized economy by introducing fixed exchange rate (Fischer, 1994, pp.17-18). At a commission of Senate of US Congress Sachs criticized the IMF's "sound" fiscal policy and stated that financing a part of deficit by borrowing from abroad or issuing state bonds could lead to economic growth without inflation. Here we see a dispute between the principle of balanced budget and Keynesian oriented economics (Ernandes-Kata, 1995, p.50). If we define those people as neoliberals who refuse to accept Keynesian lax financial policy, the foreign advisers to Russia were not at all neoliberals, but rather a kind of Keynesians.

The main features of the economics of foreign advisers to Russia lie in the fact that they put highly importance on macroeconomic stabilization with a Keynesian flavor. They seem to be neoliberal in a sense that they recommended a set of stabilization measures by one stroke and in a sense that they strongly wanted thorough privatization. However, their style of policy recommendation cannot be regarded as neoliberal, nor liberal by Hayekian sense, because their recommendation was made from above without verbal discussion with stakeholders in the Russian society. Their belief in "osmosis" presumes easy translation and one-way communication.<sup>5</sup>

In the case of Chinese Returning-Home Doctors, they are generally interested in microeconomic mechanism rather than macro economy. They are interested in individual social and economic problems such as labor market, banking system, public finance, and income distribution (see Fang Cai, 2010).

As for methodology, it is impressive that they are much interested in institutional

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<sup>5</sup> We must admit that Shleifer (and his collaborator Robert Vishny) wrote many academic articles on corporate governance from his experience in Russia. In this regard, his commitment to Russia was not one-way communication (Shleifer & Vishny, 1997, Shleifer & Vishny, 1998).

economics. Among others, Steven Cheung (张五常) is famous for his contribution to new institutional economics in the world. He had studied at UCLA, University of Chicago, and University of Washington (Seattle) under Armen Alchian, Ronald Coase, and Douglass North. Since late 60s he has been publishing many articles on academic journal such as *Journal of Law and Economics*, *Journal of Political Economy* and the *Economic Journal*. The problem of property right is his lasting interest. For example, his early paper published in 1968 reads, although an impression is prevailing that sharecropping results in inefficient allocation of resources, the inefficiency argument is illusory (Cheung, 1968, p.1107). This interest would lead to his study of China's agricultural reform in the 80s. He predicted, "the responsibility contract as applied in agriculture comes very close to what in the Western world is a grant of private property in land" (Cheung, 1989, p.587). Yingyi Qian (钱颖一) is also a prominent institutional economist. Qian wrote several articles with Gerard Roland (and others) on Chinese economy. Qian and Roland (1998) and Jin, Qian and Weingast (2005) treat of the problems of local government and Federalism in China, which are key issues in comparison between the Chinese and Russian transition experiences. Qian, Roland and Xu (2006) says, "Our paper goes one step further to investigate the deeper reasons of how the pre-reform organizational differences have led different countries to pursue different strategies." This is a typical expression of the approach of institutional economics.<sup>6</sup>

Another methodological characteristic of Returning-Home Doctors is that they adopt development economics and investigate China from longer perspective. J. Y. Lin, Fang Cai (蔡昉), and Zhou Li (李周) talk about "the lessons of China's transition to a market economy," from a long perspective since 1950s until late 80s. They assert as follows. "(Some) economists argue that ... China's unique initial conditions ... have contributed to China's success. (Therefore) China's experience has no general

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6 As for the differences between the Washington Consensus and the (Evolutionary-) Institutional Perspective, see Roland (2000, pp.328-335).

implications<sup>7</sup>... (However) the system of central economic planning and its related problems in the transition economies have the same root – namely, the attempt to pursue a capital-intensive heavy-industry-oriented development strategy when economy is constrained by capital scarcity. Therefore, China’s approach to reform provides useful lessons for other transition economies” (Lin, Cai and Li, 1996, pp.201-202). Although they highly evaluate China’s experience as lessons for other economies, they do not necessarily overlook difficult challenges that China was facing at that time. “China has paid a price. Because the reform of the macropolicy environment, especially interest-rate policy, has lagged behind reforms of the micro-management institution and resource allocation mechanism, institutional arrangements in the economic system have become internally inconsistent. As a result of institutional incompatibility, rent-seeking, investment rush, and inflation have become internalized in the transition process” (Lin, Cai and Li, 1996, p.226). Their famous book *China Miracle* also describes China’s reform process in long perspective. In the book, they analyses the Chinese economic development with emphasis on international comparison and comparative advantage (Lin, Cai and Li, 1997). This shows the difference of approach between the Returning-Home Doctors of China and the foreign advisers to Russia.

The foreign advisers to Russia have been concentrating their interest on the shorter-term, macro economic problems. It is true that they were also interested in micro economic mechanism of enterprises, when they were involved in the privatization process. Their economics on the privatization process, however, is traditional, ordinary one, and their only concern was how to deal with the “conservative” opposition politically.

On the contrary, the Returning-Home Doctors have been mainly interested in micro economic mechanism and industrial structure of the national economy in longer

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7 Of course the typical argument is made by Sachs and Woo (1994). More extreme view is expressed by Vladimir Mau, who wrote, “Any appeal to turn the Chinese model implies strengthening the totalitarian character of society, and to catalyze a neo-communist reaction. (Mau, 1999, pp.7-8).

perspective. Although they have learned orthodox modern economics in the USA or Europe, they would not apply it to China directly, but tried to modify it in order to make it fit for China. In this process they have utilized institutional economics and development economics. I would call it “translation” of thoughts. In fact, they have been publishing their policy-oriented papers and books in Chinese, though they publish their academic papers in English.

This contrast reflects the difference of social structure of the two countries in the period of transition. In Russia after the dissolution of the previous political power, a large distortion appeared (or appeared to be apparent) in the macroeconomic balance. Therefore the macroeconomic stabilization was the most important task for the policy makers. In China the political power of the Communist Party has been stable in the whole period of the transition. Therefore the doctors could not alter the fundamental setting of the macro economy.

This difference would tell us the difference of the problems that the two countries are now facing. In Russia although the macroeconomic balance is barely attained by paying high price, there remain weak industrial structure except oil and gas sector, corrupt enterprise governance, and oddly shaped relation between politics and economy. In China although they have acquired modernized industries with high labor productivity, there remain a large macroeconomic imbalance and macro institutional incompatibility. Of course we cannot attribute all the problems to the foreign advisers or the Returning-Home Doctors, because the problems are rooted in the social structure of each country. However, it is not useless to examine the relation between social problems remained and advises of scholars carefully.

## **5. Knowledge of Market: Hayek in Russia and China**

In Russia one of the routes through which the western liberal thought came into was

a group of the foreign advisers.<sup>8</sup> Their attitude can be named “Enlightenment from above” in a sense that they did not worry about the contradiction of Enlightenment. In China the Returning-Home Doctors have played the same role, but their behavior did not indicate a propensity for “Enlightenment from above”, because they discussed openly and tried to adjust the western liberal thought to Chinese realities. Even in the Chinese case, however, they could not escape from the contradiction of Enlightenment. The point is the fact that the contents of the liberal thought which have had to be transferred are a set of knowledge of market.

Friedrich Hayek’s very interesting article “The Use of Knowledge in Society” reads, “The peculiar character of the problem of a rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess” (Hayek, 1948, p.77). “There is beyond question a body of very important but unorganized knowledge which cannot possibly be called scientific in the sense of knowledge of general rules: the knowledge of the particular circumstances of time and place (Hayek, 1948, p. 80). Here Hayek asserts that knowledge that would make market economy functioning rationally is embedded in a society dispersedly and that it cannot fully be described in a textbook.

Of course this assertion was made to criticize the socialist economic planning, which the socialists thought to be effective because the planer at the top with all kinds of knowledge can regulate the whole society. Although the foreign advisers might be pleased to be called Hayekian as anti-socialist activists, they are not real Hayekian because they missed to capture the core of Hayek’s social thought: use of knowledge in society.

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<sup>8</sup> Another route is a way of foreign financial institutions like IMF and World Bank. The same is true as for China. In this article I did not deal with the relation between the international financial institutions and Russia/China. See Hedlund (2001) and Uegaki (2004).

Gay pointed out that many philosophes noticed the importance of education to solve the contradiction of enlightenment (Gay, 1973, pp.497-528). The project of marketization as “enlightenment from above”, however, has fundamental difficulties in this regard, because the core part of the knowledge, knowledge of market, cannot be educated easily.

I think that one of the faults that the foreign advisers to Russia made was that they destroyed ordinary Russians’ confidence in decent western liberalism. The Shleifer scandal has made the situation worse decisively.<sup>9</sup> How can we learn about market in a decent way?

Hayek on David Hume is worth to note. “To lump together under the name of ‘enlightenment’ the French philosophers from Voltaire to Condorcet on the one hand, and the Scottish and English thinkers from Mandeville through Hume and Adam Smith to Edmund Burke on the other, is to gloss over difficulties which for the influence of these men on the next century was much more important than any superficial similarity which may exist. So far as David Hume in particular is concerned, a much truer view has recently been expressed when it was said that he ‘turned against the enlightenment its own weapons’ and undertook ‘to whittle down the claims of reason by the use of rational analysis’ (Hayek, 1967, pp.106-107). “To turn against the enlightenment its own weapons and to whittle down the claims of reason by the use of rational analysis” is the key to solve the contradiction. Hayek reminds us of Hume’s words “human convention”, by which law and moral, language and money are gradually established (Hayek, 1967, p.113). According to Hayek, Hume’s “primary aim was to account for the evolution of social institutions, and (Hume) seems to have been clearly aware that the same argument could also be used to explain the evolution of biological organisms” (Hayek, 1967, p.119). Hume’s “human convention” is more verbal phenomenon than Adam Smith’s “sympathy”. Hayek teaches us that the system of market can be leaned gradually as evolution of biological organisms by long and persevering verbal

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9 See Wedel (1998) and McClintick (2006).



communication.

Chinese Returning-Home Doctors are not so naïve to believe in automatic social “osmosis”. They knew the important message of evolutionary-institutional economics of “even in trying to copy the better models, things may go wrong” (Roland, 2000, p.329). It is important that their view on social and economic matters has been forged through the process of translation. Are they, however, free from the contradiction of enlightenment?

Here we must note the fact that political freedom and freedom of speech and press are still much more suppressed in China than in Russia.<sup>10</sup> Whereas the foreign advisers to Russia had to resort to political games in order to make their advises to be realized in an atmosphere of political vacuum and open struggle among many kinds of interest group, Chinese doctors have been living in a calm garden of academic debates. It is not self-evident if their safe status would be guaranteed for long time. When China goes to more politically free or segmented society where an extreme “left” are struggling with an extreme “right” in open media, their moderate-reformist line might be melted down. To avoid it, to read Hayek and Hume now is worth to do.<sup>11</sup>

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10 How much freedom of press is guaranteed in China now is a controversial problem. According to Zen Oh's new book, astonishingly diverse western social and philosophical thoughts have been introduced and translated in China, including Edmund Husserl, Martin Heidegger, Paul Ricoeur, Jacques Derrida, John Rawls, Friedrich Hayek, Michel Foucault, Carl Schmitt (!) etc. (Oh, 2011).

11 Introduction and translation of books and articles of Hayek had been already a “boom” in the 90s in China (Oh, 2011, pp.173-177).

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