

RHETORIC IN ELITE-LED RADICAL CHANGE: CHINA'S CAPITALIST
TRANSFORMATION FROM 1978 - 2008

by

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Abstract

This project investigates China's capitalist transformation from 1978 to 2008. While most studies emphasize structural aspects of China's market-oriented reform, such as economic, political, and cultural structures, this project examines agency of the power elites in legitimating such transformation. Elite agency is conceptualized as rhetorical creativity – innovative articulation of new realities and rationales, exploiting multiple and potentially conflicting institutional logics to legitimize change. This project focuses on the introduction and development of the Chinese stock market and explores how Chinese leaders have theorized and justified a quintessentially capitalist institution in the name of Marxist and communist ideologies. Specifically, I discuss three rhetorical dimensions of elite-led radical change. First, my analysis shows how Chinese communist leaders use casuistry to stretch the concept of communism to open up space for arguments justifying free-market practices. Second, I demonstrate how Chinese leaders engage in the institutional work of ethos construction in order to maintain credibility and trust with followers. Third, I illustrate how leaders intervene into debates and controversies by managing presumptions, thus influencing the direction and pace of the transition from plan to market.

CHAPTER 1: EXPLAINING THE CHINESE CAPITALIST TRANSFORMATION

PRELUDE

A few days ago, I was talking with a neighbor, who was born in the 1940s, and is now a Chinese immigrant living and working in Los Angeles. As a technician in his company, he was recently on a business trip to China, the country he had not visited for years. He told me that he was utterly astonished by the rising number of rich in China. A private entrepreneur he met at a banquet invested millions in building new factories, was named one of “Ten Outstanding Young Persons” in his province and, moreover, was a member of the People’s Congress in his city. “Where did all this money come from?” My neighbor was both perplexed and angry. In early years of the communist regime, the government classified his family as “landlords”, and confiscated his family land. As the offspring of a landlord he suffered discrimination in almost every aspect of his life. He is an American citizen now, yet he is furious about the fact that some indigenous Chinese private entrepreneurs have accumulated massive amounts of wealth and are now admired socially and politically for their economic achievements. “I am confused,” said my neighbor: “Isn’t the goal of the communist revolution the elimination of exploitation? If this is what China has now become, why did we have the communist revolution in the first place?” My neighbor sighed, “You are a social scientist, can you answer my question: What kind of a society is China?”

I have no simple answers for him. It is March 2009, and I have been busy working on my dissertation. Unlike him, my frequent travels to China have exposed me to the latest trends and changes in Chinese culture and society, thus I am not as overwhelmed and bewildered as my neighbor. But I am equally puzzled, and my dissertation was in fact trying to address the same set of questions that my neighbor was asking. A market-based approach, competition, private enterprise, accumulation of personal wealth – all these capitalist elements have become legitimized in China, yet China remains under the rule of the Communist Party and continues to proclaim allegiance to Marxism and communism. This transformation puzzles millions of Chinese like my neighbor and is a central topic in Western academic research.

This dissertation focuses on the rhetorical aspects of this puzzle. Specifically, the dissertation consists of six chapters. Chapter 1 outlines prior approaches to Chinese capitalism, and explains what is missing, what is problematic, and what motivates this project. Chapter 2 introduces the theoretical orientation of this dissertation, which draws on some of the approaches reviewed in Chapter 1, but adds a rhetorical movement perspective. The rhetorical movement perspective sees the reformist leaders as those that resemble social movement advocates for whom rhetoric is critical for changing the status quo. Chapter 2 describes three rhetorical requirements facing the leaders of the rhetorical movement and summarizes the corresponding rhetorical strategies they employ. This analysis serves as the starting points for the three essays that follow. The first essay, chapter 3, focuses on the first

strategy, which is the rhetorical invention in theory. The second essay, chapter 4, examines the second strategy, which is the rhetorical invention in the ethos of the speaker. The third essay, chapter 5, investigates the third strategy, which is the management of controversies. Together, the three strategies constitute a rhetorical movement, where the leaders create the space for change through casuistic stretching of definitions and logical structures, sustain the momentum through manipulating their characters and ethos, and move the action forward through orchestrating controversies that reveal deeply held presumptions and reach temporary resolutions. Chapter 6 concludes the dissertation with discussions on theoretical and empirical implications of this study for strategic leadership, institutional change, and non-Western rhetorical practices.

THE PUZZLE

Once a communist country self-isolated from the rest of the world, China has embarked on a journey of economic reform and opening up to the outside for more than thirty years. China's entry into the World Trade Organization in 2001 marked the success of its reform. Since then, China's integration into the global economy accelerated. Today's China is in sharp contrast to the China of the pre-reform era. The country now has a blossoming market economy, a vital private sector, and a vigorous entrepreneurial spirit. It would be hard to deny that China's current economy is a radical departure from the prototypical communist model. Most Western scholars regard China's economic system as a variant type of capitalism.

However, unlike most other transition economies, China continues to proclaim allegiance to Marxist and communist ideologies. Moreover, in the Western media, China is often portrayed as a totalitarian, communist regime. Popular anti-communist sentiment often describes China as a threat to Western democracy and freedom. Disagreements over what China is persist: Is China communist? Capitalist? If China is communist, then why does it adopt free market practices? If China is capitalist, what is preventing it from saying so?

This dissertation focuses on the introduction and development of the Chinese stock market and explores how a quintessentially capitalist institution has been legitimated in the name of Marxism. Adopting a stock market symbolizes that the country acknowledges the fundamental role of market in a social system, and therefore represents the most radical break with the social system characterized by central planning and command. Yet a key factor that distinguishes China's transformation from similar change in other countries is that the Chinese leadership has chosen not to break radically from established ideology. The challenge facing China's leaders is therefore to create rhetorical fidelity and credibility in the context of apparent incompatibility between communist ideology and capitalism. Rhetoric provides actors with the necessary reasons and justifications for actions. It would be impossible to understand why the Chinese leaders made the choices without understanding the rhetoric that accompanies the Chinese capitalist transformation.

ACCOUNTS OF CHINESE CAPITALISM

How to grapple with China's massive transformation is a question lying at the center of studies of contemporary China. Is Chinese capitalism distinct (Redding, 1990)? What kind of capitalism is likely to emerge in the People's Republic of China (Redding & Witt, 2007)? How to explain this extraordinary capitalist transformation (Hamilton, 2006)? What accounts for the China miracle (Huang, 2008)?

Two problems limit the value of much of the prior research. First, most studies on Chinese capitalism focus on the capitalist forms in China at a specific point in history. These studies offer a snapshot of what China looks like, but overlook the process of capitalist transformation. Failing to take a processual view on China is likely to result in studies that explain why China adopted capitalist practices at the expense of explaining how this transformation took place. Explanations of "why" are often limited by the disciplinary base of the scholars, such as economic, political, or cultural approaches.

Second, and relatedly, prior work has focused on structure rather than agency in explaining the Chinese transformation. Even when research addresses agency, it does so only by looking at the structural conditions that permit agency – it does not offer an understanding of the conduct of agency. For example, research rarely examines how Chinese themselves navigate the entangled web of the past, present, and future, and negotiate the direction, action, and authority while moving the country away from its original state.

Below I review four approaches on Chinese capitalism: (1) Weberian cultural approaches that resort to traditional Chinese belief systems to explain the origin and characteristics of Chinese capitalism; (2) economic explanations including fundamentalist market accounts and institutional economics perspectives; (3) political economic approaches that focus on state-society/government-market relations; and (4) political party-state approaches that emphasize political factions and strategic actions of the Chinese leadership.

Weberian Cultural Approaches

In *The Protestant Ethic and the Spirit of Capitalism*, Weber argues that Western capitalism has a necessary moral component and this moral component is premised on religion, specifically the doctrines of seventeenth-century Protestantism (Weber, 1958 [1904-5]). Weber tested this thesis in another text *The Religion of China: Confucianism and Taoism*, in which he compared Confucianism and Taoism against Christianity and concluded that the religions of China did not bear the necessary “spirit” for capitalism to independently emerge in China (Weber, 1951[1915]).

Many subsequent works have sought to test Weber’s theory by observing the development of East Asian countries. The logic for these studies is to identify the elements in East Asian belief systems that explain the emergence or the absence of capitalism in East Asian countries (Hamilton, 2006: 5). Based on this logic, a first generation of scholars claimed that Japan was the only non-Western nation to

industrialize quickly because of its unique religious beliefs that other Asian countries lacked (Bellah, 1957). However, when “miracles” came one after another, such as Taiwan, South Korea, Singapore, and later, China, scholars once again reviewed the philosophies and beliefs prevalent in these nations and declared that they indeed served similar roles as the Protestant ethic in the West. Gordon Redding, for example, investigated why capitalism “flourished so spectacularly among the Overseas Chinese” (Redding, 1990: 42). Based on interviews of ethnic Chinese businessmen in the countries surrounding the South China Sea, he mapped the spirit of Chinese capitalism by detailing the legacies of Chinese ideas at the level of the self, relationships, organization and society (Redding, 1990: 83). In a more recent work, Redding and Witt discussed how the culture or rationales of identity and authority, undergird organization and exchange forms that Chinese business often takes (Redding & Witt, 2007).

The Weberian research has attempted to explain Chinese capitalism by reference to “Chinese” values, beliefs, and logics of social relationships and organizations. For example, Redding (1990:43) outlines a cognitive map of Chinese values, of which Confucianism, Taoism, and Buddhism are fundamental beliefs and values; family, networks, and ethnicity are basic social structures; filial piety, collectivism/face, limited and bounded trust, and non-cooperation are main relationship rules, and work ethic, money and frugality, and pragmatism are main rules for action. This work provides a valuable foundation, but its focus on cultural

structures ignores cultural action – how these resources are utilized by actors in making social change.

Economic Explanations

Chinese capitalist development presents an interesting case for economists. There are two opposing camps. On the one hand, some transition economists highlight China's incrementalist approach and consider the Chinese reforms more successful than transition economies that adopt a shock therapy approach. On the other hand, other economists characterize China's economy as "crony capitalism" and are critical of the Chinese political system as an impediment to building genuine capitalism.

The first camp lauds the Chinese reform efforts so far for its GDP growth and relative political and social stability during the transition. The near consensus view is that China has developed a unique, country-specific model for economic reform, of which institutional innovations such as mixed ownership structures, decentralization, and selective financial controls are conducive for the transition (Stiglitz, 1999; McMillan & Naughton, 1993). For these economists, China's case indicates that economic growth need not conform to universal economic principles.

The opposing camp holds a more negative view of China's economic condition. Economists who adhere to classical economic theories consider China's economic development as a case that demonstrates what happens when free market principles are not observed. For these economists, China's growth is accompanied by

a huge amount of institutional inefficiency. The institutional innovations applauded by the first camp are seen as precisely what is preventing China from developing a form of capitalism that is similar to the Western model (Huang, 2008). For example, economist Yasheng Huang notes that what many transition economists regard as mixed ownership companies, e.g., township and village enterprises (TVEs), are in fact mostly privately owned. Huang argues that China's economic reform in the 1980s and 1990s are directionally different. In the 1980s, China more closely followed financial liberalism, which gave rise to the vital private sector and rural growth. However, the policy became much less friendly to private entrepreneurs and rural areas in the 1990s following the Tiananmen incident, which fostered corruption, a widening gap in wealth, and an unbalanced economy. Huang concludes that China's growth was successful when it fostered private property and financial liberalism, and was failing when it constrained private entrepreneurship and financial liberalization (Huang, 2008).

In economics, too, the research both critical and laudatory, focuses on prevailing structures. There is little theory or empirical curiosity for the process of institutional change.

Political Economic Approaches

Many scholars working in the area of economic sociology have focused on the relationship between the state and the market, or between the government and the private economy. Contrary to economic explanations which are anchored primarily

on the market, political economic approaches anchor the analysis on the state. States are seen as the most important institution that frame and constrain economic actions.

Peter Evans probes the role of the state in both facilitating and hindering industrialization in developing countries by undertaking a comparative study of the information technology sector in South Korea, India, and Brazil during the 1970s and 1980s (Evans, 1995). Evans argues that states are successful when they are agents of economic transformation and that this agency is most effective when the state enjoys “embedded autonomy.” Embedded autonomy gives the state a degree of corporate autonomy from social groups, while at the same time, a good working relationship with capitalists or industrial elites. Evans distinguishes four types of state roles in economic transformation: 1) custodian; 2) midwife; 3) husband; and 4) demiurge. The state as custodian provides protection, policing, and regulation. The state as midwife provides subsidies, tax breaks, and other favorable policies for certain sectors to support private enterprises. The state as husband cultivates, educates, and encourages entrepreneurial forces. The state as demiurge shapes production activities and influences the privatization of industries as they mature development. He argues that Korea is more successful than India and Brazil at facilitating the development of the IT sector because the Korean state plays the “midwifery” and “husbandry” roles, rather than the “custodian” and “demiurge” roles.

A number of organizational theorists have theorized the relation of the state to economic organizations (DiMaggio & Powell, 1983; Fligstein, 2001; Hamilton &

Biggart, 1988). In contrast to Evans' approach, which portrays the state as a concrete actor engaging in relationships, these scholars conceptualize the state as the institutional context within which firms operate. As the institutional environment, the state shapes economic actions by providing rationalized frames that account for rules of economic activities. In a comparative study of the forms of business organizations in Japan, South Korea, and Taiwan, Hamilton and Biggart (1988: 87) argue that the ruling regime in these countries all resort to "time-tested, institutionally acceptable ways of fashioning a system of political power." Specifically, they emphasize,

In each case, the first independent regime of the postwar era attempted to legitimize state power by adopting a reformulated model of imperial power of the kind that had existed before industrialization began. Such a model built on the preexisting normative expectations of political subjects and contained an ideology of rulership (Hamilton & Biggart, 1988: 87).

Political economic explanations offer a more sophisticated view on the state/business relationship than economic explanations. Some critical insights generated from this approach are that the state and the private sector have shared interests, can work cooperatively, and that the state provides legitimate rationales for economic activities. There are some unanswered questions and limitations. First, this approach portrays the state as an actor, yet offers little explanation as to what motivates the state to act in a certain manner. For example, why do some states prefer facilitating the success of private entrepreneurs, while other states view the private sector with suspicion and hostility? It is difficult to see how these approaches could answer key questions such as: why did the Chinese state adopted a favorable

policy orientation toward private enterprises in the 1980s, and reversed that direction in the 1990s?

Political Party-State Approaches

In contrast to the Weberian scholars who concentrate on ancient Chinese ideas, scholars of the political party-state approaches focus on the Chinese Communist Party and the political system established in contemporary China. Research in this area regards the trajectory of China's economic reform as shaped importantly by the strategic maneuvering of the top leadership and a negotiated consensus of political agendas within the Communist Party. While these scholars consider China an authoritarian regime and different than Western democracies, they are able to go beyond merely denouncing the regime as a nexus of power games among a few personalities, and are interested in discerning institutionalized arrangements and relationships that could lead to predictable policy outcomes.

Susan Shirk discussed the "political logic" of China's economic reform by looking into the authority relations between the Communist Party and the government, leadership incentives, bargaining arenas for policy-making, groups enfranchised in the policy process, and rules for making decisions within the bureaucratic hierarchy (Shirk, 1993). Shirk argues that China's path – economic reform without political reform – refutes the standard wisdom about the rigidity of communist systems. She concludes that China's path of economic reform is more successful than Russia's path because of two features of Chinese political institutions.

First, China's political institutions are less institutionalized than Russian ones, which gives the Chinese leaders more flexibility to reconfigure their government and party practices to policies favorable to economic reform. Second, China's authoritarian institutions characterized by "reciprocal accountability" enable China to make effective progress in at least some policy areas. In comparison, although Gorbachev established a democratic political authority in the Soviet Union version of economic reform, the democratically elected legislatures lacked the sense of responsibility that must come with authority, which led to populist immobilism (Shirk, 1993: 346-350).

Building on and extending Shirk's approach, scholars have focused on the political factions within the Communist Party. The factions are fluid and complex, but permeate Chinese politics across the different eras of party rule. For example, Lai (2006) described the Maoist (whateverist) versus the pragmatist factions during 1976 to 1978 period of transition from the Cultural Revolution to economic reform; and the reformists versus the conservatives factions during the 1978 to 1992 period of economic reform (Lai, 2006). Factional politics did not cease after 1992. Researchers observe the emergence of new factions, specifically the elitist coalition and the populist coalition, during the transition from the Jiang Zemin-Zhu Rongji regime (1989-2002) to the Hu Jintao-Wen Jiabao regime (2002-2012) (Li, 2005).

The strength of the political party-state explanations is that they detail the pattern and nature of networks and associations among top party leaders, thus focusing attention on the motives of political leaders and the reasons some politicians and social groups bind together and others divide. A fine-grained

understanding of the evolving political institutions in China helps understand policy changes.

The weakness of this approach is that it is concerned with material interests and relationships of political actors. This approach is one-sided in ignoring the contributions of symbols and language. These latter are particularly important in China, as China has a rich history of statesmanship and political maneuvering through discourse. Scholars observe that “real power in China was often displayed subtly (Pye, 1981),” and that “factional conflict was often waged in political discourse and in subtly different political terms (Baum, 1996).” Therefore, a more complete understanding of the policy process of the Chinese political institutions requires an analysis of the discourses of political actors and the symbolic meanings that are part of political action.

INSTITUTIONAL STAGES OF CHINESE CAPITALIST DEVELOPMENT

From the perspective of institutional rhetoric, the Chinese capitalist transformation has four stages of development. The monumental event for the first stage was the speech delivered by Deng Xiaoping in the Third Plenum of the Eleventh Party Congress in 1978. The transformative event for the second stage was the series of talks Deng Xiaoping gave during his southern tour in 1992. The directional turning point for the Chinese Communist Party (CCP) that started the third stage was the speech given by Jiang Zemin in the anniversary of the CCP in

2001. Finally, the year of 2004 represented the start of a new era for the image of China in the context of globalization.

1978: Declaration of Reform

The year 1978 is featured in all accounts of China's reform, when the Third Plenum of the Eleventh Party Congress was held for five days from December 18 to 22. It was a turning point for the CCP and the country. Specifically, the CCP officially abandoned the priority of class struggle, and for the first time placed economic development at the center. A few days before this Party Congress, on December 13, Deng Xiaoping delivered a speech at the Working Conference by the Central Committee of the CCP, titled "Liberalizing Thoughts, Seeking Truth from Facts, Uniting Together and Looking Forward." This speech became the keynote speech at the Party Congress. Jiang Zeming, officially regarded as the second generation of the "leading core" of the CCP and the country, said in his Report at the Fifteenth Party Congress in 1997 that this speech made by Deng Xiaoping was "the declaration of a new era." The topics that Deng covered in his speech became the fundamental guidance for policy making.

The declaration of reform by Deng Xiaoping was a decisive moment that came after two years of extreme uncertainty regarding the direction of China. In the two year period after the Cultural Revolution in 1976 and before the formal announcement of reform in 1978, the top leadership was divided into two factions, one faction was commonly referred to as the "whateverists," who attempted to

continue Mao's direction, the other faction was regarded as the "practice" camp, who advocated reform. Intensive political struggles took place at the very top of the CCP, between Deng Xiaoping and his allies, and Mao's successor Chairman Hua Guofeng and Mao's loyalists. It was only after Deng and his allies defeated and removed Hua and Mao's loyalists from the top positions of the CCP and the government that the CCP began to converge on the ideological orientation of the reformers.

The struggle between the "whateverists" and the "practice" camps is commonly regarded as the struggle that ultimately led to the transition from planned to market economy. This struggle took the form of a debate between two different ideas and ideologies. The debate was theoretical and philosophical to the extent that the Chinese describe the reform as "starting from philosophies," and that "published articles saved the country." It was astonishing how powerful one article could be. A senior Chinese journalist accurately described China in the 1980s as "idealist," "youthful," and "enlightening" (Ma, 2008). In the 1980s, the key terms were: reform, liberation, and individuality.

1992: Rectification of the Market Economy

The 1980s was characterized by a strong sense of emotion and idealism. Student demonstrations in pursuit of liberalization and progress reflected the idealist climate. However, the Tiananmen incident in 1989 backfired and was followed by the rise of reactionary forces that defended the socialist planned economy and attacked reform. Although Deng Xiaoping himself had talked about a market

economy for years, and emphasized the importance of the market economy in several speeches after 1989, Chinese leftists had been extremely critical of the adoption of market practices, charging that these practices were an ideological violation of Marxism. The top leadership of the CCP did not have a unified and clear vision about the direction of the country.

Deng Xiaoping was confronted with a dilemma. On the one hand, he disagreed with the student demonstrations which were requesting political democracy. But on the other hand, he was committed to economic reform and disagreed with the Old Left on issues about the market system. Deng Xiaoping's tour of southern China in the spring of 1992 symbolizes another important moment for the capitalist transformation of China. At the time when Deng made his tour, he had retired from all official positions in the CCP, the government, and the military. In a sense, he did not possess any formal power. However, the situation in China at the time, called for critical intervention from the paramount architect of the reform. As one senior journalist observed, the series of speeches he gave during his tour of the south in the spring of 1992 were regarded by many Chinese as the culmination of his theory; they represented Deng's most significant contributions to China's economic transformation; and they enabled a complete change in China's economic system (Ma, 2008: 154).

Deng's speeches helped turn things around. Jiang Zemin, the Chief Secretary of the Party at that time, proposed a new phrase – socialist market economy – to describe China's economic system at a speech he gave to the anniversary of the CCP

on June 9, 1992. This phrase diffused quickly, and was firmly enshrined in the Report of the Fourteenth Party Congress in October, 1992. Deng's speeches and Jiang's Report decisively set China on the road to a market system.

2001: Transformation of the CCP

Jiang Zemin succeeded Deng Xiaoping as the leading figure of the CCP and delivered the Party Report in three Party Congresses: the Fourteenth Party Congress in 1992; the Fifteenth Party Congress in 1997; and the Sixteenth Party Congress in 2002. Critics regard Jiang Zemin's speech at the anniversary of the CCP in 2001 as the most decisive (Ma, 2008). In that speech, Jiang formally articulated his theory of the "Three Represents." The most creative part of this theory is that it acknowledges the legitimacy of new social strata that accumulated significant personal wealth as a result of the reform, such as private entrepreneur, managers, and professionals. Jiang's theory provides justifications for those social groups to join the CCP. To have private entrepreneurs join the CCP represents a radical break with the principles of the CCP, since private entrepreneurs were often seen as capitalists.

Western observers commented that Jiang's speech was another version of what Khrushchev had proposed in Russia. Jiang's speech was an attempt to maintain the CCP's control by having capitalists in the Party, and that it was an important step for the CCP to move out of its class base (Ma, 2008). Domestic critics attacked Jiang's theory as surrender to private capital and a violation of the Party Constitution. Some senior Party members wrote public letters to the CCP, criticizing Jiang's

theory as a version of reformist Marxism, as capitalist, and ideologically wrong. The leftist charges did not garner much support. Jiang's theory of the "Three Represents" was featured in the Party Report in the Sixteenth Party Congress in 2002 and was also written into the Constitution of the CCP. Jiang's speech is seen as the most dramatic turning point for the CCP. It indicates the decision of the CCP to put ideology aside wherever and whenever it impeded the capitalist development of China's economic system. After this speech, China's capitalist transformation accelerated. Protection of private property was written into the Constitution and private entrepreneurs were regarded as heroes and role models.

2004: Peaceful Rise of China

The year of 2004 represented the rise of the "China model" (Zhang, 2005). The top leadership of the Party proposed the concept of the "peaceful rise" of China. Part of the idea of the "peaceful rise" was to let the rest of the world share the benefits of China's economic development. Free trade with neighboring countries was encouraged and elevated as a strategic policy. Correspondingly, the discourse of the "China miracle" was propagated by some Western commentators to counter the discourse of the "China threat."

In sum, China's capitalist transformation is characterized by a process of radical reform punctuated with periods of retraction. Over the course of 30 years, China has transformed from a socialist, centrally planned economy to a market economy deeply embedded in the global capitalist economy. Every big jump in this

transformation is preceded by extensive theorizations which provide justifications for action. The premise of this dissertation is that understanding the rhetoric of this institutional transformation is the starting point for theorizing how China has become the way it is.

NEW APPROACHES

Nascent research on Chinese rhetoric, communications and media studies represents a new perspective on China's transformation. Specifically, Kluver (1996) and Lu and Simons (2006) have offered accounts of the process and strategies by which top leadership have wrestled with the contradictions and tensions inherent in the transformation. In two influential volumes, *Media, Market, and Democracy*, and *Communication in China*, Zhao provided rich and subtle accounts of the evolving relationship between the Party, the Chinese media, and the Chinese public sphere (Zhao, 1998, 2008). My dissertation builds on this line of research, but adds an institutional lens to the story of China's capitalist transformation.

CHAPTER 2: A RHETORICAL MOVEMENT PERSPECTIVE ON ELITE-LED INSTITUTIONAL CHANGE

China's change is in no small measure the result of "institutional entrepreneurs" exercised by key, powerful actors. However, most studies of institutional entrepreneurs focus on actors who are at the periphery of the organizational field (Leblebici, Salancik, Copay, & King, 1991), are migrating from another field (Boxenbaum & Battilana, 2005), or occupy lower positions in the bureaucracy (Battilana, 2006). Actors who occupy the center and top positions of a mature field are regarded as less likely to initiate radical change. The reason is simple: actors whose authority and status are supported with current institutional arrangements have the least incentive to initiate radical institutional change, because such change may threaten their established power, positions, and legitimacy within the system. By contrast, actors who do not possess institutional authority are less bounded by existing rules, orders and justifications for the status quo, and thus it is easier for them to act as the change agent. Consistent with this insight, studies on social movements focus on movements initiated by peripheral, marginalized, and disenfranchised actors. As Gamson laments, for many social movement advocates, the only thing they have is a sense of injustice of the existing social order (Gamson, 1975). In fact, from a rhetorical perspective, these social movement advocates have a rhetorical advantage for initiating radical change, since it is rhetorically consistent for them to question the current order.

While both the institutional literature and the social movement literature suggest that actors who are at the center and top of an institution are more embedded and therefore more constrained than peripheral actors by the logics and reasons that justify the existing order, a few scholars have studied cases of institutional change led by the power holders. Institutional scholars Greenwood and Suddaby examined how the big five accounting firms decided to restructure the accounting field, noting that the top players have the advantage of being exposed to multiple fields and logics, and therefore are better positioned to perceive the need for change (Greenwood & Suddaby, 2006). Rhetorical scholar David Zarefsky studied President Johnson's War on Poverty as a rhetorical movement initiated by the political power structure, arguing for a revision of the previous wisdom that movements can only be initiated by insurgent forces of minority groups (Zarefsky, 1977).

Building on these ideas, my dissertation contributes to the study of elite-led institutional change. China's transformation demonstrates that it is possible for the power elites to change radically the social order without losing power or completely removing previous policies. To achieve such a result, the power elites must be skillful in their use of rhetoric.

ELITE AGENCY IN THE CONTEXT OF TOP-DOWN MOVEMENT

China's transformation provides an empirical site for examining how power elites use rhetoric to initiate institutional change under conditions of enormous symbolic constraint. Scholars suggest that analysis of rhetoric and discourse is

particularly useful for addressing the symbolic aspect of institutionally embedded agency (Green, 2004; Green, Li, & Nohria, 2009; Maguire, Hardy, & Lawrence, 2004; Phillips, Lawrence, & Hardy, 2004; Suddaby & Greenwood, 2005). A rhetorical perspective is uniquely suited to address the question of institutionally embedded agency because rhetoric describes how actors articulate new realities by exploiting creatively multiple and potentially conflicting premises and shared belief systems (Green, 2004; Green et al., 2009).

The perspective adopted here views rhetoric as contributing to the constitution of social reality as opposed to mere reflections of reality (Alvesson & Kärreman, 2000). As such, rhetoric is critical to the social construction of knowledge about that reality (Berger & Luckmann, 1966). Within this paradigm, I propose that elite-led institutional change assumes the characteristics of a rhetorical movement. To view institutional change as a rhetorical movement (1) highlights the rhetorical dimensions of agency demonstrated by movement actors; and (2) acknowledges that institutional change is like any movement, progressing through stages. These stages typically include initial moments, momentum, and culmination (Griffin, 1952).

Rhetorical Agency

There are many ways in which agency is manifested. This dissertation focuses on the rhetorical dimension of creativity. Based on this perspective, state actors exert agency when they use persuasion, rather than material power. This is not to suggest that the use of persuasion and material power stands in opposite. Nor is

this to claim that one cannot use material power rhetorically. Agency is rhetorical in the sense that agency resides in the actor's intention and ability to motivate.

Rhetorical agency has three characteristics that connect institutional change with movements. First, Rhetoric is an instrumental discourse aiming at persuasion (Bizzell & Herzberg, 1990; Gill & Whedbee, 1997; Herrick, 2005). Moreover, rhetoric is a mode of altering reality through mediating thought and action (Bitzer, 1968: 4). In achieving the pragmatic task of producing action or executing change in the world, the rhetor employs a discourse that engages the audience so as to effect change in the latter's thought and action (Bitzer, 1968: 4). A social movement is a collectivity that mobilizes for action to implement a program for the reconstitution of norms or values (Smelser, 1962; Turner & Killian, 1957). Combining rhetoric and movements, I use the concept of rhetorical movements to indicate a strong sense of intentionality encapsulated in language as well as an identifiable group of actors. Institutional change is the result of purposeful actors mobilizing symbolic resources to change the meaning system (Rao, Morrill, & Zald, 2000). The Chinese state actors engaged actively in persuasion to move the country from central planning to a market-based economy.

Second, theorists have argued that rhetoric is political in nature since it always aims to influence power (Bizzell & Herzberg, 1990; Gill & Whedbee, 1997). This is consistent with the conceptual implications of the movement metaphor: social life is political. Movement rhetoric is political because it participates in power conflicts. This emphasis on politics has important implications for the study of

institutional change. Institutional scholars have conceptualized institutional fields as consisting of multiple political projects undertaken by actors with varying degrees of power (Brint & Karabel, 1991; Fligstein, 1997). Fligstein argues that the ability to form a successful movement depends on political maneuvers such as the ability to build a political coalition around a collective identity (Fligstein, 1996). Strategic use of rhetoric in these activities plays an important role in successfully building coalitions and appealing to important constituencies. The Chinese state actors dealt skillfully with power struggle within the state apparatus as well as with other social groups.

Third, rhetorical movements highlight the role of audience. Like movement advocates, institutional entrepreneurs need to enlist participants and attract agreement and sympathy from the audience. They face rhetorical contingencies that impose restrictions on their strategic choices and resource mobilization techniques. The repertoire of cultural arguments that they have access to is contingent on the rhetorical situation, i.e., the expectations of audiences about what is appropriate for the rhetor to say. The Chinese state actors faced multiple audiences, including internal opposition from the top Party members, opposition from Party members lower in rank, domestic Chinese who were not a member of the Communist Party, and international audiences. The Chinese state actors had to speak to multiple audiences.

Stages of a Movement

A rhetorical movement perspective emphasizes that movement is a process, and suggests that movement has a trajectory characterized by stages with distinctive rhetorical forms. In a foundational essay on the rhetorical evolution of movements, Griffin noted that movement develops from a period of inception when rhetoric spurs the public to take notice, through a period of rhetorical crisis when opposing groups challenge previously held assumptions, and to a period of consummation when the movement efforts cease either because they have successfully achieved the goal or failed to do so (Griffin, 1952).

Since Griffin's work, many scholars have studied the rhetoric of social movements. One important insight is the recognition that movement is essentially rhetorical/symbolic (Cathcart, 1972; Simons, 1970; Wilkinson, 1976). Wilkinson defines movement as "linguaging strategies by which a significantly vocal part of an established society, experiencing together a sustained dialectical tension growing out of moral (ethical) conflict, agitate to induce cooperation in others, either directly or indirectly, thereby affecting the status quo (Wilkinson, 1976)."

Cathcart and other scholars identify confrontation as the unique rhetorical form that characterizes movement rhetoric (Cathcart, 1978; Scott & Smith, 1969). While some scholars elaborate on the moral (Burgess, 1968) or psychological (Lake, 1983) implications of confrontational rhetoric in movements, other scholars probe how oppositional arguments in a social controversy, contest taken-for-granted understandings and consequently shape legitimacy in the public sphere (Olson &

Goodnight, 1994). Here confronting each other's premises serves important cognitive functions as it disrupts institutionalized reasons.

A further extension of the study of movement rhetoric is the development of the concept of rhetorical movement. The concept of rhetorical movement allows scholars to study programs that are not conventionally regarded as social movements. Zarefsky's (1977) study of President Johnson's War on Poverty demonstrates that movements are not confined to the activities of minority or subaltern groups. Consistent with the broad definition of rhetorical movement, rhetorical theorists have examined a broad range of campaigns and institutional change, from President Clinton's rhetoric (Goodnight & Olson, 2006) to stock market bubbles (Goodnight & Green, 2008).

Rhetorical Requirements and Strategies of Elite-led Institutional Change

This dissertation uses the rhetorical movement perspective. It conceptualizes China's transformation as a rhetorical movement that re-embeds modern markets in China's communist political structure. I introduce three dimensions of this rhetorical movement, (1) argumentative space; (2) legitimate authority; and (3) oppositional arguments. These three dimensions constitute the "rhetorical requirements" for the leadership of a movement. Rhetorical requirements refer to the imperatives and functions that movement leaders must fulfill (Simons, 1970).

The first rhetorical requirement is to create the space necessary for leaders to initiate a discussion and propagate new arguments. Given that the Chinese leaders

chose to maintain the communist and Marxist ideology, the building of a capitalist stock market became a controversial act, one that cannot easily be justified. To initiate such a controversial idea, the state actors needed to first “unfreeze” the communist belief system in order to create a ground for argumentative engagements. Unless a regime wants to initiate change solely by force, it must first create space in public sphere where the taken for granted boundaries of arguments get amended.

The second rhetorical requirement is the maintenance of leaders’ own legitimate authority. This is perhaps unique for elite-led radical change. Once an argumentative space opens up, the resulting argumentative engagement becomes uncertain. It is possible that leaders’ own authority is subject to public doubt and interrogation. If leaders fail to adjust their characters and credibility to the new situations, they face the danger of completely losing legitimacy and power. Moreover, leaders may lose the momentum of the movement. Crisis, unpredictable shifts in policy orientations and instability will ensue. Therefore, to sustain the momentum of the movement, the leaders need to maintain the followers’ trust.

The third rhetorical requirement is dealing with resistance. Simons discusses how grass roots movements react to resistance by the established structure (Simons, 1970). I argue that when the establishment engages in radical change, it too must deal with resistance. Resistance may come from the within the establishment or from other social groups. Resistance may take the form of urging a return to the past, or criticizing the change as too fast, too slow, incorrect, or immoral. Failure to manage oppositional arguments in public controversies can derail the change effort.

In three essays – chapter 3, 4, and 5, I discuss discursive strategies the Chinese leadership employs to fulfill these three rhetorical requirements, respectively. Chapter 3 introduces casuistry as a rhetorical technique leaders use to create an argumentative space. The Chinese leadership invented slogans and catch phrases that linked the past with the future, the traditional with the modern, and the socialist with the capitalist. Their theorizations were sufficiently ambiguous and blended to allow for multiple interpretations. Through casuistic rhetoric, they signaled to the public their willingness to open up a space for public debate and deliberation. Casuistry enabled the Chinese leaders to create justifications that promoted radical change while remaining faithful to old principles.

Chapter 4 explores the rhetoric that leaders employed to reconstruct their character and credibility so as to maintain the trust of their audience. As the rhetorical movement progresses, leaders need to take on different ethos and character in order to sustain effective change. Aristotle’s framework of rhetorical genres suggests three generalized ethos types: the teacher, the prosecutor, and the manager. Chinese leaders adopted the rhetorical genres that are characteristic of these three ethos types in different phases of the stock market development. The rhetorical manipulation of legitimate authority helped sustain the momentum of the movement.

Chapter 5 traces three major controversies among high-profile Chinese economists during the course of the stock market development. Controversies are an enduring feature that accompanies China’s transformation; they are inevitable because opening up the argumentative space invites oppositional arguments. This

chapter discusses the topics of each controversy with the goal of identifying the progressive shift in presumptions. It is, after all, precisely this shift that constitutes institutionalization. Effective management of controversies is crucial to the process of reaching a resolution.

In this dissertation, China's Party-state actors are portrayed as the movement rhetor. This is not to say that China's transformation is the result of agency that only comes from the power elites. Many scholars have argued forcefully that China's transformation is largely the effort of millions of unknown farmers via a massive movement that is spontaneous, unorganized, and leaderless (Kelliher, 1992; Zhou, 1996; Zhu, 2007). I am sympathetic to their arguments. The emphasis of my dissertation on elite agency does not preclude their arguments. Many agents, including peasants, low-ranking Party members and bureaucrats, private entrepreneurs, journalists, and intellectuals contributed to the articulation of the visions, theories, reasons, and arguments for each step taken on the way. All of these agents are regarded as the rhetor for the movement. I use the concept of elite agency to indicate the creativity in rhetoric.

THE RISE AND INSTITUTIONALIZATION OF CHINA'S STOCK MARKET

China's stock market has its origins in informal, over-the-counter markets in mid-1980s, but Chinese citizens have started purchasing shares voluntarily as early as the year 1980 (Li, 2001). The blossoming stock markets were fueled by thousands

of companies issuing shares during 1986-1988 (Green, 2003). By 1989, it was estimated that up to 10,000 companies had issued shares (Economist, 1989). The official stock markets in China, including the Shanghai Stock Exchange and the Shenzhen Stock Exchange, opened for trading in 1990.

Deng Xiaoping, the most powerful man in China and the “General Architect” of China’s reform, was unsure how the stock market would develop when he gave his assent to build the stock market. Today, China’s stock market is one of the most successful stock markets among transitional economies. It has outperformed the markets of most other transitional economies, on the bases of standard measures of stock market performance, including the number of listed firms, market capitalization, liquidity, and fundraising capacity (Pistor & Xu, 2005; Wong, 2006). Figure 2.1 graphs changes in the Shanghai and Shenzhen stock exchanges simple average index from their start to 2005. Figure 2.2 graphs the number of IPOs and the total number of listed companies from 1990 to 2007. Table 2.1 summarizes the growth of China’s stock market since its inception.

FIGURE 2.1: Shanghai and Shenzhen Simple Average Index



FIGURE 2.2: Number of IPOs and Total Number of Listed Companies

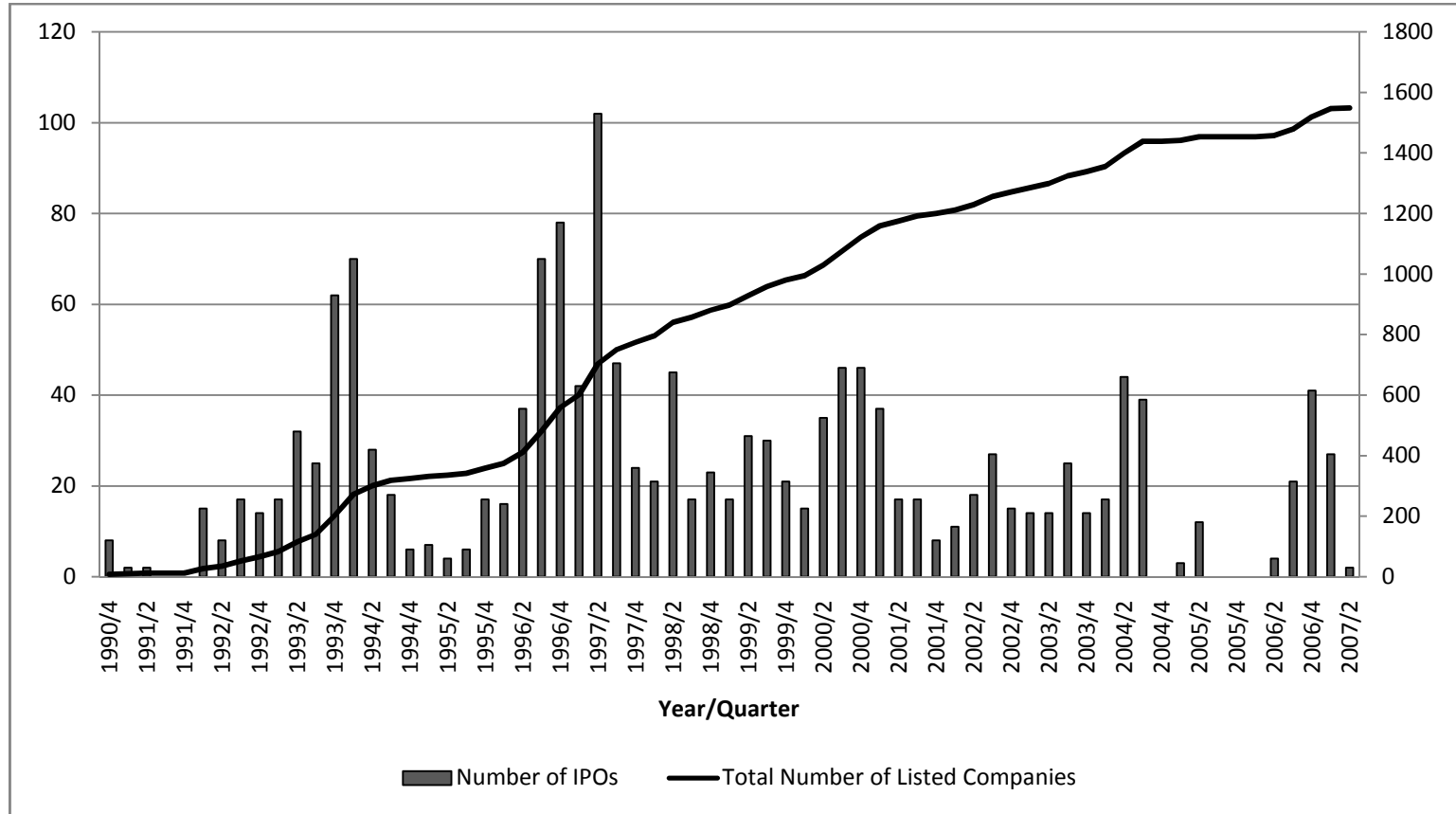


TABLE 2.1: Overview of China's Stock Market: 1990-2007

Year	No. of Listed Companies (A, B-share)	Total Amount of Capital Raised (RMB Billion)	Number of Investor Accounts (Millions)	Total Number of Shares (Billion)		Market Capitalization (RMB Billion)		Trading Volume (RMB Billion)
				Total Market	Negotiable	Total Market	Negotiable	
90	10	1.81	0.12	0.26	0.11	5.10	-	2.62
91	14	1.38	0.26	0.63	0.37	12.60	-	4.45
92	53	22.14	2.17	6.89	2.12	96.40	-	68.13
93	183	45.92	7.78	38.77	10.79	353.20	86.16	366.70
94	291	15.56	10.59	68.45	22.60	369.06	96.89	812.76
95	323	7.53	12.42	84.84	30.15	347.43	93.82	403.65
96	530	29.59	23.07	121.95	42.99	984.24	286.70	2,133.22
97	745	91.56	33.33	194.27	67.14	1,752.92	520.44	3,072.18
98	851	82.85	39.11	252.68	86.19	1,950.56	574.56	2,354.43
99	949	86.46	44.81	308.90	107.97	2,647.12	821.40	3,131.96
00	1,088	161.05	58.01	379.17	135.43	4,809.09	1,608.75	6,082.67
01	1,160	109.80	66.50	521.80	181.31	4,352.22	1,446.32	3,830.52
02	1,224	81.20	68.82	587.55	172.77	3,832.91	1,248.46	2,799.05
03	1,312	79.61	70.25	642.85	193.15	4,245.77	1,317.85	3,211.53
04	1,373	83.58	72.11	727.77	257.72	3,705.50	1,170.36	4,256.11
05	1,378	33.90	73.25	715.67	252.46	3,243.00	1,063.05	3,166.48
06	1,432	214.33	78.52	1,265.54	349.02	8,940.39	2,492.79	9,047.03
07	1,530	778.74	92.01	1,693.90	489.38	32,714.09	9,307.13	46,020.00

Although successful from today's standpoint, the institutional development of the stock market is characterized by huge price fluctuations, bubbles, and intensive administrative control. During the 1990s, the price fluctuated rapidly, which was attributed to speculative trading. The ratio of the highest to lowest values of the indices for Shanghai Stock Exchange Composite Index reached 4.88 in 1992 and 2.45 in 1996, and that ratio was 2.45 and 4.84 for Shenzhen Stock Exchange Component Index in the equivalent years. The average volatility of DJ China is 51.10 percent from 1994 to 2001, comparing to DJIA's 15.80 percent and Nikkei's 20.80 percent in the same period. That volatility is also much higher than the DJ World Emerging Market's 27.92 percent (Gao, 2002).

The price volatility in China also reflected that investors were overly sensitive to the government's administrative intervention. Many observers note that various administrative proclamations may explain well the extraordinary peaks and troughs in trajectories of the A-share indices (Ma, 2004). For example, China's reform architect Deng Xiaoping toured the prosperous southern part of China in the Spring of 1992 and spoke about "boldly speeding up China's reform" and "being committed to the stock experimentation", the stock market responded by rising fourfold in indices in five months, hitting its first price peak. After almost two years of such a bear market, on August 1, 1994, the government issued the "three clauses of market saving policies," namely, stopping new IPOs, raising capital for securities institutions, and founding fund companies. The Shanghai Stock Market Composite Index, which reached its lowest value, 325.89 on July 29, jumped to 1052.94 on

September 13, an increase of 3.23 fold in 44 days! In May 1997, both stock exchanges reached new all time highs, in anticipating the return of Hong Kong to the mainland. Many believe that government policy is the dominant factor in the movements of the Chinese stock market and the direct trigger for the bull market in 1996 and 1998 (Yao, 1998).

The government has employed a variety of administrative and economic measures to influence the market. For example, lifting the stock price limits in May 1992 caused prices to go up, approving institutional investment in the stock market in February 1993 caused prices to rise. Extending the quota of new listings and normalization of financial regulation led to a price trough in July 1994. Announcing new listings and increased quantity of government bonds issued led to prices going down in Feb 1995. Halting government bond transactions caused stock prices to jump in May 1995. Expanding outstanding shares caused prices decline in Jan 1996. Reducing the deposit interest rates pushed prices high in Nov 1996. Allowing investment of funds from insurance companies and capital of trust and investment institutions in the shares market pushed prices to reach the high points that they did in 1999. Inspecting and punishing fraudulent trading and peddling misleading information, and reducing state-owned shares had depressed the market until 2005. The government has also changed frequently the stamp tax as a measure to influence the market.

A market is “not simply an allocative mechanism but also an institutionally specific cultural system for generating and measuring value” (Friedland & Alford,

1991). In China's stock market, the price of the stocks does not reflect the underlying value of the stocks. Segmentation of the shares, government control of the quota and price of new share issuance, and the weak legal protection of investors generated rent-seeking behaviors by local governments and state-owned-enterprises (SOEs) to manipulate the market. As a result, Chinese traders bought and sold shares on the basis of speculation rather than underlying values. In China's context, the valuation of a specific stock has often little to do with the economic performance of the company, but is closely linked to how the overall market is valued. Policy discourse has actively influenced the value of the stock market.

Therefore, to understand the institutionalization of China's stock market, I aim to outline the rhetorical movement driving the market reform in general and the stock market in particular. The timeline listed here is not intended as a comprehensive list of events in relation to China's stock market. Experts in China's stock market have created many such kinds of lists (Green, 2003; Walter & Howei, 2006). Rather, my list complements theirs in that I outline the four turning points of Chinese capitalist transformation, and put together key slogans, oppositional arguments, and ritualistic events that embodied and engineered those institutional changes. Table 2.2 serves as a reference for the institutional change and its accompanying rhetoric discussed in this dissertation.

TABLE 2.2: Rhetorical Moves during China’s Capitalist Transformation

Year	Rhetoric
1978	Deng Xiaoping’s speech is the declaration of reforms
1981	Mao Zedong Thought is not Mao Zedong’s thought
1982	Planned economy as primary, market mediation as auxiliary
1982	...labor’s individual economy...are necessary and beneficial complements to the public ownership system
1983	Socialism with Chinese Characteristics
1984	Planned commodity economy
1987	Primary stage of socialism
1987	The state mediates the market, the market guides the enterprises
1987	Public ownership system has many forms: all-people ownership, collective ownership, public ownership jointly established by all-people and collective ownerships, public ownership with various regions, departments, and enterprises buying each other’s shares
1992	The debate between the conservatives and liberal reformers over whether the stock market was capitalist created uncertainty over the direction of reforms
1992	Capitalism also has planning, ...socialism also has a market. ...Both planning and market are economic means...
1992	Jiang Zemin’s slogan “Socialist Market Economy” is the declaration of China’s economic system
1992	The public ownership system is the main body, ...different economic forms can jointly operate in many ways
1996	Special Guest Commentary in the <i>People’s Daily</i> accused SOEs for manipulating stock price
1997	Public ownership system economy includes not only state-owned economy and collective economy, but also the state-owned elements and collectively-owned elements in the mixed ownership system economy.
1997	There should not be generalized statements about whether the shareholding system is public-owned or private-owned; the key is to see who has the controlling right of shares.
1999	Special Guest Commentary in the <i>People’s Daily</i> talks about action plans
2000	The debate between economists Wu Jinglian and Li Yining over whether the stock market is worse than a casino created uncertainty over the direction of reforms
2001	Private entrepreneurs can become members of CCP as representatives of the advanced production force [Jiang Zemin]
2004	The debate between economists Lang Xianping and Zhang Weiying over whether managers were abusing state assets created uncertainty over policy directions.

CHAPTER 3: CASUISTRY: MOVING FROM PLAN TO MARKET

China has orchestrated a gradual move from an economic system based on central planning to a market. Ironically, China's leaders insist this move is based on the founding principles of the country. Some believe this stated fidelity to the founding principles are simply paying lip-service to those principles. However, I argue that this claim of fidelity serves important rhetorical functions, such as providing legitimacy for change, facilitating stability, and affirming solidarity. Moreover, scholars suggests that when leaders fail to consider the importance of rhetoric in initiating change they often place the successful implementation and acceptance of new programs and practices at risk (Eccles & Nohria, 1992).

How have China's leaders created justifications for the move from a centrally planned economy to a market economy without abandoning Marxism and communism? This essay examines the move from plan to market in China's official rhetoric. Understanding how changes in symbols are correlated with changes in the material world is important because symbols, reasons, and arguments co-evolve with organizational arrangements, practices, and forms. However, studies on China's market-based reform focus mainly on changes in material factors, such as economic conditions, property rights, material resources, and network characteristics (Nee, 1992). With few exceptions scholars have emphasized material changes at the expense of symbolic changes that underlie the transition from plan to market.

This study uses the rhetorical concept of casuistry to explain the movement between two opposing institutional logics: the logic of plan to the logic of market. Casuistry is a rhetorical strategy that balances contradictions and creates new perspectives (Carlson, 1992). Kenneth Burke defines “casuistic stretching” as a rhetorical method wherein “one introduces new principles while theoretically remaining faithful to old principles” (Burke, 1984 [1937]: 229). Although casuistry is a commonly used linguistic and discursive practice, scholars have yet to develop a clear typology of casuistic practices (Jasinski, 2001: 90). To amend this shortcoming, I conducted a study of casuistic practices used by China’s leaders to justify the shift from a planned to a market economy. I identify four types of casuistry: dissociation, association, substitution, and stretching.

This study contributes to management and organization studies by outlining the ways in which rhetorical casuistry enables the shift between conflicting institutional logics. Many strategic changes in organizations are constrained by established institutional logics. Change agents faced with these constraints, yet hoping to initiate change, may choose to justify the change as a continuation or a violation of established institutional logics. When outsiders initiate radical change they often choose to dismantle established institutional logics in favor of new practices and social arrangements. In contrast, leaders or organizational incumbents often choose the continuation and extension of established institutional logics. Leaders prefer to maintain established institutional logics in order to bring about radical change and new practices while preserving those social arrangements that

protect their positional power. Although institutional scholars have studied outsider driven radical change, they have failed to explain adequately elite-led or insider driven radical change.

To rectify this problem, this paper shows how elites use casuistry to shift between radically different and conflicting institutional logics without admitting so. In a sense, elites bring about radical changes in institutional practices and logics while preserving established principles. This paper first outlines the theoretical background, followed by a section on data and method. The body of this essay contains rhetorical analysis of key concepts, catch words and phrases that Chinese leaders coined to represent the characteristics of China's market-based reform, the relationship between the state and the market, and the nature of public and private companies. My analysis shows how Chinese communist leaders use casuistry to stretch the concept of communism such that it is no longer inconsistent with free-market principles and practices. This allows communist leaders to adopt these principles without losing their legitimacy or power. Finally, this essay discusses the contribution of casuistry to the study of strategic change and institutionalization.

THEORETICAL BACKGROUND

Neoinstitutional scholars propose that institutions are conditions for diffusion (Strang & Meyer, 1994, Greenwood, Suddaby, & Hinings, 2002). While diffusion is conceptualized as the increase of density or prevalence of organizational practices, arrangements, and forms, the concept of institutions is not well-defined (Jepperson,

1991). This dissertation adopts the view that institutions are both material and symbolic (Friedland & Alford, 1991), and that the diffusion of the material practices coupled with the increased level of cognitive taken-for-grantedness indicates institutionalization (Green, 2004). The goal of this essay is not to assess the degree of institutionalization of the market in China's economic system – such assessment is beyond the scope of this essay. Rather, this essay aims to unravel the cognitive or symbolic mechanisms of institutionalization by examining the rhetorical moves in the justifications for the adoption of controversial practices in the name of orthodox beliefs and values.

There are two kinds of institutional change. The first kind of institutional change is built on the complete overthrow of the established ideology or value system. The second kind of institutional change is justified on the basis of the established ideology or value system. For various reasons, institutional entrepreneurs may choose to justify change on the basis of established ideology or a given value system. A conjecture of this essay is that the second kind of institutional change requires different rhetorical strategies than the first kind. This section specifies the conditions that call for the second type of institutional change, introduces casuistry as a theoretical construct for explaining rhetorical strategies in this type of institutional change, and examines rhetorical literature for tools that can be used to explain specific casuistic process.

Institutional Change in the Context of Contradictory Institutional Logics

Neoinstitutional scholars have introduced the concept of institutional logics, theorization, and rhetoric into the study of institutional change (Friedland & Alford, 1991; Strang & Meyer, 1994; Green, 2004). Logic is defined as “a science that deals with the principles and criteria of validity of inference and demonstration: the science of the formal principles of reasoning” (Merriam-Webster, 1998: 685). Drawing from this definition, institutional logics are the abstract principles and criteria for assessing the validity of particular theorization activities. Theorization is defined as “the abstraction of categories and the specification of relations such as the relationship between means and ends” (Strang & Meyer, 1994). Theorization refers to the activities of categorization and reasoning. Within this scheme, rhetoric is the use of language to make what is theorized persuasive.

The persuasiveness of rhetoric resides in the character of the speaker, in a certain disposition of the audience, and in the speech itself (Aristotle, 1991: 74). This essay focuses on the speech – that is, how much rhetoric enhances the validity of theorized categories or propositions based on commonly accepted principles and criteria in a particular field of activity.

When institutional change takes place in the context where the new institutional logic completely replaces the old logic as the new principle and criteria for assessing the validity of theorization, the persuasiveness of the rhetoric that conveys the theorization is assessed on the basis of the new institutional logic. However, when institutional change takes place in the context where multiple and

contradictory institutional logics are equally powerful, assessment of the validity of theorization is in question. In the case of China's market reform, the logic of market and the logic of plan both provide principles and criteria for theorizations. Within such a context, what is considered persuasive becomes a delicate negotiation between multiple institutional logics.

Casuistry and Institutional Change

This essay contends that when institutional change takes place in the context of contradictory institutional logics, the rhetoric that is used in theorization is casuistic. Casuistry as a rhetorical technique gained a pejorative reputation in the eighteenth century; it was perceived as a degenerate form of reasoning that entails moral laxity and an intention to mislead. Rhetorical scholars Toulmin and Jonsen rescued casuistry from its historical denigration and proposed to see it as a useful case-based method of decision-making for solving moral dilemmas. They argue that casuistry lies at the heart of rhetorical reasoning (Jonsen & Toulmin, 1988). Kenneth Burke regarded casuistry as a necessary and inescapable attribute of language (Burke, 1969 [1950]). He defines "casuistic stretching" as a rhetorical method wherein "one introduces new principles while theoretically remaining faithful to old principles" (Burke, 1984 [1937]: 229). Burke contends that "all 'metaphorical extension' is an aspect of casuistic stretching" and that "language owes its very existence to casuistry" (Burke, 1984 [1937]: 230).

In the context of contradictory institutional logics, casuistry functions to reconcile contradictions by using ironic strategies to mediate between terms (Carlson, 1992). “Irony arises when one tries, by the interaction of terms upon one another, to produce a *development* which uses all the terms (Burke, 1969 [1945]: 512).” Casuistry captures the ways by which institutional entrepreneurs develop new principles without jeopardizing the legitimacy of old principles.

However, except for Jonsen and Toulmin (1988), scholars have not examined various forms of casuistry. Jonsen and Toulmin’s study of casuistry is primarily based on ethical case analysis and deals with moral arguments. The interest of this study is to outline ways of casuistic stretching as a strategy that facilitate institutional change.

Forms of Casuistry

This essay answers Burke’s call for a methodological examination of casuistry. Burke (1984 [1937]: 232) states that, “The process of casuistic stretching must itself be subjected continuously to *conscious* attention. Its own resources... must be transcended by the explicit conversion of a method into a methodology. The difference between casuistry as a method and casuistry as a methodology is the difference between mystification and clarification, between the concealing of a strategy and the description of a strategy (criticism as explanation).” For Burke, casuistry was a mystery unless the ways in which casuistry works is

consciously scrutinized. The promise is that if people are methodologically conscious of the casuistry at work, then they can use it instead of being used by it.

Following Burke's call, this essay intends to examine forms of casuistry. My analysis draws from theories in argumentation, including the idea of association and dissociation in Perelman and Olbrechts-Tyteca's (1969) typology of argumentation schemes, figures of speech such as metonymy as a form of substitution, and theory of concept stretching in political science. The four types of casuistry are: (1) dissociation; (2) association; (3) substitution; and (4) stretching.

METHOD

Data

These four types of casuistry are arrived at through close reading of a selective body of text. The primary source of documents consists of reports delivered at Party Congresses from 1978 to 2007, including national congresses and plenum sessions held by the Central Committee of the Party in between the national congresses. There are six national congresses during this time period, starting from the Twelfth National Congress of the CPC in 1982, and ending with the Seventeenth National Congress of the CPC in 2007. In addition to national congresses, plenum sessions have also resulted in important, era-breaking reports. The Third Plenum of the Eleventh Party Congress in 1978 is an example; it marked the start of China's reform.

The reason for choosing this body of text is because the Party Reports contain the most important concepts and slogans, and they represent the most careful and strategic use of rhetoric by the Party. Many new slogans and phrases diffused widely within the populace at one time or another during the reform. Once they appear in Party Reports, they become *official* language. Media outlets that are Party organs would then invest a lot of attention and resource in propagating these slogans and phrases. People would adopt quickly these *official* rhetorics in their daily conversations. These new slogans and phrases subtly shape how Chinese make sense of reality. Scholars noted that the Party designs its rhetoric so as to make the maximum influence over the populace (Kluver, 1996). No doubt the Party creates these texts with the highest level of attention and ability. Therefore, tracing the rhetorical moves in these texts is important for explaining how radical change takes place without breaking up completely with established principles.

Data Analysis

The unit of analysis lies primarily at the level of concepts and slogans. Scholars of Chinese rhetoric point out that all Chinese leaders have used slogans as a rhetorical tool to push social change (Lu & Simons, 2006). The use of slogans have their roots in the Confucian concept of *zheng ming* (rectification of names). According to this idea, the rectification of a new name (e.g., slogans, catch words, set phrases) initiated by the ruler is the foundation for making new arguments and implementing new practices. Lu and Simons (2006: 267) note that the use of slogans

allow the political leaders to suggest a lot in a very few words, to allow multiple interpretations by heterogeneous audiences, and to include “code words” that convey hidden political agendas while appearing to conform to the official ideology. The four types of casuistry this research identified are all operative at the level of concepts and slogans.

THE ROAD FROM PLAN TO MARKET

Plan and Market as Organizational Forms

Many scholars have noted that China’s system is replete with hybrid forms, mixed economies, and “half-way” institutions (Hassard, Morris, & Sheehan, 2002; Nee, 1992). While some view these hybrid forms as indications of China’s incomplete institutional arrangements, others view them as new and emergent institutional forms with distinct characteristics. Scholars agree that the hybrid forms are defined by the conflicting institutional logic of plan and market (Nee, 1992; Steinfeld, 2007). In this section, I describe plan and market as two distinctive ideal types of organizations.

Whereas many western countries have socialist components, i.e., parties that have origins in the communist era, and state-owned enterprises in the economic sectors, the socialist planned economy typically refers to the Soviet model of economic development. In this model, the state owns all the means of production, and directs the centrally planned economy. As the most central and powerful actor in the economy, the central planners assume the role of allocating and distributing

resources, setting production quantities for enterprises, and determining prices for goods. Ideally, the central state guides all the production and exchange in the economy through comprehensive calculation of values of labor and goods, and efficient coordination and administration of economic activities at the national level. Practically however, countries differ in terms of the scale and scope of central planning. The former Soviet Union had a far more efficient and comprehensive centrally planned economy than China. For example, just before the start of their economic reforms, China's state sector accounted for only 24 percent of total employment and 78 percent of urban employment in 1978, compared to the former Soviet Union whose state sector accounted for 88 percent of total employment and 96 percent of urban employment in 1988(IMF, 1991; SSB, 1990). The former Soviet Union also had a far more elaborated system of national planning thanks to its more developed and sophisticated bureaucratic system. Only 791 goods were under national planning in China in 1979, compared to 1.2 million goods in the Soviet economic planning in the late 1970s (Qian & Xu, 1993).

State-owned enterprises are the principle economic entities in a socialist planned economy. Although capitalist countries have state-owned enterprises (SOEs), socialist countries are distinctive in that their SOEs are the dominant actor in the economy in terms of both size and power. SOEs account for 10 percent of the value added in the Western industrialized democracies (the member countries of the Organization for Economic Cooperation and Development (OECD), roughly 15 to 20 percent in developing countries; but in socialist countries, they account for 85

percent on average (Savas, 1992). SOEs are the embodiment of the plan at the firm level.

The difference between plan and market echoes an established tradition of scholarship in organizational theory, which regards hierarchy and market as an ideal-typical organizational form (Adler, 2001). A plan is similar to a form of hierarchy. Hierarchy uses the mechanism of authority to achieve efficiency. The market form relies on competition to optimize production and allocation. Organizational theorists have proposed a third type of organizational form, clan or community (Ouchi, 1980; Adler, 2001). In Adler's typology, hierarchy, market, and community are three dimensions from which a society takes its shape. A society that is high on hierarchy, low on market, and low on community is characterized as "state socialism." A society that is low on hierarchy, high on market, and low on community is characterized as "competitive capitalism." The pre-reform China was classified as state socialism by Western scholars (Nee, 1992). However, scholars exhibit little consensus about what China is becoming in its transition away from state socialism. How does state hierarchy and market competition relate to one another? What is the level of trust? This dissertation posits that actors' own words about their situation are a vantage point from which to begin defining a new, emergent organizational form.

Transition from Plan to Market

The literature on transition economies outlines two types of transition: the incrementalist model and the shock therapy model. Political scientists have produced

a large body of literature on practices defined by these two models, The shock therapy and incremental models differ along four attitudes toward economy: (1) uncertainty, (2) complementarities, (3) focus of reforms, and (4) the reform of state-owned enterprises (Lai, 2006). First, shock therapy advocates believe that they possess full knowledge of neoclassical economics and of market engineering, and therefore know how to build a market economy from scratch. Incremental scholars, on the other hand, admit the unknown and uncertain nature of the reform and propose to learn about reforms by regarding reforms as self-conducted experiments (Murrell, 1991; Stiglitz, 1999; Lai, 2006: 3).

Second, shock therapists view reform measures as a systemic whole and therefore insist that the reform should be comprehensive (Ickes 1990; Lipton & Sachs 1990). Incremental scholars propose that a few reform measures which target specific sectors and regions may work more efficiently (Chen, Jefferson, and Singh, 1992; Pomfret 1997; McMillan & Naughton 1993; Stiglitz 1999; Qian 2003).

Third, shock therapy advocates believe that market will develop spontaneously once these reform measures are all in place (Lipton & Sachs 1990; Wolf 1991), whereas incrementalists suggest that three aspects of the transition should constitute the focus of effort. These aspects consist of an improved incentive structure, liberalized entry and competition at the markets, and the development of institutions necessary for a market economy (Gelb, Jefferson, & Singh 1993; McMillan & Naughton 1993; Qian, 2003).

Fourth, shock therapy scholars propose that inefficient SOEs should be closed down immediately, while incrementalists maintain that SOEs can be restructured for improving performance (McMillan & Naughton 1993; Naughton, 1996; Stiglitz, 1999).

In addition, the two schools have divergent views on the role of the state in reforms. Shock therapists hold a negative view of the state's role in economic reforms, seeing the bureaucratic planning by the state as largely interventionist and instinctively conservative (Lipton & Sachs, 1990). Incrementalists see a positive and important role played by the state in guarding the markets through setting and enforcing law and norms and through securing property rights (Murrell, 1991; Stiglitz, 1999; World Bank 1997a, 2002; Roland, 2000). Incrementalists believe that a weakened state can lead to asset stripping, unrestrained grabbing hands, and economic and political anarchy (Stiglitz, 1999).

China has successfully managed its economic transition thus far compared to other transition economies. Economies that were treated to the shock therapy model all suffered a steep decline in economic output for years after their reforms. By contrast, China's economy has grown steadily at a phenomenal rate. Big bang scholars largely attribute China's success to favorable economic conditions before reforms and amicable political conditions during reforms. In contrast, incrementalists and mainstream China scholars argue that gradualist strategies and successful institutional arrangements are the key to China's success. They maintain that these evolutionary steps helped alleviate the sudden drop in economic outputs. China's

transition demonstrates the plausibility of an incremental yet persistent reform agenda.

Although the incremental model offers some explanation as to why China's transition is more successful, it ignores a critical aspect of the actual transition process: how actors have justified and legitimated the transition. As other communist countries began to abandon communism, the Chinese leadership faced difficult decisions. The Chinese leadership could have chosen not to engage in any reform, to engage in partial reform, or to completely change the color of the country. The Chinese leadership made a strategic choice to "reform and open up," and it also deliberately chose not to emulate the Russian model. This strategic choice put China in a position where there was no roadmap to follow. In a world hostile to communist ideology and with strained relationships with the former Soviet Union, the Chinese leadership had to innovate. An important element of the innovation was to find appropriate ways to unlock old assumptions and free up new premises that both facilitate reform and prevent chaos.

Transition from the Logic of Central Planning to the Logic of Market

A socialist planned economy and a capitalist market economy differ in ownership, organizational forms, and management practices. However, ideologies underlie these observable differences. Communist countries embrace Marxist ideology which denounces private ownership, exploitation, and espouses equality and emancipation. Capitalism has had a much longer existence than communism: its

religious, political, and philosophical roots connect back to the origins of modern Western civilization. As a result, practices and structures in both communist and capitalist countries are infused with values and beliefs far beyond their technical and formal properties. The process by which practices and structures acquire symbolic meanings is considered institutionalization (Selznick, 1949). The transition from communism to capitalism, therefore, involves far more than a change of organizational practices and arrangements. It involves power struggles and political strategies, changing the logic and reasoning of thousands of managers of an economy. These symbolic maneuvers depend on actors' use of rhetoric to articulate and theorize change.

Studies on the political and structural changes involved in China's transition abound, but few studies have focused on the change of outlook. Evidence suggests that change of views in transition economies is not easy. In the case of China, the transition from central planning to a market economy has undergone more than thirty years of development, replete with nation-wide, intensive debates and controversies. In the case of some other former communist countries, the transition was accompanied by military coup, execution of leaders, overthrow of government, and complete abandonment of communism.

Neoinstitutional theory explains why it is so difficult to change orientations. From the phenomenological and cognitive perspective, change is difficult because actors take for granted established understandings, and therefore do not see alternative possibilities (Zucker, 1977). In an experiment, Zucker (1977) shows that

actors who are embedded in the logic of authority are much slower in changing their view from what the authority told them to what they actually see, compared to actors who are not in an authority relationship. Institutional rhetoricians see institutions as premises that are accepted as truth with little need of justification (Green, 2004). Since these premises are taken as truth, they are seldom challenged, and remain stable. Communist ideology leads people to believe that capitalism is wrong, bad, and inefficient. Practices that characterize capitalism are therefore wrapped in these premises. It is impossible to legitimize capitalist practices without unpacking the assumptions behind these premises first.

The shock therapy and the incrementalist models represent different ways of unlocking taken-for-granted communist premises. The shock therapy model denounces communist beliefs as false, and therefore discontinues all communist practices and replace them with capitalist ones. In contrast, the incrementalist model proclaims adherence to communist premises, yet it introduces many practices that are quintessentially capitalist. The shock therapy model enjoys logical consistency as the model proposes complete abandonment of communism and the introduction of capitalism. The incrementalist model is characterized by inconsistency: it is a big stretch to justify the introduction of a market in the name of communist principles.

Scholars point out that in China, “the rhetoric of reform has been persistently and perilously dilemma-laden” (Lu & Simons, 2006). Leaders are constrained by the here-and-now situations that place specific requirements on what they say and do; they face specific problems; and there are limited numbers of strategies that they

may use to accomplish these requirements (Simons, 1970). The rhetoric that the Chinese leadership employed to justify the reform is largely a response to these dilemmas.

Coming out of the Cultural Revolution, Chinese leadership faced dilemmas at several levels. Externally, China as a nation-state faced the problem of defining its position in the world system. China as a communist country faced the task of delineating its role in the worldwide Communist movement, since China had often disagreed with the former Soviet Union on who was more faithful to Marxism. China as a political entity faced the pressure from both the former Soviet Union and the United States. In addition, China as an economic entity faced the daunting task of moving out of poverty. Internally, the Communist Party of China confronted the burden to reestablish its legitimacy in the aftermath of the Cultural Revolution initiated by Mao Zedong. Mao's focus on class struggle led the country into chaos and economic stagnation. However Mao Zedong represented the very source of legitimacy for the Party. Another dilemma came from within the Communist Party of China; significant divisions existed between reformers and conservatives, and it was unclear which faction would win.

In a context full of conflicts and contradictions, the rhetoric of the Chinese leadership bends Marxist ideology to the need for reform (Lu & Simons, 2006); it requires skillful and artful maneuver of theories to provide the ground for reform. To carry out the economic reform which inevitably introduced the logic of the market into a country dominated by socialist ideology, the political leaders had to offer

cultural frames which would help people make sense of apparent institutional contradictions. These cultural frames needed to reconcile the tensions and differences in the institutional field and offer integrated justifications for the reform. Rhetoric is important in this regard, for rhetoric is essential to the reconciliation of contradictions. As Burke (Burke, 1969 [1950]) notes, rhetoric stands at the boundaries of contradictions, serving to provide unity for things that are divided and consubstantiality when things are different. Examining the rhetoric that the state employs in legitimating the reform is important for understanding the transition from plan to market.

ANALYSIS OF CASUISTRY

This section discusses four types of casuistry that the Communist Party of China employed between 1978 and 2008: dissociation, association, substitution, and stretching. These four types of casuistry share a common denominator: the original idea is somehow changed to include new elements, yet the new idea still manages to claim fidelity to the original idea in important ways. The original concept and its initial meaning get carried through in the new language and serves important justificatory functions.

Dissociation

Practice is the sole criterion for measuring truth

Before Mao Zedong died in 1976, he appointed Hua Guofeng to be his heir. As the legitimate successor, Hua Guofeng assumed leadership. Hua Guofeng advocated a slogan, referred to as the “Two Whatever”, it reads: “whatever comrade Mao Zedong has endorsed cannot be changed; whatever comrade Mao Zedong has done cannot be changed.” This slogan is Hua’s way to secure the legitimacy of his own position as the rightful successor of Mao. The problem of this slogan, however, is that this slogan prevents any action that attempts to rectify the numerous mistakes and misrules that the Cultural Revolution created. Based on this slogan, because Mao Zedong endorsed the Cultural Revolution, the Cultural Revolution was right; because Mao Zedong discharged Deng Xiaoping from office, Deng Xiaoping should never come back to politics; because Mao Zedong appointed Hua Guofeng to be the heir, Hua Guofeng was the most rightful leader.

Deng Xiaoping is one of the top Party leaders whose relationship to Mao goes far back to the revolutionary years. He was loyal to Mao in politics, but he often disagreed with Mao on economic issues. His political life rose and fell several times. The last time Deng was discharged from his government positions, he was labeled as the “biggest Capitalist roader inside the Party.” Although Mao Zedong’s criticism of Deng Xiaoping was harsh, he did not expel him from the Party. Upon Mao’s death, Hua Guofeng assumed the top position in the Party and the country; together with some Party elders he prosecuted the “Gang of Four.” At the third Plenum of the

Tenth Central Committee of the CPC in 1977, the Party decided to resume Deng Xiaoping's positions. Although reluctant, Hua had to accept Deng back in politics.

Deng uttered his disagreement with Hua Guofeng's "Two Whatevers" in many occasions. In the speech he gave at the third Plenum of the Tenth Central Committee of the CPC, entitled *Understanding Mao Zedong Thought in Its Integrity and with Accuracy*, he emphasized Mao Zedong Thought as a system of ideas in need of accurate understanding. Furthermore, he cautioned against distorting Mao Zedong Thought by taking Mao Zedong Thought out of context. In a private conversation with Party elders, he said, "It is not right to take what comrade Mao Zedong said in one condition to apply to another condition. ... It is not possible that one's every word is correct, that one is absolutely right. ... Mao Zedong himself did not say 'whatever' (Yang, 1998: 116)."

The tension between Hua Guofeng's slogan and Deng Xiaoping's criticism burst into a nation-wide debate with an article published in 1978 entitled *Practice is the sole criterion for measuring truth*. This article triggered a theoretical debate on how to know truth and what criteria are appropriate for measuring truth. Underlying this theoretical debate was a political struggle between Mao's legitimate successor Hua Guofeng and the more reform-minded leader Deng Xiaoping. Deng Xiaoping openly supported the "practice" camp in public addresses, emphasizing that Marx, Lenin, and Mao all share the idea of the primacy of practice and the importance of practice to theory.

Deng Xiaoping's rhetoric is a form of dissociation. Dissociation renounces an opinion initially accepted by the audience by introducing a division into a concept the audience previously considered as united (van Eemeren, Grootendorst, & Henkemans, 1996: 117). The "Two Whatever's" slogan presents arguments based on the assumption that Mao Zedong's words are the ultimate truth and incontestable. At that time, it was too risky politically and ideologically to refute directly this assumption and claim instead that Mao Zedong does not represent truth. Such a claim would agitate the audience, of which many were Mao's stalwarts. As argumentation scholars point out, "the crucial thing is that the newly introduced dissociation should be acceptable to the audience that the speaker wishes to reach (van Eemeren, Grootendorst, & Henkemans, 1996: 118)." By focusing the question on the criteria for measuring truth, Deng introduced a subtle division between Mao and truth. This division has significant ramifications. The new emphasis on practice as the sole criterion for measuring truth was a powerful message that replaced the assertion which equated Mao with truth. First, Deng pointed out that a central element of Mao Zedong's thoughts was to seek truth on the basis of facts. Mao Zedong himself criticized dogmatism extensively. Mao espoused the idea that one should do field research in order to determine what was going on. Second, Deng reminded his audience that Mao openly acknowledged that was not always right. Deng emphasized the importance to understand Mao Zedong's words from a holistic perspective and to interpret Mao's specific arguments within their original contexts in order to avoid distortion. The very point that Mao Zedong's words could be

distorted is a bold step toward dissociating Mao from truth. It was a liberating argument at that time, especially considering that people had to cite Mao Zedong's words before any daily activity during the height of the Cultural Revolution.

Deng and reform-minded leaders used the casuistic practice of dissociation to separate Mao from truth while upholding Mao's own arguments. The refutation of the "Two Whatevers" slogan and the establishment of the new slogan – that is, "practice is the sole criterion for measuring truth," set up the tone for further dissociating China's future from the policies set up by Mao and the Cultural Revolution.

Mao Zedong Thought is not Mao Zedong's thought

In China's official political discourse, "Mao Zedong Thought" is one of three theoretical sources of the Communist Party of China, along with Marxism and Leninism. As the Cultural Revolution ended with Mao's death and the prosecution of the "Gang of Four," the Communist Party of China faced the requirement of proffering an official discourse on how the Party sees the position of Mao. There are several alternatives. A model is how the Soviet Communist Party treated Stalin after he died. In 1956, three years after Stalin's death, Nikita Khrushchev denounced Stalin for his transgressions in a "secret report" to the Communist Party's Twentieth Congress. Stalin's status was completely overturned. Another standpoint the CPC could take is to avoid talking about Mao's role in the Cultural Revolution and continue to enshrine Mao as the flawless founder and savior of communist China.

Mao Zedong Thought was elevated officially as the guiding theory of the Communist Party of China at the Seventh National Congress of the CPC in 1945. It was taken out from the Party Constitution at the Eighth National Party Congress in 1956, following the wave of thought that advocated liberation of thoughts and objection to idolization. In 1969, three years into the Cultural Revolution, Mao Zedong Thought was once again written into the Party Constitution as the guiding thought of the Party at the Ninth National Congress of the CPC.

The Communist Party of China faced a dilemma: Mao Zedong was a major source of legitimacy for the Party, yet Mao's initiation of the Cultural Revolution was disastrous. If the Party completely turned Mao upside down, the Party would have to face the problem of justifying its own legitimacy. On the contrary, if the Party was completely blind to Mao's mistakes, it would have to deal with dissent from the People. In this context, the CPC passed a *Resolution on some historical issues about the CPC after the founding of the PRC* in 1981. The *Resolution* articulates how the Party sees Mao Zedong. It says that although Mao Zedong made significant mistakes later in his life, his contribution is foremost and his mistake is secondary.

Based on the *Resolution*, Mao Zedong was no longer the perfect figure embodying legitimacy for the Communist Party of China. But the Party did not abandon the phrase "Mao Zedong Thought." Instead, the *Resolution* dissociates the concept "Mao Zedong Thought" from its taken for granted meaning. When the concept Mao Zedong Thought was first mentioned by Party theorist Liu Jiaxiang in

1943 and then by top Party official Liu Shaoqi in 1945, it indicated the thoughts of Mao Zedong himself. In contrast, the *Resolution* defines Mao Zedong Thought as the collective thoughts of members of the Communist Party of China. It specifies that not all Mao Zedong's individual thoughts are Mao Zedong Thought, clarifying further that most of Mao Zedong's thoughts later in his life are in fact not Mao Zedong Thought. This definition of Mao Zedong Thought becomes the official discourse of the Party. Below is a paragraph in the Party Constitution passed at the Seventeenth National Congress of the CPC in 2007:

The Chinese Communists, with Comrade Mao Zedong as their chief representative, created **Mao Zedong Thought** by integrating the basic tenets of Marxism-Leninism with the concrete practice of the Chinese revolution. **Mao Zedong Thought** is Marxism-Leninism applied and developed in China; it consists of a body of theoretical principles concerning the revolution and construction in China and a summary of experience therein, both of which have been proved correct by practice; and it represents the crystallized, collective wisdom of the Communist Party of China.

This dissociation of Mao Zedong Thought from Mao Zedong's individual thoughts is a rhetorical innovation. "Dissociation consists in letting existing wholes disintegrate and separating elements previously regarded as a unit (Perelman & Olbrechts-Tyteca, 1969; van Eemeren, Grootendorst, & Henkemans, 1996: 106)." Based on argumentation theory, "The process of dissociation entails the introduction of a division into a concept that audience previously regarded as constituting a single entity (van Eemeren, Grootendorst, & Henkemans, 1996: 117)."

The Party's rhetorical dissociation serves the arguer's purposes in two ways. First, dissociation changes the original meaning of the concept and introduces a differentiation within the original concept. The Party used this differentiation to create some degree of consistency of its orientation: the Party denounced the Cultural Revolution initiated by Mao, therefore the Party should no longer consider Mao's thoughts as the guiding thought of the Party. Second, dissociation allows the Party to keep Mao Zedong in its Constitution. The name Mao Zedong serves important symbolic functions as Mao Zedong is undeniably the most central figure of the Party, and the removal of the name would have generated doubts about changes in Party orientations. Dissociation serves to justify the legitimacy of the Party. Since the Party still regards Mao's contribution as primary, it is inappropriate to remove Mao completely from the Constitution. But the Party also sees Mao as someone who made mistakes based on wrong thoughts, so it is inappropriate to enshrine every thought that Mao expressed. The casuistic practice of dissociation allows the Party to maintain Mao Zedong Thought as the guiding principle of the Party, yet to change significantly what Mao Zedong Thought includes and excludes.

Association

Socialism with Chinese Characteristics

Deng Xiaoping and other reformers employed dissociation to separate truth and the guiding principles of the Party from Mao Zedong. These dissociations are

important because Mao Zedong's dogma was an ideological hurdle for China to change policy directions.

Dissociation of established slogans is not sufficient for moving the reform forward. Deng as the paramount leader "was rhetorically required to provide a new slogan that would indicate a departure from the Maoist idealist/utopian path, and yet still legitimize the Party's rule" (Lu & Simons, 2006: 270-271). The new slogan is "Socialism with Chinese Characteristics." It first appeared in a speech given by Deng in 1983. In 1987, the slogan appeared in the Party Report of the Thirteenth National Congress of the CPC, titled *Marching on the road of socialism with Chinese characteristics*, delivered by Zhao Ziyang, the General Secretary of the Party. Over the years, "Socialism with Chinese Characteristics" has appeared in all Party Reports of National Congresses, including the Fourteenth, Fifteenth, Sixteenth, and Seventeenth National Congresses of the CPC in 1992, 1997, 2002, and 2007, respectively. Using the same slogan in five consecutive Party Reports over the span of twenty years is unprecedented in the history of the Party; it testifies the centrality of this slogan to the new orientation of the Party. .

This slogan combines two concepts that belong to two different categories: socialism belongs to the category of social systems, and China belongs to the category of country's names. "Association consists in unifying elements into a single whole by bringing together elements which were previously regarded as separate (van Eemeren, Grootendorst, & Henkemans, 1996: 106)." Before the coinage of this slogan, the word socialism was most commonly used to describe the nature of China,

but the word China was never used to modify socialism. This combination of socialism and China undeniably creates a novel sense of existence. First, it suggests that China is different from socialism, because otherwise there would be no need to bring China into the slogan. Juxtaposing China with socialism brings out immediately many connotations of the word China: China's experience with imperialism, colonialism, its current backward economy, and its glorious imperial past. Combining China and socialism in fact triggers all the properties and memories of China that are not socialist. Second, it indicates that socialism is not unitary, but consists of many variations. Deng pointed out that China encountered many problems because it mimicked the Soviet model of socialism. He believed that neither the Stalin model nor the Mao model was successful, and that China should break away from the Soviet model and denounce the Cultural Revolution (Deng, 1993: 261).

The five Party Reports interpret carefully this slogan as the central theory of Deng Xiaoping and the guiding mantra of the Party. These interpretations introduce several new elements into the slogan. First, a theoretical innovation predicated on this slogan is the theory on the "Primary Stage of Socialism." The report of the Thirteenth National Congress of the CPC in 1987 claimed, "To understand correctly the historical stage that our society is currently in is the primary issue for building socialism with Chinese characteristics, and is the fundamental basis for us to plan and implement correct orientation and policies." The correct understanding of China's current historical stage is what the Party named the "Primary Stage of

Socialism.” According to the 1987 Party Report, “Building socialism in a backward oriental country like China is a new project in the development of Marxism. The conditions we face are not the socialism that is built on highly advanced capitalism that the founders of Marxism envisioned, nor are they the same with other socialist countries.” The Report went on to say that China made mistakes and suffered severe consequences since late 1950s because of policies made under the influence of the leftist tendency. The Report reasoned that these mistakes were due to an incorrect understanding of the historical stage that China found itself in. The 1987 Party Report defined this historical stage:

It is not a generalized concept that points to the initial stage that any country entering socialism will undergo. It is a specific concept that points to the special stage that our country has to undergo as we build socialism under the conditions of backward production force and undeveloped commodity economy. It will take at least a hundred years for our country to go from completing the socialist reform of the private ownership of production materials in the 1950s to accomplishing socialist modernization, this all belong to the **primary stage of socialism**. This stage is different from the transitioning period when the economic foundation of socialism is still not built; it is also different from the stage where socialist modernization has been realized. The principle contradiction facing our stage is the contradiction between people’s growing material and cultural needs and the backward social production. Class struggle will still exist for a long time at some degree, but it is no longer the principle contradiction. In order to solve the contradiction of the current stage, we must greatly develop commodity economy, increase the efficiency of labor production, gradually accomplish the modernization of industry, agriculture, national defense and science and technology, and we must reform the part of production relations and super-structure that do not fit the development of the production force.

As Kluver (1996: 72) notes, the Party introduces the theoretical innovation of the “primary stage of socialism” in order to reformulate ideological orthodoxy while simultaneously maintaining the vision of the national myth – achieving socialist

modernization. The insertion of a well-theorized historical stage into China's socialist program provides the basis for the association between socialism and China in Deng's slogan. These two concepts were combined into a new unified concept, indicating and representing a specific historical moment with well-defined principles, goals, and characteristics.

A second core element of this slogan is an ideological basis for economic reform. The term "Chinese characteristics" invokes an undeveloped production force, backward production relations, and an ill-structured economy. Using "Chinese characteristics" to modify socialism stimulates a sense of urgency for taking greater steps of reform in order to advance China's economic system. The 1987 Party Report emphasized this sense of urgency:

First, we must focus our effort on modernization. The fundamental task of socialist societies is to advance production force. At the **primary stage, in order to lift ourselves out of poverty and backwardness, it is especially needed to regard the advancement of production force as the center of all the work.** Whether something is beneficial to advancing the production force should be the starting point when we think about every problem and the fundamental criterion to measure all the work.

Second, we must insist on comprehensive reform. Socialism is a society that marches along reforms. At the **primary stage, especially at the current time, reform becomes an even more urgent need, because the system has been ossified for a long time and is severely constraining the advancement of production force.**

In sum, the slogan "Socialism with Chinese Characteristics" created a new banner under which many practices prohibited in the prior era were permitted, such as the de-collectivization of farms, development of town and village enterprises and private

enterprises, creation of special economic zones, and even the establishment of a stock market. Moreover, this slogan allowed China to maintain allegiance to the socialist ideology.

Substitution: Zebra and Painted Horses

Slogans like “practice is the sole criterion for measuring truth” and “socialism with Chinese characteristics” created the rhetorical flexibility for China to move away from the myth of Mao and toward something that resembles a market economy. However, it took fourteen years for the Party to employ officially the concept “market economy” in its Party Report. Between 1978, when the economic reform first started, and 1992, when Jiang Zemin defined China’s economy as a “socialist market economy,” the Party employed a series of slogans to label and describe China’s economic system. Each new slogan consists of elements associated with the logic of plan and elements connected to the logic of the market. Each time when an old slogan was replaced by a new one, the society seemed to move a step away from the logic of plan and toward the logic of market.

The phrase “socialist market economy” first appeared in the 1992 Party report delivered at the Fourteenth National Congress of the CPC by the second generation of Party representative Jiang Zemin. Jiang claimed that “[T]he objective of economic reform is ...to establish and improve the system of the socialist market economy.” The 1997, 2002, and 2007 Party Reports all referenced the event of the Fourteenth Party Congress, regarding Jiang’s official coinage of this phrase as a

significant and history-defining moment in China's economic reform. Specifically, the 1997 Party Report called the establishment of the socialist market economy one of three far-reaching policies the Fourteenth Party Congress made. The 2002 Party Report further elaborated on the significance of this slogan:

The Fourteenth National Congress of the CPC established the system of **socialist market economy** as the objective of the reform, and consequently, reform and open up and modernization entered a new stage. To develop **market economy** under socialist conditions is a great innovation that is unprecedented, is a historic contribution that Chinese Communist Party members made to the development of Marxism, and embodies the great courage of our Party to insist on theoretical innovation and keeping up with time. The change from the system of planned economy to the system of **socialist market economy** represents a new historic breakthrough of the reform and open-up, and paves the way for new achievements in our country's economic, political and cultural development.

Since its first appearance in 1992, socialist market economy as the overarching slogan has been firmly ensconced in the official rhetoric of China's economy system.

But why does it take so long for Chinese leaders to use "market economy" in the official language? The main hurdle is legitimacy. According to Wu Jinglian, a renowned economist and intellectual in China, the phrase "market economy" was brought up as early as 1978 in a conference held by the State Council to discuss economic reform (Wu, 1992). In that conference, some economists proposed to describe the economy as "a combination of planned economy and market economy." But the proposition was denied. Wu (1992) laid out three concerns. First, many people considered market economy and capitalism synonyms, just as they saw planned economy and socialism as synonyms. Hence the phrase market economy

symbolized an ideological violation. Second, the government was concerned that endorsing a market economy would mean the domination of the economy by unregulated forces of the market and the subordination of government's role in production. Third, many objected the usage of market economy in official language on the basis that its reliance on the price mechanism would lead to polarization of the rich and the poor, a contradiction to socialist principles. These concerns indicated that "market economy" carried considerate negative connotation during the early years of economic reform.

How does this ideologically sanctioned phrase make its way into the official language? Zhang Weiyong, an important economist and currently the Dean of Guanghua Management School at Beijing University, conjured up an allegory that best captures how the top leadership transformed symbolically China's economic system from plan to market. It is a story about zebras and horses.

The story involves a village which uses horses as its primary work animal. In this allegorical world, horses are creatures that complain unrelentingly and demand food insatiably, yet provide little labor in return. In contrast, zebras are just the opposite kind of animals – efficient, tireless, and loyal. After many years of using horses as the primary work animals, poor results led the village chiefs to realize that it would be better for the village if horses could somehow be replaced by zebras. However, this is not a small change. The village heads had been extolling the virtues of horses and condemning the vices of zebras, and in fact, they had elevated horses to mark the road to salvation, and zebras the path to perdition. Not only had their

legitimacy been staked on the contrast between horses and zebras, the villagers had also come to accept that horses were right and zebras were wrong, whether through indoctrination, fear, or just force of habit.

The solution that the village chiefs came up with required delicate work and patience. Every night under the cover of darkness, a few villagers began painting black strips on a few of the village horses. Each morning everyone was surprised at seeing these animals, but were repeatedly assured that these were indeed their own horses with a few harmless stripes painted on. As nights go by, more and more horses were painted, but with all the painting going on, everybody was still assured that these were certainly horses, not zebras.

After people became accustomed to life among these painted horses, the leaders made another move. Again, under the cover of night, they began replacing a few painted horses with real zebras. Zebras quickly proved their worth in the field, and village life clearly improved as a result. But all the while, the leadership maintained that these zebras were just horses, albeit with artfully applied strips. Gradually people become accustomed to life with real zebras, and they started to conclude that these animals might indeed be zebras, and that zebras were not so bad after all. Only after another long interval, well after all the horses had been replaced, and well after many seasons of prosperity had passed, did the leaders gather the citizenry and proclaim officially that this was a village of zebras, that zebras were good, and that horses were bad.

The switch from horses to zebras represents crucial aspects of economic reform in China's transition from a planned economy to a market-based economy. The painting of horses into zebras deserves particular attention. As an allegory, this story resonates with the incremental model's emphasis on the characteristics of gradualism and pragmatism (Ash, 1988; Child, 1994; Fan & Nolan, 1994; McMillan & Naughton, 1992; Naughton, 1995; Pye, 1988; Rawski, 1999). Central to the process of gradual, incremental, and pragmatic reform is the concept of "painted horses." Horses are not replaced directly with zebras, rather, the painted horses served as a bridge that nurtured the cognitive acceptance that is crucial for institutional transition. As Zhang Weiyong (Zhang, 2000) later noted, the leaders invoked two reasons to justify the painting of horses. First, historically speaking, at the start of the reform, there was no real zebras, only horses, therefore, painting strips on horses to make them look like zebras was the only thing the leaders could do. Second, even if the leaders got a real zebra, other members in their families may not have liked them. They may have complained that their horses had been replaced with zebras. Therefore, the leaders had to start by painting horses, because they had to reassure people of the nature of these animals, namely, they are horses, not zebras.

Painting horses into zebras is a powerful strategy in purposive institutional transition. These painted horses represent the transitioning necessary to make the switch occur smoothly without direct confrontation. Replacing horses directly with zebras risked engendering strong resistance. Zebras lacked legitimacy in the existing system for they had been long regarded as evil animals. Painting horses with Zebra-

like strips, however, can effectively fend off accusations by horse-lovers because the reformers can always defend themselves by saying that these animals are nothing but decorated horses. Therefore, painted horses allowed the reformers to introduce something new and controversial, i.e., the image of zebras, while at the same time maintaining allegiance to the established doctrine. By insisting that these painted horses were nothing but horses with some artfully applied strips, reformers evaded any direct attack as a consequence of having initiated changes in the fundamental principles that bind the community together, thus avoided confrontation on a moral basis. Yet in the mean time, the strips painted on horses would subtly and gradually change the way people viewed zebras. Although these painted horses shocked the people with their zebra like appearance at first, their continued presence helped them to develop familiarity with and acceptance of the image of a zebra. In other words, the painted horses helped to contain any possible objection or offense that real zebras may have generated, while at the same time creating an artifact that invited alternative and potentially contradictory explanations. Furthermore, it was assumed that the painted horses would generate little resistance when they were replaced by real zebras, since no one could differentiate between them. Another critical moment in the chain of events is when the replacement of painted horses with real zebras resulted in noticeable improvements. At this point, pragmatic considerations rise to equal importance with, if not outweighing, the concern for moral legitimacy, and even the opponents would find little ground for launching an attack on the basis of which animals were “right” or “wrong”.

This story is telling on multiple levels. It demonstrates the delicate situations that the leaders faced when initiating purposive transition from one institutional logic to another. Specifically, legitimacy is a formidable barrier, and leaders can only overcome the problem of people not seeing the zebras as legitimate gradually and with careful maneuver. The “painting” was intended to shape people’s perceptions and acceptance of zebras, an embodiment of a new institutional logic.

Several “painted horses” were used to bridge China’s transition from plan to market. These “painted horses” include such phrases as “planned economy as primary, and market mediation as auxiliary” in 1982, “planned commodity economy” in 1984, “the state mediates the market, the market guides the enterprises” in 1987, and finally, “socialist market economy” in 1992. Each phrase represents a significant redefinition of the relationship between plan and market, and thus a move away from plan and toward market. Below is a presentation of these casuistic moves.

At the historic Third Plenum of the Eleventh Central Committee of the CPC in 1978, the Party declared the change of focus from class struggle to economic reform, but the reform attempt had not been associated with a slogan. Five years later, at the Twelfth National Congress of the CPC in 1982, the Report still called China’s economic system a “planned economy,” although it started to define the relationship between plan and market:

On the issue of correctly implementing the principle of having the **planned economy as primary, and market mediation as auxiliary**:
Our country is planned economy on the basis of public ownership. Planned production and circulation is the primary body of our country’s economy. In

the mean time, for the production and circulation of some products, it is permitted to use **market adjustment** instead of plan. In other words, based on the specific condition at different times, the state will designate a certain scope through central planning, and **the price mechanism** can spontaneously play a mediating role. The latter part is supplementary to the planned production and circulation; it is subordinate, secondary, but also necessary and beneficial.

In this Party Report, planned economy is clearly the dominant form, and the role of the market is to adjust and mediate within the boundary delimited by central planning. The relationship between plan and market is best exemplified in a theory put forth by Chen Yun, one of the Party elders and an economist. Chen has a famous theory called the “bird cage economy.” The bird signifies the market. The cage represents the planned economy. The bird can fly freely but only inside the cage.

While Chen Yun’s idea was popular at the time, Deng Xiaoping was inclined to a more radical approach. As early as 1980, the State Commission for Restructuring the Economic System, a think-tank of the premier, described China’s economy as a “commodity economy” in a document. Using “commodity economy” acknowledges that many household goods are commodities and thus tradable in markets with currency. The proposition to label China’s economic system as a commodity economy was met with many criticisms in the early 1980s. Critics argued that the name “commodity economy” confused the essential differences between a socialist economy and capitalist economy, and was a form of capitalist “spiritual contamination” (Yang, 1998: 324).

Thanks to the effort of reformers, a *Decision on Economic Structure Reform* was passed at the Third Plenum of the Twelfth Central Committee of the CPC in 1984. This document named China's economic system as a "planned commodity economy." Three years later, in the Report of the Thirteenth National Congress of the CPC in 1987, the phrase "commodity economy" appeared 27 times. The Party Report defined "socialist economy as a planned commodity economy based on public ownership" and stated that this view is "a scientific summarization of socialist economy by our Party, a significant development of Marxism, and the fundamental theoretical ground for our country's economic system's reform." Specifically, the Party Report detailed what "planned commodity economy" entailed:

Socialist **planned commodity economy** should be a system where plan and market are internally unified. On this issue, several basic ideas should be clarified: first, the fundamental difference between socialist **commodity economy** and capitalist **commodity economy** is the difference between the foundation of ownership. ... The development of socialist **commodity economy** relies on the growth and perfection of market; to utilize market adjustment is definitely not equal to adopt capitalism. Second, plan must be built on the basis of commodity exchange and price mechanism. The kind of direct management that is based on command-plan does not fit the need of the development of socialist **commodity economy**. The scope of command-plan should be reduced through a lot of ways such as signing production contracts on the basis of exchange rules between the state and enterprises and between enterprises and enterprises. State's management of enterprises should gradually change to predominantly indirect management. Third, the functions of both plan and market apply to the whole society. In general, the new economic system should be called a system where "**the state mediates market, market guides enterprises.**" The state uses economic, legal and necessary administrative means to adjust the relationship between supply and demand in the market, creates an appropriate economic and social environment so as to guide enterprises to make operational decisions correctly.

The 1987 Party Report used the concept of “commodity economy” to change fundamentally the relative position of plan and market: whereas before “planned economy” had always been the official name for socialist economy, it was relegated to an equal or even secondary role to a commodity economy. Now the state changed its role from the planner to a mediator, and its management method from direct to indirect, command to guidance. The use of “commodity economy” was a significant step away from “planned economy” because a commodity economy was associated explicitly with the price mechanism, supply and demand, and the existence of a market. Moreover, the Party Report stated that “market” applies to the “whole society” rather than a segment of the system. This changed the “bird case economy” metaphor and portrayed the market as a more basic and ubiquitous process in the system. Although a significant step toward a market system, the phrase “commodity economy” was less threatening than “market economy” to the official socialist ideology because commodity existed in almost all social systems: socialism, capitalism, mercantilism, as well as feudalism and slave society.

After the adoption of the “commodity economy,” it took another five years for the Party to formally use the phrase “market economy” in Party Reports. Economists and reform-minded leaders provided new theorizations for the adoption of the phrase “market economy.” First, economists such as Wu Jinglian published many articles arguing that “commodity economy” is indeed the same as “market economy.” Second, Deng Xiaoping took a firm position in his tour to the south in 1992, arguing that plan and market are both economic means, and therefore

socialism can use market as long as it achieves socialist ends. Deng Xiaoping further proposed to use three criteria for evaluating whether to use plan or market. These criteria are called the “three benefits”: whether it is beneficial to advance a socialist production force, whether it is beneficial to increase the socialist country’s comprehensive national power, and whether it is beneficial to improve a people’s living standards. Deng argued that a practice should be adopted as long as it satisfied any of these criteria. These theories provided the justification for the phrase “market economy” to enter formally China’s official language.

Jiang Zemin was credited with coining the phrase “socialist market economy.” The report delivered by Jiang Zemin at the Fourteenth National Congress of the CPC in 1992 firmly endorsed the legitimacy of market economy by tracing all significant theoretical development toward the market that appeared in past Party Reports and documents. It stated that Deng Xiaoping’s argument was a new and significant breakthrough, removing fundamentally an ideological constraint of the reform. The 1992 Party Report also cited economic improvements as evidence supporting a market economy to be the goal for economic reform. Furthermore, the Report defined the “socialist market economy:”

The **socialist market economy** that we will build is to let market play a fundamental role in allocating resources under the macro adjustment of the socialist state, so that economic activities conform the requirement of the law of price and fit with the changing relationship between supply and demand; resources can be allocated to places with better returns through the functions of the price mechanism and competitive mechanism; enterprises will be given the pressure and incentive so that survival of the fittest will be achieved; we should use the advantage of market’s sensitivity to all kinds of economic signals in order to improve the timely adjustment between production and demand.

Here “market economy” is not only discussed explicitly in reference to price mechanism and supply and demand, but also to better returns, incentive, competition, survival of the fittest – notions that point to a full-fledged market system.

The phrase “market economy” soon replaced the previous phrase “commodity economy” as the new overarching slogan. “Commodity economy” appeared only 7 times in the 1992 Party Report, and never appears again in Party Reports after 1992. “Market economy” was mentioned 19 times in the 1992 Party Report, 19 times in the 1997 Party Report, 21 times in the 2002 Party Report, and 13 times in the 2007 Party Report. “Socialist market economy” is clearly a “painted horse” that is closer to a zebra than a “planned commodity economy.” Starting with 1992, “planned economy” disappeared from the official language, signifying the ending of the era of plan.

During the fourteen years of transition from “planned economy” to “market economy,” in official language, the Party employed the casuistic strategy of substitution to undercut gradually the symbolic power of the plan and strengthen the symbolic power of the market. Words, phrases, and arguments that mildly deviated from “planned economy” such as “commodity” were introduced first; those that were closely related to capitalism such as “market economy” were adopted lastly. Step by step, the Party transformed the official language into a new system of meaning that looked rather revolutionary compared to the original language. This transformation of language was not accomplished overnight. It involved careful orchestration of the co-evolution of material evidence and symbolic representation. A sudden shift of

official language, although facilitative to the introduction of market practices, can disrupt the system, intensify contradiction, and diminish leaders' legitimacy. Deng Xiaoping, faced with many Chinese who were inculcated to believe market was wrong, chose to make his point to the Chinese audience later in the reform. Deng made the argument that socialism can also have market economy to foreigners as early as 1979, but he did not voice this to the Chinese audience until many years later (Yang, 1998: 335).

Stretching

The Party abandoned some core concepts of the logic of plan, such as “planned economy,” but kept other core concepts, such as the concept of “public ownership system” (公有制). Concepts like these are so central to the socialist nature of the country that their abandonment would indicate the abandonment of the Marxist and communist ideology altogether. However, although these concepts remained in use, they were stretched to accommodate new cases.

Political scientist Sartori develops the notion of “concept stretching” based on logic, specifically the notion of intension and extension of a concept. “Intension” indicates the internal content of a term or concept that constitutes its formal definition; “extension” indicates its range of applicability by naming the particular objects that it covers (Encyclopædia Britannica, 2009). Sartori (1970) contends that concepts sit on a ladder of abstraction: more abstract concepts have more limited intensions and wider range of extensions, and more concrete concepts have more

internal content and limited range of cases that they apply. According to Sartori, there is a trade-off between intension and extension of a concept, and when a concept's intension is stretched to fit cases that are not originally covered by that concept, the concept is being stretched.

Stretching a concept to cover new cases is consistent with Burke's notion of casuistry. In *A Rhetoric of Motives*, Burke (1969[1950]: 155) defines casuistry as "the application of abstract principles to particular conditions." Contemporary theorists note that the relationship between principles and cases are not mechanistic, and further examine how principles are adjusted to cases or negotiated in the relationship between principle and case (Jasinski, 2001:89). Jonsen and Toulmin (1988) demonstrate the effectiveness of casuistry in practical argumentation, specifically in relation to decision-making involving moral dilemmas in the medical profession.

The Chinese Communist Party regards the concept "public ownership system" as one of the most central concepts that define the fundamental nature of the Chinese economy and has retained it in the official language. The concept appeared 5 times in the 1982 Party Report, 16 times in the 1987 Party Report, 5 times in the 1992 Party Report, 18 times in the 1997 Party Report, 13 times in the 2002 Party Report, and 4 times in the 2007 Party Report. Chinese communists consider "public ownership system" and "private ownership system" (私有制) as a pair of opposites, serving as the foundation of a socialist economy and a capitalist economy, respectively. Consequently, the Chinese communist Party never employs the concept "private

ownership system” to describe the Chinese economy or privatization to describe China’s reforms. It acknowledges only the existence of private property and privately-owned enterprises.

Although the Party has retained the concept, it has applied the casuistic practice of stretching to the concept “public ownership system” in order to accommodate new cases. The 1982 Party Report claimed that the concept “public ownership system” was the fundamental characteristic of China’s socialist economy and part of the “thought work” that defined the socialist nature. Public ownership system comprised the “state-operated economy (国营经济)” complemented by “individual economy (个体经济).” Specifically, the 1982 Party Report stated:

The **public ownership system** of production materials is the fundamental system of our country’s economy, and cannot be undermined in any circumstances.

Our country implements planned economy on the basis of the **public ownership system**.

Thought work determines our moral and civic education and socialist nature. Its main content is: the world view and scientific theory of the working class and Marxism, the idea, beliefs and morality of communism, the ownership thought and the collective thought that fit with the socialist **public ownership system**, the notion of rights and responsibility and the notion of organizations and disciplines that fit with the socialist political system, the Marxist attitudes toward work and the sacrificial spirit to serving the people, and the socialist patriotism and internationalism, etc..

Socialist state-operated economy is in the guiding position in the entire economy of the country and the people. ... Because the level of development of our country’s production force is comparatively low and unbalanced, there is a need for many economic forms to co-exist for a long time. ... In villages and cities, we should encourage the appropriate development of labors’ individual economy within the scope defined by the state and under the

administrative management of Industry and Commerce; they are necessary and beneficial complements to the **public ownership system**.

The 1987 Party Report continued to call “public ownership system” the basis of socialist economic system and the mainstay of the economy. However, the Party Report started to talk about “private-operated economy” as well as other market practices in the same paragraph in which “public ownership system” appeared. As mentioned above, the 1987 Party Report introduced the new slogan “commodity economy,” and included concepts related to market in the official language. The Report acknowledged the development of “many ownership types:”

The reform that we have conducted includes the development of an economy with many ownership types for which the **public ownership system** is the main body and the existence and development of private-operated economy are allowed; these are all determined by the actual conditions of the production force of the primary stage of socialism. Only by doing that can we promote the development of the production force. Some measures that are employed in the reform, such as developing the market for production materials, financial market, technological market and labor market, issuing bonds and stocks, are all inevitable phenomena accompanying the socialization of production and development of commodity economy, and are not unique to capitalism.

The 1987 Party Report not only juxtaposed the “public ownership system” with other “ownership types,” but also specified the forms of the “public ownership system:”

The “**public ownership system**” has many forms. Except for all-people ownership and collective ownership, we should also develop **public ownership** enterprises that are jointly established by all-people ownership and collective ownership, as well as **public ownership** enterprises in which various regions, government agencies, and enterprises buy each other’s shares.

Here the concept “public ownership system” was broken into many subcategories, distinguishing between all-people ownership and collective ownership, as well as ownership by different local governments and agencies. It indicated that the idea of “who” owned the enterprises became an issue in need of clarification, as the central government delegated its power to local authorities and state-owned enterprises and as the economic exchange among different enterprises intensified.

The 1992 Party Report reiterated the idea that the “public ownership system” was the main body of the economy, and introduced a new idea: the joint operation of public ownership economy and other economic forms:

The system of socialist market economy is associated with the fundamental system of socialism. On the structure of ownership, the **public ownership system**, which includes all-people ownership and collective ownership, is the main body; individual economy, private-operated economy, foreign-owned economy are complements; many kinds of economic forms develop together for a long time, and different economic forms can also jointly operate in many ways on a voluntary basis. State-owned enterprises, collectively-owned enterprises and other enterprises all enter the market, and state-owned enterprises should play their guiding position through fair competition.

This Party Report acknowledged new enterprises with hybrid ownership forms.

Allowing state-owned enterprises to be partly owned by private enterprises or even foreign enterprises represented the crossover of established boundaries between the public ownership system and other economic forms. Hybrid ownership forms are built on a new system which is called the “shareholding system” (股份制). The concept “shareholding system” first appeared in the 1987 Party Report, which reads:

The forms of the **shareholding system** that emerge in the reform, including the state-dominant shares, and shares owned by agencies, regions, and enterprises, as well as shares purchased by individuals, are a way of organizing the financial assets of socialist enterprises, and can be continually experimented. The property of some small all-people ownership enterprises can be transferred to collectives or individuals with compensation.

The 1992 Party Report further explained the merits of the shareholding system and encouraged its experiment and faster development. The emphasis of the 1987 and 1992 Party Reports on the shareholding system was driven by the fast development of share issuance of thousands of enterprises, the establishment of the OTC market in 1987, and the opening of the stock exchange in 1990.

The 1997 Party Report made two innovative rhetorical moves that changed boldly the meaning of “public ownership system.” First, it interpreted what it meant to see “public ownership system” as the “main body” of the economy. This interpretation re-positioned the “public ownership system” in the context of new economic circumstances.

Whereas past Party Reports always stated that “public ownership system” was the “main body” of the economy, they never specified how this statement applied to the actual economic structure. The 1997 Party Report answered this question:

We should understand the meaning of **public ownership system** economy in its entirety. **Public ownership system** economy includes not only state-owned economy and collective economy, but also the state-owned elements and collectively-owned elements in the mixed ownership system economy. The position of **public ownership system** as the main body is reflected primarily in the following ways: public assets occupy the superior position in the total assets of the society; state-owned economy controls the sinews of

the nation's economy and plays a guiding function in the economic development. This is to look at the country as a whole; differences can exist across regions and sectors. With regard to the superiority of public assets, there should be superiority in terms of quantity, but more importantly, attention should be paid to improvement in quality. The guiding function of the state-owned economy is primarily reflected in its power to control. We should adjust strategically the composition of the economy. For important industries and key areas that are sinews of the nation's economy, state-owned economy must occupy the dominant position. In other areas, we can strengthen the focal points and improve the quality of state-owned assets through asset reorganization and structural modification. As long as we insist on the **public ownership system** being the main body, the state controlling the sinews of the national economy, and improving the controlling power and competitiveness of the state-owned economy, some reduction of the weight of the state-owned economy will not affect the socialist nature of our country.

In this interpretation of the public ownership system as the “main body” of the economy, the Party made a series of new arguments. First, it emphasized the quality of state-owned economy instead of quantity. This reorientation toward quality helped justify the reduction of the number of state-owned enterprises in the economy. Second, it indicated flexibility of the Party in allowing variations of the proportion of state-owned economy in different sectors and regions. This differentiation helped justify the fast pace of restructure and reorganization in many non-strategic sectors and regions. Third, it stressed the power of the state-owned economy to control as opposed to operate the economy. In the beginning of the reform, state-owned enterprises were called “state-operated enterprises,” because there was no distinction between owning and operating the economy. The reform in part separated ownership from management. Starting from the 1992 Party Report, the official language became “state-owned economy,” “state-owned enterprises,” and even “state-owned assets.” It indicated the Party's realization that ownership is a form of control, and

the state needs not to operate those enterprises to ensure the public ownership system, hence the socialist nature of the country.

The second innovation of the 1997 Party Report is the extension of the concept of “public ownership system” to accommodate new cases. Specifically, the 1997 Party Report broadened the economic forms that can be called “public ownership system” from purely state-owned and collectively-owned enterprises to company stocks held by the state and collectives:

There can and should be diverse ways to materialize the **public ownership system**. All kinds of ways of operation and forms of organization that reflect the laws of socialized production can be boldly utilized. We should strive to find ways to realize the **public ownership system** that can advance the production force immensely. The **shareholding system** is a form of organizing capital for modern corporations; it is conducive to the separation of ownership right and operation right, and conducive to the increase of the operating efficiency of the enterprise and capital; capitalism can use it, and socialist can also use it. There should not be generalized statements about whether the **shareholding system** is public-owned or private-owned; the key is to see who has the controlling right of shares (控股权). When the state and collectives control the shares, these shares have an apparent nature of being publicly owned; this is conducive to enlarging the scope of dominance of public capital, and enhances the **public ownership system**'s function as the main body. Currently the numerous joint stock cooperative system economies that emerge in urban and rural areas are a new phenomenon in the reform, and should be supported and guided, the experience should be continuously generalized so that the new phenomenon will be gradually perfected. Collective economies, for which the joint labor and joint capital are main forms, should be particularly advocated and encouraged.

This paragraph offered a new understanding of the “public ownership system” on the basis of a new form – the shareholding system. Whereas the 1992 Party Report acknowledged the existence of the shareholding system and the interpenetration of different ownership structures, i.e., public ownership and private ownership, the

1997 Party Report categorized explicitly company's shares owned by the state and collectives as part of the "public ownership system." Maintaining the public ownership system was critical for China to claim its socialist nature, but as more and more state-owned and collectively-owned enterprises started to issue shares and were restructured into shareholding companies, many began to question the ideological nature of these enterprises. The 1997 Party Report resolved this question by stretching the scope of cases that the concept "public ownership system" can cover. Based on this new definition, the "public ownership system" not only applied to companies owned completely by the state or collectives, but also to shareholding companies with shares owned by the state or collectives. This way, as long as the state or collectives own the shares of a shareholding company, that company has a component of "public ownership."

The 2002 Party Report further developed what it meant to be publicly owned. For the first time, the concept "state-owned capital" appeared in Party Report, suggesting the Party's realization that the state needs not even to own material assets such as factories and machines to claim public ownership. Instead, the state needs only to own the capital by being the shareholder of a company to claim public ownership. The 2002 Party Report reads:

Except for an extremely few number of enterprises that must be solely owned by the state, the **shareholding system** should be actively promoted, and the mixed ownership system should be developed. The investors should be diversified, and the state will control the shares of important enterprises.

The 2002 Party Report confirms that as long as the state is the controlling shareholder of the company, the company is considered part of the “public ownership system.”

The concept “public ownership system” remains a fundamental concept throughout the reform period. However, the Party has changed both the intension and extension of this concept through the casuistic practice of stretching. In terms of the intension of this concept, the substantive meaning of this concept changes from emphasizing the ownership of material assets such as factories, machines, and land, to the ownership of capital assets, such as stocks. In terms of the extension of this concept, the range of cases that can be covered by this concept extends from enterprises solely owned and operated by the state and collectives to joint stock companies with shares owned by the state or collectives. As China moves from the logic of plan to the logic of market, many concepts that remain in use have been stretched one way or another to fit and accommodate new cases.

DISCUSSION

Four Types of Casuistry

This essay focuses on the key concepts and slogans in the Party Reports and outlines four types of casuistry that operate at the level of concepts and slogans. The first type of casuistry is to dissociate the established meaning of a well-known concept or slogan. Elements previously included in the concept are thus problematized. For example, the debate on whether Mao’s words are the sole

measure of truth disrupts the personality cult of Mao. The established belief is that both are truth, but the debate dissociates Mao from truth, and thus de-emphasizes Mao and elevates the importance of practice. Dissociation of established concepts and slogans introduces new thinking by raising questions in the unquestionable. The caustic practice of dissociation seeks potential conflicts among seemingly coherent interpretations, bringing in new ideas without denying completely old ideas.

The second type of casuistry is association. Contrary to dissociation, which breaks down an established concept, association combines two concepts that are not previously aligned or considered together to produce a new concept. Many slogans that the Party propagated pertain to this type of casuistry. Two most prominent examples are: adding “Chinese characteristics” to “socialism” to produce the overarching name for the nature of Chinese society – “socialism with Chinese characteristics,” and adding “socialist” to “market economy” to produce the all-embracing term to describe the nature of the Chinese economy – “socialist market economy.” Novel association of concepts manufactures concepts that are both deeply rooted in the past and profoundly new. Concepts like these are connected to multiple institutional logics and appeal to multiple audiences.

The third type of casuistry is substitution. In substitution, a concept is replaced by another concept that seems to be the same but is also different in important ways. The story that Chinese economist Zhang Weiyong tells, in which horses are replaced by “painted horses” and finally by “zebras,” is a substitutive move. Similar moves in concepts used to describe the Chinese economy help ensure

that the transition from one institutional logic to another is a continuation of the past rather than interruption. For example, “planned economy” is replaced by “planned commodity economy,” and finally by “socialist market economy.” For each substitution, the new concept overlaps partially with the old concept, yet includes significantly new elements. Each substitution of an old concept with a new concept signifies a further step in the direction of the new institutional logic.

The fourth type of casuistry is stretching. Stretching changes a concept’s intension and extension to include new properties and cases. For concepts that are central to the ideological core and irreplaceable, stretching transforms them in order to accommodate new practices and arrangements. These concepts remain in use in the official vocabulary because they carry significant ideological weight: invoking these concepts reaffirms ideological fidelity. However, these concepts would constrain the adoption of new practices if their meanings were kept intact. The Chinese leaders employed the casuistic practice of stretching to extend the meanings of these concepts to include cases that do not manifestly belong to these concepts. For example, “public ownership system” is retained as the fundamental concept of China’s socialist economy, yet the concept has been continuously stretched to encompass new material phenomena and organizational forms.

The Benefits and Costs of Casuistic Institutional Change

My analysis suggests that casuistic practices by the incumbent leaders often accompany and facilitate a particular kind of institutional change, change that is

radical under the disguise of being incremental. Leaders, in an attempt to initiate radical change, employ the rhetorical strategy of casuistry to justify new practices and arrangements on the basis of traditional values and logics. The potential benefits of casuistic institutional change are: (1) the change is met with less resistance grounded in traditional values and logics, (2) the change generates less interruption and disruption to the established system, and (3) the change invites gradual buy-in from the audience.

However, casuistic institutional change has its own costs. First, casuistry exacts a cost on advocates who employ it. Burke points out that “casuistic stretching can eventually lead to demoralization” (Burke, 1984[1937]: 229). Carlson (1992: 29) notes that “casuistry can only ‘stretch’ so far before the guilt created by its violation of hierarchy becomes nearly intolerable.” Leaders who practice casuistry unsuccessfully are perceived by followers as hypocrites. Casuistry also creates confusion among the audience because casuistic language is ambiguous. Leaders attempting to appeal to opposite camps through casuistic practices may invite criticisms from both sides. If leaders employ casuistry only to maintain their legitimacy and power, their unwillingness to give up old institutional logics may unnecessarily prolong the pace of transition and become a hurdle to the making of new policies.

China's Market-Based Reform

China's market-based reform has generated hybrid forms, mixed economies, "half-way" institution, or "painted horses" (Hassard et al., 2002; Nee, 1992; Steinfeld, 2007). Scholars describe China's model as incrementalist or gradualist as opposed to the shock therapy model of the Eastern European countries (Lai, 2006; McMillan & Naughton, 1992; Stiglitz, 1994).

This essay complements these studies by explaining the symbolic forces that drive this institutional transformation. The role of rhetorical casuistry in making sense of and justifying China's transition is not ancillary but integral to the transition. Without comprehension and acceptance, the transition would truly be chaotic. Close analysis of the actors and their arguments reveals the subtle nuances in the symbolic meaning-making that accompanies the practices and arrangements of the market reform.

CHAPTER 4: CHARACTER: MANEUVERING THE LEADER'S AUTHORITY

How does a state influence institutional change? Institutional theories often describe a state's institutional influence as residing in the symbolic and legitimating power of its institutional position or its coercive control of material resources (Bourdieu, 1991; DiMaggio & Powell, 1983; Donaldson, 1995; Scott, 1995). However, classical wisdom suggests that the state uses more than just the coercive and symbolic power of institutional position: it also utilizes the persuasive power of an actor's rhetorical imagination. As Weber observes, no rulers base their regime on force alone; all engage in cultivating a belief in its legitimacy (Weber, 1968). Following Weber, Bendix argues that institutional authorities rarely command without a higher justification and followers are seldom docile enough not to provoke such justification (Bendix, 1974).

A strand of recent institutional research resonates with these classical ideas and suggests the importance of rhetoric and persuasion in the construction of legitimacy and institutional authority (Green, 2004; Green et al., 2009; Suddaby & Greenwood, 2005). Specifically, Green (2004) and Suddaby & Greenwood (2005) propose a perspective that makes rhetoric central to the process of constructing legitimacy and institutions.

A rhetorical perspective seems particularly useful when one aims to understand *how the state legitimates radical institutional change – change that*

potentially contradicts its legitimate authority and social position. This essay proposes that the symbolic construction of ethos is key to accomplishing this task. Ethos is the character, image, or credibility of the speaker, and when used to persuade audiences is essentially an appeal to the social relationships and identities shared by the speaker and audience.

There are two aspects to ethos: 1) extrinsic ethos; and 2) intrinsic ethos. Extrinsic ethos refers to the symbolic influence that derives from the state or speaker's prior social relationship with the audience. Most sociologists conceptualize extrinsic ethos as the power or influence of words derived from the social position of the speaker. The focus of this essay is on intrinsic ethos. Intrinsic ethos is the symbolic influence of social relationships and identities that are rhetorically constructed in the text or speech itself. Sociologists and neoinstitutionalists often ignore intrinsic ethos. Yet intrinsic ethos plays an important and critical role for speakers in most social situations and especially for actors attempting to establish radical institutional change.

To demonstrate how leaders build ethos through rhetorical maneuvering, I apply Aristotle's trichotomy of rhetorical genres to analyze how a highly embedded actor created and institutionalized controversial practices that contradict the ideological core of the actor. Specifically, I examine how the Communist Party of China (CPC) created and institutionalized China's stock market. China is a state which adheres to principles of Marxism, yet has adopted one of the quintessential institutional practices of capitalism: a stock market. This case study provides an

opportunity to examine how the state rhetorically constructs its ethos in order to promote radically new institutional arrangements. I first outline central theoretical arguments, then present a case analysis, and conclude with a discussion of the theoretical and practical implications of this model.

THEORETICAL PREMISES

Three theoretical observations inform this essay. First, actors exist in multiple and potentially conflicting institutional fields and social roles, and agency develops from exploiting conflicts and toggling among these roles (Emirbayer & Mische, 1998; Friedland & Alford, 1991; Sewell, 1992). Second, institutional theory has failed to explain adequately how agency develops from the toggling between institutional fields or social roles. Specifically, most approaches emphasize the context or conditions that make agency and change possible (Battilana, 2006; Dorado, 2005); however, these approaches fail to describe explicitly how actors use their social skills to leverage one field or set of relationships relative to another. Third, the field of rhetoric suggests that institutional agency involve the exploitation between conflicting social roles through a linguistic process closely related to the construction of ethos

Agency as the Exploitation of Conflicting Social Relationships

Institutional theorists suggest that society consists of multiple and potentially conflicting institutional fields and logics (Bourdieu, 1990; Friedland & Alford, 1991;

Sewell, 1992). Actors embedded within these fields are conceptualized as having multiple social roles, positions, and identities (Boxenbaum & Battilana, 2005; Rao, Monin, & Durand, 2003). This provides a condition or context for the development of agency (Bourdieu, 1991; Boxenbaum & Battilana, 2005; Clemens & Cook, 1999; Creed, Scully, & Austin, 2002; Friedland & Alford, 1991; Rao et al., 2003; Sewell, 1992). For example, institutional agency or change comes about by social actors using the multiplicity of logics to transfer logics from a field outside the focal institutional field (Durand & Jean, 2005; Haveman & Rao, 1997; Leblebici et al., 1991; Thornton, 2002). Similarly, social actors use the multiplicity of roles and positions to appeal to multiple social groups (Maguire et al., 2004), and thus enhance their legitimacy and ability to mobilize diverse stakeholders for change. In addition, scholars suggest that the simultaneous possession of multiple social roles, positions, and identities may facilitate the actor's self-conscious articulation of roles (Coser, 1975; Emirbayer & Mische, 1998: 1007).

Social Skill and How Agency Takes Place

Although these approaches to institutional agency describe the conditions that may lead to agency, they fail to explain explicitly how agency takes place. The existence of multiple and conflicting institutional fields and logics does not necessarily lead to agency. Agency develops only when actors self-consciously articulate and intentionally exploit their roles and identities (Coser, 1975; Emirbayer & Mische, 1998). A recent research has highlighted a more proximate explanation of

agency in “social skill,” which allows actors to identify and articulate contradictory identities and logics to induce cooperation among others (Fligstein, 1997; Hardy & Maguire, 2008; Perkmann & Spicer, 2007; Zilber, 2002). However, scholars know little about what these social skills are or how they operate.

The reason for the lack of understanding may result from how scholars conceptualize an actor’s social skills and social relationships. Sociologists define social skill as “the ability to motivate cooperation in other actors by providing those actors with common meanings and identities in which action can be undertaken and justified” (Fligstein, 1997: 398). Moreover, sociologists theorize that social skills derive their power from the actor’s social position (Fligstein, 1997: 398). Bourdieu’s theory is perhaps most representative of this view. Bourdieu’s conception of habitus emphasizes linguistic habitus as importantly conditioned by the structured space of positions and social relationships (Bourdieu, 1977). Based on this view discourse is authoritative because it is uttered by a speaker who already enjoys the authority and legitimacy to pronounce it. Hence the important social skill of rhetoric or the intentional manipulation of symbols to induce cooperation among others (Burke, 1969 [1950]), derives its power not from the “specifically linguistic substance of speech” but from the fact that the speaker is an “authorized representative” vested with the power to speak in a given social relationship or position (Bourdieu, 1991: 107-111). Bourdieu’s conception of social position thus privileges social position over agency and discourse. Within this framework the power of language derives from the social status-position of the subject within social circumstances. This

framework emphasizes how social positions constrain and reproduce social orders, while underemphasizing the power of language to shift and change social positions. Accordingly, it tends to ignore how symbolic power can derive from the discursive construction of social position (Amossy, 2001).

Intrinsic Ethos and a Rhetorical Understanding of Social Positions

A rhetorical perspective emphasizes that actors utilize the social skill of rhetoric to shape and influence social relations and social actions. Specifically, rhetoric is the intentional art of using symbols to produce social action. For persuasion to take place the audience must "identify" with the speaker, such that the audience sees that they are like the speaker in some way or another (Burke, 1969 [1950]). Classical rhetorical theorists often used the concept of ethos to describe identification (Jasinski, 2001: 231). Ethos is conceptualized as the character, image, or credibility of the speaker, and is essentially an appeal to audience to identify. Classical rhetoric often uses the term ethos to refer to both extrinsic and intrinsic ethos. When the speaker's identity derives from the speaker's prior social relationship with the audience, it is often referred to as extrinsic ethos. The speaker's identity that is rhetorically constructed in the text or speech itself is called intrinsic ethos. Contemporary scholars argue that the speaker develops his or her ethos by discursively navigating social identities, images, and relationships that are commonly recognized, accepted, and believable by the audience (Amossy, 2001; Perelman & Olbrechts-Tyteca, 1969). Whereas Bourdieu's work suggests that discourse shapes

the world because of the institutional position of the speaker and her utterance in the correct institutional situations, in a rhetorical perspective ethos is more than the pre-existent credibility, position, or relationship of the speaker to the audience, it is also the intentional and active power of the speaker to shape his or her credibility and social relationship to the audience through discourse. This rhetorical conception of ethos resonates with the organizational literature on the linguistic construction of social identity (Creed et al., 2002; Czarniawska, 1997; Glynn, 2008; Lounsbury & Glynn, 2001; Maguire & Hardy, forthcoming; Rao et al., 2003; Rindova, Pollock, & Hayward, 2006), a discursive conception of positions (Harré & Langenhove, 1999), and the use of language to shape organizational legitimacy (Elsbach, 1994; Elsbach & Eloffson, 2000). In sum, where Bourdieu emphasizes that social positions and social structures are fixed and stable, Aristotle and a rhetorical perspective emphasizes that social positions and structures are malleable and fluid.

A rhetorical conception of social position enables an investigation into how the state can use language to change and shape its social position and institutional authority. Building on these insights, this essay argues that an important aspect of state power is the state's ability to discursively build and change its ethos or social position. While acknowledging the symbolic and coercive power vested in the the state, this essay suggests that the state as change agent or institutional entrepreneur uses rhetoric to shape ethos and thus legitimate institutional change while preserving its own legitimacy.

Ethos Construction through Three Genres of Rhetoric

As the established incumbent, it is hard for the state to legitimate change that contradicts its own principles and policies. The central question of this essay is how the state as a highly embedded actor advocates radical institutional change to existing structures and social relationships without coercion and without sacrificing the legitimacy and authority of its own institutional status.

Specifically, this essay argues that Aristotle provides a useful rhetorical framework for understanding ethos construction. Aristotle divides all rhetoric into three genres: the epideictic, the forensic, and the deliberative. This rhetorical framework is particularly suited to this investigation for three reasons. First, it is distinctively political and deals explicitly with situations of disagreements and conflicts (Aristotle, 1991; Poulakos & Poulakos, 1999). Second, this framework explicitly deals with intrinsic ethos or the specific rhetorical strategies for why an audience listens to a speaker, finds that speaker credible, and/or identifies with that speaker (Aristotle, 1991). Furthermore, this framework resonates with important and well understood typologies of legitimation and institutions used in neoinstitutional theory.

Aristotle's division of rhetoric into three genres is based on three types of audiences or reasons why an audience listens to or identifies with a speaker (Aristotle, 1991). Aristotle argues that in epideictic discourse the audience is a spectator of the present and thus listens to or identifies with the speaker because they want to know how things are (Aristotle, 1991: 80). With forensic discourse the

audience is a judge of past and thus listens to or identifies with the speaker because they want know what happened (Aristotle, 1991: 80). With deliberative discourse the audience is the judge of the future and listens to or identifies with the speaker because they want to know how things will be (Aristotle, 1991: 80).

Epideictic rhetoric

Epideictic rhetoric is meant to display. Display involves the revealing of ideals and values that are deeply held yet seldom noticed and acknowledged by the public. By celebrating these intangible ideals that bind the community together, epideictic rhetoric fulfills the function of inviting audiences to recognize and reaffirm the greatness of these ideas and customs (Perelman & Olbrechts-Tyteca, 1969).

Aristotle observes that epideictic rhetoric involves praise or denigration, and aims at honoring or censoring. Contemporary rhetorical scholars further specify the function of epideictic reasoning as that of definition and education (Condit, 1985; Johnson, 1970; Sullivan, 1991). Epideictic rhetoric educates the audience of the particularity of the values, beliefs, and cultures of the community and, produces consensus. Epideictic rhetoric, like all rhetoric also produces identification: symbolically connecting individuals together so that they attain some position in the hierarchy of social relations (Burke, 1969 [1950]). Epideictic rhetoric produces identification because it shares mutual understandings and knowledge about the world, and thus positions the speaker into the role of educator and the audience into

the role of student. The rhetorical production of identification is a critical aspect of ethos (Farrell, 1993), how actors build social cohesion through language (Burke, 1969 [1950]), as well as how actors produce legitimacy (Metzler, 2000).

By praising and honoring, epideictic rhetoric also highlights the taken-for-granted ideas of the community, thus reinforcing adherence to commonly held values. Epideictic rhetoric creates and defines a world of realities, and invites the audience to judge the truth or verisimilitude of the speech (Sullivan, 1993). Ethos and credibility are maintained for the state because epideictic rhetoric educates. The audience as spectator listens and identifies with the speaker because they want to know how things are (Aristotle, 1991). By emphasizing display, definition, and education about the values and beliefs of society, epideictic rhetoric also is uniquely placed to surface as well as foreground or background new social identities and/or fields of reasoning within society.

Forensic rhetoric

Forensic rhetoric is meant to judge right from wrong. It is the rhetoric of prosecution and defense (Poulakos & Poulakos, 1999). The rhetoric of prosecution and defense judges past actions and arrangements as either right or wrong, or just or unjust. It intends to make judgments about the wrongdoers and wrongdoings, such as voluntary illegal harm, crime, tort and breach of contract (Aristotle, 1991). Aside from the written law, the standards of justice based on which the speaker makes claims also encompasses the principles of greater equity and justice. Forensic

rhetoric produces identification because it emphasizes mutual wrongs and injustices enacted against the speaker and the audience. This positions the speaker into the role of prosecutor and audience into the role of judge (Aristotle, 1991).

“Any time we seek to determine what occurred, and whether it was right or wrong, we are reasoning along forensic lines” (Herrick, 2005). When we apply our standards and beliefs to evaluate the justice of a regulation, when we invoke widely held values to argue the fairness of a particular organizational practice, when we draw from moral principles to judge the righteousness of a symbol or cultural model, we are reasoning forensically.

The audience as a judge of the past listens and identifies with the speaker or state because they want to know what happened (Aristotle, 1991). Through the prosecution of wrongdoers forensic rhetoric emphasizes morality, ethics, and justice. By emphasizing fairness, justice and morality, forensic rhetoric is uniquely positioned to juxtapose or resolve contradictions between social identities and/or fields of reasoning through direct confrontation.

Deliberative rhetoric and pragmatic legitimacy

Deliberative rhetoric is meant to weigh the advantages and harm from alternative courses of political or social action (Aristotle, 1991). Deliberative rhetoric is future oriented, which aims to decide what *should* be done. Deliberative rhetoric is found on the basis of practical wisdom of the participants and on the pragmatic benefit of the decision. Deliberative rhetoric often builds on the image of speakers

and audiences as rational decision makers. “Deliberation is not about the end but about the means to it, which are the measures that are practically expedient (Aristotle, 1991).” It weighs the benefits and costs of alternatives in order to determine the most advantageous and expedient course of action. Deliberative rhetoric produces identification because it rationally calculates the outcomes of collective or mutual action, and thus this genre often positions the state in the role of the leader or manager and the audience in the role of worker or follower. Under conditions of limited time and knowledge, deliberative rhetoric does not seek to reach perfection but executable plans. Although the ultimate goal of deliberation is human well-being, happiness, or fulfillment, deliberative rhetoric focuses on coming up with the immediate resolution to urgent matters. At the heart of deliberation is an urge either to do or not do something (Aristotle, 1991).

Ethos and credibility are maintained by the state because deliberative rhetoric makes predictions about the future outcome of particular choices of action. The audience listens or identifies with the speaker because they want to know how things will be (Aristotle, 1991). By emphasizing rationality, calculation, and pragmatic benefits, deliberative rhetoric is uniquely suited to juxtaposing and resolving contradiction between new social identities and/or fields of reasoning. In addition, deliberative rhetoric may also reflect the initial stage of acceptance of new social relationships and identities and thus promoting a focus on actions and behaviors within a set of social relationships.

METHODS

Rationale

The building and adoption of a stock market by the Communist Party of China represents the most radical market-based reform as the nation transforms from the logic of centrally planned economy to the logic of a market economy. As transition economists point out, the building of the stock market in transition economies indicates both the creation of new institutions, and a more profound break with the institutions of the previous era (Akimov & Dollery, 2008). A less radical approach to reforming the financial system of transition economies is to focus on a bank-dominated system. Some economists support the less radical approach because they believe that the stock market is incapable of helping transition economies achieve promised levels of economic growth and prosperity for companies, investors, and the financial system (Arestic, Demetriades, & Kuintel, 2001; Singh, 1997).

If the adoption of a stock market in post-communist countries represents a radical institutional change, the building of a stock market in communist China signifies an even more radical change, almost a paradox in the eyes of many observers (Green, 2003). In China's transition from a planned economy to market economy, the legitimation problem is more than the problem of legitimating the market institution. The legitimation problem also encompasses the existence of a market economy under the authority and control of a communist state. The literature on transition economies concludes that China's reform has taken a gradualist

approach compared to the shock therapy model of the Russian Federation (Litwack & Qian, 1998; McMillan & Naughton, 1992). This essay suggests that China's transformation may be more radical than commonly understood. What distinguishes China from most other transition economies is that: 1) China has never abandoned the ideology of communism and Marxism; and 2) China is arguably the first among transition economies to adopt a stock market – the most capitalist of institutions.

As I explore the arguments, debates, and stories surrounding China's stock market, what is striking is the degree of circumspection, complexity, and creativity in the political discourse over adopting a stock market. China's state actors did not simply adopt and implement this stock market institution. They put forth reasons and justifications for the establishment of the stock market. These reasons and justifications encode the rhetorical strategies that the state utilizes to legitimate itself as well as the stock market institution.

Data Collection

Data collection proceeded in two phases. First, I read extensively secondary accounts of China's stock market in the form of historical accounts and scholarly works in English and Chinese (Green, 2003; Li, 2001; Walter & Howei, 2006). To supplement my reading, I conducted in-depth interviews with knowledgeable individuals, including three officials from China Securities Regulatory Commission (CSRC) and Ministry of Commerce, five professors and researchers specializing in China's financial markets from universities and the Chinese Academy of Social

Sciences, seven investor relations professionals of companies listed on China's stock exchanges, and a senior fund manager of one of the biggest mutual funds in China. In combining my knowledge from the readings and the interviews, I identified the most dramatic and ritualistic moments in the history of China's stock market, and located relevant texts for analysis.

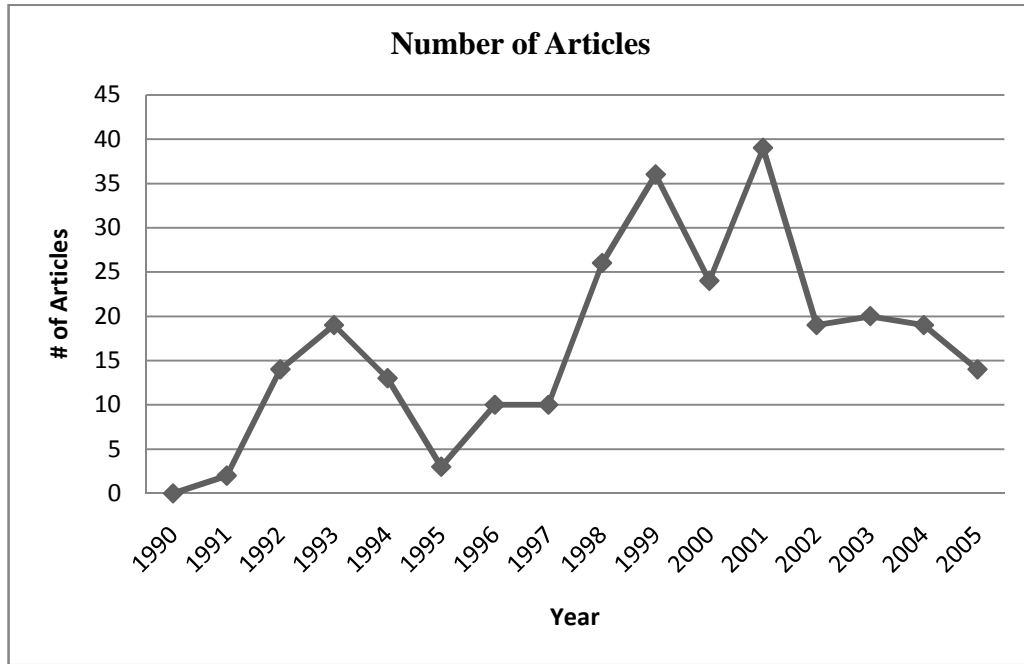
In the second phase of data collection, I collected the rhetoric of the state from three sources. The first source consists of Reports of the Central Committee of the Communist Party of China from 1978 to 2007. The year 1978 marked the beginning of the "reform and opening up" era. The CPC Congress Reports are delivered by the General Secretary of the CPC Central Committee every five years at the National Congress of the Party. These reports are considered the integration of the thoughts of the top leadership and all Party members. They embody the most important and systematic statement of the principles, intentions, and strategic visions of the Party. As researchers point out, understanding the rhetorical artifacts in these documents is the proper place from which to begin any detailed analysis of China's economic and political life (Kluver, 1996).

The second source contains speeches by top leaders of the Party during the same time period. Top Party leaders, such as Deng Xiaoping, played instrumental roles in leading China's market reform. The speeches by top Party leaders usually appear in official media outlets and are often studied by Party members as important policy documents. These speeches typically focused on specific issues and problems

as they emerged during the reform process. They are elaborations, extensions, and applications of the principles and spirit of the Party Reports.

The third source consists of articles on China's stock market published in the *People's Daily*. The *People's Daily* is a national daily newspaper directly owned and controlled by the CPC Central Committee. As a Party organ, the *People's Daily* represents the most authoritative voice of the Party. It is the most widely circulated daily newspaper in China. More importantly, Chinese people read this newspaper looking for the messages of the Party as well as indicators of the political and policy climate of the state. Different kinds of articles, such as editorials, commentaries, and opinions published in this newspaper have different degrees of authoritativeness. But all articles are reviewed and approved by the top Party organ. Therefore, articles in the *People's Daily* represent the collective beliefs and sentiments of the state apparatus. The *People's Daily* is available electronically. I searched electronic articles on China's stock market in the *People's Daily* database. The search string consisted of "China's stock market" or "China's securities market" or "China's capital market." This search string captured all the articles in the *People's Daily* database that dealt explicitly with China's stock market. The search resulted in 280 articles. 12 articles were deleted since they were tangential to the subject matter (i.e. mentioned China's stock market only incidentally). The final database contained 268 articles, ranging from 1991 to 2005. Figure 4.1 shows the number of articles for each year in the sample.

FIGURE 4.1: Number of Articles on China’s Stock Market in *People’s Daily*



Taken together, these three sources comprise a comprehensive collection of the state’s rhetoric. The CPC Congress Reports indicate the state’s most overarching and strategic rhetoric on the stock market. The speeches by top Party leaders deal with more concrete and context-specific issues with regard to the stock market. The articles in the *People’s Daily* faithfully conform to the first two sources in reporting and commenting on the stock market. These discourses represent the discourse of the state. To say that the state employs rhetoric is not to reify or anthropomorphize the state as a homogenous single conscious actor. The Chinese state consists of political factions, and cannot be reduced to an individual actor. Here the conception of the state emphasizes state actions and discourse as a negotiated consensus between

political factions and individuals in order to advocate, coordinate, and execute policies and plans. Ultimately the discourse reflects the negotiated consensus of the leaders and individuals that make up the state and this negotiated consensus is conceptualized as a social actor that possesses capabilities and acts more or less purposively (Hall & Ikenberry, 1989).

ANALYSIS

To examine changes in the rhetoric of the state this essay employs both a qualitative and a quantitative method. The qualitative analysis illustrates the three rhetorical genres that the state used to justify and legitimate its ethos, authority, and proposed policy to adopt a capitalist stock market. The qualitative analysis also includes specific examples of how the state toggled social identities or fields of reasoning in order to shift or critique established social positions thus making room for new social relationships or justifying the use of these new social relationships. The quantitative method analyzes the data obtained from the *People's Daily* to describe the significance of how these genres evolved over time as the stock market developed.

The Task of the State in Legitimizing the Stock Market

Although highly institutionalized and successful from today's standpoint, the development of the stock market was accompanied with confusion, ambiguity, and conflict. Initially the stock market was considered a quintessential part of a modern

capitalist market. Therefore, it represented an institutional logic that was considered in direct contradiction to the institutional logic of a communist country. The contradictions between institutional logics are reflected in various ways throughout the development of the stock market. For example, in the early years, people had little knowledge about what a stock market was and how it worked, and thus intentionally stayed away from it because most associated the stock market with capitalism and perceived it as politically risky. Even when the stock market was formally established, very few people became investors. Most people, if they were interested in the stock market at all, remained observers. Companies were not active participants either. When the Shanghai Stock Exchange opened for trading, there were only two stocks. For the first two years, most companies that listed on the stock markets were collectively-owned enterprises, not state-owned enterprises (SOEs) because many SOEs saw the listing as an ambiguous and potentially risky action.

The state faced the challenge of legitimating the stock market while at the same time not losing its own ethos as a socialist and communist state. To do that, it needed to deal with the inconsistencies and contradictions that exist between these different institutional logics, ideologies, and political interest groups. Accordingly, the state was very active in defining, shaping, and leading the development of the stock market. In fact, many labeled China's stock market a "policy market", indicating the extent of state involvement in the stock market. The focus here, however, is not to evaluate whether the "policy market" is good or bad, but to examine how the state dealt with the confusion, ambiguity, and contradictions in

legitimizing this radical institutional change. The qualitative analysis is organized around three rhetorical genres that the state employed to legitimate the stock market as well as its own ethos.

The State as Educator

During the early years of the stock market development, many citizens simply ignored it due to confusion and lack of understanding about the stock market. As a result, the trading of stocks was very limited almost to the point of being inactive. More damaging to the fate of the stock market were the challenges from conservatives, ideologues, and many citizens. They questioned whether it was appropriate to set up a stock market in a socialist country. Political conservatives believed that creating a stock market would stir the sense of inequality in society, create a parasitical social class that makes a living by getting dividends, and fundamentally change the public ownership and the socialist way of resource allocation. A stock market represented retrogression from socialism to capitalism. Labeling a practice as capitalist was a serious and negative ideological charge. It was apparent that if the conservatives won the argument, the creation and use of a stock market would never attain legitimacy in China.

Confronted with the legitimacy question the state attempted to engage their audience over core definitions of Marxism, capitalism, markets, and socialism. An encounter of one Chinese official in charge of the OTC market with foreign reporters, may best demonstrate how state actors began to skillfully justify the stock

market in the context of great ambiguity and sensitivity. The establishment of the official OTC market in 1986 stirred up a great deal of curiosity for foreign observers. The officials at the OTC market became the spokesperson for these new set of practices and they faced some challenging questions from foreign reporters. The following question is representative of the kind of legitimacy challenges facing the state (Li, 2001).

Question from a foreign reporter about the Chinese trading of stocks:

You believe in Marx. In *Capital*, Marx said that, “In this kind of gambling, small fish are swallowed by sharks, and sheep are swallowed by wolves.” What do you think of this?

The official replied:

Marx also said, “Without stocks, there probably still wouldn’t be railways in the world.” As long as we manage it well, we can prevent what you said from happening.

The official’s answer to this question is a form of epideictic rhetoric. In this question the official is faced with a challenge to the legitimacy of a stock market in a system based on Marx’s ideas about how stock markets work. In replying to the question the official uses Marx’s own words to justify the practice of buying and selling stocks. By citing Marx, the Chinese official presented an alternative definition of Marx’s view on the stock market.

Consistent with the rhetoric of this official, the state refrained from engaging in the debate about whether it was right or wrong to build a stock market. In fact, Deng Xiaoping used the phrase “no debates” to express his attitude. He argued that

debates would complicate things, and the time that was spent on debating should be spent on boldly experimenting and making breakthroughs (Deng, 1993: 374). If the “no debate” attitude indirectly addressed the apparent contradiction in having a stock market in a socialist country, Deng Xiaoping further offered a more direct and powerful justification for adopting the market. For instance, on many occasions

Deng stated that poverty is not socialism or communism. He said,

The ideal of Marxism is to accomplish communism. ... The communism that Marx talked about was a society with extremely abundant material goods (Deng, 1993: 228). How can we say something like poor socialism and poor communism? ... We first must get rid of poverty and backwardness, greatly develop our production force, and demonstrate that socialism is superior to capitalism (Deng, 1993: 224).

Deng’s arguments exposed the inconsistencies and contradictions between what was going on in China and what was the ideal of communism. It forced the audience to contrast the “ideal” of Marxism which is a society where everybody is rich with the condition of China’s society where no one is rich. By pointing out that China was poor, Deng pushed into the foreground the important goal of attaining an affluent society as well as the important Chinese social identity and field of reasoning that suggests “that it is good to be rich.” The identity of being rich was considered by popular belief to be the basis for nobility in traditional China. In contrast, the identity of being poor was regarded as an honor after China turned to communism. Not surprisingly, the introduction of market reform and new understanding of communism coincided with the rise in the positive identification of wealth and the negative identification with poverty.

Deng further emphasized that affluence was in fact evidence of the superiority of socialism over capitalism, thus directing attention to the problem of poverty. At this point, the problem of poverty, not ownership, nor exploitation, became the biggest hurdle for China to claim its Communist identity. Deng essentially toggled between two identities of China: a communist country that is poor and perhaps ideologically anti market versus a communist country that was rich and ideologically successfully Marxist. The toggling helps the citizens to realize which identity is actually desired and worth working towards.

The above example illustrates how the state surfaced and contrasted important social identities of the Chinese people: the social identity of a strong prosperous country is contrasted with the identity of a communist ideologically against capitalist tools. Similarly, another example provides more evidence of rhetorically referencing lines of reasoning contained in communism and socialism. In a meeting with Gorbachev in 1989, Deng Xiaoping acknowledged that no one really comprehended Marxism and socialism. He said,

For many years, there has existed a problem with the understanding of Marxism and socialism. From the first Moscow conference in 1957 to the early half of the 1960s, the Parties of China and the Soviet Union conducted intensive debates. I was one of the people in the debate, and played a nontrivial role. After more than twenty years of practice, when we looked back, we saw that both had many empty words. After more than a hundred years after Marx died, we haven't apprehended what exactly changed, and under the conditions of change, how to understand and develop Marxism (Deng, 1993: 291).

Deng's astonishing honesty challenged the taken-for-granted assumption that China as a socialist country must know what socialism is. As the mastermind of China's reform, Deng's public admission that he did not even fully understand Marxism called many things into question and in the mean time effectively opened up the ground for new definitions and understandings. It is also an implicit critique of the conservatives' attempt to shut down the market in the name of staying faithful to socialism and communism. This in turn, entailed the possibilities of experimentations and explorations. If no one is sure about the correct understanding of Marxism and socialism, then differences in understanding are both legitimate and prudent.

In addition to challenging the established notion that there is an orthodox Marxism, Deng proffered his own understanding of the relationship of socialism to markets, and more specifically, how to view the stock market. Deng commented about the stock market in his famous tour of the south in 1992, as follows:

The fundamental difference between socialism and capitalism does not lie in more planning or more market. Planned economy is not equal to socialism – capitalism also has planning. Nor is market economy equal to capitalism – socialism also has a market. Both planning and market are economic means. ... Planning and market mechanisms that serve socialism are socialist; whereas planning and market that serve capitalism are capitalist (Deng, 1993: 373).

Before Deng's formulation, socialism was in direct opposition to capitalism, and planning was associated with socialism, and the market was associated with capitalism. Within this framework socialist planning stood in direct opposition to

capitalist markets. Deng's theorization separated these taken-for-granted associations by arguing that the market is simply an economic means to achieve socialist ends. The rhetorical brilliance of this argument is that it re-defined the understanding of how the market relates to socialism. This articulation successfully justified the introduction of market logics into a socialist country – while remaining faithful to socialism. It surfaced certain lines of reasoning common to socialism and capitalism that were previously in the background. Deng argued that lines of reasoning currently in the foreground of socialism (e.g., planned economy) were in fact either incorrect or subservient to other lines of reasoning (e.g., markets as a means to an end). Consistent with this new line of reasoning, Premier Li Peng made a dedication to the Shenzhen Stock Exchange during his visit to the exchange in 1993, which reads, “Strive to manage the Shenzhen Stock Exchange well, in order to serve the socialist market economy (SZSE, 1993).” Furthermore, this rhetorical move changes the social identity of communism such that new sets of social relationships are possible and legitimate (e.g., corporations with shareholders, managers, employees, traders, securities analyst, etc.). This also creates a context for constructing a new identity for China's economic system as a socialist market economy: socialism with Chinese characteristics.

Epidictic rhetoric clarifies concepts, defines categories, and shapes the audience's understanding and comprehension of the world. Through the use of epidictic rhetoric, the state creates its own ethos as a knowledgeable and wise speaker who has deep insights about what is taken for granted, what are shared

values, and what are the current problems. The speaker introduces new forms of thoughts, challenges taken-for-granted understandings, and enriches the breadth and depth of the knowledge of the audience. Moreover, the state's use of epideictic rhetoric produces identification and positions the state as educator and the Chinese citizens as student. This helps the state establish both authority and cognitive legitimacy. The underlying rationale is that before actors make moral judgments or initiate an action, they need to comprehend and understand what they are dealing with. When the state speaks in a language of learning and knowing, it creates a context for the production and acquisition of cognitive legitimacy. In this new context, the state is no longer seen as a communist regime that is at odds with the stock market institution, but as learner seeking truth and knowledge, an expert probing into the correct understanding of orthodoxies, and an inquirer looking for answers to some profoundly difficult questions.

In fact, many of the articles published in the *People's Daily* introduced knowledge about the stock market: its functions, players, and rules. These articles defined the basic concepts of the stock market, described a variety of new social relationships, featured opinions from experts, and reported stories describing investor's experiences investing and trading in stocks.

The State as Prosecutor

The *People's Daily* has published only two front-page, headlines, "Special Guest Commentaries" in the entire history of the stock market. These two Special

Guest Commentaries have become the most dramatic and memorable events in the minds of Chinese investors. They were published at moments of great uncertainty and they sent strong messages that had a profound impact on the stock market. The first “Special Guest Commentary” on December 16, 1996 caused the market to plummet from its peak. The second one on June 15, 1999 was credited for setting in motion a two-year long bull market. Although the two Special Guest Commentaries are distinctly different in their tone and style, they each made a huge impact on the discursive and interpretive landscape. In this and the next sections I analyze in greater detail the 1996 and 1999 commentaries as quintessential examples of forensic and deliberative rhetoric respectively.

The 1996 article appeared against a background of a roaring market. After two years of a bear market, the stock market saw a powerful upward movement in the market from April 1996 to December of 1996. This rapid rise in price in such a short period raised concerns for the Chinese Securities Regulatory Commission (CSRC) that the stock market was overheating. With the intention to cool the market, the CSRC wished to signal a tightening of control and thus issued several rules and reports on strengthening the monitoring and supervision of investment banks, brokers, and the movement of the stock market. The commission also repeatedly issued warnings about improper speculation, irresponsible comments by securities analysts, and potential illegal trading in the market. In addition, the director of the commission stated publicly that speculative behavior was bad for the market. Even more serious, the CSRC began to prosecute some commercial banks that violated

rules for registering new securities. As one noted historian of China's stock market observed, the government sent altogether 15 warnings to the public (Li, 2001).

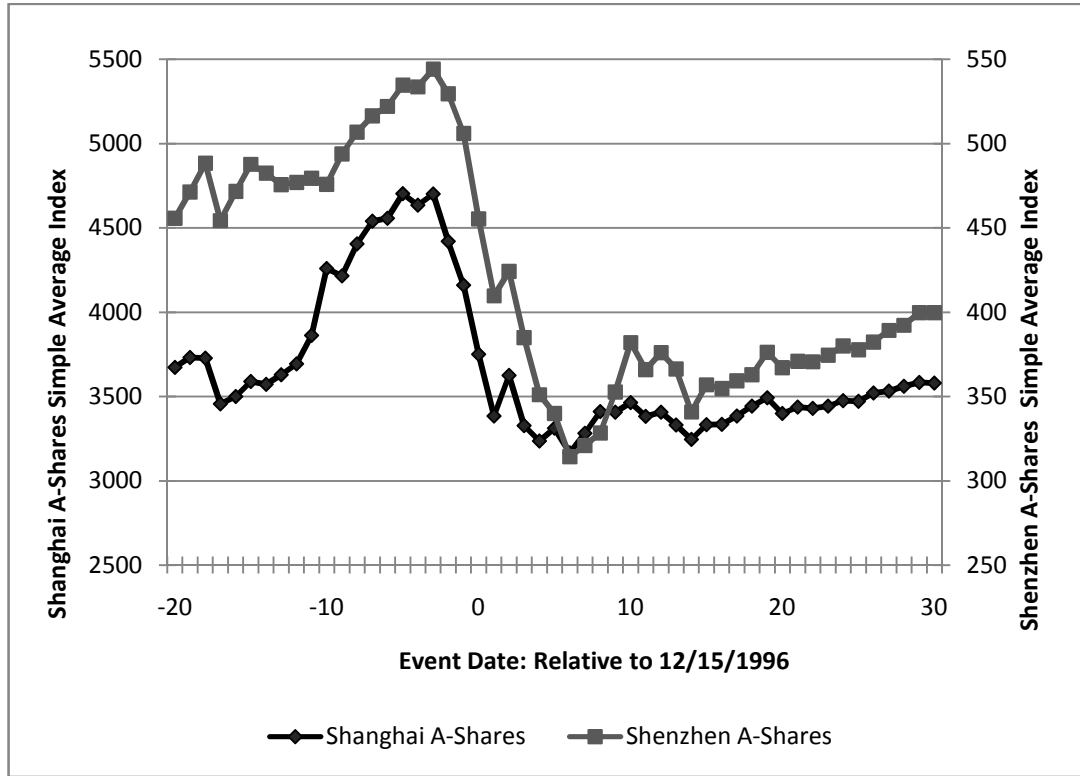
However, these signals did not seem to put a brake on the soaring market.

On December 15, 1996, the Chinese Central Television (CCTV), a state organ, broadcasted a segment on its nightly news. This segment, entitled "The Correct Understanding of the Current Stock Market," was broadcast every hour for 7 times that night, and was published as a front-page Special Guest Commentary in *The People's Daily* the next morning. One of our interviewees remarked that he still remembered the stiff face of the news anchor who delivered the segment.

This nightly news segment and the subsequent print article were like a bomb dropped on the market. All of 614 stocks, including A shares, B shares and funds, plummeted to the 10% downward price limit the morning of December 16. This fall in prices continued for several days. In addition, the sharp downward trend extended for the rest of that year. The magnitude of this discursive state intervention was enormous and the vast majority of our interviewees mentioned this dramatic event as an important turning point in the development of China's stock market. Figure 4.2 graphs the move of stock market indexes before and after the publication of this article.¹

¹ Ironically, this discursive event is still ever present in the collective psyche of the market. In fact, a fake *People's Daily* commentary circulated on the internet in April 2007 had a tremendous effect on the market.

**FIGURE 4.2: Movements of Market Returns around the Special Guest
Commentary on Dec. 16, 1996**



People were curious as to who had authored this article. Rumors at the time named then Vice Premier Zhu Rongji as the author of this piece (Green, 2004). This mystery was solved when Zhou Zhengqing, the third CSRC chairman from July 1997 to February 2000, admitted in 2003 that he wrote the 1996 special guest commentary as well as the 1999 guest commentary (Li, 2003). At the time when Zhou wrote these commentaries, he was the director of State Council Securities

Committee (SCSC), the government authority of CSRC in the State Council. In addition, several experts suggest that the Vice Premier Zhu Rongji must have approved these commentaries considering the significance of publishing this kind of article in the *People's Daily*. Many of our interviewees also suggested that the publication of these commentaries needed the approval from at least the Premier Li Peng, or even the Party Chief Jiang Zemin.

The 1996 commentary used forensic rhetoric extensively. In fact, the state makes extensive arguments about why the abnormal rise of the market was due to the wrongdoings of some market actors. The article identified four major players in the marketplace: State-owned enterprises (SOEs), banks, securities companies, and the media. The article blamed banks for lending money to firms as a way to flood capital into the market, thus moving the prices up. It accused securities companies of purchasing stocks through overdrafting from the banks, an action prohibited by the state. It also blamed the securities analysts, consultants, and the media for circulating overly optimistic rumors and misleading individual investors.

Party newspapers are well known for their choice of plain and neutral words and unornamented writing. However, this 1996 article contains words and phrases that are distinctively negative and emotion-laden, especially when it refers to SOEs. For instance, the following paragraph on SOEs is fueled with Chinese idioms that are extremely angry and critical:

First, institutional investors and the Zhuangjia [Big Shots, the House] manipulate the market. Some Zhuangjia with huge assets take advantage of

the fact that stock market roars and that retail investors follow the wind [jump on the bandwagon], taking turns as the Zhuangjia [manipulator] to manipulate prices. These Zhuangjia are mostly state-owned enterprises, who rely on their status and connections to summon wind and rain [stir up trouble], and seek exorbitant profits. They stake a billion pieces of gold on one throw [throw away money like dirt] without considering any risks, if succeed, their waist will become loaded with millions of dough [gain enormous profit], if fail, they will transfer the trouble to the state.

In China's stock market, one of the most popular terms is Zhuangjia (Big Shots or the House). This term is used to describe SOEs and other investors who manipulate the market for personal gains. This term is borrowed from the dealer or house in gambling games, and also implies the imagery of a landlord in a feudal society. Zhuangjia are so dominating and ubiquitous that many retail investors base their investment decisions on guessing the actions of Zhuangjia. State accusations against the Zhuangjia or SOEs also reflect major changes in the economic and social relationships within Chinese society. Specifically, official state rhetoric as well as the introduction of the stock market raised questions about the legitimacy and continued dominance of SOEs in the future Chinese economy.

Although most Chinese retail investors would agree with the state's descriptions and accusations against the SOEs, it was unusual for the Party owned newspaper to use such language against such established economic actors. The state appropriated the language of individual investors, such as calling stock manipulators the House, and describing their activities using vernacular expressions. By assuming the voice of the individual investors, the state created a sense of identification with individual investors, helping individual investors to realize that their interests and the

state's interests were aligned, and that the state was also a victim of the wrongdoings of these malicious players. This linguistic creation of identification "induces cooperation in beings that by nature respond to symbols" (Burke, 1969 [1950]: 43), and is an explicit example of neo-institutional ideas that suggest that an important aspect of institutional entrepreneurialism is the social skill or ability to symbolically "induce cooperation in others" (Fligstein, 1997: 398; 2001: 105).

In adopting the forensic rhetoric of prosecution the state effectively placed the SOEs into the position of accused and the state into the position of prosecutor. The state uses this ethos and moral legitimacy to effectively compare and equate the SOE's social relationship to retail investors to that of the greedy landlord and oppressed serfs of feudal society. This argument suggests that this social relationship is wrong and needs to change.

While the language of prosecution positions the state into the role of prosecutor, the Chinese citizen is placed into the social position of judge or juror. Both the prosecutor and the judge are concerned about what happened, what went wrong, and who is to blame. Assuming the role of the prosecutor, the state acquires the authority and legitimacy to make arguments that accuse actors of inappropriate practices. The state appeals to the commonly held social mores in attacking wrongdoers and malpractices, and thus induces from the audience a sense of moral legitimacy. In this social context, the contradictions between the communist state and the capitalist stock market institution are pushed into the background. Identification

or a shared sense that there is something seriously wrong unites the state as prosecutor and the citizen as the judge or juror.

At the core of this rhetoric of prosecution is the intention of the state to normalize the social relationships among market players. As the market developed, the number and types of participants increased tremendously. In a market that did not have a clear set of laws and regulations, actors with varying degrees of political connections and power sought all kinds of loopholes to take advantage of the market. Certain social identities and relationships and their corresponding practices (e.g., rampant speculation and market manipulation) were unfair and harmful to the development of the market. Therefore, in the 1996 commentary the state reprimanded many of these market players, new social relationships, and new social actions, before they became broadly accepted norms or taken for granted understandings of how China's stock market would function. Rhetorically, the 1996 commentary reflects the state assuming the role of moral authority in the stock market. By explicitly referencing or placing into the foreground these social relationships and criticizing certain past behaviors and practices within these relationships, the state is suggesting to the Chinese people that it has knowledge of how these social actors have conducted themselves in the stock market. This rhetorical move enhances the state's ethos as a speaker that has knowledge about what has happened. Moreover, it provides the state the moral legitimacy to set up the right norms for the market, and establish appropriate relationships among market players. In short, the state as prosecutor argues for those new social relationships of

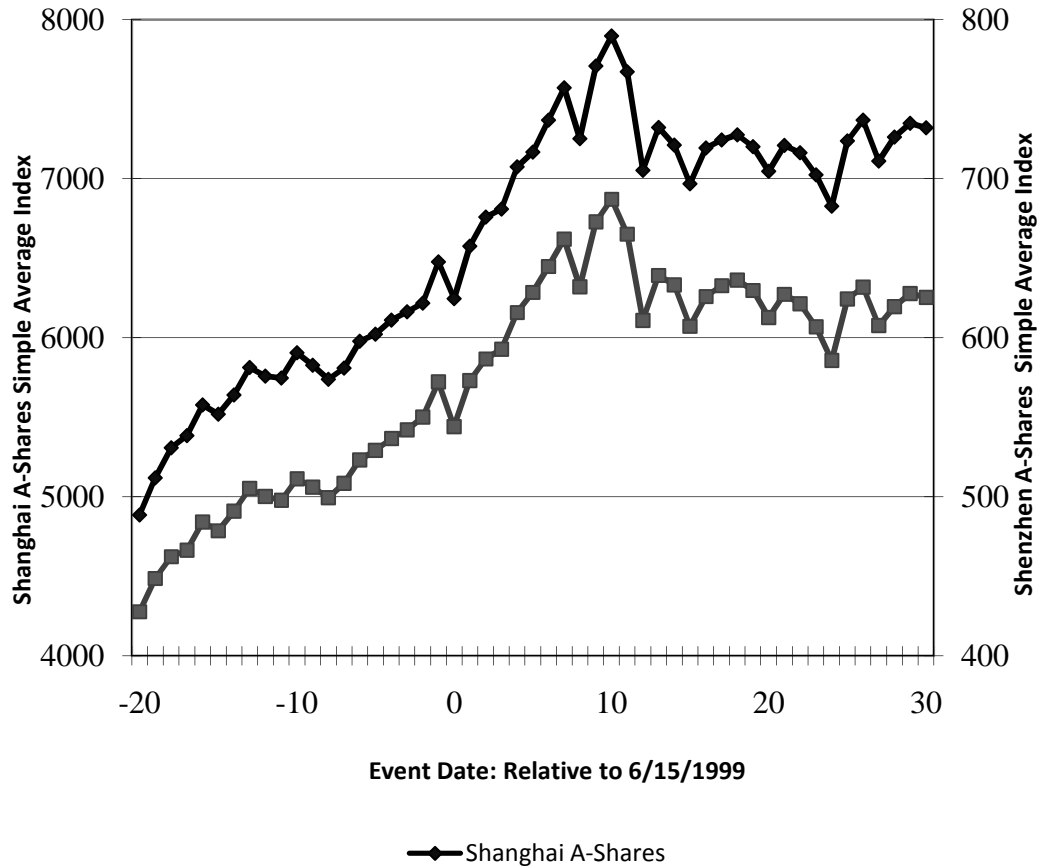
the stock market which are right and worth keeping and which social relationships are wrong and need of adjustment or abandonment.

The State as Leader or Manager

The Special Guest Commentary published in 1999 came at a time when the market had been on a continuous downturn for two years. The market took an upward turn on May 19, 1999, and kept rising for the next 20 days. Whether this turn indicated a bottom to the bear market or simply a short-term move up before the continuation of falling prices was on everyone's mind (Li, 2001). People were looking anxiously for signs. The publication of the article by the "Special Guest Commentator" in the *People's Daily* on June 15 came at this critical moment. This article, entitled "Standardizing Stock Market Development with Firmer Confidence," states that the recent market rise "reflects the actual condition of the macro-economic development and the inherent demand of market operations, is a normal, restorative rise." More importantly it declared a series of policies that energized the market. Encouraged by this commentary, the market soared 25% in half a month, and the market continued its rise for the next two years. Figure 4.3 graphs the moves in stock market indexes before and after the publication of this article.

FIGURE 4.3: Movements of Market Returns around the Special Guest

Commentary on Jun. 15, 1999



In contrast to the 1996 commentary's forensic reasoning, the 1999 commentary is distinguished by deliberative reasoning. Specifically, the commentary gave specific instructions to some major market players as to what they should do to improve the market performance. These instructions or guidance were supported by

arguments about the practical benefits of these actions to various market constituencies.

Securities regulatory agencies should strive to maintain the market principles, conscientiously improve the standardization of conducting regulatory work. Reform the share issuance policies, open up the IPO approval process, enhance the transparency of regulatory work; investigate illegal activities on the basis of laws, in order to practically protect the interests of investors.

Listed companies should comply with the law in disclosing information, ... to reward investors with better performance.

Further expand the experimentation of securities investment funds, accelerate the rate of nurturing institutional investors. Fund management companies should improve operations and management, in order to increase investment returns.

Implicit in these arguments is the voice of a decision maker who makes rational judgments about the advantages and disadvantages of particular courses of action within particular social relationships and situations. It is also a voice that urges the audience or Chinese people to take actions on the basis of these deliberations. The use of deliberative reasoning enhances the ethos of the state because the state is shown to have knowledge about the future outcomes of different courses of action.

Deliberative rhetoric creates identification because it discusses the mutual consequences of collective actions. This positions the state into the role of manager or leader and the Chinese citizen in the role of worker or follower. The discourse of the social relationship of manager and worker resembles and resonates with the form of rational-legal authority (Weber, 1978). The role of the manager and worker is to make rational decisions for the benefit of the organization. The manager enjoys the authority of the decision maker and is regarded as technically competent and skilled

to make the best decisions for both the managers and the workers. By weighing the benefits and costs of alternatives and designing plans for action, the manager acquires pragmatic legitimacy in the eyes of the employees. The deliberative rhetoric enables the state to highlight its ability to lead the people into a bright future. It directs the attention of market participants to the practical benefits of these new market relationships, while simultaneously pushing into the background the ideological contradictions that may exist between the communist state and its capitalist practices.

Deliberative rhetoric is perhaps best captured in the public debate made between 2004 and 2006 regarding non-tradable shares. Non-tradable shares were state shares or legal-person shares, which were set up as non tradable on the secondary market. It was a unique feature of China's stock market and indicated the initial unwillingness of the state to abandon its ownership of SOEs. However, as the market developed, most market participants believed that the institutional arrangement of non-tradable shares was a problem that prevented further marketization of the stock market. All market participants, including the listed companies, individual investors, institutional investors, and the regulator, were engaged in a wide and prolonged discussion about how to make non-tradable shares tradable. The negotiation revolved around designing ratios to compensate shareholders of tradable shares (Haveman & Wang, 2008). Although participants at times were in serious disagreement, what distinguished this debate from previous debates was that it was fundamentally not about the morality or appropriateness of

these new market relationships. The questions concerning the appropriateness or morality of market relationships were pushed into the background, and debates and discussions revolved around what are the best actions to take within these newly accepted and legitimate market relationships. This public deliberation of action within accepted social relationships, as opposed to questioning the existence or appropriateness of the relationships themselves, reflects that these new social relationships and identities are relatively clarified, normatively accepted and established, and potentially on course for a more complete taken for grantedness: the final stage of legitimation (Green, 2004; Green et al., 2009).

Quantitative Analysis

Coding the rhetoric

Two coders, including the author, read each article in the sample, and coded the article into one of three categories: epideictic rhetoric; forensic rhetoric; and deliberative rhetoric. Epideictic rhetoric is coded as discourse that positions the state as teacher and Chinese citizens as students. This type of rhetoric often explains concepts in a neutral tone, or reports events (typically a conference on stock market) without outlining arguments related to morality or future consequences. Forensic rhetoric is coded as discourse that positions the state as prosecutor and Chinese citizens as judges. This type of rhetoric is often accusatory describing someone or something as unjust or guilty. Finally deliberative rhetoric is coded as discourse that positions the state as leader or manager and the Chinese citizens as followers or

workers. This type of rhetoric often proposes concrete strategies and courses of action. In cases where the articles contained more than one genre of rhetoric, the coders selected the dominant genre after careful consideration and comparison. The second coder coded 60 articles randomly selected from the sample. Because the data are nominal, agreement between the two coders was calculated using Cohen's kappa (Cohen, 1960). The inter-coder reliability or Cohen's kappa is .879 (with $p < .00001$). Table 4.1 illustrates selected examples for each genre.

TABLE 4.1: Selected Coding Examples

Epideictic Rhetoric: The State as Educator

Article Title: There Is A Growing Attraction Of the People to Securities Market

Main Arguments: According to experts, securities markets are an indispensable constituent of the financial market. ... Financial professionals commented that securities market has played an important role in our country's economic development. (*The People's Daily*, 1988_09_04)

Article Title: Exploring A Securities Market With Chinese Characteristics

Building socialism with Chinese characteristics is the main task of the entire Party and all people for now and for a long time in the future. Against this background, exploring and developing the ways of our country's securities market, should reflect the requirement by the main goal of building socialism with Chinese characteristics. (*The People's Daily*, 1991_12_30).

Forensic Rhetoric: The State as Prosecutor

Article Title: Correspondence On The Stock Market

Main Arguments: In the current stock market, there indeed exists this kind of companies that forced their way through the crowd to the securities market. Some listed companies are illegally occupied by companies overseas, have hollow profits, false announced assets, and some registered accounting firms even cook books for them. In these situations, how is it possible to protect the interest of the public? (*The People's Daily*, 1992_09_28)

Table 4.1, Continued

Article Title: The Buying of Shells Should Not Be Done In a Black Box

Main Arguments: The original purpose of asset restructuring is to make use of the “shell” of listed companies....The problem is that this kind of asset reallocation should adopt market mechanisms, and conform to the principles of the securities market – “Open, Just, and Fair.”...Because the buying of shells has been done through negotiations outside of the market, the whole process is in a black box. The public investors have no way to know the inside stories, and there existed all kinds of possibilities of insider trading. ...These kinds of related party transactions are absolutely not practices of the fair market. (*The People’s Daily*, 1998_07_06)

Article Title: Honesty is Priceless

Main Arguments: In our country’s securities market, honesty is still frequently facing challenges. Aren’t there many listed companies that make up projects to quanqian [enclose money], and once the money is enclosed, they “changed their faces” immediately, they either change the target of the capital investment or entrust money managers with these money. Aren’t there many listed companies that collude with Zhuangjia [big shots], and manipulate stock prices using insider information? Why don’t these listed companies stand by honesty and credence? Can’t relevant agencies have some measures to deal with them? (*The People’s Daily*, 2001_08_06)

Deliberative Rhetoric: The State as Manager

Article Title: Strengthen Information Service and Perfect The Securities Market

Main Arguments: Now we must establish as quickly as possible a complete set of laws, and economic and administrative system for protection and monitor, including the necessary system for public disclosure of information. (*The People’s Daily*, 1992_07_06)

Article Title: CSRC Stated: Greater Effort Will Be Put Into Removing Controls of The Securities Market

Main Arguments: The CSRC will talk about cancelling more procedures of administrative approval, ...and delegate the work to other organizations.... The overall principle is to create an environment to let market mechanisms to play its role, and let the market to function effectively... (*The People’s Daily*, 2002_12_07)

Presentation of analysis

The previous analysis examined representative and important examples of each form of political rhetoric. Moreover, it showed how each form of rhetoric helped construct the ethos and legitimacy of the state during this period of radical institutional change. It also showed specific examples of how the state used each genre of rhetoric to reference, surface, juxtapose, and advocate new social

relationships and identities needed to establish radical institutional change. The next analysis uses quantitative methods to analyze how these broader genres of rhetoric moved over time. Specifically, statistical analysis is applied to the entire longitudinal data set of *People's Daily* news articles. The goal of the next analysis is to confirm and explicate the trend and sequence of rhetorical genres identified in the previous smaller and more inductive and detailed rhetorical analysis. Figure 4.4 shows the number of articles from the data set for each of the three rhetorical genres over the time period 1990 to 2005. The Y-axis indicates the number of articles. The X-axis represents the year.

FIGURE 4.4: Trends of Rhetorical Genres

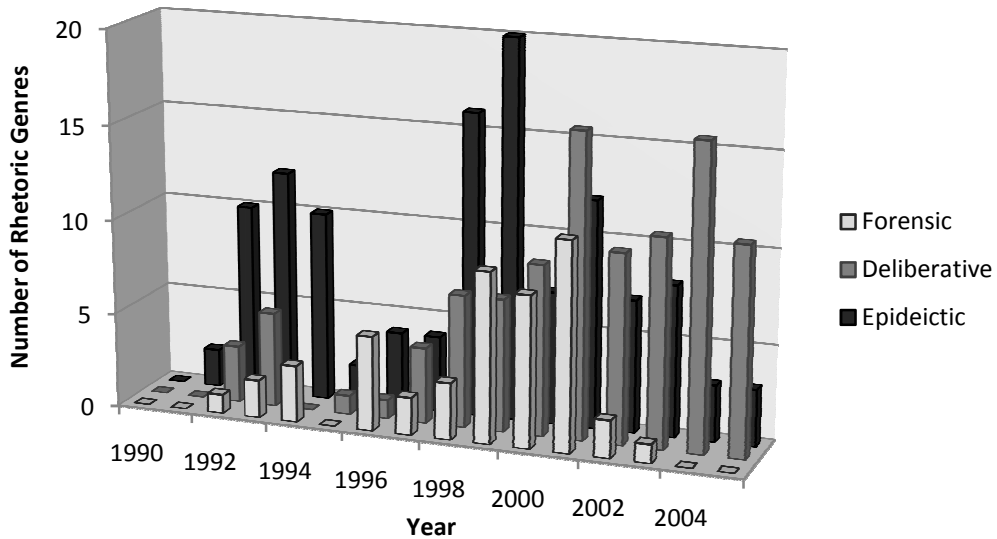


Figure 4.4 shows that the three genres of rhetoric are used together by the state to legitimize a new institution. The epideictic genre was used at a relatively high level throughout the development of the stock market. The forensic genre appears in 1992, rises steadily to reach its peak in 2001, and declines rapidly after 2001. The deliberative genre appears in 1992, and continues to rise throughout the years.

To further understand the relative significance between these three genres, I divided the number of each rhetorical genre per year by all of the articles for that year. This gives the proportion of each rhetorical genre occurrence relative to all three genres for that year. Figure 4.5 shows this ratio. The X-axis represents the year and the Y-axis indicates the ratio of the number of articles of a particular rhetorical genre out of the total number of articles for that year.

Figure 4.6 graphs the ratio of rhetorical genres from 1991 to 2004 using a moving average over 3 years to smooth out the curves. Figure 4.6 shows the same trend that is observed in Figure 4.5.

Figure 4.5 and Figure 4.6 show the change in relative dominance of the rhetorical genres. Specifically, epideictic rhetoric was employed at relatively high percentages throughout the years, with an average proportion of 47%. Its dominance declines steadily. Forensic rhetoric was employed sporadically in early years, grew to represent an average of 28% between 1996 and 2001, and declined in later years. Finally, deliberative rhetoric is below 20% in the first five years, rises steadily, and reaches a dominance of 70% in the last two years. These two graphs reflect that epideictic rhetoric predominates early in the process and deliberative predominates

late in the process. Forensic rhetoric is most frequently used in the transition period between epideictic and deliberative rhetoric.

FIGURE 4.5: The Changing Rhetorical Genres of China's Stock Market from 1990 to 2005

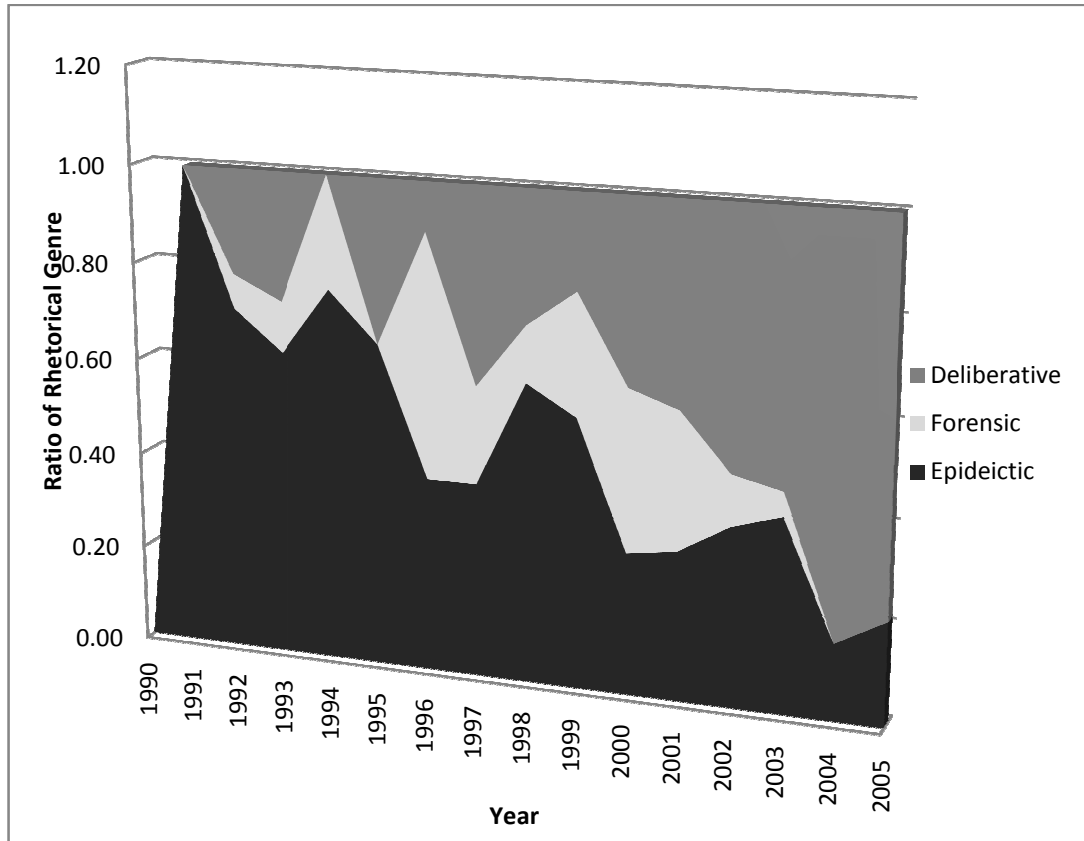
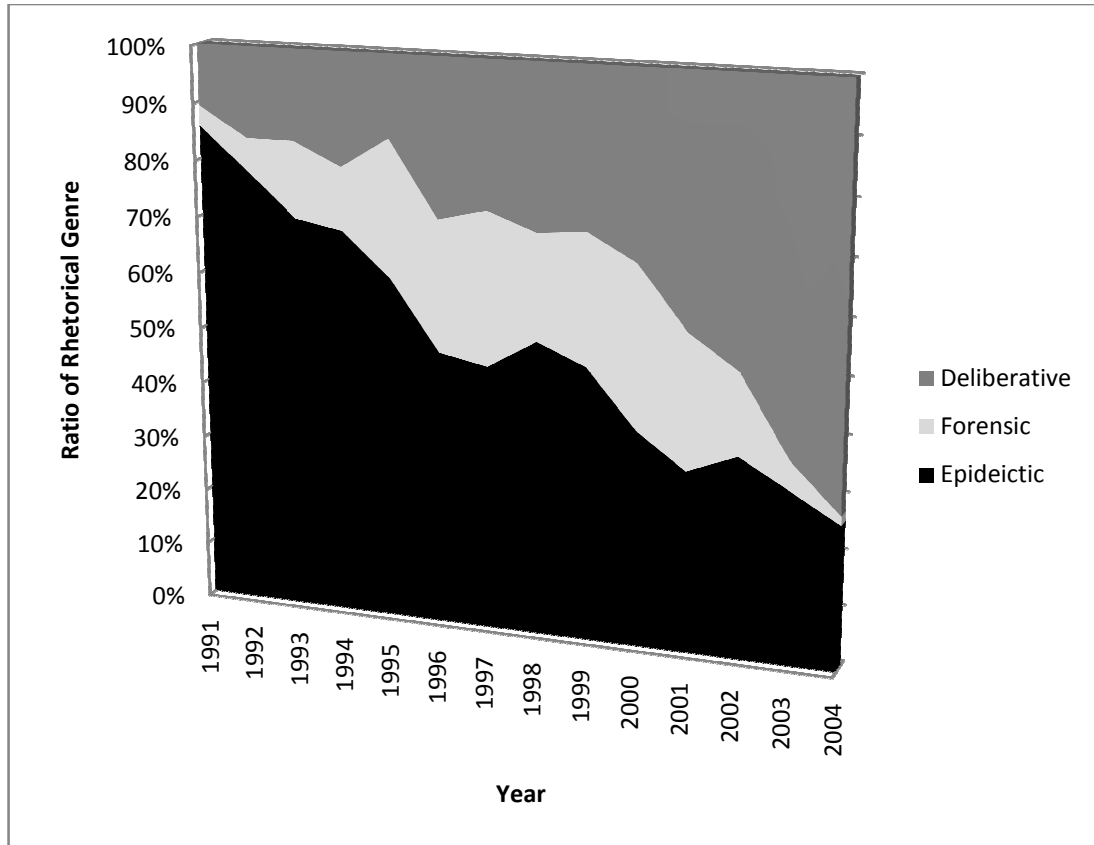


FIGURE 4.6: A Three Year Moving Average of the Changing Rhetorical Genres from 1991 to 2004



An ordinal logistic regression was run to further validate the existence of this changing rhetorical pattern. The dependent variable is the rhetorical genre, which is coded as 1 for epideictic rhetoric, 2 for forensic rhetoric, and 3 for deliberative rhetoric. The frequency and percentage of these categories are: 120 (44.6%) for category 1, 47 (17.5%) for category 2, and 101 (37.5%) for category 3. The independent variable is Time, with the year 1991 corresponding to 1, 1992 to 2, etc..

An ordinal logistic regression is employed because the dependent variable is ordered from lower to higher categories, and this regression can show if the ordered categories progress through stages over time. I used STATA 9.0 to estimate the model. Table 4.2 shows the results.

TABLE 4.2: Ordinal Logistic Regressions of Rhetorical Genre

Independent Variable	Model
Time	.22*** (.04)
Cut point 1	1.73 (.36)
Cut point 2	2.53 (.38)
Log Likelihood	-257.16
LR Chi-square	39.28****
Df	1
Pseudo R-squared	.07
Number of Observations	268
** p ≤ .01; *** p ≤ .001; **** p ≤ .0001	
Standard errors are in parentheses.	

A significant p-value means that the model is significant. A positive coefficient for Time indicates that as the variable Time increases, the probability of rhetoric being allocated to the categories higher in the rank also increases. Put simply, as time moves on, there is a higher chance that epideictic rhetoric is introduced in the early period, forensic rhetoric in the middle period, and deliberative

rhetoric in the last period. The model confirms the trend observed in the graphical presentation of the movement of rhetorical genres. Time has a significant effect on the rhetoric employed. As time goes on, there is a progression of rhetoric from epideictic, to forensic, and finally to deliberative.

This statistical evidence provides important evidence about how radical institutional change is legitimated. Specifically, in the initial stage of the stock market development, the state as institutional entrepreneur focused on creating cognitive legitimacy. At this stage the state used epideictic rhetoric to propose the use of new social relationships and new definitions of old social relationships. To maintain its ethos or credibility it created identification through sharing knowledge and education and thus positioned the state as teacher and the Chinese citizen as student. Pushing this social relationship into the foreground created a context within which actors could acquire cognitive legitimacy: comprehension and understanding. Epideictic rhetoric also created a context for the state to use this ethos to advocate radical institutional changes to established social relationships and identities such as communist planned economy relationships as well as introduce new social relationships and identities belonging to capitalist markets.

At the second stage, the state as institutional entrepreneur adopted forensic rhetoric to normalize or distinguish which of these new relationships were right and which of these new relationships were wrong. To maintain its ethos or credibility it created identification through prosecution of mutual wrongs positing state as prosecutor and the Chinese citizen as judge or juror. Emphasizing this relationship

created a context within which the state could acquire moral legitimacy to assert what was right and what was wrong.

Finally, when both the cognitive and moral legitimacy are established, the state as institutional entrepreneur engaged in deliberative rhetoric in order to optimize actions and behaviors within accepted new market relationships. To maintain its ethos or credibility it created identification through the calculation of consequences of collective action positioning the state as leader or manager and the Chinese citizen as follower or worker. This relationship created a context within which actors focus on technical competence as well as weigh the advantages and disadvantages of different courses of action. This field of reasoning provides robust environment for the production of pragmatic legitimacy.

This specific sequence or rhetorical progression reflects that the institutional entrepreneurs changed the genre of their rhetoric to adjust to the audience and social situations as the market evolved. Below I briefly describe the three stages of this rhetorical progression in more detail. I also offer a few theoretical explanations of why one might observe sequence of rhetoric during the institutionalization of radical institutional change for highly embedded actors like the state. Table 4.3 outlines the changes in these three stages.

TABLE 4.3: A Rhetorical Model of Ethos Construction and Institutional Change

1st Stage	2nd Stage	3rd Stage
Ethos	Ethos	Ethos
Educator	Prosecutor	Manager/Leader
Rhetoric	Rhetoric	Rhetoric
Epideictic (The rhetoric of definition/understanding through praise and denigration)	Forensic (The rhetoric of right and wrong through attack and defense)	Deliberative (The rhetoric of advantage of harm through urge and deterrence)
Legitimacy	Legitimacy	Legitimacy
Cognitive (comprehension)	Moral (ethical judgment)	Pragmatic (self-interested calculation of benefits and costs)

A Rhetorical Model of Ethos Construction and Institutional Change

This essay argues that the discursive construction of ethos is critical for the state to legitimate radical institutional change. The three Aristotelian political genres of rhetoric represent three means by which ethos can be constructed, as well as three strategies for advocating new relationships and logics within society.

Controversial institutional change challenges the prior ethos of the state. However, the state may strategically utilize rhetoric to modify its extrinsic ethos and construct an intrinsic ethos that has the legitimacy and authority to act as an

institutional entrepreneur for radical change. The three genres of political rhetoric represent three common ways through which the self-image of the speaker is constructed. They also indicate three distinct ways of reasoning about ethos or identification: definition, comprehension, and understanding for the epideictic, justice and morality for the forensic, and efficiency for the deliberative. These different reasoning styles emphasize and foreground particular social relationships while pushing into the background other social relationships. These different social relationships help lead to different forms of legitimacy: cognitive, moral, and pragmatic.

With regards to ethos these genres of rhetoric (i.e., epideictic, forensic, deliberative) foreground three common identifications or social relationships (i.e., educator and student, prosecutor and juror, leader and follower). Moreover, these three common identifications or social relationships create a context or predisposition for the production of a particular type of legitimacy (i.e., cognitive, moral, and pragmatic). With regard to radical institutional change or manipulation of established logics and social relationships, the three genres of rhetoric often surface, juxtapose, and rationalize logics, relationships and identities. Epideictic rhetoric helps to surface, juxtapose, and compare and contrast old relationships and logics with new relationships and logics. Forensic rhetoric helps to choose which of these new and old logics are right and wrong and thus normalize and establish the appropriateness of new institutional relationships and arrangement. Finally,

deliberative rhetoric helps actors to use and optimize actions and behaviors within these new and normalized logics and relationships.

The central theme of this essay is that the strategic use of these rhetorical genres enables the state to legitimate controversial institutional change while still maintaining its own legitimacy. A specific sequence of change in the rhetorical reasoning may have facilitated a smooth beginning, a vital middle stage, and an effective implementation of radical institutional change. At the initial stage the Chinese government advocated for a radical set of practices that ultimately made it look delegitimate as a communist regime. The Chinese government solves this rhetorical and institutional problem by surfacing and juxtaposing taken for granted lines of reasoning about what socialism, capitalism, and Marxism are. This rhetorical toggling process legitimates its new policies as well as maintains its legitimacy as the rightful and legitimate leader of the Chinese people. At the third stage, the new institutional model has obtained cognitive as well moral legitimacy. The institutional entrepreneur engages mainly in deliberating on how to make the new institutional model more efficient and effective. Engaging in deliberative reasoning helps the institutional entrepreneur establish its status and social position as effective leader-manager and decision maker.

Stage 1 – Epideictic rhetoric

This model suggests that the institutional entrepreneur initially employs epideictic rhetoric to define concepts and elevate good models. This rhetoric

establishes the cognitive legitimacy of the new model in that it helps the public comprehend what the new model is and how it works. The new model may invoke institutional logics contradictory to existing logics, but epideictic rhetoric does not confront the existing institutional logic with accusations. In the beginning years of the economic reform when the logic of central planning was still very much alive in both theory and practice, it would have been perhaps unwise for the change agent to attack the established institutional logic on a moral or pragmatic basis, because it may have offended people who had taken that logic for granted as well as those benefiting from current institutional arrangements. Attacks on institutional logics supported by currently institutional arrangements may threaten people who benefit from the established institutional structure. In fact, our model may help explain why many were shocked at the “shock therapy” approach to market reform in Russia, where the introduction of capitalist practices was met with vehement resistance and a significant decline in economic output (Lai, 2006). Our model suggests that Russia may have failed to begin its market reform with epideictic rhetoric and thus establish cognitive legitimacy. Without the production of cognitive legitimacy and the emphasis of social relationships less resistant to change, actors remain in relationships and social identities that will interpret these changes as a threat and thus mobilize against this change accordingly.

In addition, when a new institutional set of practices like a stock market are adopted, many new practices are emerging without clearly codified rules and laws. In such a situation, market participants develop and create several spontaneous

solutions and interpretations to their problems and their actions may straddle the lines of what is legal and illegal. At this stage, it is unwise to employ forensic rhetoric because it may stifle innovation and adaptation and potentially signify something as wrong that in the long run may actually prove to be beneficial. Using forensic rhetoric at the early stage of a new institution may intimidate entrepreneurs and make them afraid to create and experiment. However, epideictic rhetoric differs from forensic rhetoric as it uses praise to endorse desirable actions as opposed to blame to criticize undesirable behavior. It does not place the person or action under the jurisdiction of law and justice or moral condemnation.

Stage 2 - Forensic rhetoric

At the second stage, the institutional entrepreneur attacks the old institutional model and defends the new one on the basis of morality or justice. From the social position of the prosecutor, forensic reasoning establishes the moral legitimacy of the new institutional logic. It enables the institutional entrepreneur to assume the language and social position of the prosecutor, thus acquiring the power of representing justice. Forensic rhetoric may arise in the second stage of institutional evolution for several reasons. First, as the new institutional logic – the logic of market economy – is accepted, people become more comfortable with the new order and thus less resistant to change. In the mean time, a new sense of justice or appropriateness based on the new logic becomes accepted by the society. The new logic now has the legitimacy to directly confront the old logic. However the old logic

has not completely died out and still provides moral legitimacy for those resistant to the new change. Hence these two contradictory institutional logics are best embodied in the forensic rhetoric of prosecution and defense.

In addition, after initial years of experimentation and exploration of innovative solutions to problems, institutional participants need clarity on what practices are appropriate and what practices are inappropriate. There is an increasing pressure to separate what is right from what is wrong, so that the right relationships and actions can get normalized, standardized, and stabilized and the wrong relationships and actions penalized and abandoned. By employing forensic rhetoric, the state as the institutional entrepreneur produces identification by constructing an image of the state and Chinese citizens as fair, responsible, and moral. By arguing and advocating for what is right and criticizing that which is wrong, the state also builds moral legitimacy for new practices. Forensic rhetoric infuses the new institution with moral value and higher purposes. Forensic rhetoric helps differentiate between the acceptable and the sanctioned. As actions and rules become normalized, market participants come to recognize their moral obligations and set up ethical codes of professional conduct.

Stage 3: Deliberative rhetoric

At the third stage, the new institutional model has obtained cognitive as well moral legitimacy. The institutional entrepreneur engages mainly in deliberating on how to make the new institutional model more efficient and effective. Engaging in

deliberative reasoning helps the institutional entrepreneur establish its status and social position as effective leader-manager and decision maker. In the third stage, market participants have overcome the cognitive barrier, and formed a unified moral sentiment on the fundamental principles of the stock market. This is when deliberations about the advantage and disadvantage of particular courses of action dominate people's attention. As mentioned above, in the epideictic stage, the most urgent task is to understand and learn so that correct models and social relationships are adopted; in the forensic stage, the most pending question is how to create a shared moral sentiment for which relationships are right or wrong and what are appropriate actions within these relationships. It is only in the last stage of development that people are essentially devoted to deliberation over pragmatic concerns, because actors have reached agreement, relative consensus, and moderate acceptance of the new logics and new relationships that govern the field. The key concern faced by actors now is how to coordinate and work within these new social-market relations in order to optimize the benefit and value of collective actions and behaviors.

The use of deliberative rhetoric helps actors reach consensus on executable plans, and also enhances the legitimacy of the institutional entrepreneur. By articulating the reasons and justifications for actions, the state as the institutional entrepreneur produces identification by emphasizing the state's technical competence, rational decision making, and the benefits to the Chinese citizens of engaging in collective and coordinated actions within these new social relationships.

The ethos that emerges in deliberative rhetoric is characterized by the ability to put ideas into practice. With this practical orientation, the state builds the pragmatic legitimacy of the new institution. Deliberations crystallize ideas, values, and norms into concrete plans; this process involves the codification of practices into procedures, rules, and policies. The state formally adopts these rules and policies as action plans.

Taken as whole, this rhetorical sequence potentially reveals important ideational dynamics of meaning construction, institutional change, and the evolution of culture.

DISCUSSION

Rhetoric and State Influence and Power

While the neo-institutional literature has largely presented the state as an institution that coercively constrains or limits actions, our analysis of China's Communist Party's rhetoric on the stock market emphasizes the importance of the rhetorical or persuasive aspects of state power. In this conception, the rules and regulations by which rulers gain power are not merely organizational and political, but rhetorical. Power is seen as more than the manipulation of coercive force, economic resources, or the authority of established positions and relations of power; it is also conceptualized as the purposeful use of symbols to construct images, identities, and rationalities. Although states are authorized to utilize force without giving justifications, states rarely do that. Instead, states often use persuasion to

legitimate current social positions as well as construct new ones. Without the use of persuasion, the state risks losing institutionally legitimate authority (Zucker, 1987: 444).

Whereas material force is explicitly coercive, the power of rhetorical persuasion and identification is often latent and unobtrusive, for its influence is predicated on the ability of rhetoric to shape beliefs and create shared understanding and meanings (Hardy, 1985; Hardy & Phillips, 1999; Hensmans, 2003). Scholars have often emphasized how rhetoric employed by the state frames problems, defines appropriate responses, limits conceivable alternatives, and channels collective actions (Lukes, 1974; Perrow, 1986); however, our unique insight is that rhetoric is also used to frame ourselves as well as our relationships to each other.

The rhetorical conception of state power resonates with political theorists' articulation of a third dimension of power: the means through which power influences, shapes, and determines conceptions of the necessities, possibilities, and strategies of challenges in situations of latent conflicts (Lukes, 1974). This third dimension of power emphasizes the discursive and symbolic interventions used to alter rationales for relationships and social actions (Althusser, 1969; Foucault, 1995; Gramsci, 1991; Lukes, 1974). Such power is embodied not through actual or covert conflict, but the very use of power is to "prevent such conflict from arising in the first place" (Lukes, 1974: 23).

Institutionally Embedded Agency

This essay contributes to the literature on institutionally embedded agency by highlighting the agency of the state in initiating and institutionalizing change.

Coercive conceptions of the state tend to see the state as reactionary, reluctant to change, and often as a limiting or constraining force on institutional actors.

Empirical research in the neo-institutional literature rarely studies the agency of the state. In fact, most literature on institutional agency or entrepreneurship has focused on professions, elite social groups, or missionary organizations in championing a new institution (DiMaggio, 1988; Greenwood, Suddaby, & Hinings, 2002; Rao, 1998). Furthermore, many studies have shown that institutional entrepreneurs are typically actors who are at the periphery of an organizational field or intersection of different organizational fields (Garud, Jain, & Kumaraswamy, 2002; Haveman & Rao, 1997; Leblebici et al., 1991; Rao et al., 2000). The assumption is that actors who are at the margin of a given field and are of lower status are less embedded and bounded by the institutionalized rules, and thus are more likely to see and act on new opportunities.² This case analysis directly explores and addresses the question of institutionally embedded agency: how can an actor change an institution, if that actor's very thoughts, interests, and relationships are embedded and shaped by that institution (Hardy & Maguire, 2008: 198-199; Holm, 1995: 398)? It begins to shed

² Two studies we know of that portray the state as the institutional entrepreneur are Fligstein and Mara-Drita's (1996) study on the role of states in the formation of the European Union and Child, Lu, and Tsai's (2007) study on the role of China's state in the development of China's Environmental Protection System. Our focus differs from the first study in that the state in our study acted as the institutional entrepreneur in a top-down institutional change, not constructing a higher-order institution. Our study differs from the second research in that we focus on the legitimation of a set of radical and controversial institutional practices.

light on this question by examining how the state as a highly embedded actor can advocate and implement radical institutional change that contradicts its legitimate authority without using coercive force.

To legitimate a capitalist institution in a communist regime threatens the ideological and legitimate authority of the Communist Party in China and poses a unique rhetorical conundrum. Examining the rhetoric of the state enable scholars to understand how it is possible that an institutional actor creates and legitimates an innovation that contradicts its own deeply ingrained beliefs and principles and embedded relationships. The insight is that the agency of the state lies in its ability to transform its own ethos as well as important social relationships in society through language. The discursive construction of the state's ethos in turn provides the state with a reinvigorated authority and legitimacy to justify changing fundamental institutional arrangements and relationships in society.

Previous research suggests that the most central and powerful social actors of an organizational field can become the change agent because their very embeddedness and privilege allow them to recognize institutional constraints and to see field-level institutional inconsistencies and contradictions (Fligstein & Mara-Drita, 1996; Greenwood & Suddaby, 2006). China's Communist Party occupies such a position. But such a structural position does not automatically lead to the ability to initiate or successfully implement change (Hardy & Maguire, 2008: 199), especially if and when these inconsistencies and contradictions raise questions about the authority of that powerful social actor. Moreover, robust explanations of agency

must go beyond just explaining the conditions and context for agency and begin to explicitly detail and show how actors use social skills to recognize, share, and convince other actors these inconsistencies and contradictions exist and that viable alternative courses of action are available and need of implementation (Hardy & Maguire, 2008: 199). This essay stresses that the strategic agency of China's state lies in its skillful deployment of rhetoric in constructing its trustworthiness and credibility as a change agent, as well as convincing Chinese society to implement radical changes to current institutional arrangements. This rhetorical construction of ethos and social relationships is critical for the incumbent to legitimate radical change that may potentially delegitimizes its identity and authority.

CHAPTER 5: CONTROVERSY: MANAGING PRESUMPTIONS

This study examines how controversies in the public sphere relate to elite-led institutional transformation. Specifically, this study is motivated by the fact that the Chinese leadership has faced many contentious debates and controversies in the process of introducing the stock market into the socialist country. Some controversies are quickly solved, others are kept alive for a long time, and still others are transformed and keep coming back. Controversies create huge volatilities in the market, affect policy orientations, and attract nation-wide attention and argumentative participation.

Despite the prevalence of controversies, there is little study on controversy in organizational research. A primary reason is that there exists a negative bias toward concepts such as controversy, conflict, or resistance. As the rhetorical theorist Goodnight notes, controversy has been subsumed under the rubric of conflict – a behavioral problem waiting adjustment, an organizational failure in need of “appropriate intervention and resolution,” or a systemic error waiting for corrections (Goodnight, 1991: 4). The organizational scholar Ford has put forth a similar criticism noting the fact that organizational researchers generally consider resistance and dissent as irrational and dysfunctional responses to organizational change (Ford, Ford, & D'Amelio, 2008: 362). These views treat controversies, conflict, or resistance as structurally predetermined as opposed to unfolding agentic process.

Consequently, scholars tend to ignore the potentially positive influence of conflicts and controversies on organizational and institutional change.

A body of literature in argumentation theory suggests a new, positive view of controversy. It suggests that controversy can be “an achievement of sustained and mindful opposition,” which can be “taken as a strong sign that reason and communication are in ferment” (Goodnight, 1991: 6). Drawing from this stream of literature, this study examines the role of controversy in institutional change. Specifically, I investigate major controversies that accompanied the development of China’s stock market, in an attempt to understand where the controversies originated, what effect these controversies had on institutional change, and whether and in what ways the controversies were manageable.

To answer these questions, this study develops a model for understanding controversy and institutional change. This model is based on studying public controversies surrounding the Chinese stock market during the history of its development. Through an in-depth analysis of the context in which controversies arise, the topic of each controversy and opposing arguments, and the responses by Chinese leaders, this study suggests that (1), controversies arise within a context where tensions between conflicting dominant political trajectories call for argumentative engagements; and (2), leaders can steer policies skillfully through maneuvering responses to controversies, thus shifting the burden of proof between the opposing sides, and shaping presumptions. A presumption defines a taken for granted premise, a rule that should guide judgment in a particular case. The

maneuvering to create presumptions reflects and affects the policy choices of leaders, which then determine the trajectory of institutional change.

This study makes a number of contributions. First, as an in-depth empirical study of controversies accompanying China's adoption and development of the stock market, it adds to understanding of an important yet often ignored phenomenon. Second, this work extends rhetorical institutional theorizing (Suddaby & Greenwood, 2005) by exploring the evolving conditions of debates. Third, my analysis enhances understanding of the effect of debates on the trajectory of institutional change. Specifically, the topics that controversies deal with are sites where institutional logics are contested, and as a result, presumptions in the Chinese society about the market-based reform are shifted. Finally, this study has implications for strategic leadership in guiding and managing controversies in change process.

THEORETICAL DEVELOPMENT

This study rests on the theoretical observation that controversies can lead to institutional change because controversies disrupt taken-for-granted reasoning. However, institutional theory lacks constructs adequate to conceptualize how controversies arise and how they shape the trajectory of institutional change. Drawing from rhetorical studies of controversy, and building on the idea of dominant political thought and the concept of presumption in disputes, this study proposes a model for understanding controversies in institutional change.

Controversies and Institutional Change

Despite the prevalence of controversies in society, few studies have explicitly addressed the question of how controversies relate to institutional change. Goodnight has explored this question in a series of essays that provide the ground for this stream of research. He defines a controversy as “a site where the taken-for-granted relationships between communication and reasoning are open to change, reevaluation, and development by argumentative engagement” (Goodnight, 1991: 5). A controversy is likely to subvert established communication strategies and generate new ones by expanding “cultural, social, historical, and intellectual arguments” (Goodnight, 1991: 2). Since controversies involve making new and unorthodox arguments, they have the potential to de-institutionalize ossified beliefs and thus create conditions for institutional change. The existence of controversy, therefore, “is not a sign of a sick society or a demos incapable of action but, instead, often is a sign of a public capable of evolution, changing in response to shifting beliefs, norms, and conditions” (Fritch, Palczewski, Farrell, & Short, 2006).

Based on this perspective, controversy is a key mechanism of institutional change because oppositional arguments disrupt uncontested beliefs and values, and unsettle taken-for-granted social norms and conventions (Olson & Goodnight, 1994). The outcome of oppositional argument is often neither agreement nor incommensurable fragmentation of positions. Agreement is hard to achieve since the issues contested often inscribe fundamentally conflicting interests

(Olson & Goodnight, 1994), yet the debate may have positive effect on the public sphere by fostering new forms of resistance (Olson & Goodnight, 1994).

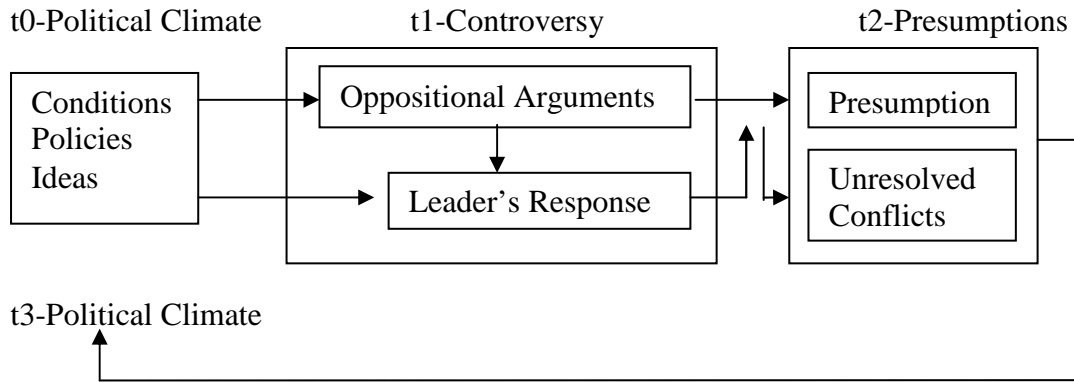
Scholars of organizational theory have regarded debates and controversies as part of the theorization stage that problematizes the situation and justifies a solution (Greenwood et al., 2002; Tolbert & Zucker, 1996). For endogenous institutional change, conflicts in institutional logics are the source of change that lies within an institutional field, and “rhetoric can be used to expose and manipulate dominant and subordinate institutional logics and create the impetus for institutional change (Suddaby & Greenwood, 2005). Disagreements, disputes, and public controversies are therefore conceptualized as inherent in the process of institutional change. Yet there is little research on how disputes and controversies are played out in the ongoing process of theorization. The question of why some calls for change succeed and others fail remains in a black box.

A Model of Institutional Change Embedded in Controversies

Building on the theoretical insight that controversies are conducive to institutional change, it is possible to develop a model for understanding how controversies shape the trajectory of policy choices. Figure 5.1 outlines the model. Specifically, t_0 indicates the time for the beginning conditions, policies, and ideas. At t_1 , oppositional arguments form a controversy, which may induce response from leaders. Arguments from opposing sides strive to affect the presumption at t_2 , and leaders' response may change the formulation of new presumptions. A controversy

will also leave some conflicts unresolved. The newly obtained presumptions and unresolved conflicts then form the conditions, policies, and ideas at t3.

Figure 5.1: Controversies and Institutional Change



Dominant political climate

Controversies do not occur in a vacuum. Rather, they take place in the context of social and political expectations. Different social and political points of view prescribe different worldviews and predict different types of human conduct. In the case of American political philosophy, liberalism and conservatism have been the dominant forms of ideology. Goodnight outlines two separate sets of premises that underlie the liberal and the conservative political philosophies (Goodnight, 1980). Specifically, Goodnight notes that American liberalism rests on a consistent set of premises that assumes change is inevitable, and actions that foster change are prudent. The liberal conception of human nature is that human nature is susceptible to improvement; the liberal conception of the law is that laws lag behind the progress

of the society and need updating; the liberal conception of knowledge is “knowledge is ever widening, better and more relevant now than in the past (Goodnight, 1980).” Given these conceptions, the liberal sees more risk in perpetuating a stagnant institution and less risk in using government to implement policies for the good of the whole. In contrast, American conservatism favors “adherence to the old and tried against the new and untried.” For American conservatives, change is “neither inevitable nor portentous of good,” and actions that foster preservation are prudent. The conservative conception of human nature is that the great majority is concerned with short-term personal benefit and that the altruistic citizen is an exception; the conservative conception of law is that the law was created by good men and a necessary restraint of power; the conservative conception of knowledge venerates traditional wisdom. Because of these views, the conservative sees more risk in abolishing self-restraint to elevate change in the name of the common good and abstract values (Goodnight, 1980).

In China, liberal and conservative political philosophies are confounded by China’s modern experience in leftist movements, which has become a tradition of revolution. But similar to America, actions in China’s transformation can be traced to premises stemming from political philosophies.

Presumption

A basic element in a dispute or public controversy is which side has the presumption and which side has the burden of proof (Goodnight, 1980). Presumption

is the counterpart to the concept of burden of proof, and is defined as “a preoccupation of the ground... [that] implies that it must stand good [until] some sufficient reason is adduced against it (Whately, 1963). In the Anglo-American jurisprudential system, the defendant is presumed innocent until proven guilty; the defendant enjoys the presumption and the prosecution has the burden of proof. This assignment of presumption is a rule that expresses a just relation between the state and the citizen (Goodnight, 1980).

Conventionally, scholars have assumed that the status quo or existing institutions are a source of presumption (Whately, 1963). In addition, scholars suggest that the side that has the presumption has the strategic advantage to bring about a “triumphant defense” of one’s position (Whately, 1963). Outside the law, however, the determination of which side has the presumption and which side should shoulder the burden of proof is subject to manipulation and never fully pre-fixed (Goodnight, 1980; Liu, 1997; Whately, 1963). For example, Einhorn (1990) demonstrates how advocates of radical change who do not enjoy presumption can discharge their burden of proof and seize the “ground” of presumption through rhetorical strategies (Einhorn, 1990). Goodnight (1980) discusses the concept of presumption in relation to public controversy. He conceptualizes presumption as “that tension between the premature denial of new knowledge, falsely retaining old knowledge, on the one hand, and premature acceptance of new knowledge falsely denying old knowledge on the other.” This conception of presumption treats presumption as a risk that different political philosophies calculate in different ways.

As a result, presumption cannot be simply assigned to the defensive side or those adhering to existing institutions. Rather, presumption gets assigned as those engaged in the argumentation process realizes their particular risks and decide to take on the responsibility or burden of proof. Goodnight summarizes, “In any dispute there is no necessary single ‘ground’ but always a struggle to establish symbolic territory or positions on which resolutions may be evaluated. Consequently a debate may serve to order competing presumptions which are more or less uncertain because no single party in the dispute owns the territory. Thus a debate may serve not only to decide what should be done, but it may also serve to distinguish exactly what is the present system extending into the future and what would constitute deviation (Goodnight, 1980).”

The Authority as the moderator of public controversy

In any controversy there is the aggressor and the defendant. The aggressor may call for a change, or for a reconfirmation of existing institutions. The defendant would defend the status quo in the first instance, and defend a change in the second scenario. Which side has the initial presumption depends on which side’s political philosophy is the dominant political thought at the time of the controversy. As the aggressor and defendant engage in the argumentation process, the side that has initial presumption may lose it in the rhetorical exchange. Similarly, the side that has presumption against it may regain it through the deployment of rhetorical strategies.

However, presumption is constituted not only by opponents in a dispute, the construction process also involves the role of judges (Goodnight, 1980). Judges are typically authoritative agencies. They can participate in the controversy by passing laws and regulations, or they can proffer their own arguments in the mist of oppositional arguments. The position that judges take shapes the direction in which presumption moves along the array of political thoughts, and ultimately determines the policy choices among alternatives proposed by advocates from opposing sides of the controversy. In U.S. judges are regulators, private elites and citizens. In China judges are political authorities whose authority rests on a combination of official positions and discursive invention. Authority intervention in a controversy can be strategic. As Goodnight notes, “[A] knowledge of how to manipulate presumption can be very powerful. Sometimes it may stifle productive debate, at other times it may forestall more esoteric objections (Goodnight, 1980).”

It is important to note that the involvement of authority in public controversy does not necessarily bring about determinacy and closure, silence opposition, or quell doubt. In fact, “authority is never monolithic and invention takes place precisely where rhetorical authorities conflict or at least have yet to agree (Liu, 1997).” Positions taken by authoritative judges in one controversy may be revisited and revised in another controversy.

This model of institutional change outlines the key players and processes leading to the policy outcome. Specifically, different political thought encodes different set of rules for argument about human nature, change, law, and knowledge.

When a particular political philosophy dominates a society or community, it shapes the kind of risks that a society or community takes as acceptable and routine and the kind of risks that is avoided (Goodnight, 1980). Arguers who hold different political philosophies can act as the aggressor and defendant who put forth oppositional arguments to create a controversy. As the argumentation process unfolds, both sides can employ rhetorical strategies to take on or discharge the burden of proof. The outcome of a controversy does not depend solely on the soundness of arguments. There are instances where arguments and counterarguments are of equal strength and neither side can come up with reasons to break the deadlock. The unavailability of compelling arguments one way or another makes it possible for a third party or authoritative actors to participate in the argument and shape the outcome of the debate through combining the authoritative position of the actor with a soundly justified policy decision. This argumentation interaction among aggressors, defendants, and authoritative actors move the presumption of a society or community from its standing before the controversy to a new standing. This new presumption accepted by the society or community affects policy choices of the leadership.

METHODS

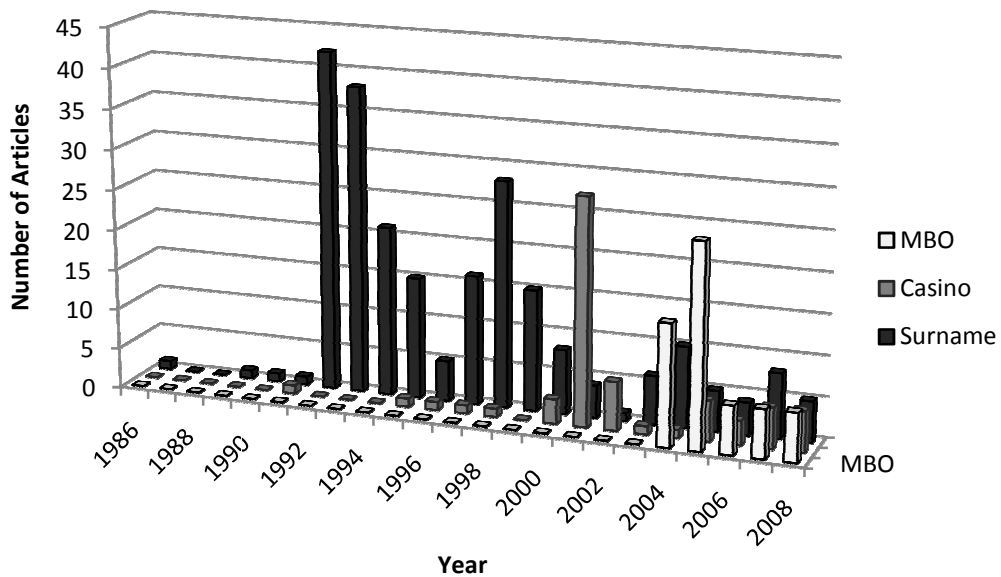
The history of the development of the stock market in China is replete with public controversies from its very beginning until this day. This makes it a natural site for studying controversy and institutional change as an ongoing process. It is not possible to discuss every controversy surrounding the stock market. Instead, this

essay focuses on three of the most consequential controversies. The selection of these three controversies is based on a survey of history, interviews with knowledgeable individuals and the result of a sustained search in a Chinese publication database. First, detailed historical accounts of the development of the stock market provide a comprehensive list of public controversies. I distilled three controversies that are both significant in magnitude and reflective of critical shifts in political thought. Second, I interviewed four Chinese economists who specialize in China's stock market research, working in Chinese universities or research institutions. Chinese economists have been very visible in the public sphere by engaging in intensive debates and making controversial commentaries on mainstream media, which generally attracts the attention of a significant portion of the society. They are protagonists in the three controversies discussed in this essay. Conversations with economists provided me with an understanding how economists viewed these key figures in the controversies. Their insights corroborated and enriched my analysis.

Finally, I searched China Academic Journals Full-text Database (CAJ) for articles related to these controversies. CAJ is the most comprehensive, full-text database of Chinese journals in the world. It contains 8,460 titles of academic journals, of which 803 titles belong to the category "Economy and Management." I used key words to search articles related to the three controversies in the "Economy and Management" field. To collect articles for the first controversy ("surname" controversy), I used the key phrase *xingshexingze* (姓社姓资) to conduct a search for

articles with that phrase in the abstract. To collect articles for the second controversy (“casino” controversy), I used the key phrase *gushiduchang* (股市赌场) to search for articles with that phrase in the abstract. To collect articles for the third controversy (“MBO” controversy), I searched articles that contain both the names of *Lang Xianping* (朗咸平) and *Gu Chujun* (顾维军) or both *Lang Xianping* (朗咸平) and *Zhang Weiyong* (张维迎) in the full text. Figure 5.1 graphs the numbers of articles resulted from these searches. Figure 5.2 shows the rise and fall of these controversies. Together, these three sources provide the material for the analysis.

Figure 5.2: The Rise and Fall of Three Controversies



ANALYSIS

In this section, I first sketch the political thoughts that have dominated the Chinese intellectual and political scene during the reform era. Then I discuss the three controversies, outlining oppositional arguments, explaining leader response, and assessing the policy outcome resulting from the controversy.

Political Philosophies during the Reform Era

Contemporary Chinese political philosophies can be traced to the May 4th Movement in China in 1915-1919. The May 4th Movement is regarded as the Chinese Enlightenment movement, representing a profound break with China's imperial past. The slogan of the May 4th movement is "Mr. Science" and "Mr. Democracy." Chinese intellectuals at the time were reflecting deeply on the fact that China's imperial power had been long lost and the whole country had become so weak that it was semi-colonized by Western powers. A dominant attitude at the time was that the only way to save China was to abandon Chinese traditional philosophies which had severely impeded China's modernization, and to use "New Culture, New Morality" to rebuild China. Many Western ideas were introduced into China. Communist thought was also introduced in connection with the Russian communist revolution in 1917. Communism appealed to Chinese intellectuals as a new vision for the rebirth of the nation.

Although the vision of the May 4th movement and that of the communist regime established in 1949 are not perfectly aligned, the CCP have enshrined the

May 4th movement as an enlightenment cultural movement which opened up the space for the introduction of Marxist thought. The CCP in the pre-reform era had carried out the May 4th legacy which advocated new culture and new morality and renounced traditional Chinese culture and morality.

Communist China has been a one-party rule, authoritarian regime. However, the CCP has never been a monolithic authority. Factions within the Party reflect different interpretation of Marxism, visions for the Party, and conceptions of political agenda. Moreover, these factions are in constant process of realignment. During the reform era, there were three kinds of political movements that significantly shaped the sphere of public discussion. They were the Old Left, the liberals, and the New Left. These labels are used by Chinese and do not necessarily correspond to Western equivalents. Roughly speaking, the Old Left was most dominant in the Deng Xiaoping regime (1978-1992), the liberal outlook was most prevalent in the Jiang Zeming-Zhu Rongji regime (1991-2002), and the New Left became powerful in the Hu Jintao-Wen Jiabao regime (2002-present).

The Old Left

The Chinese Old Left is characterized by commitment to the tradition of the Chinese communist revolution and faithfulness to the orthodox theories of Marx, Engels, Lenin, Stalin, and Mao. In Deng's era, the Old Left was a predominant political thought that had its guardians in the majority of the "Eight Party Elders" – founding fathers of the communist regime who were retired or semi-retired from the

politburo but still possessed significant power in determining policies in the 1980s and early 1990s. In contrast to America, where conservatism is the political right, the Old Left occupies the contemporary space of the Chinese conservative. Similar to America, where conservatism is considered the defender of the status quo, the Chinese Old Left defended the Chinese socialist status quo which gave strong presumption to central planning and to a command economy led by the CCP. The position of the Old Left was weakened by the country's move toward a market direction and they grudgingly accepted some degree of market forces in the 1980s and 1990s. The Old Left sees the market as the foundation of capitalism and is always on the alert that China would be "peacefully transformed" into a capitalist society because of the adoption of markets. The Old Left upholds the ideal of communism and takes great pride in the communist elimination of exploitation. The nightmare of the Old Left is the collapse of the communist regime, which would mean not only the loss of controlling power for the CCP, but also the abandonment of its ideal and vision for China. Although Party Elders passed away during the 1980s and 1990s, the Old Left remains a dominant party and ideological force underlying many of the policy debates in the 1990s.

The liberals

Chinese liberalism has its indigenous roots in the May 4th movement, whose proponents advocated individual freedom and rationality. During the pre-reform era, the part of the May 4th movement that emphasized political democracy and personal

liberty was suppressed and often criticized as “capitalist”. During the early years of the reform, particularly the 1980s, there was revival of liberal thought, which saw unprecedented exaltation of personal freedom and openness to Western liberal political philosophy.

Similar to American liberalism, the Chinese liberals welcome change. For them, the socialist planning system is not working, and introducing markets into the system is the best solution. For Chinese liberals, moving away from the central planning system represents a step toward greater freedom and a better society for all. The liberals see the Old Left as dogmatic in its defense of communist ideology. By contrast, the liberals tend to offer a new interpretation of Marxism to keep pace with reform actions, arguing that China’s reform is consistent with and contributes to the development of Marxist thought.

Within the domain of Chinese liberalism, there is a broad range of positions with regard to the pace and methods of reform. Between 1978 and 1989, some advocates took a moderate position, which focused on economic reform and refrained from political reform; others took a more radical position, which pushed for change on both political and economic fronts. The period between 1989 and 1991 was a time of retraction, when the more radical liberalism was repelled and receded from the official agenda of the CCP. The modest reformist position emerged as the overarching orientation from 1992 to 2002, where Jiang Zemin was the Chief Secretary of the Party responsible for steering the Party’s ideology and Zhu Rongji was the primary person behind the economic reform. The liberal Jiang-Zhu regime

embarked on the adoption and development of the stock market, restructuring of SOEs, and many other reform measures that fostered the development of the private sector and the competitiveness of Chinese firms. A famous slogan by Jiang Zemin, “keep up with the times,” best captured the liberal presumption of the CCP. This phrase was first coined by a prominent scholar in late Qing dynasty. The meaning of this phrase is to emphasize that a person or a country should change so that it can meet the new challenges posed by the new times. In a speech given in July 1st, 2001, the 80th birthday of the CCP, Jiang Zemin linked this phrase with Marxism, he said, “Marxism has the theoretical quality of keeping up with the times.” Jiang used this phrase to educate Party members that the CCP needed to emancipate minds and continue to innovate by gauging the changing conditions and learning from new experiences. Jiang also created a theory called the “Three Represents.” It says that the Party represents: (1) the demands for the development of advanced production forces; (2) the forward direction of advanced culture; and (3) the fundamental interests of the great majority of the Chinese people. The first of these “Three Represents” was the most radical. It should be noted that in the ideological movements in the pre-reform era, including the “Socialist Education Movement” (or the “Four Clean” movement”) in 1963-1965, and the Cultural Revolution in 1966-1976, the target of the movement was the “capitalist roaders” who were in power within the CCP, the administration, and the military. The charge was that these capitalist roaders regarded “production forces” as the key to progress. It was not surprising that Deng Xiaoping, who was labeled the biggest capitalist roader within

the CCP during the Cultural Revolution, invoked “production force” when he gained the power to start the reform. Deng had a theory of “Three Benefits,” in which he argued that whatever practices that benefit the advancement of production forces should be adopted by the reform. Jiang Zemin’s theory represents a significant extension of Deng’s idea. Jiang essentially argued that those who advance production forces should be part of the CCP. Based on this theoretical innovation, private entrepreneurs are regarded as exemplary of the “advanced production forces,” thus are encouraged to become members of the Party.

The New Left

The Chinese New Left has developed in reaction to the liberal policy during the Jiang-Zhu regime. China became richer as a result of the market-oriented reform. However, serious problems ensued. Because the policies of the Jiang-Zhu regime favored the development of the cities at the expense of the rural area, and favored the development of SOEs at the expense of private enterprises, the condition of peasants deteriorated and the gap between urban and rural areas increased dramatically. The imbalance of growth fostered corruption and the manipulation of markets by powerful interest groups.

The Chinese New Left borrows its name from the New Left in the West, and draws from the Western New Left as its theoretical foundation. The New Left concerns itself with the dire condition of peasants in the rural areas, workers’ rights during the massive restructuring of SOES which has driven workers out of work, and

the condition of millions of peasant workers who are crudely exploited as laborers in the cities. The New Left lays blame on the reform policies for creating these impoverished social groups, and questions the direction of the reform.

The Chinese New Left and the Chinese liberals engaged in an intensive intellectual crossfire during the late Jiang-Zhu regime. Since the liberal ideology dominated the orientation of economic policies during the Jiang-Zhu regime, the New Left economists were not given much voice in the media (Zhao, 2008: 288). However, the Hu Jintao-Wen Jiabao regime has made significant changes to the policy orientation of the Jiang-Zhu regime. They put forth slogans like “putting people first,” acknowledging that they care about the social groups that are powerless and left behind by the reform. Hu Jintao launched a theory called the “Scientific Outlook on Development” in the 17th Party Congress in 2007. The Scientific Outlook on Development emphasizes comprehensive, balanced and sustainable development. Hu’s emphasis on “putting people first” and balanced and sustainable development represents a correction of the policies of the Jiang-Zhu regime which had resulted in serious environmental deterioration and social problems.

The Chinese liberals have been labeled the political right. They are on the “right” in the sense that they advocate free market and less government intervention, but they are on the side of change, which makes them closer to the political left in the American conception of liberal philosophy. The true conservatives in China are the Old Leftists, but the Old Left became conservative only in relation to the market-based reform. They were the revolutionaries in an earlier period of history when

China ended its imperialist tradition and was caught in a world of colonial logic, world wars, and domestic political struggle. It appears that all dominant Chinese political thought in modern times heavily orients toward the presumption of change. Although the CCP took new positions in the reform era, the CCP has constantly revised its core thoughts and ideas.

Next I turn to the three controversies surrounding the development of China's stock market, analyzing how dominant political thought underwrote the controversy, and how the response by the CCP leadership shaped the presumption of the Chinese society, which in turn, affected policy choices of the Party.

First Controversy: Is the Nature of the Stock Market Socialist or Capitalist?

Background and political thought

When the Shanghai and Shenzhen stock markets were officially opened in late 1990 and early 1991, the Old Left was the prevailing thought in the political climate. It was a period of retraction after the Tiananmen incident, which embodied the nightmare of the Old Left. The language of reform was replaced by a re-emphasis on the elimination of exploitation and nationalist sentiments. Previous policies that benefited private entrepreneurship were suppressed and, as a result, private enterprises shrunk quickly.

Before the formal opening of the stock market, informal, over-the-counter, or even black markets had been active since the mid 1980s. The liberal policies of the 1980s fuelled the development of Township and Village Enterprises (TVEs). These

TVEs were typically collectively owned. According to the regulation issued by the state council in 1991 (State Council, 1991), collectively owned enterprises are also considered owned by the people. But collectively owned enterprises are owned by the people that are contained geographically (in towns and villages) or within the boundaries of the company. In many cases, collectively owned companies are owned partly by local governments. They can also consist of a group of individuals, or as a combination of governments, individual entrepreneurs, and foreign investors. Collectively owned companies are typically smaller in size than large state-owned enterprises (SOEs), and many are controlled by local governments. These companies did not generally enjoy the benefits of SOEs whose managers still had easier access to bank loans. Since it is hard for collectively owned companies to get insured bank loans, and also because they can retain their profits, managers of collectively owned companies were willing to take the risk of seeking capital by issuing shares (Green, 2003). Records show that the public issuing of shares by companies took place as early as the year 1980 (Li, 2001). By 1989, up to 10,000 companies had issued shares (Economist, 1989). Share issuance received support from local governments. As part of market reform, local governments took over control and cash flow rights of the vast majority of small- and medium-sized SOEs in the early 1980s, and sought more aggressively sources of investment capital other than fiscal grants and bank loans (Xia, Lin, & Grub, 1992). Local governments, especially Shanghai and Shenzhen, became experimental sites for shareholding companies and the public share issuances.

This idea of raising money from individuals originated in the rural sectors. Since 1979 the central government had consented to the formation of joint stock enterprises by collective production units, the dominant organizational system in China's countryside. These joint stock enterprises in towns and villages absorbed funds from collectives and individuals and provided profit sharing through dividends. The fast diffusion and success of these joint stock cooperative organizations in several provinces inspired liberal-minded government officials and economists to help persuade the central government to extend the shareholding system to the cities (Ma, 2004).

The establishment of the joint stock company or shareholding system provided the institutional framework for companies to issue shares. The transition from state enterprises to shareholding companies represents a critical step in the development of a market economy. In July 1984, Beijing Tianqiao Department Store Company, a state-owned company that received a distinguishing name of the flagship business in 1958, became the first to register as a joint stock limited company when it issued shares worth of RMB 10 million. In November 1984, Shanghai Feile Acoustics Company was also restructured into a joint stock company and launched an offer of nonredeemable equities to the public in Shanghai. The shares of Feile Acoustics are worth mentioning because they became a symbol of China's development of stock markets. On November 14, 1986, John Phelan, Chairman of the Board of NYSE visited China, and presented Deng Xiaoping the emblem of the NYSE as a gift. China's leaders decided to give Mr. Phelan Shanghai

Feile Acoustics stock certificate in return. When Chinese leaders presented Mr. Phelan a Chinese stock certificate, this first OTC securities exchange had opened for just three months, and had only two stocks, Shanghai Feile Acoustics Company and Shanghai Yanzhong Industrial Company. Soon after, OTC market emerged in several major cities.

Several factors contributed to the establishment of stock markets in China. First, the budget deficit of the central government propelled it to seek alternative ways of raising capital for State-Owned Enterprises (SOEs). The central government's revenues started to decline since the introduction of economic reforms in 1978, due to falling profit margins in SOEs and the inability of the tax authority to monitor the nonstate sectors (Gordon & Li, 2003). The central government's budget deficits relative to GDP reached record highs in 1979 and 1980, and did not achieve small surpluses until 1985. In contrast, during the same period, private household savings surged, thanks to the reforms in both rural and industrial sectors that increased personal wealth. The central government sought several ways to fund SOEs, including issuing treasury bonds in 1981 and banks loans. Starting from 1983, the Chinese government started to change its funding of SOEs from free, budgetary allocations to bank loans. Bank lending to industrial enterprises increased sharply from a small fraction of the total capital investment in 1979 to about 80 percent in 1985 (Wong, 2006). A stock market is another way to pool private savings to fund companies and therefore was among the search of viable alternatives.

Second, the proliferation of securities issues stimulated the formalization of a secondary market. Initially the trading of bonds and stocks was prohibited, but in the absence of a secondary market, black markets emerged in which individual holders traded securities illegally. In an environment of high inflation, bonds and stocks were considered a burden on enterprises and individuals and were sold below their par values far before their maturity date. As a result, buyers who were willing to buy these securities and hold them to maturity were highly rewarded for taking the risk of engaging in black market trading (Ma, 2004). The existence of a black market indicates the public need for liquidity. The Jing'an branch of the Shanghai Trust and Investment Company, which is a branch of the People's Bank of China, was the first to act as an agent for buying and selling shares. This was considered the beginning of official trading activity in Chinese securities. To further facilitate the transaction process, the Shanghai Branch of the People's Bank of China authorized the Shanghai Trust and Investment Company to organize a special department to act as intermediary agency for securities transactions among willing buyers and sellers. In this first OTC market, dealers were authorized by the People's Bank of China to conduct trades in trading counters set up by financial companies and institutions. However, trades in this OTC market were not active. To stimulate trading, Shanghai government lifted the restrictions on price fluctuations and endorsed the idea of letting demand and supply determine stock prices. After that, liquidity, stock issuances, and turnover rates increased rapidly, causing waves of stock fever and stimulated many illegal activities.

The controversy

In Chinese culture, a name carries more weight than just a label. In Confucian thought, before an action is taken, it needs to be justified. The “rectification of names” represents the legitimation of new policies. Therefore, Confucius said: “If the name is not rectified, the words will not be reasonable; if the words are not reasonable, the action will not be successful.” Based on this tradition, the name of an action indicates the appropriateness of that action. Not surprisingly then, the first controversy surrounding the Chinese stock market was a controversy about the name.

The question is whether the surname of the stock market is socialist or capitalist. The surname of the stock market signals the ideological nature of the stock market. Surnames indicate which family or category the practice belongs to, in this case, capitalist or socialist. During the early years of China’s reform, to say that an experiment has a capitalist surname was to say that the experiment was capitalist in nature. To label something as capitalist is a serious ideological charge. It should be noted that this question is not only targeted at the stock market, but almost every important aspect of the economic reform. In addition, this question is not limited by a certain time period, but is in fact a question that extended many years after the beginning of the economic reform and stimulated waves of intensive debates over the last 25 years. This controversy involves extensive debates within what is called “lilunjie” (“theoretical circles”, 理论界, the intelligentsia), which consists of professors affiliated with institutions of higher education, researchers in government sponsored research institutions (such as China’s Academy of Social Sciences), senior

editors in Party newspapers and magazines, as well as researchers in Party think tanks, including the Party School of the Central committee of the Communist Party of China (CPC). Waves of controversies centering on the question of “surnames” generated wide societal ramifications: they not only attracted close attention and response from the top leaders, but have also become part of the everyday language.

The aggressor of this controversy interrogated the surnames of the shareholding system and the stock market based on the political thought of the Old Left. The basic accusation was that the adoption of the shareholding system and the stock market had taken a capitalist route instead of a socialist one. For example, Wu Shuqing (吴树清), an economist upholding the planned economy, argued that the issuance of shares by enterprises would stir the sense of inequality in society, foment an opportunistic mentality, and open avenues for abuse and malpractice.

Interrogators also contended that the joint stock system creates property that is privately owned, and that the private nature of these companies determines that the allocation of resources would be allocation by capital returns, not allocation by labor inputs. Allocation by capital returns is deemed a capitalist practice, and therefore not conducive to China’s socialist modernization. Furthermore, other theorists argued that the shareholding system was a form of retrogression from socialism. Therefore, the SOE reform should not take the direction of the shareholding system. Socialism cannot allow people to use monetary capital to speculate in a capital market, and cannot allow the existence of a social class that makes a living from dividends like parasites. This argument sees the shareholding system as a historical retreat from the

socialist public ownership system, because it breaks up the public ownership of SOEs into diverse ownership types. In addition, if an enterprise becomes a shareholding company that combines multiple economic systems, then this will not only cause problems in economic calculation, but will also lead to political and administrative chaos. Finally, critics cast doubts on the belief that a shareholding system is good for incentivizing individual motivation and improving efficiency and productivity (Li, 2001:62, 94).

These charges put serious pressure on reformers. Ideological charges could well become the ground for punishment, especially at times when the Party launched ideological campaigns such as the “anti spiritual contamination campaign” in 1983 and “anti bureaucratic liberalism movement” in 1986. During those ideological campaigns, the CPC strengthens its work on political thought, which means educating Party members in orthodox Marxist-Leninist thought and Mao Zedong Thought. Bold economic experimentation is subject to criticisms of capitalist and bourgeois ideology.

Economists have been instrumental in justifying the economic reform, and in particular the establishment of the shareholding system and the stock market. As early as the 1960s, renowned economist Sun Yefang (孙冶芳) advocated for the benefits of a commodity economy that employs the price mechanism (Yang, 1998). In 1979, about 400 Chinese economists held a meeting to discuss various issues in economic reform (Yang, 1998). A prominent economist, Professor of Beijing University, Li Yining (厉以宁), was among the first to advocate a joint stock system.

In fact, Li became famous for his commitment to the joint stock system that he is widely regarded as “Li Shares.” He proposed to experiment the joint stock system at a conference organized by the research department of the executive office of the CPC Central Committee and the National Labor Bureau in April, 1980. Another prominent economist, Wu Jinglian (吴敬琏), an economic scholar at the China’s Academy of Social Sciences and later the chief economist at the State Council’s economic research department, was also a strong proponent of the market reform and gained the name of “Wu Market”.

Economists who supported the radical adoption of market institutions formulated sophisticated arguments to justify market reform. These justifications included the careful definitional separation of key terms to protect the adoption of market institutions from the accusation of privatization. For example, Gong Yuzhi (龚玉之), Deputy Director of the Theoretical Research Department of the Central Committee of the CPC, compared and contrasted the concepts of “socialist public ownership reformed by markets,” “privatization,” and “market economy of the West,” and concluded that the economic reform falls under the first category (“On the Socialist Market Economy,” an interview with *Beijing Review* in 1992, cited from (Yao, 1998)). Another strategy is to define the relationship between the state and the market so that the market reform is not seen as a threat. An economist, Professor Dong Furen (董辅轶), interpreted a “planned commodity economy” as “a commodity economy under the guidance and regulation of the state (*Hong Kong*

Economic Reporter, 1992)”. Thirdly, economists expand the concept of the plan to assimilate market mechanisms into the orthodox system. For example, economist Liu Guoguang (刘国光) distinguished between the concept of a “command plan” (指令性计划) and a “guidance plan” (指导性计划), elaborating how the “guidance plan” could incorporate functions of the market.

In 1990, Xue Muqiao (薛暮桥), a renowned economist, and former government official who was one of the key designers of the structure of China’s planned economy, wrote *A Letter to the Political Bureau of the Central Committee of the CPC*, and published a book entitled *On Several Theoretical Issues about Socialist Economy*. In the letter and book, Xue discussed theories and policies for China aiming to initiate a market oriented economy. Xue’s theory shaped Deng Xiaoping’s formulation of the relation of the market to socialism. The argument is that the market and planning are economic means, and thus can both be employed by socialist and capitalist countries.

Leaders’ response

It appeared that neither side of the controversy came up with arguments stronger than the other side. Underlying the oppositional arguments were the political thought of the Old Left and those of the liberal minded reformists. At the time of the controversy, the political climate was on the side of the Old Left. In other words, the Old Left as the aggressor actually enjoyed the presumption. The liberals

as the defendant had the burden of proof. The liberal side was at a disadvantage since it had to justify practices that apparently would need significant revisions of orthodox Marxism. Furthermore, in its essence the debate was not about probing into the truth of a matter; it was in actuality a clash of opposing political definitions. At this point, the leader's response was critical since there was no other means of persuasion except for the authority of the leader.

Deng Xiaoping expressed his opinion during his famous tour of the south in the spring of 1992. He said, "Do not debate. This is my invention. The reason of not debating is to strive for the time to act. Once there is debate things become complicated, and time is lost, hence nothing can be done. No debates, experiment boldly, and make breakthroughs boldly" (Deng, 1993: 374). Deng specifically talked about the experiment of the stock market, "As for securities and the stock market, are they finally good or bad? Are they dangerous? Are they things that only capitalism can have or can socialism also make use of them? We should allow them to be seen. But we should definitely try them out. If we see they are correct, manage them correctly, we then open them up; if we see they are incorrect, we make corrections and close them. If we close them, we can close them either quickly, or slowly, or leave a tail" (Deng, 1993: 373). Deng's response was strategic. First, he knew very well that the liberals were at a disadvantage in this debate, and mostly would lose if the debate were kept alive. The common sense at that time saw a stock market as anti-socialist and therefore dangerous and illegitimate. Deng's proposal that the debate should be put aside and that the experiment should be allowed to exist until

proven wrong subtly shifted the presumption to the side of the liberals. His argument that debate was an impediment to progress and change also greatly supported the presumption that change is good and beneficial. Deng's strategic response to the controversy seemed to grant a tie to the opposing sides on the surface level, but it effectively shifted the political climate from that of a conservative Old Left to a liberal one.

Policy choices

As the founding controversy, the debate on surnames had important consequences on the formation of China's stock market as an institution. Although Deng's response effectively granted the liberals permission to continue the stock market experiment, it did not mean that the liberals completely won the debate. Deng shifted the presumption regarding the nature of the stock market, but even Deng himself did not completely contradict the logic of the Old Left. In fact, the concerns of the Old Left shaped the design of the market institution in important ways. The stock market and the shareholding system carried significant socialist imprints. The policy choices regarding the design of the stock market reflected the fact the liberal ideology lacked the political power to completely claim victory in the debate.

Toward the end of the controversy, the liberals were granted by the leader the presumption and hence the permission to continue the stock market experiment. But the Old Left was still a powerful political force, and it exerted influence on the building of the shareholding system and the stock market. For example, the quota

system in the issuance of shares shows that the state was still in control of the supply of shares (Walter & Howei, 2006). From 1993 to 1996, the government imposed an annual quota on the total amount of capital that could be raised through IPO issuances (Wong, 2006). From 1996 to 1999, the government changed the quota to be a function of the total number of companies to be listed. Post-IPO issuance, including both secondary and rights offerings were also restricted by regulations. On the demand side, regulations were also in place to restrict the sources of funds that could be invested in the stock market.

The state controlled investment opportunities by selecting qualified issuers and determining the offering prices (Yao, 1998). Particular industries, regions and ownership types were selected to list on the market in different historical times, to be in accordance with the grand plan of national economic development. To ensure sufficient demand for IPO issuance, CSRC restricted IPO prices to P/E ratios of about 13-15 for all firms, regardless of the industry in which they are located.

The state not only regulated stock issuances, but also influenced market segmentation (Walter & Howei, 2006). To maintain state ownership of the listed SOEs, shares were divided into tradables and non-tradables. Non-tradables consist of state shares and legal person shares, which are owned by organizations and social groups with legal person status. Generally speaking, only 25% - 35% of the total shares of a listed SOE can be publicly trade on stock exchanges. Besides the limitations on shares that can be publicly traded, the market is also segmented by separate rules on domestic and foreign shares. Specifically, there were A shares, B

shares, H shares, and N shares depending on the stock exchanges on which companies list themselves. A shares market is traded in Chinese currency, and was open to only domestic Chinese investors before 2000. B shares were created specifically for foreign investors and traded in U.S. dollars. H shares refer to Chinese companies traded in Hong Kong, and N shares are Chinese companies traded on the New York Stock Exchange. A Chinese company may issue shares on multiple stock exchanges, but domestic Chinese investors could not invest in shares other than A shares during the 1990s. This share fragmentation restricted investment channels for domestic Chinese investors, and it created multiple markets for some of the listed companies, each with different rules, regulators, and pricing mechanisms.

These regulatory arrangements embody the socialist belief in state planning and control. By creating segments of shares, making some tradable and others not, the government was able to keep the socialist identity of listed companies intact. At the end of 1990s, more than 90 percent of the listed companies on domestic exchanges remained state controlled.

These socialist institutions of the stock market reflect the balance of power between the conflicting views of the two camps and the inability of either side to completely win the argument. Economists advocating radical marketization were victorious to the extent that the stock market was eventually established. However, those who feared market institutions as capitalist did not lose completely since they stamped socialist marks on the stock market. The question on the ideological illegitimacy of the stock market lingered, which explained the fact that most of the

first issuers were not big, centrally controlled SOEs. Instead, the stock market was composed of small, locally owned SOEs, and collectively-owned enterprises. Chinese society was not yet comfortable with having flagship SOEs on the stock market.

Second Controversy: Is China's Stock Market Worse than a Casino?

Development of the stock market and political thought

The first ten years of China's stock market was a remarkable drama in itself. The agency regulating the stock market underwent restructuring, effectively unifying and centralizing power (Green, 2004). The number of listed companies went from a dozen to more than a thousand. Total stock market capitalization grew to more than US\$507 billion by the end of 2000. China's stock market capitalization was the second largest in Asia, after Japan (Wong, 2006). Compared to many stock markets in transition economies that were plagued by low market capitalization and low liquidity, China's market achieved better performance in almost all measures of stock market performance, including the number of listed companies, market capitalization, liquidity, and fundraising capacity (Pistor & Xu, 2005).

China's leaders' perception of the stock market was also changing. In the beginning the leaders considered the enterprise to be an experiment that could fail and be discarded. By the end of the century, they began to see the benefits of a market. The leaders seized on the idea that the stock market could be a viable fundraising vehicle for SOEs (Green, 2003). The 1997, 1998, and 1999 are

commonly referred to as the “three years for saving SOEs from predicaments” (三年国企解困). Under this policy, large SOEs began to list their shares on the stock market. The IPO rate reached a historical peak. The leaders began to formalize the stock market by promulgating the Securities Law in 1999. As a result, legal cases against listed companies started to pick up. Government leaders recognized the importance of institutional investors in a stock market, and thus the fund industry was established in 1998.

Although the stock market grew phenomenally, some serious problems emerged. Stock market manipulation and speculation were the two most serious. As most listed companies were SOEs, the government had a real interest in the market and was motivated to directly influence the market (Lee & Lu, 2007). This kind of institutional environment fostered stock price manipulation. This is referred to in Chinese as “playing the house (坐庄)”. The “house,” or “Zhuangjia (庄家),” consists mainly of SOEs and institutional investors. The prevalence of market manipulation by SOEs could have been implicitly permitted by some political institutions under the belief that the state has the responsibility to give a “helping hand” to SOEs, and that high stock turnover rates result in more revenue for the local governments that host the stock exchanges (Green, 2004). As Wong (2006) argues, the development of China’s stock market in the 1990s was driven primarily by speculative investment behavior. Speculation seemed to be the only way that investors could profit from investment, since listed companies generally had low investment value. Indeed, most

companies did not pay dividends. Excessive manipulation and speculation dominated the scene of China's stock market, reflected in high volatilities and turnover rates.

Within this context, there was an implicit consensus among individual investors that the only way to make money in the market was to follow the Zhuangjia. It was of course, not easy to follow the Zhuangjia. Instead, the Zhuangjia often got out of the market with all the gains, and individual investors were trapped.

The period of development leading up to the second controversy was a period under the Jiang-Zhu regime. The stock market during this period was commonly referred to as the Zhu market. Zhu Rongji's political thought was akin to Keynesianism, which placed great emphasis on government regulation. Zhu's policy on the stock market was summarized as "legalization, supervision, self-discipline, and standardization." While stressing regulation, Zhu's policy was decisively liberal in the sense that he wanted to build a genuine market. However, even though the policy orientation under the Jiang-Zhu regime was liberal, the political climate within which the stock market developed was complicated by the political power struggle between the liberals and the Old Left and by the formation and institutionalization of interest groups. The political power of the Old Left was not completely defeated, and its political agenda was reflected in the policy that heavily favored large SOEs. Many SOEs that were listed on the stock market became the nexus where political power and economic interests interconnected, and thus became powerful manipulators of the stock market. Zhu as a hard core liberal attempted to battle the interest groups by launching attacks in the *People's Daily*, such as the

“Special Guest Commentary” in 1996 that accused SOEs for manipulating stocks. However, the stock market had been characterized by one bubble after another. There was a sense that the stock market had become a gambling game designed to capture household money to save the failing SOEs, and was a way for the privileged to suck other people’s money into their own pockets by promising a chance at winning a little part of this “take.”

Accompanying the emergence of interests groups, the liberals divided into two camps reflecting different views on the stock market. Specifically, some took a more critical position, cautioning the lack of adequate rules and regulations, and criticizing the rampant speculation haunting the market. Others took a more affirmative position, advocating a more laissez-faire approach to stock market development, and cautioning against government intervention in the market. An average individual investor in China at that time most likely would have a split view. On the one hand, she was critical of the manipulators, but on the other hand, she was not happy about government regulation, because the tightening of regulation would almost always mean drop of prices and decrease of trading activities. The government was aware of the expectations of individual investors and was anxious to manage the stock market to satisfy many social groups.

It seemed that neither side within the liberal regime had a strong initial presumption. Since Zhu Rongji himself held a firm position in favor of strengthening regulations, the Keynesian side seemed to have the initial presumption. However, the state was under the influence of powerful interest groups for whom less regulation

seemed to be preferable. This latter position coincided with the laissez-faire approach taken by the other camp of liberals, who advocated less government intervention on the basis of political philosophy.

The controversy

The “casino” controversy was triggered by a report produced by *Caijing*, an independent magazine devoted to China’s economic reform. Published in October, 2000, and entitled “*The black curtain of the funds (基金)*”, this report was an insider story of what is going on in the fund industry. The fund industry was established by the government to foster the role of institutional investors in the stock market. It was believed that the funds, with professionally trained managers, better information and knowledge, and legal requirements on disclosure policies, were capable of changing the norms of manipulation and speculation. The report challenged many of these assumptions about funds. It questions the practices of funds and revealed many of the techniques that the funds employed to manipulate stock prices. The fund industry struck back with a public statement that accused the report of being inaccurate, unscientific, and seriously distorted. The individual investors strongly echoed the arguments voiced in the report and expressed sharp criticisms on the fund industry. A popular show on China Central Television (CCTV), “Economic Half-an-hour,” interviewed economist Wu Jinglian in October 2000 and January 2001. The show was broadcasted on January 14, 2001. Wu appeared in another CCTV show on January 13 and expressed his opinions on the stock market. Wu’s response created an even bigger controversy, which was later

referred to as the controversy on the stock market as a casino. Starting from January 15, the stock market fell on four consecutive days. The idea that “A word from Wu Jinglian ruined the stock market” became popular. The controversy escalated when Capital Week (证券市场周刊), a highly influential magazine in securities markets, published an article on February 8 as a response to Wu, titled “Nine interrogations to Wu Jinglian.” On February 11, five economists – the leading figure being Li Yining – organized a discussion in front of the media. The organizers of the conference said that “the stock market has reached a critical point,” “if Wu wins this debate, then it will be a disaster for China’s capital market.” The object of the media conference was said to be “completely counterattack the various speeches of Wu”.

“Wu Market” and “Li Shares” were both slogans in market reforms. Both economists played leading roles in combating the opponents of market reforms in the last controversy, now opposed each other in a new controversy. The central difference between Wu and Li was the current condition of the stock market. In the CCTV interview, broadcast on January 14, 2001, Wu said that China’s stock market lacked rules and standards from the very beginning. If this were to continue, the market would not become a benign place for investment. When asked to what extent the rules and standards were lacking, Wu replied,

Stock prices are abnormally high, and therefore, quite a lot of stocks have lost investment value. Looking at this phenomenon from a deeper level, activities that are out of lines or illegal are prevalent in the stock market, which makes it impossible for investors to get returns for investment, and the stock market has become a haven for speculators. Some foreigners said that, China’s stock market is very much like a casino, and an unruly casino. Even casinos have rules, such as the rule that says you cannot see others’ cards. In contrast, in

this market, some people can see others' cards, can cheat, and can commit fraud. Activities like playing the house (坐庄), stir frying the shares (speculation, 炒作), and manipulating stock prices have reached great heights (Wu, 2001: 224).

Wu further described what houses are and how they manipulate the stock prices:

One group consists of the intermediary agencies; another group consists of some insiders of listed companies, the people who have insider information; another group consists of the suppliers of capital, who are maybe the banks, or other capital providers. They plotted together and then buy the shares at low prices, open a position, and when they accumulate a large amount of the shares, they start stir frying the shares. There are two ways to fry the shares: the first is that related agencies buy and sell among themselves, and trade very frequently to drive up the price. Another way is to have the listed company to let off good news, which pulls up the price. As long as there is a large amount of capital flowing into the market, including capitals borrowed from the bank, the prices can be fried high. When they found that medium and small individual investors or big investors who are outsiders to the game follow up, they would slinkingly sell, which would trap the followers, and at this time the stock price would keep falling down (Wu, 2001: 225).

Wu's description of the groups that manipulated the market reminded people of the forensic arguments made in the "Special Guest Commentary" of the *People Daily* in 1996. That commentary described the stock market as experiencing a detrimental bubble, criticized SOEs for manipulating stock prices, and warned individual investors of speculative trading behaviors. Wu's critiques were a continuation of the anxieties expressed in that commentary.

Li Yining defended the stock market, saying that "Just because there are several Zhuangjia in China's stock market, it doesn't mean that China's stock market is pitch black." Li also said,

I'm the leader for the team that is drafting the Investment Fund Law for the Finance and Economics Committee of the National People's Congress. We've fully noticed the article "The black curtain for funds" and the relevant discussion in the public. I've said at the meeting of the Investment Fund law, that we must first affirm that the investment fund industry has achieved great development in recent years, and the main aspect of the matter is good, not

like some people described as pitch black. You can imagine that the securities market is just like a newborn baby, emerging from nothing to something, the investment fund industry is also a newborn baby, and it is normal to have problems. But we must see that the fund industry has had big achievements, and the problems it has are problems with the system, which are against one's will. It is not in line with reality if we deny the achievements of the fund industry (Wu, 2001: 17).

Li defended the market and the fund industry on two grounds. First, he pointed out that any new phenomenon has problems, and the problems should not be treated as uncorrectable. Second, he blamed the external environment as being responsible for the problems of the fund industry.

Many economists also laid out a variety of arguments to counter Wu's criticisms. For example, in countering the assertion that it was abnormal for so many individual investors to stir fry stocks, these economists contended that China's individual investors were not too many but too few. In countering Wu's criticism that speculation was bad, these economists argued, that there was not a big difference between investing and speculating, and that there would be no markets if there were no speculations, bubbles, or Zhuangjia. In countering Wu's assessment that the Price-to-Equity ratio of Chinese stocks was too high, these economists proposed that the ratio was definitely reasonable, and that it was inadequate to do simplistic comparisons across countries.

In countering Wu's denigration of the house, these economists asserted that the house was the same as the big investors, and that the Zhuangjia was similar to the market maker, whose role was instrumental in maintaining liquidity. In countering Wu's emphasis that the stock market lacked rules, these economists argued that the lack of rules was justified on the basis that its very survival in the transition of institutional systems depended on its lack of rules. They also warned that the casino analogy can be used as a reason for shutting down the stock market, which would harm investors and delay the market reform, a result that only those who uphold ideas of planned economy would like to see. These economists further contended that Wu's weakness was that he only advocated production economy, and disliked "virtual economy," a term they coined to denote the financial and capital market. They also questioned whether it is appropriate for Wu as an economic expert to say something so plebeian and emotional. They proclaimed that what Wu described was surface phenomena, and that Wu failed to appreciate the strategic steps the government was taking to ensure the healthy development of the market (Li, 2003: 98; Wu, 2001: 3-31).

Facing criticism by these economists, Wu did not strike back immediately, but he did publish an entire volume on this topic in the same year. In this book titled *Wu Jinglian: Ten Years of Talks about the Stock Market*, he took on the burden of proof and countered each charge with detailed arguments.

In his defense, Wu refuted the accusation that he had generally defined the stock market as a casino, and he denied the inference that he wished the stock market

were closed. However, Wu admitted that his view of the nature of the stock market differed fundamentally from that of Li Yining, who likened the stock market to a Chinese game. In this game, a flower is passed along from one person to the next, until the drum beat stops, and whoever holds the flower when the drum beat stops loses the game. Obviously, players in this game pass the flower to the next person as quickly as they can. Li used this analogy in a positive way. He claimed that, every time the drum beat begins, the loser still has the opportunity to pass the “flower” to others. Wu was much more critical about the implications of this analogy. He said that if speculation is the heart of the stock market, then it does appear to be gambling. Investment is purely a re-distribution of capital wealth among different people, a zero-sum game where one’s gains depend on others’ losses. Wu asserted that speculation would not increase social wealth, rather, “it is purely a fantasy thinking that we can rely on speculation to make a nation and its people rich” (Wu, 2001: 9).

Wu’s arguments contain more than defense – he also launches counter attacks. Responding to the question whether there are too many or too few individual investors, Wu argued that the very phrase “stir fry stocks” indicates that China’s stock market is over speculative and bubble-like, which cannot help the nation or its investors to increase its wealth. The main point is not the number of individual investors, but they way they trade stocks. Wu further attacked an economist in the opposite camp, Xiao Zhuoji (萧灼基), who had proposed that the government should intervene to turn around a bear market. Xiao self-identified as an advocate for short-

term traders and speculative traders. Wu's point is that Xiao's standpoints and arguments contributed to decisions by the government to intervene the market.

Wu also restated his view of the current market as a bubble. Wu referred to the famous bubbles in the West such as the South Sea Bubble and the Mississippi Bubble. Closer to home, he identified the bubbles in Japan and the Nasdaq, to emphasize the detrimental consequences resulting from market crashes. Wu further pointed out that speculation and economic bubble are particularly likely to emerge during the period of transition from planned economy to market economy, and that "an important reason is the lack of clarity in the ownership of SOEs and the absence of owners" (Wu, 2001: 15). Based on this logic, because SOE managers and traders are not the owners, they are rewarded when gaining positive returns but do not bear the responsibilities to pay for their losses. Due to this asymmetry between rewards and responsibility, managers tend to be more risk-taking in their investment and squandering the capital owned by the state or the company to engage in unrestrained gambling and illicit activities. Central to this logic is the criticism of the government for not setting up clear ownership rights and clarifying the relationship with SOEs. Wu criticized the government directly for "saving" a bear market, and says that the government had to correct its own behaviors in order to build a healthy market.

Related to questions on speculation and bubble, Wu also discussed the issue of the Zhuangjia. Wu refuted the statement that the Zhuangjia is the same as the market maker in Western stock markets, pointing out the unique features that cause the prevalence of the Zhuangjia: "The house can directly or indirectly hand over the

risk of speculation to the government. If the speculation is successful the house gains, but if the speculation goes badly the state pays the bill. The nature of this mechanism is that the properties of the whole people are used to ‘subsidize’ the Zhuangjia who violates laws and rules to manipulate the stock market (Wu, 2001: 20).”

The third argument concerned whether more or fewer rules should be imposed on market development. Wu directly refuted the idea that more regulation would depress the market, arguing instead that regulation should be the premise for market development. This leads to the core of his view of the market. In responding to the charges that he is more in favor of production economy than a “virtual economy,” Wu argued that the key difference is not between material and virtual, but between “traditional/primitive economy” and “modern market economy.” Furthermore, what distinguishes the modern market economy from the traditional systems of economy is “rule of law.” Wu defined a modern economy as one where trade takes place mainly in non-personal transactions with an objective and fair third party enforcer, and that the relationship between politics and economy is an arm’s length type of relationship (Wu, 2001: 28).

The idea of a “rule of law” market economy is made sensible when Wu directed his critique to actors and actions that contribute to the lack of “rule of law.” Specifically, Wu offered a class analysis of the stock market, pointing out a new social group was emerging from the transition whose interests lay in the absence of rules and laws. He contended that a new social group arose during the transition.

Actors in this group did not have a vested interest in the old system. They did not want to go back to the system of a planned economy. Nor, however, did they want to see the establishment of a regulated market with fair competition. Instead, they wished to maintain or even expand the chaos existent in the current market, so that they could take advantage of their special position to freely engage in rent-seeking (Wu, 2001: 28). This social group, according to Wu, exploited individual investors with their financial “magic,” and conducted property reforms as a way to embezzle state property, all in the name of the acclaimed “reform.” This social group appeared to be radical proponents of marketization, and they labeled people such as Wu as “idealist” or even “conservative.” Wu warned the danger of the public being fooled by this group of people with vested interest in the current state of the market. He asserted that this social group could take the country to crony capitalism, since they represented the roots of corruption: given the absence of clear definitions of property rights for public properties, those who have power and status embezzle public property in the process of arbitrary, self-interested administrative intervention of the market.

Underlying Wu and Li’s disputes are different political philosophies: one oriented toward Keynesian thoughts and the other inclined to classical economic theory originated by Adam Smith. In addition, they seemed to be concerned about different social groups. Li and his colleagues argued that Wu’s words were detrimental to the stock market because individual investors would suffer huge financial loss in a market crash. While Li and his colleagues were most concerned

about participants in the stock market, Wu seemed to be more concerned about the broader society, especially people who do not participate in the stock market. He is famous for citing the writer, Julius Fucik, in saying: “People, I love you all. But be on guard.”

Leaders’ judgment

The “casino” controversy was characterized by intensive attacks and counter attacks. Both sides actively charged the other side as being unable to prove its position and acted as if no one held the presumption. The leader was strategic in responding to this controversy. When asked by a French journalist in the press conference after the National People’s Congress on March 8, 2001, about his comments on the casino controversy and the government’s attitudes toward the development of the stock market, Premier Zhu Rongji replied, “There are many kinds of views on China’s stock market, isn’t this an indication that China does have freedom of speech? Therefore, I won’t comment on the current condition of China’s stock market. Our principles are the Eight-word Principles, which are to strengthen the legalization, supervision, self-discipline, and standardization of the securities market.” Zhu refrained from taking sides and commenting directly on the controversy. This response was strategic in the sense that it left options open for policy choices. The year 2001 was a sensitive one in that it was the year of the 80th birthday of the CCP. It was expected that the Chief Secretary of the Party would deliver speeches at the anniversaries, especially anniversaries in the last year of a

decade. More importantly, it was only a year before the 16th Party Congress. The 16th Party Congress would be held in the fall of 2002, which would generate a new politburo and a new Chief Secretary of the Party. Following the change of leader in the CCP, the People's Congress in the spring of 2003 would then generate a new government. Facing the change of leadership, much uncertainty existed in the direction of policies.

Jiang Zemin, the Chief Secretary of the Party, seemed to be more affirmative in the direction of the reform. During a group meeting with members of the National People's Congress, he urged to speed up the corporate reform and shareholding reform (Li, 2002: 9). Four months later, in his speech at the 80th anniversary of the CCP, Jiang first articulated his theory of the "Three Represents," a bold theoretical formulation that called for a new conception of the CCP that is more pro-market, pro-business, and pro-capitalism.

Policy choices

The immediate consequence of this controversy was its impact on the trend of stock market indexes. The stock market plunged immediately after Wu Jinglian's critiques were publicized. As the controversy went on, market indexes lingered at low points. It was not until April, when the controversy gradually quieted that the market started to climb and reached new heights in June 2001.

After June, however, market indexes resumed their fall, and fell 33 % before the end of the year. Moreover, China's stock market remained relatively weak for

five years, a period when China's GDP increased at a double digit rate every year. There are numerous factors that caused the market crash of 2001 and the subsequent bear market. This controversy, however, signifies one of the most important reasons for poor performance, that is, the government was still trying to figure out its relationship to the market. The government was still trying to play too many roles in relation to the stock market: as the designer, regulator, and player at the same time. The multiplicity of roles was criticized on all sides. The opposition arguments in the "casino" controversy were both critical of the role of the government, which negatively affected the public confidence in the stock market. In an attempt to balance conflicting views on the stock market development, government policies shifted between strengthening regulations and adopting liberal market practices. Uncertainty limited the confidence and expectations of investors necessary for making serious investments in the stock market.

The long bear market did not deter the decision makers from further market liberalization. For example, many policies associated with socialist values were revoked, such as the ban on Party members to buy stocks. New policies encouraged the further development of funds, listing of Chinese firms on international stock exchanges, and the deliberation on adopting modern practices such as stock market derivatives. Zhou Xiaochuan was appointed the Chairman of the CSRC in 2000. As an economist educated in the West, he initiated more rapid reforms to liberalize the stock market. In a sense, although Wu Jinglian seemed to have had the initial presumption while he initiated criticisms on the stock market, the policy after the

controversy moved in the direction advocated by the initial defendant of the controversy.

Third Controversy: Are Managers Abusing State Assets?

Development of the stock market and political thought

The years following the stock market as a casino controversy were characterized by unrestrained issuance of new shares, coupled with the reluctance of investors to supply capital. Issuances of shares are commonly referred to by individual investors as “entrapping money” (圈钱) by listed companies. Indeed, the sole purpose of many companies to list on stock markets was believed by many to be a way to get quick cash. Seeing the market as a cash cow, companies fought to be listed; companies who were already listed continued to issue new shares, in spite of poor performance. The imbalance between supply and demand depressed the market. In this context, the decision makers pushed for share reforms, which were to make non-tradable shares – shares owned by the state and legal persons – tradable. Non-tradable shares constituted 70 % of all shares, and the release of these shares could flood the market and further depress share prices.

The initial share structures of listed SOEs enabled the state to justify listing SOEs on the stock market. In that framework, the state-owned shares and legal person shares were not-tradable, which alleviated some of the fears and concerns of the Old Left that listing on the market would change the nature of SOEs. However, as reform deepened, the government and the investors argued that the share structure

constituted a problem. The flotation of non-tradable shares, however, posed different challenges for the government and the investors. The government had an interest in reducing state shares in listed SOEs because the share prices had increased tremendously after their first issuance. The state as the shareholder of the non-tradable shares had not benefited from value appreciation. The government had a problem: how to sell its shares without agitating the shareholders of tradable shares who obviously would not be happy to see a value depreciation. Investors in the secondary market understood that the flotation of non-tradable shares would solve a structural problem of the shares. However, they were much less enthusiastic, and even hostile toward this marketization reform, because they perceived the negative impact of this reform on the share prices. Various names were used in the public deliberations on share structures, such as “the separation between shareholder rights and shares” (股权分置), “state shares reduction” (国有股减持), and “complete flotation” (全流通).

During the second half of the 1990s and entering into the 21st century, the topic of globalization increasingly attracted public attention. Globalization came with globalized discourse, in particular Western economic theories on the financial market and relations among economic agents. Agency theory arose as an economic paradigm in the 1970s and its language prevailed. Agency theorists (Alchian & Demsetz, 1972; Jensen & Meckling, 1976) used the principal-agent relation and assumptions on risks and interests regarding that relation to re-conceptualize the firm and firm activities. For example, stock holders of modern firms are seen as the

principal who delegates the management of the firm to top executives. The Chinese leadership appropriated agency theory to frame the state as a shareholder, and thus the problem of share structures was reconstructed as a classical agency problem between the principal and the agent. Agency theory also triggered the awakening of shareholder consciousness, which gave the state a vocabulary to portray itself as an active, controlling shareholder. As the controlling shareholder, the state retained control over some selected SOEs, and let go of other SOEs by closing them off or selling them to private capitalists. Corporate restructuring became popular, and management buyouts (MBOs) – a privatization scheme that allows SOE managers purchase the enterprises they manage became a trend in the year 2003 (Zhao, 2008: 287).

While share reform was seen as a technical issue to be tackled by government policy makers, it became a contentious public issue. State intervention influenced the supply and demand of shares, and it touched once again on the central problems of the reform – the relation of the state to market, to the people, and to society. If the previous controversy focused primarily on the relationship between the state in its relations to the market, this time the controversy intensified the problematic relations between the state as an owner or principal of public assets and the SOE leaders as agents for managing assets.

Globalization also brought the anti-globalization discourse into China. Critical theories, postcolonial theories, and the thought of Western New Left quickly flooded the intellectual sphere. The Chinese New Left took the position of criticizing

the Chinese government for selling out public assets that allegedly belonged to the Chinese people.

The controversy

On September 9, 2004, Lang Xianping (郎咸平), an economics professor at the Hong Kong University of Science and Technology, gave a speech titled “Greencool: A Carnival at the Feast of ‘the Retreating State and Marching People’” at Fudan University in Shanghai. In this speech, Lang criticized directly Gu Chujun (顾维军), the president and controlling shareholder of Greencool, a Hong Kong listed mainland company. Gu’s Greencool became the controlling shareholder of Kelong in 2001, and had subsequently acquired several SOEs. Kelong was a leading mainland refrigerator company that is also listed in Hong Kong. It was plagued by declining profits due to a series of top management successions. Lang accused Gu of embezzling state assets in the process of acquiring SOEs. Lang pointed out that Gu colluded with the original controlling shareholder of Kelong – the local government – to manipulate earnings during and after the acquisition of Kelong, thus creating the impression of turning around Kelong’s poor performance. Furthermore, Gu utilized the liquidity of Kelong to acquire other SOEs. These acquisitions went particularly well because those controlling shareholders – many of them local governments – were in a hurry to sell. Gu’s acquisitions of SOEs took advantage of the governments’ willingness to “retreat” from SOEs and reform the property rights of SOEs. Lang’s accusation is based on his own examination of the financial statements

of these companies. He estimated that Gu used 900 million Chinese yuan to gain state assets worth of 13.6 billion yuan. Lang concluded that the problems with China's corporate reform were very similar to the problems in the privatization of Russia. There state assets were embezzled due to the absence of laws. Gu Chujun denied all these charges, and responded by suing Lang for slander.

Lang's accusation soon escalated into a heated debate among economists. A dozen mainland economists issued a public statement supporting Lang. But many other mainland economists saw Lang's accusation as one-sided exaggeration and a misunderstanding of the main directions of the reform. On October 21, 2004, a dozen economists who were the directors and deans of leading research institutions attended a workshop on "The 20 years of development of Kelong and the roadmap of China's corporate reform." Participants in this workshop overwhelmingly supported Gu and criticized Lang. Zhang Wenkui (张文魁), an economist in the Research Center at the State Council, said that Lang did not understand SOEs, and did not look at the right data. He explained that Chinese SOEs do not submit their profits to the government, and therefore the government does not get a return for the investment. Since SOEs do not give their profits to the government, China's state assets are not capital assets, but rather constitute "corporate assets for social welfare." In this system, SOEs take the responsibility for providing for the welfare for its employees, which affects SOEs' performance. Only through corporate restructuring and property reform can SOEs move away from the firm-based welfare system to become more competitive. A renowned economics professor at Beijing University, Zhang Weiyang

(张维迎) was especially critical of Lang. Zhang criticized Lang for mobilizing public opinion by demonizing the image of the entire cohort of Chinese corporate leaders. In various industry conferences, Zhang identified himself as an advocate for Chinese corporate entrepreneurs, and praised the birth of some of the most successful companies in China. He called for the public and the media to be more tolerant of these corporate entrepreneurs. Furthermore, Zhang questioned Lang's charge about the inadequacy of MBO practices. Zhang proposed an analogy to describe the situation of SOEs. He said that SOEs were like ice-cream. If they were not sold to entrepreneurs, their assets would likely to melt. Therefore it was inappropriate to accuse entrepreneurs for buying out SOEs at below market prices.

Economists were deeply divided on the questions of whether Chinese SOEs and their managers were villains or heroes, whether the top management stripped state assets in Management Buy-Outs (MBOs), and whether property rights reforms mean the loss of state assets. At the start of this dispute, the liberals had the presumption since the reform had been enacted under a liberal orientation, and MBOs had become a new trend in the reform of share structures in the stock market.

Underlying the controversy was a further divide among Chinese economists on the direction of market reform. It was driven by the rise of the Chinese New Left. Similar to the Chinese liberals, the New Leftists were critical of the government. However, where the liberals believed in the power of the market, the New Leftists were more critical of the danger of market forces, such as an overly powerful managerial class. This time, the way the leaders responded to the controversy

quickly shifted the presumption from the side of the liberals to the side of the New Left.

Leaders' response

As economists were engaging this debate, the National Audit Office started an investigation into Gu's company. In September 2005, Gu was arrested for embezzling state assets. The arrest of corporate entrepreneur Gu symbolized the position the leader took in response to the debate. It was rare for the leaders to explicitly take sides in a controversy. Gu was a public figure in China who had made numerous TV appearances and won great recognition for being a successful corporate entrepreneur. His sudden fall from grace seemed to be a tipping point in society's attitude toward entrepreneurs. Whereas previously the rising social group of corporate entrepreneurs were admired and praised for the wealth they accumulated during the reform, the new trend became that of suspicion and even hostility toward the wealth gained by this social group. There were discussions about the "original sin" of these Chinese capitalists in the society as well as in top level meetings of the CCP. "Original sin" was used to describe the fact that many entrepreneurs gained their seed money through illegal means. Whether the "original sin" should be purged became a contentious topic. The arrest of Gu symbolized that the presumption of the society had once again shifted, this time, away from the liberal side.

It should be noted that the regime had changed to a new one led by leaders who explicitly expressed concerns for the losers of the reform. The change of

political orientation in the regime may have also contributed to the new position adopted by the leaders.

Policy outcomes

While the previous controversy addressed the relationship between the state and the market, this one dealt with the conflicts between the state as the shareholder and SOE managers. Its emergence indicated that managers were gaining power and leverage over the use and management of their companies during the process of corporate reforms. Many individuals with management talents rose to top management positions and gained national popularity. The government was uncertain about how to deal with this rising managerial class. On the one hand, these managers had the potential to reinvigorate the failing SOEs, but on the other hand, they could appropriate state assets in the absence of oversight and adequate valuation methods.

The controversy resulted in the state taking stronger positions to monitor the corporate restructuring and property reform of SOEs. State-owned Assets Supervision and Administration Commission of the State Council (SASAC) provided detailed rules on the transferring of state property rights on September 2004. On October 29, 2004, the SASAC published an editorial in *People's Daily*, saying that the practice of “management shares” will be terminated. The Vice Premier, Huang Ju, spoke in a conference of big SOEs owned by the central government, stating that big SOEs will not be permitted to have MBOs.

Furthermore, the “big shareholder model” in corporate governance, which provides extra incentives to managers, was no longer promoted, due to concerns for the increased inequality between workers and managers (Oi, 2005). Economists were divided on the basis of political-philosophical orientations. While some still criticize various government interventions, advocating the classical liberal ideology, others speak for the disadvantaged groups. While the new liberal ideology still dominates the power elites, concerns for social inequality and fairness have pressured the state to slow the speed and scope of corporate restructuring and adopt corporate government practices that differ from the American model.

DISCUSSION

Controversies as Tipping Points for Institutional Change

Debates, disputes, and controversies have figured in many studies of institutional change. However, the way in which controversies affect institutional change has not been thoroughly examined. This study proposes a model for systematically analyzing how controversy affects policy choices. Specifically, in any controversy there are aggressors and defendants. Either side may enjoy the initial presumption. However, once a controversy arises, the aggressor and the defendant may shift roles and both can demand that in the situation at hand rational justification be offered. The opposing arguments by aggressors and defendants push the boundary of taken-for-granted norms and practices, expose problems that have been dormant,

and interpret particulars and gather evidence into justifications to do more or less in different directions.

Opposing arguments can lead to a shift in the presumption. An important moderator in this process is a third party actor – the leader who also employs argument to engage in the controversy and whose authority may determine where presumption would reside at the end of the controversy. Through shifting the presumption, controversies become the possible tipping points for changes in policy directions. Figure 5.3 maps out the aggressor, the defendant, and the moving direction of presumption as a result of the controversy and leader’s response for the three controversies surrounding the Chinese stock market.

Figure 5.3: Aggressor, Defendant, Leader, and Presumption in three Controversies

	Initial Aggressor	Initial Defendant	Leader
1 st Controversy	Old Left had strong initial Presumption	Liberals got presumption in the end	Leader’s response shifted presumption to the liberal side
2 nd Controversy	Liberal Keynesians had weak initial presumption	Free market liberals got weak presumption in the end	Leader’s response slightly shifted presumption to the free market side
3 rd Controversy	New Left got presumption in the end	Liberals had initial presumption	Leader’s response shifted presumption to the New Left

The three controversies discussed in this essay shaped the trajectory of the institutional change accompanying fifteen years of stock market development. Figure

5.4 graphs the three controversies as tipping points that shift the political climate of the Chinese society.

Figure 5.4: Trajectory of Institutional Change*

Year	Ideological Left		Ideological Right		
	Old Left	New Left	Keynesian	Free-Market	
1991					
1992					
1993					
1994					
1995					
1996					
1997					
1998					
1999					
2000					
2001					
2002					
2003					
2004					

(*P indicates the position of presumption. The oval shape indicates the controversy.)

Specifically, the controversy over the nature of the stock market between the Old Left and the liberals ended in a shift of presumption from the conservative Old Left to the liberal side. This liberal ideology was characterized by a pro-market and pro-business mentality and pervaded for more than ten years. During these years, the policy orientation was predominated by Keynesianism which favored strong

government regulation; but the liberal right which favored less government was also extremely popular and influenced policy making. The controversy over whether the stock market was like a casino in 2000 pushed the presumption further in the direction of the liberal right. The controversy over management buyouts in 2004 shifted the presumption from the liberal right to a leftist direction, albeit one that was influenced by the political thought of the Western New Left and was profoundly different from the Old Left. All three controversies represent tipping points for changes of political climate and policy directions.

Where Do Controversies Come From

This study proposes that controversies originate in the clash of different political views. Different political ideologies such as the Old Left, the liberal, and the New Left in China have formed consistent set of arguments regarding specific topics. As new political thought gathers momentum, old political thought does not necessarily fade away. The collision of political thoughts generates debates since people's beliefs, ideals, and interests are at stake.

Tracing the topics of the three controversies and analyzing opposing arguments, this essay argues that the controversies emerge at times when there were shifts in the dominant political thought.

In a context of great uncertainty, political thought provides the logic for action. Shifts in political thought cause fluctuations in policy formulation. But they also allow for the continuous modification and adjustment of practices based on

social expectations and the ongoing renegotiation of beliefs and interests among different social groups.

How Leaders Manage Controversies

Chinese leaders have not been hostile to controversies. On the contrary, they have been active participants in public debates through their own carefully designed interventions. For example, the Old Left aggressor in the first controversy was apparently enjoying presumption and would mostly likely have won the debate. Deng Xiaoping, the paramount leader at that time, voiced a pragmatic position, which was to discontinue the debate and take an experimental attitude toward the stock market. Deng's argument effectively changed the criteria for the debate, and shifted the presumption from the Old Left to the liberal-minded reformers. Deng's authority helped make the shift, but he did not use his power to suppress the debate. Instead, he provided his rationales, explanations, and boundaries that spoke to both sides of the debate. Although his own orientation lay more in the liberal side, he did not explicitly take sides in the debate, which meant less resistance from the Old Left.

The second controversy took place under a regime that was pro-business and pro-market. Economists, however, were divided regarding the stock market. The aggressor in this controversy saw the stock market as completely ineffective and corrupted and the defendant saw primarily a healthy market with great potential and bright future. This time the leaders refrained from making direct comment on the controversy. The leaders reaffirmed that they would continue to strengthen

regulation, which was a positive response to the aggressor who was critical of the stock market; however, the leaders also stressed that the stock market was in a good shape and that the government would continue to liberalize the market, which was an affirmative response to the defendant who had been praising the stock market. The leaders' response exemplifies the wisdom of the authoritarian leader. The authoritarian leader demonstrated an appeal to democracy through carefully integrating arguments of the opposing sides of the debate.

The third controversy took place between economists who accused managers of abusing state assets through management buyouts, and economists who defended managers for saving non-performing SOEs. The leaders this time took a clear position on the side of the aggressor and adopted actions accordingly. Years of pro-business and pro-market reform had resulted in many social problems, and the new regime perhaps already had an agenda to correct some of the policies adopted by the previous regime. The leaders seized on the controversy between economists, utilized the uncertainty and ambiguity created by the controversy to shift the presumption of the social community to support their new agenda.

In sum, a key argument in this essay is that controversies should not be seen as errors to be corrected, failure to achieve agreement, or outburst of irrationality. Rather, controversies are a key mechanism of institutional change. They are the means by which various interactions occur, between opposing arguments, between arguers and the authoritative judge, and between the elite and the populace.

In China's economic reform, opposing arguments among economists serve to unfreeze taken-for-granted values and norms, and often result in the creation of new, hybrid forms of institutions. These institutional forms reflect the negotiation and reconciliation between opposing sides, and are a mixture of both the market logic and the socialist logic.

CHAPTER 6: CONCLUSION

The puzzle motivating this dissertation was how an elite can drive radical institutional change without themselves losing power. Specifically, how the CCP orchestrated a capitalist transformation while retaining their political control. The general thrust of the argument was that institutional change can be seen as a rhetorical movement that infuses rationality, reason, and legitimacy into the new institutions. The general findings of this project suggest that Chinese leaders have been very effective in using rhetoric to legitimize the institutional change and simultaneously to buttress their own authority.

SUMMARY OF FINDINGS

I have argued that the rhetorical movement for top-down institutional change must meet three requirements. Specifically, in order for the Chinese leaders to lead China from a central command economy to a market-based economy, the first rhetorical requirement was to unfreeze the institutionalized assumptions regarding the existing economic order and relationships. This necessitated opening up an argumentative space for discussion and debates. Second, the Chinese leaders need to obtain and maintain credibility and trust-worthiness as the representatives of change. This was particularly difficult since the radical nature of the reform posed a challenge to the legitimacy of their leadership. Third, the Chinese leaders had to deal with the resistance that naturally accompanied the attempted changes.

Chapter 3 discussed casuistry as a rhetorical strategy that the leaders employed to open up the space for argument. Specifically, this chapter builds on Burke's (1984 [1937]) discussion to identify four types of casuistry: dissociation, association, substitution, and stretching. These casuistries work at the level of concepts and slogans. Dissociation disrupts the established meanings of a slogan; association connects concepts that are previously not connected; substitution replaces an old concept with a partially overlapping concept; and stretching refers to the extension of a concept's meaning to include new properties and cases.

Through the use of casuistry, Chinese leaders created slogans and theories that were strategically ambiguous and multifaceted. New and controversial meanings were introduced gradually and subtly, and the preservation of old and orthodox meanings ensured some degree of continuity with the past. Diverse audiences may have highlighted different aspects of these slogans and theories, interpreted them differently, and employed them selectively to support their own propositions. Casuistry enables institutions to change radically under the disguise of gradualism and incrementalism. It can be used to justify actions and policies ranging from the political left to the right, because a wide range of policies and actions can find some kind of support in the re-interpreted original slogans and theories. Therefore, casuistry effectively creates the space for new arguments and practices.

Chapter 4 discussed the construction of ethos as a rhetorical strategy for the leaders to maintain their legitimate authority even as they institute radical change that potentially could have undermined their authority. Ethos, or the character,

credibility, and trustworthiness of the speaker established in speech, is one of three means of persuasion articulated by Aristotle. This chapter distilled three types of characters embedded in rhetoric, taking inspiration from Aristotle's framework of rhetorical genres to guide a reading of a body of rhetoric collected systematically in the *People's Daily*. Specifically, epideictic rhetoric, or the rhetoric of display, definition, and education, constructs the character of the speaker as an educator; forensic rhetoric, or the rhetoric of prosecution, accusation, attacks, constructs the character of the speaker as a prosecutor; deliberative rhetoric, or the rhetoric of expedience and decision making, constructs the character of the speaker as a manager.

Through the use of these three rhetorical genres, the speaker manipulates the relationship with the audience, thus foregrounding a particular type of speaker-audience relationship that infuses the speaker with the legitimate right to speak. Specifically, the use of epideictic rhetoric allowed Chinese leaders to enhance their right to define and educate. The use of forensic rhetoric gave these leaders the opportunity to increase their perceived fairness and righteousness. The use of deliberative rhetoric enhanced the Chinese leaders perceived ability to achieve optimal results. Furthermore, this chapter traced a staged model for the combination of rhetorical genres used by the Chinese leadership. The sequence featured epideictic rhetoric in the early period, forensic rhetoric in the middle, and deliberative rhetoric in the later period of the institutional change process.

The conventional sociological perspective suggests that legitimate authority comes from tradition, charisma, or rational-legal foundations. This study suggests a complementary perspective – that different forms of legitimacy are grounded in different discursive forms of authority, or the right to speak given by the audience. The Chinese case followed the sequence of epideictic, forensic, and deliberative rhetoric. This sequence helped facilitate a smooth beginning, a vital middle stage, and an effective implementation of policies. This sequence allows the incumbent leader to maintain the right kind of authority throughout the process of change. Future research might usefully test whether this sequence is generalizable.

Chapter 5 outlined a model of controversies as important tipping points for policy formation. This model built on Goodnight (1980) to propose that oppositional arguments in a controversy arise as new political thought gathers sufficient momentum to collide with established political thought. Aggressors and defendants in a controversy hold different sets of presumptions on the basis of their political thought. Either side may enjoy the initial presumption at the start of the controversy, depending on which political thought is dominant at a given point in time. As the argumentation process unfolds, arguers struggle to establish the ground on which to proclaim and evaluate action plans. It is uncertain which side's presumption will dominate the debate based on the strength of arguments, therefore response from an unbiased judge is considered important. Controversy provides the leader with an opportunity to engage in the re-ordering of presumptions and thus shifts the political climate of the community.

Through the management of presumptions, Chinese leaders strategically intervened in controversies that were taking place in the public sphere initiated by prominent economists. Rather than suppressing public disagreements or silencing opposition, the Chinese leaders made use of disagreements and oppositions through carefully designed speech acts. Whereas the controversies themselves reflected a tension between competing presumptions in need of a resolution, the arguments and positions that the Chinese leaders took in response to controversies managed that tension. The Chinese leaders helped to establish a middle ground on which competing parties control provisionally more or less of the territory, which may change again when the conditions for a new controversy are ripe.

CONTRIBUTIONS

This project makes a number of contributions to organizational research and China studies. The first contribution relates to the study of the relationship between government and market, or more generally, between hierarchy and market. The second contribution relates to strategic leadership in organizational change. The third contribution concerns the area of China studies.

Relationship between State and Market

Institutional sociologists have attributed the emergence of capitalism in the West to the growth of rationality, conceptualized as a rule-based, impersonal form of action and reasoning that gravitated towards efficiency and utility maximization

(Scott, 2003). This idea of rationality is embodied in the rational-legal form of bureaucratic organizations as well as the ideal-typical concept of the market in the neo-classical economic tradition. In the context of organizational theory, the market represents a belief in individual sovereignty and self-interested instrumental rationality, arms-length transactions as the basic exchange pattern, and price mechanisms that are utilized for adjusting social arrangements.

A large body of economic literature has compared the market with planning modes of organizing economic activities, examining various kinds of market socialisms as alternative modes of reconciliation between market mechanism and state control (Stiglitz, 1994). While liberal economists, such as Mises, Bawerk, and Hayek uphold the principle of the free-market, other economists, such as Lange, Arrow, Hurwicz, and Roemer, advocated mixed or socialist forms of organization.

In addition to the debates among economists, sociologists have examined the relations of the state to market. While some believe that the rise of the market in the former socialist countries will inevitably lead to the decline of state power (Nee, 1989), others disagree (Lin, 2001; Walder, 1995). In both developed capitalist countries and developing economies, there is considerable variation in state-economy relations (Dobbin, 1994; Evans, 1995). In emerging economies in particular, there are numerous hybrid forms that are quasi-public and quasi-private (Francis, 2001).

At a more abstract level of conceptualization, contemporary organizational research distinguishes between the market and the hierarchy as two organizational forms with the price mechanism and authority as the two operating principles

(Williamson, 1991). Recently, organizational research has identified a third form of organization: the community form which operates on the basis of trust (Adler, 2001). The rhetorical perspective of this dissertation resonates with the idea that modern organizations are not only a mixture of voluntary contracts and fiat control, but also require subjective assessment of each other's credibility, character, and trustworthiness.

China's economic transformation has implications for conceptualizing the relationship between the state and market. It testifies to the possibility of new forms of organizing. It is a mixture of strong ideological work, intensive acculturation, and the profound feeling of both the possibility for revolutionary change of the masses and the enormous constraint on individual freedom. In the West, modernization has created differentiation among different spheres of activities, and it is only a recent trend that scholars acknowledge that the boundaries between different spheres are perhaps more fluid and co-entangled than what have been previously conceived. The predominant emphasis on technical and formal rationality has been confronted by a realization of the social embeddedness of market activities. Comparing to the West, China has taken a different approach to modernization. It has made the leap to jump to a socialist ideology before capitalism was fully developed. It started with a society characterized by non-market, central command order, and re-introduced market rationality into this pre-existing system. The economic reform represents an effort to "socially construct" a market, in the literal sense of the term. The resulting logic of organizing has been characterized by the combination of an ever penetrating state

and an ever expanding market. Contrary to conventional predictions, the power of the state has not declined as a result of the growth of the market. Rather, the state and the market have become deeply intertwined, not in a sense of a clear role specification as described by Evans, but more in the sense of continuous theorization of the nature of the relationship. The China story may lead to a more complex understanding of the interplay of market, hierarchy, and trust-based forms of organizing.

Strategic Leadership

A small current of research in strategic leadership has emphasized the leader as the rhetor (Eccles & Nohria, 1992). This project contributes to this line of research by explicating the rhetoric of authority. By examining the rhetorical processes and strategies that the Chinese leaders employ in legitimating the stock market in a communist regime, this project highlights the rhetorical inventions of the Chinese leaders. Leaders possess authority; authority not only dictates through the formal positional power but also stimulates and motivates through rhetorical imagination. As Burke notes, authority is the engine for imagination (Burke, 1969: 123).

China's transformation has broader implications for orchestrating strategic change. Incumbent leaders of other types of organizations also face the need to shift policies in a radical matter, e.g., reversing existing policies that previously were authorized by the same leader. Politicians may find themselves in the situation where they need to explain why they adopt a position that is the opposite of what they

initially claimed. In ancient Greek, the sophists were said to have the ability to make convincing arguments for a position in front of an audience in the morning, and then make arguments just as convincing for the opposite position in the afternoon. This is not to say that there is no truth. The point is that through the power of rhetoric radical change of policies does not necessarily result in the change of leadership.

However, the situation poses specific challenges to the incumbent leader. To initiate and justify change while at the same time maintaining the authority position, the strategic leader needs to use symbols wisely. The chapters on casuistry, ethos construction, and controversy provide some concrete examples on how leaders may employ rhetoric to exploit contradictions, mobilize for change, and build legitimate authority.

Studies of China's Capitalist Transformation

Most studies of China's capitalist transformation have focused on behavioral, psychological, or economic factors. Few studies provide insights into the agentic construction of collective representation, symbols and rituals. My dissertation asks: how did China come to decide the form of the reform and the manner in which it is conducted? What is the logic that governs thinking and reasoning? How did China justify the reform in its own language? I investigate the indigenous vocabulary of change that Chinese leaders used to guide and justify the radical change they initiated.

Susan Shirk's study of the political logic of the Chinese authority (Shirk, 1993), Kluver's analysis of the legitimation rhetoric of the Chinese Communist Party (Kluver, 1998), and recent attempts at approaching the transition by looking into the rhetoric of the Chinese leadership (Lu & Simons, 2006) represent related effort by scholars. This project extends their approaches by offering a rhetorical institutional analysis of the Chinese capitalist transformation. The contribution of this project to China studies lies in three areas.

First, this project focuses on the symbolic process of this institutional change rather than materialist structures. The symbolic aspect of the economic transformation is an important area of investigation, because it bears on the reasons and arguments that motivated social actors to comprehend, accept, and implement certain policies and actions. To ignore the symbolic aspect of institutional change leads to an incomplete story of how change is possible. Institutional change is possible only if actors are mobilized to regard the change as reasonable, appropriate, and desirable. This study provides a detailed account of the symbols made and used by the Chinese, thus laying out the process of institutional change through tracing the evolution of the meaning-making process. By focusing on symbols and meanings, this project introduces to observers of China to the way the Chinese have conceptualized and justified this transformation.

Second, this project places emphasis on the discursive legacy of modern China instead of traditional China. Scholars who study traditional Chinese beliefs and value systems tend to overlook the modern elements that constitute the Chinese

mentality. The collective consciousness of modern China is profoundly different than traditional China. Modern Western political thought has provided China with much of the discursive resource in play today. In analyzing the original speech made by the top leaders of the CCP, by authors of the *People's Daily*, and by prominent economists, this project shows that traditional Chinese beliefs, such as Confucianism and Taoism, were rarely invoked, and that modern Western thought had been drawn on heavily for making the arguments.

Third, this project describes two sets of actors who have provided much of the discourse in the institutional change: the power elite, and the intelligentsia. The top leaders in the CCP have been responsible for the articulation and population of theoretical inventions. The intelligentsia has provided ideas, and more importantly, offered criticisms. The building of the stock market has been characterized by wide fluctuations of policies and waves of controversies. This is perhaps because both the power elite and the intelligentsia are characterized by internal division, political faction, and evolving compositions of alignments based on difference in ideals, ideologies, political thoughts, and material interests. These divisions and controversies have created turbulence in the policy changes. However, they have also become a force that prevented quick adoption of new practices and quick abandonment of old ones. Oppositional arguments have kept things somewhat unsettled, but they may have also benefited the reform by prolonging the process of interrogation.

LIMITATIONS

This project's case study design limits the generalizability of findings. Specifically, the Chinese capitalist transformation as a single case has idiosyncratic characteristics that may not lend themselves to common experience of the general population. In addition, the research design samples on the dependent variable, which is the material outlook of China's system. China's capitalist transformation is yet to reach a conclusive stage, and is marked by uncertainty about future outcomes. The Chinese leaders have managed thus far to successfully initiate radical change while simultaneously maintaining power and control, but that may well change. Future changes in material outlooks of Chinese political institutions may prove some of the rhetorical strategies discussed in this dissertation to be pitfall. Related to this limitation, I have touched only briefly on the costs of these rhetorical strategies. Such costs may include increased hypocrisy that people attribute to the leaders, augmented tension between the free-market practices and arrangements and the will of the political institutions, and wastes of talents and resources devoted to the maintenance of failing institutions. The lack of attention on the costs and downsides of these rhetorical strategies is due partly to the scope of this project. I deal only with the question of how elite agents can initiate radical change without losing control; I did not address the question of why they do that or what motivate them. The latter question calls for critical analysis of the relationship between power and institutions.

GENERALIZABILITY AND FUTURE RESEARCH

This project suggests several areas of generalization and future research. First, the findings of this project can “ring true” in other settings. Although the Chinese capitalist transformation is unique in many ways, the research questions this case study raises are not idiosyncratic. In a nutshell, this dissertation identifies rhetorical strategies that incumbent leaders can use to orchestrate radical change without a regime change. These rhetorical strategies have applicability in other settings of elite-led radical change. For example, modeling China’s society as a modern corporation can help scholars see the relevance of this case study to strategic organizational change. Incumbent CEOs of a business organization face similar rhetorical requirements in initiating radical change, and can employ the same rhetorical strategies to implement change successfully.

Second, the rhetorical movement approach on institutional change can facilitate future development of conceptual and theoretical frameworks in studies of institutions and organizations. In terms of casuistry, future research may clarify the conditions that facilitate or inhibit the use of casuistry in radical change, discuss the consequence and performance implications for using casuistry, and propose frameworks for understanding how casuistry relates to institutionalization. With regard to ethos or the rhetorical construction of character, future research may test the generalizability of the rhetorical sequence found in the China case and propose ways to use the rhetorical sequence to conceptualize different kinds of change.

Future research can also build on my study of controversy to theorize the relationship between controversy and institutional change.

Finally, future research can extend the study to other post-communist countries and developing economies. Comparative studies of China's capitalist transformation with other societies can provide evidence of how differences in rhetoric may account for variations in material practices and arrangements.

CONCLUDING COMMENTS

As I finalize this dissertation, the U.S. has been going through a financial crisis: a crisis which first started in the failure of subprime mortgage practices, bursting the housing bubble, and then spread into the entire financial sector, which resulted in a stock market crash and a national, even international crisis and economic downturn. The unexpected magnitude of this crisis has generated debate, and has reopened discussion on the relationship between the government and market. As a Washington Post columnist humorously put it, "We are all Chinese now," in the sense that "we have a nominally capitalist economy, but we don't trust the freewheeling private market when it comes to the crunch. So we turn to the government for protection and stability." Barak Obama, the newly elected American president, has been busy pushing for a series of stimulus packages and plans, including the injection of billions of dollars into the economy, even the nationalization of banks. As a talented rhetor, Obama understands that rhetoric is no empty matter, and that his actions and policies have to be accompanied by forceful

justifications. In a speech to Congress on February 24, 2009, he argued, “I reject the view that says our problems will simply take care of themselves, that says government has no role in laying the foundation for our common prosperity, for history tells a different story.”

In the mean time, the U.S. elevated its strategic relationship with China, as China has gained some degree of credibility in the global economic recession by being a stabilizing force. In the G20 financial summit in London, Obama and the Chinese leader Hu Jintao met on April 1, 2009. Obama and Hu “pledged that, as two major economies, the US and China will work together, as well as with other countries, to help the world economy return to strong growth and to strengthen the international financial system so a crisis of this magnitude never happens again.” The recognition of China by the U.S. as a “major economy” says much about the transformation that China has achieved.

Words have made a lot of difference in the Chinese transformation. Just as Barak Obama pointed out in a debate with Hilary Clinton in a primary presidential debate, “The truth is, actually, words do inspire.”

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