

Chapter 5

The Rhetorics That Won: How Three Elite Controversies Shaped China's Stock Market Institutions

Fewer studies of elite agency and power, once central to organization analysis, have appeared in recent years. This is due, in part, to a drift away “from the study of core societal power centers and important policy issues of the day” (Zald & Lounsbury, 2010: 963). Interestingly, as neoinstitutional theory becomes more “agentic,” i.e., taking seriously the role of institutional actors and institutional work (Lawrence & Suddaby, 2006; Lawrence, Suddaby, & Leca, 2009), it still has a relatively underdeveloped conception of elite actors. In fact, elites tend to be regarded the same as the external environment, abstract, unitary, coercive, and exerting isomorphic pressures (Lounsbury & Ventresca, 2003). Taking political elites as an example, institutional theory depicts the state as the powerful and coercive driver of institutions, but does not probe into the processes that lead state actors to exert such pressure (Zucker, 1987). As Hirsch (1997: 1713) noted, the regulative pillar of institutions, which is arguably where many societal power centers are located, “cannot ignore or operate in a vacuum so free of politics, process, and value conflicts.” Yet most studies on institutional politics have focused on coercive strategies of elites such as rule making by regulators and lobbying by powerful interest groups to achieve desired policy ends.

We presently know little about the ways in which elites shape the acquisition and maintenance of legitimacy of new institutions through altering actors’ beliefs and assumptions, deemed as the cognitive pillar of institutions (Scott, 1995). Elites invest effort in making sense of and communicating the ethos of their times. In fact, the perpetuation of elite domination largely relies on the ability of elites to provide “moral vocabularies” for a society (Reed, 2012), which are assumptions and understandings that hold institutions together and provide the conditions for their stability and change (Bartunek, 1984; Hardy & Maguire, 2010; Meyer, 2008; Ranson, Hinings, & Greenwood, 1980; Zilber, 2008).

The production of such legitimacy is especially intense when elites disagree and confront one another publicly (Meyer & Höllerer, 2010). Controversies are public events that expose hidden assumptions and surface institutional contradictions, which potentially have long-lasting effects on the institutionalization of a field (Patriotta, Gond, & Schultz, 2011). Controversies are important moments of breach that reveal problems of legitimacy (Schneiberg & Clemens, 2006: 212). However, while scholars agree that there is an important role of rhetoric and communication in shaping legitimacy judgments (Cornelissen, Durand, Fiss, Lammers, & Vaara, 2015; Suddaby, Bitektine, & Haack, 2017), we know little about *how elites’ confrontational discursive struggles shape the legitimacy judgment of new rules or organizations in their field*.

We focus on the evolution of stock markets, with a particular focus on controversies and debates surrounding their establishment and the development of subsequent rules and regulations. Elite controversies during policy debates have played a role in the U.S. and other stock markets (Blume, Siegel, & Rottenberg, 1993; Lederer, 2003). For example, in the U.S., the debates between the Friedman traditionalists and Keynesian reformers helped shape the development of rules and policies in the 1920s (Chancellor, 1999). Because the Chinese stock market is embedded in a socialist society, it has more historical basis for strongly held opposing opinions than markets that came from and reflect capitalist economies (Li, Green Jr., & Hirsch, 2018). In China, the arguments for and against certain policies for its stock market carry with them more ideological and passionately held positions than are found in the debates over rules in other countries as their stock markets evolved. We select China's stock market as our case study because it provides a rich context for exploring the role of debates and controversies in the trajectory of institutional change.

China's stock market development has been described as "nothing short of breathtaking" (Wong, 2006). It took off in the early 1990s, the same time as other transition and emerging economies were adopting stock markets. However, it has performed better than the stock market of most other transition economies (Pistor & Xu, 2005). In a study of the diffusion of stock exchanges between 1980 and 2005, Weber and colleagues (2009) observed that coercive pressures from prominent international agencies such as the IMF and World Bank led countries to adopt the stock market ceremonially and resulted in less vibrant markets, whereas normative pressures from elite professional communities led countries to substantive adoption and more vibrant markets. However, these coercive and normative pressures were less present or insignificant in China's adoption of the stock market. In fact, scholars have lamented that "China's rapid economic expansion is a puzzle from almost any perspective we have examined" (Davis, 2012: 47). As we show in this study, historical accounts of China's stock market adoption tell a story of the translation of western ideas, and contestation of heterogeneous opinions among indigenous power elites as the driver for China's stock market development. In this study, we follow Weber, Davis and Lounsbury's (2009) suggestion for more studies to explore how the policies for new stock markets were debated and came to be adopted.

Our study investigates three high profile societal wide debates during the first two decades of China's stock market, between 1980s and 2000s. We analyze how China's market-oriented reform, particularly the development of its new stock market's policies were influenced by competing visions of policy makers and economists. In fact, China's stock market is "at the center of huge, era-defining policy battles between economic reformers pushing for capitalism and conservatives wanting to preserve socialist controls" (Green, 2003: xiii), and it is "highly sensitive to government policies, the overall political situation, and the speculative plays of major institutions" (Walter & Howei, 2006, p. 15). Therefore, a key to understanding the evolution of the stock market

institution in China lies in the confrontational battles among elite actors occupying command posts in the Chinese society.

Our analysis identified two mechanisms: *contentious argumentation* and *presumption*. *Argumentation* is a product and process of institutionalization, i.e., the acquisition and maintenance of legitimacy (Green Jr., Li, & Nohria, 2009; Hoefer & Green Jr., 2016). Our findings suggest that contentious argumentation is a sensemaking mechanism that provides a microlevel anchor for legitimacy judgments of institutionalization processes. We further note *how contentiousness marks the inherent instability and complexity of such a microlevel anchor*. *Presumption* is a communicative and cognitive mechanism in the framing contest for legitimacy. It determines which side of the opposing arguments has an advantage in defending its position, thus influencing the legitimacy judgments of institutional decision makers (Goodnight, 1980; Hoefer & Green Jr., 2016). Positions advantaged by presumption capture an important element of *what is at stake* in these discursive battles. Our study finds that the dominant presumption shifted after every controversy. We propose that shifts in dominant presumptions can be used as a way to track changes in the relative strength of an ideology or schema in a field.

Our findings contribute to the institutional perspective on elites by investigating the fragmentation of elites in the broader fields and how the publicized arguments among divided elites wield influence through their making confrontational arguments. We also contribute to the studies of institutionalization by specifying mechanisms that link microlevel confrontational discursive struggles of elites to macrolevel legitimatized meaning structures helps explain shifts in institutional meanings through contestation.

Elites, Controversies, and Institutionalization

There are four types of elites: coercive, allocative, expert, and authoritative (Scott, 2008; Reed, 2012). Coercive elites primarily belong to the domains of military, security, and law enforcement, and they rely on mechanisms of *correction* and *punishment*. Allocative elites, found mostly in the corporate business sector, depend on mechanisms of *accumulation* of capital resources. Expert elites, who dominate professional institutional networks, employ mechanisms of *acculturation* to monopolize the production of expert knowledge in specific domains of social activity. Finally, authoritative elites belong to the upper levels of governments and regulative bodies, and they ensure stability and order through mechanisms of *regulation* (Reed, 2012).

Studies of elites emphasize the perpetuation of elite domination despite conflicts among elites and the circulation and fragmentation of power (Courpasson and Clegg, 2006). Elites generate and reproduce their rule by employing hierarchical forms of domination such as “soft bureaucracy”—sophisticated managerial strategies to legitimize the centralization of power (Lukes, 1974; Courpasson, 2000). Lukes (1974) describes unobtrusive strategies as the third dimension of power, which prevents opposition from

arising in the first place by manipulating people's perceptions and preferences. Conflict and resistance are staved off through the use of political language, symbols, and rituals that give meanings to outcomes and thus legitimize and justify them (Lukes, 1974; Hardy and Clegg, 2006). Whereas research tends to focus on how various types of elites present a unified front to the public, thus ensuring the institutionalization of beliefs and norms sanctioned by the elite apparatus, we know relatively little about the dynamics of elite conflict and fragmentation, especially as they play out spontaneously in the public.

To explore these dynamics, Clemens and Cook (1999) propose to take a broader view of elites to see them as dispersed and distributed power and expertise. The broader view emphasizes the roles that new forms of expertise and communities of expert discourse have in unifying or subverting shared beliefs and interests (Clegg, Courpasson, & Phillips, 2006; Zald & Lounsbury, 2010). According to this view, the command posts occupied by elites encompass a broader field of organizations that not only span the governmental, corporate, and military sectors, as emphasized by C. W. Mills (Mills, 1956), but also include various experts and technocrats in formal governance bodies along with an asteroid belt of command posts such as lobby groups, social movement organizations, and NGOs (Barley, 2007; Greenwood, 2008; Zald & Lounsbury, 2010).

Elite Controversy

Elite controversies—public debates among elites that have wide ramifications in the public sphere—are critical events that display struggles among the powerful for the right to define reality. Studying elite controversies is important for several reasons. First, as critical and disruptive events, they likely attract public attention and thus provide an opportunity to shape public awareness and understanding (Hoffman & Ocasio, 2001; Nigam & Ocasio, 2010). Second, controversies are not predetermined and emerge as actors spontaneously respond to the issue at hand. They are likely characterized by uncertainty and ambiguity and thus present an urgent need for sensemaking (Fiss & Hirsch, 2005; Maitlis & Sonenshein, 2010; Oliver & Montgomery, 2008; Weick, 1988). Controversies provide discursive spaces for alternative voices to be heard, disputed, and interrogated (Hardy & Maguire, 2010), and new perspectives can arise from the opposing views of contending parties trying to make sense of the same environment or issue (Gioia & Chittipeddi, 1991; Weick, 1995). Third, elite controversies signify important moments of breach in groups that are usually perceived as homogeneous (Hoffman & Ventresca, 1999). Such struggles are breaches that most likely reveal problems of legitimacy (Schneiberg & Clemens, 2006: 212). In their study of a controversy sparked by a nuclear accident, Patriotta et al. (2011) propose seeing controversies as “legitimacy tests” that question institutional order. As intense manifestations of elite fractures and divisions, elite controversies provide an opening into the

world of elite conflicts through which it is possible to probe the subtle and complex ways that power and discourse operate. Finally, controversies can be an important site for understanding the purposeful institutional work of actors (Lawrence & Suddaby, 2006; Lawrence, Suddaby, & Leca, 2011). In a controversy, opposing side often have different institutional agendas and use competing or opposing arguments to define institutional logics that attach or deny legitimacy to new organizational practices (Suddaby & Greenwood, 2005).

Controversy is different from conflict. Mainstream management literature tends to see conflict as irrational and dysfunctional problems in need of solving (Ford, Ford, & D'Amelio, 2008). In contrast, controversies are rather generative and open-ended in terms of constructing the boundaries and rules of debates. As meaningful and intensive interactions among actors, controversies constitute the cultural and normative environment in which a focal field is situated. In fact, “specific fields are definable as much by what is held in dispute as by field-oriented consensus” (Goodnight, 2001: 170).

Rhetoric, Legitimacy, and Presumption

Bringing elite controversy into the study of legitimacy naturally invites a rhetorical perspective on institutions. Rhetoric is both a political discourse aimed at persuading audiences and effecting change (Suddaby, 2010) and an epistemic means for understanding the meaning and significance of institutionalized structures (Brown, Ainsworth, & Grant, 2012; Green Jr. & Li, 2011; Green Jr. et al., 2009). In the process of institutionalization—the process by which microlevel intentions and subjectivities transform into macrolevel rules and structures and thus acquiring legitimacy (Hallett & Ventresca, 2006a; Li, 2017; Phillips, Lawrence, & Hardy, 2004; Powell & Colyvas, 2008; Tolbert & Zucker, 1996). Actors employ rhetoric to justify their actions (Green Jr., 2004; Green Jr. et al., 2009), to exploit multiple institutional logics (Oakes, Townley, & Cooper, 1998; Suddaby & Greenwood, 2005), and to construct identities, myths, and power relations in their institutional field (Alvesson & Willmott, 2002; Brown et al., 2012; Covaleski, Dirsmith, Heian, & Sajay, 1998; Creed, DeJordy, & Lok, 2010; Creed, Scully, & Austin, 2002; Maguire & Hardy, 2009). While rhetoric facilitates agency (Putnam & Cooren, 2004), it is also constrained by the power relations embedded in the broader discourse that constitutes social reality and relations (Grant, Hardy, Oswick, & Putnam, 2004; Phillips & Hardy, 1997; Phillips & Oswick, 2013).

Studies that employ a rhetorical perspective have mostly focused on the legitimacy of practices; less attention is given to the legitimacy of meanings that are heterogeneous (Li, 2017). Public controversies are an important site for studying fractures in the meaning systems, thus shedding lights into the multiplicity of meanings and the complex relationships between meanings and practices in the institutionalization process. We highlight and focus attention on two orienting constructs for investigating

the role of elite controversies in institutionalization: *contentious argumentation* and *presumption*.

Contentious argumentation. Legitimacy judgments take place when contentious argumentation between elites surface points of departure and contestation. The ambiguity, confusion, and disorientation in the public present an urgent need for elites to make sense of *what is going on* (Fiss & Hirsch, 2005; Maitlis & Sonenshein, 2010; Weick, 1988). Elites seek to make their opinions known through their priority access to various channels of mass media and their ability to disseminate their ideas within their fields and to the public in general.

In any controversy, there exist an aggressor and a defender. The aggressor may call for change or for a reaffirmation of existing institutions. The defender will defend the status quo in the first instance and advocate change in the second (Whately, 1963). In addition to the disputing opponents, authoritative actors can participate in the controversy by passing laws and regulations or by proffering their own arguments in the midst of the oppositional arguments (Goodnight, 1980). The rules and policies passed by authoritative elites carry significantly more weight in a debate due to their regulatory nature. However, the involvement of authorities in a public controversy does not necessarily bring about determinacy and closure, silence opposition, or quell doubt (Liu, 1997). In fact, positions taken by authoritative judges in one controversy can be revisited and revised in another controversy. Furthermore, controversies are played out in front of the public and the public are both listeners as well as important evaluators of the arguments for making legitimacy judgments (Real & Putnam, 2005).

The “rhetorical institutionalist” perspective (Cornelissen et al., 2015; Green Jr. & Li, 2011) emphasizes that the formation of legitimacy is an argumentative process (Harmon, Green Jr., & Goodnight, 2015; Hoefer & Green Jr., 2016). Actors use arguments to shape the beliefs of themselves and others, thus forming the judgment of legitimacy. Few studies have examined the contentiousness of arguments. Arguments are contentious both in content and in form. Contentiousness manifests in the content of debates, for example, the substantive points of disagreements, interrogation of each other’s reasoning, and challenges to each other’s credibility; and it also manifests in the form of debates, for example, the combative gesture, inflammatory language, and aggressive tactics when attacking each other in public forums. Understanding the points of disagreements and the rationales and motivations that underlie these opposing positions and dramatic enactment of debates can help reveal what is at stake as well as the appropriate perimeters of debates.

Presumption. Rhetorical theory maintains that a basic element in any public controversy concerns which side has the presumption and which side has the burden of proof (Goodnight, 1980). As the counterpart to the concept of burden of proof, presumption 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). For

example, in the Anglo-American jurisprudential system, the defendant is presumed innocent until proven guilty; here 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).

More recently, organizational scholars conceptualize presumption as rules that bind the rationality of institutional decision making through arguments (Hoefer & Green Jr., 2016: 132). As organizational researchers wrestle with the relation of presumption to legitimacy, they may see these two concepts as equivalents. However, they are critically different. As a multilevel construct, legitimacy has been understood as a property, process, or perception (Bitektine & Haack, 2015; Suddaby et al., 2017). The common thread among these diverse treatments of legitimacy is that it refers to the substance of a belief (Hoefer & Green Jr., 2016: 134). By contrast, presumption is not about the substance of a belief, but rather about which side of the opposition bears more burden of proof. Using the example of the U.S. justice system, some people might “believe” the defendant is guilty and others “believe” the defendant is innocent, but the court does not have such substantive beliefs. In fact, the court should not give any party’s belief more legitimacy. The court simply abides by the rule that makes the prosecution shoulder the burden of proof. The presumptive tilt that the justice system gives to the defendant does not imply that the supposition favored by the presumption is more likely to be right—a defendant in court is not more likely to be innocent because of the presumption of innocence, but rather is simply not required to prove his or her innocence (Whately, 1963).

Applying the notion of presumption in institutions, scholars note that when a particular philosophy, value, or social thought dominates a field, it determines the kinds of risks that the society or community finds acceptable and the kinds of risks it avoids (Goodnight, 1980). The U.S. justice system is based on values that find the error of convicting the innocent most intolerable, and therefore tilt the presumption to the defendant, which increases the risk of failure for the prosecution (Hoefer & Green Jr., 2016). However, the presumption may change in a field due to changes in the dominant ideology (Goodnight, 1980; Hoefer & Green Jr., 2016). New and oppositional arguments may arise to challenge the existing presumption associated with traditional institutions. As contenders who hold different political philosophies act as the aggressor and defender in a controversy, they employ rhetorical strategies to take on or discharge the burden of proof, thus maintaining or shifting the presumption (Einhorn, 1990). The outcome of a controversy depends not only on whether the arguments are sound, but also on the political strategies of authoritative elites. The argumentative interactions among aggressors, defenders, and authoritative elites can shift the presumption of a society or community from what it was before the controversy to a new one. Once the new presumption is accepted by the society or community, it becomes an “argumentative bind on future judgments and decisions to act” (Hoefer & Green Jr., 2016: 139).

Methodology

This research adopts the discursive approach to institutions, which “sees language as constitutive and constructive of reality rather than reflective and representative” (Phillips & Oswick, 2013). Longitudinal studies of changes in discourse along with shifts in practices are typical of interpretive case studies that help illuminate how actors’ strategic actions interact with the deep structures that embed interpretive schemes and frames (Heracleous & Barrett, 2001; Hirsch, 1986). Specifically, we look at rhetorical arguments as a specific form of discourse to focus on understanding how arguments shape beliefs and the meaning structure of institutions (Green Jr. & Li, 2011; Meyer & Höllerer, 2010; Sillince, 2002).

In addition, this study uses historical methods to study institutionalization. The historical orientation sees social processes as contingent and tends to divide the flow of history into distinct eras punctuated by significant events (Sewell, 2008). To this end, historians ask focused questions that are rooted in present concerns, conduct disciplined explorations and analyses of historical and contemporary literature, and provide theoretical notions as “sensitizing devices” (Scranton & Fridenson, 2013). Recognizing that historical analysis tends to privilege temporal fatefulness and contingency at the expense of producing universal claims, we endeavor to use the historical research and reasoning to generate findings that contribute to the theoretical concerns of organization studies (Wadhwani & Bucheli, 2013). Following exemplars of historical sociology (Fligstein, 1990), we aim to articulate a generalizable framework for answering the focal research questions and thereby contribute to the conceptual development of institutional theory.

Controversy Selection

Numerous controversies have marked the development of the stock market in China from its inception in the 1980s through the present day (Walter & Howei, 2006). Commonly called the “policy market,” China’s stock market is very sensitive to various forms of government intervention (Dong, 2002). Administrative proclamations can often explain the extraordinary peaks and troughs in the trajectories of the share indices (Ma, 2004; Yao, 1998). For example, when China’s reform architect Deng Xiaoping toured the prosperous southern part of China in Spring of 1992 and spoke of “boldly speeding up China’s reform” and “being committed to the stock experimentation,” the stock market responded with a fourfold rise in its indices in five months, hitting its first price peak. On August 1, 1994, after nearly two years of a bear market, 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 had reached its lowest value of 325.89 on July 29, jumped to 1052.94 on September 13, a 3.23-fold increase over 44 days.

In May 1997, both the Shanghai and Shenzhen stock exchanges reached new all-time highs in anticipation of Hong Kong's return to the mainland. Other administrative and economic measures used to influence the market include lifting the stock price limits in May 1992, which caused prices to rise; approval of institutional investment in the stock market in February 1993, which caused prices to rise; the extension of the quota for new listings and the normalization of financial regulation, which led to a price trough in July 1994; an announcement of new listings and an increased quantity of government bonds issues, which caused prices to fall in Feb 1995; a halt to government bond transactions, which caused stock prices to jump in May 1995; an expansion of outstanding shares, which caused prices to fall in Jan 1996; reductions of deposit interest rates, which pushed prices higher in Nov 1996; announcements allowing the investment of funds from insurance companies and capital from trust and investment institutions in the shares market, which pushed prices to high points in 1999; serious investigation and punishment of fraudulent trading and misleading information, and a policy of reducing state-owned shares, which depressed the market until 2005. Increases and decreases in the stamp tax have also frequently been employed to influence the market.

In addition to the government policy interventions, elite economists have been conspicuous in the public sphere through their engagement in intense debates and their controversial commentaries about the stock market in mainstream media, both of which have generally attracted the attention of a significant portion of the society (Ma, 2006). Thus, the Chinese stock market is a natural site for studying the relation between elite controversy and institutionalization as an ongoing process.

The selection of controversies for this study was based on several considerations. First, theoretical sampling, that is, sampling based on concepts that are theoretically relevant to the evolving theory (Strauss & Corbin, 1990: 177), guided the selection. Since our focus is on elite fractures that are publicly manifest, we focus on public disagreements between elites, which often take place between prominent economists. Second, the controversies selected for this study are covered by historical accounts provided by various leading authorities, including the China Securities Regulatory Commission (CSRC, 2012), which regulates the stock market, various policy makers (Liu, 2008), economists (Dong, 2002), independent stock market commentators (Li, 2001, 2002, 2005), and journalists (Ma, 2006), and these accounts were produced both in Chinese (Ma, 2003) and in English (Green, 2003; Walter & Howei, 2006). Since these controversies have attracted the attention of actors in various fields, they are likely to generate insight into the world of elites and their role in the institutionalization of a focal field. Third, these controversies are “information-rich cases that manifest the phenomenon intensely” (Miles & Huberman, 1994: 28). There are traces of controversies that unfolded in the legislative and executive bodies of the government or the politburo, as revealed in books by Chinese Marxist theorists involved in policy drafting (Gao, 2010), but information about such controversies is not publicly available. In contrast, the controversies selected for this study are not only discussed in various secondary accounts, but have also generated primary texts, including articles and

books by elite economists involved in the controversies and a large number of newspaper and magazine commentaries.

We identified three controversies based on an in-depth understanding of the context and history of the China's stock market development. The first controversy, hereafter referred to as "the surname controversy," is a dispute that took place between 1990 and 1992 between conservatives and reformers about whether the stock market should be allowed to open. The second controversy, hereafter referred as "the casino controversy," concerned whether the stock market is like a casino and should therefore be closed. The casino controversy broke out in 2001 and highlights the disagreements between two prominent economists, both strong advocates for market reform. The third controversy, commonly known as "the dispute between Lang and Gu" (the initial disputants in the controversy), is a dispute about the practice of management buyouts (MBOs) of state-owned enterprises (SOEs) and will therefore hereafter be referred to as "the MBO controversy." The MBO controversy occurred in 2004–2005 and marked the split between those regarded as mainstream economists and those who consider themselves to be non-mainstream.

Data Collection

For the three elite controversies over the stock market, we collected articles and books written by the economists who were the main figures in these controversies as primary sources, in order to understand their perspectives in their own words. In addition, we searched the China Academic Journals Full-text Database (CAJ) for articles that discuss these controversies.

CAJ is China's most comprehensive full-text database of Chinese journals and magazines. As of May 2013, it contained 8,460 journal titles, of which 803 belonged to the category "Economy and Management." We used keywords to search for articles in this category related to the three controversies. For the first controversy, which is commonly known as the controversy of "socialist or capitalist surnames," the search strings for articles contain the phrases "xingshexingzi" (surname socialism surname capitalism) and the words "stock," "stock market," "shareholding," or "capital market" in the full text. For the second controversy, the search strings include key phrases "gushiduchang" (stock market casino) and "China" in the full text. For the third controversy, the search strings include either the phrase "langguzhizheng" (the dispute between Lang and Gu), or both Lang Xianping and Gu Chujun, or both Lang Xianping and Zhang Weiying, all key figures in the controversy.

We ensured the validity of the sources by evaluating whether they represented authentic and pertinent sources for the research questions. As an example, to understand the stock market field, we selected books that provided a multitude of accounts produced by a variety of authors/agencies in both Chinese and English, such as the regulatory agency CSRC, a retired director of the CSRC, economic scholars, journalists, senior managers at investment banks, and independent observers. We adopt a critical

view of these accounts, always taking into consideration the authors' motivations for telling a story in a particular way. The credibility of the sources was enhanced by searching archives for material contemporaneous with the controversies—that is, additional primary sources. In the case of the secondary accounts, given the many books on the history of China's stock market, we were careful to consult those that were produced by the most credible and authoritative authors. Our data sources are transparent in the sense they are all publicly available.

The search uncovered 6,651 articles published between 1988 and 2013. Figure 11 shows the number of articles addressing each controversy by year, and clearly shows that these controversies received wide attention from the public. For each controversy, we selected 20 articles contemporaneous with the controversy as important primary data for analyzing the public discourse at the time. Lastly, we collected books on the history of the stock market written by a variety of authors and several books that focus on large-scale controversies surrounding the market reform in China.

To make sense of the stock market institution before and after the controversies, we combed historical accounts of the stock market to identify institutional changes. Throughout the data collection process, we paid careful attention to the validity, credibility, and transparency of the sources (Kipping, Wadhwani, & Bucheli, 2014). The myriad of archival sources helped triangulate our interpretations and analysis.

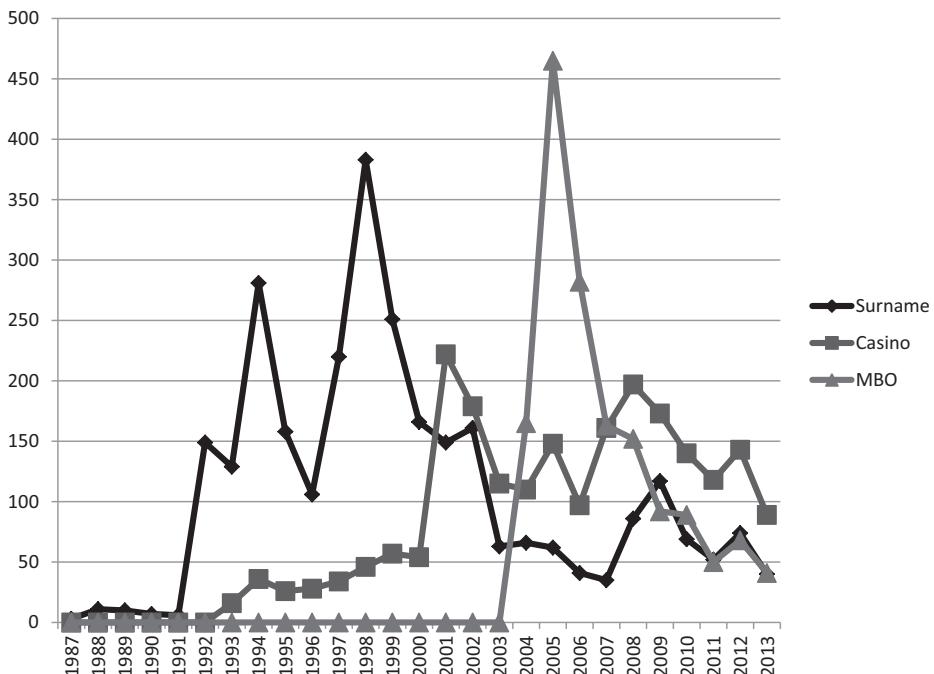


Figure 11: The Rise and Fall of Three Controversies in the History of China's Stock Market.

Data Analysis

The theoretical aim of this study is to explain the role of elite controversies in the process of institutionalization. To that end, we began the identification of elites by constructing a detailed narrative account of each controversy. These stories are more than a mere chronology of events (Langley, 1999); they are “prepared to get on top of the data, to clarify sequences across levels of analysis, suggest causal linkages between levels, and establish early analytical themes” (Pettigrew, 1990: 280). Since the indigenous Chinese context—including aspects of its culture, its political and economic systems, and its history—is central for understanding and theorizing about Chinese phenomenon (Tsui, 2006), we traced the historical dynamics of the political environment in China, paying particular attention to elite conflict and relationships between different types of elites.

The second stage compared how the controversies unfolded in terms of the discursive practices. Argumentation analysis (Perelman & Olbrechts-Tyteca, 1969; Toulmin, 1958) guided our examination of the contending parties’ arguments in the controversies. We identified the aggressor and the defender, as well as argumentative engagements by political leaders. Argumentation theory concerns “the *production, analysis, and evaluation* of argumentative discourse” in actual pragmatic contexts (van Eemeren, Grootendorst, & Henkemans, 1996: 12). Analyzing how actors take up and defend their positions in these disputes, we placed them in the context of China’s political economy and the development of its capital market. This contextual analysis led us to identify two theoretical constructs that are important for understanding the role of controversies in institutional change: contentious argumentation and presumption.

Regarding contentious argumentation, we further identified three broad categories: (1) premises relating to what is real—facts and truth; (2) premises relating to what is preferable—values and value hierarchies; and (3) premises relating to the ethos of the arguer. In all three controversies under discussion, the opponents used quantitative and qualitative data, systematic and episodic evidence, and comparisons between China and other countries to make claims about specific arrangements and practices of China’s stock market. These opposing standpoints were summarized in journalists’ reports in newspapers and magazines, sometimes along with their own interpretations. The voices of the common people also entered the debate: they wrote to the newspapers and magazines directly and, in the case of the second and third controversies, the viewpoints they expressed on the Internet were reprinted in traditional media. As the arguments expanded, the opponents often broadened the scope and generalizability of their criticisms, escalating the conflicts between the camps. They created simplified slogans for their opponents’ arguments and sought to connect them to values that are undesirable and subordinate to the values that they upheld. Moreover, the debates often went beyond the logos of the arguments and involved problematizing the motives, character, credibility, and reputation of the opponents. Regarding presumption, we relied on evidence from the power holders and their ideo-

logical orientation, secondary accounts of the political climate and policy orientation, and from contemporaneous articles on public opinion and responses by authoritative elites to gauge which side has the initial presumption and its shift.

The final stage of our analysis examined the changes in the stock market after the controversies. It connects changes in presumptions with changes in rules and understandings of the stock market institution. Historical analysis in sociology requires the analyst to “study sequences of conditions, actions, and effects that have happened in natural settings, in sufficient detail to get signs of sequences that are causally connected” (Stinchcombe, 2005: 5). Following this insight, we concentrated our efforts on enhancing the temporal details of the processes and sequences, paying careful attention to actors’ political actions and interactions at key moments of history. The effort to study institutionalization involves “periodization”—that is, organizing history into temporal and spatial segments with contextual constancy across periods and contextual variations between periods (Clemens, 1999). Periodization is especially fruitful when guided by conceiving the institutional changes as a set of linked solutions to a problem (Clemens, 1999; Schneiberg & Clemens, 2006). This strategy helped us highlight variations in the effects of controversies while pointing out the similarities. Throughout the analysis, our intention was to make both a contribution *of* theory, by applying existing organization theories to a new context, as well as a contribution *to* theory, specifically institutional theory and elite theory, by developing theoretical insights that have greater explanatory power by virtue of being informed by this new phenomenon (Whetten, 2009).

The Context: China’s Elite Politics and Dominant Political Thoughts

Many observers characterize China’s political system as an authoritarian one-party-rule regime. However, the Chinese Communist Party (CCP) has never been a monolithic authority, and it is rife with internal conflicts (Huang, 2000; Pye, 1981; Shih, 2008). China specialists observe that elite politics are central to China’s recent transition (Fewsmith, 1999) and, more specifically, that factional conflicts are central for understanding how Chinese leaders organize themselves and mobilize resources to engage in conflicts and set the rules of the game (Nathan, 1973; Nathan & Tsai, 1995). Viewed in light of elite politics, debates and controversies have political significance, because the terminologies and vocabularies in the debates are metaphors that encapsulate very different perceptions of the reform (Fewsmith, 1999: 62). Economists and economic bureaucrats subscribing to different schools of thought argued both publicly and privately, interpreting economic reality and offering cognitive maps for leadership. Their discourses constitute streams of ongoing debates and dialogues that contribute to the policymaking process and are an integral part of China’s political process (Fewsmith, 1994).

Three political schools of thought have gained prominence, at times clashing with each other, in China's reform era. These are commonly labeled as the "Old Left," the "liberals," and the "New Left" in discussions of the dominant intellectual schools of thought in China (Ma, 2012). The Old Left consists of adherents to Mao Zedong's political thoughts, intellectuals and political leaders who uphold class struggle as the principle of the party and who insist on public ownership and planned economy as essential to China's economic system. The liberals are reformers who find an affinity with Western liberal thinkers, often tracing their roots to John Locke, Adam Smith, and Friedrich Hayek. Liberals embrace personal freedom, a market economy, and private ownership, and are thus often subject to ideological attacks by the Old Left who characterize them as rightists and bourgeoisie engaged in spiritual pollution. The Old Left and the liberals were often discussed as the conservatives and the reformers in the 1980s and the early 1990s. The New Left emerged in the 1990s and gained prominence in the early 2000s. The New Left is at home with contemporary Western left-wing intellectuals such as American leftist critics, the British New Left, and the Frankfurt School. The Chinese New Left is highly critical of globalization, capitalism, and market fetishism, and instead favors social fairness and participatory politics (Li, 2010; Ma, 2012).

The relationship between authoritative elites and expert elites is one of mutual dependence. Post-Mao intellectuals, like their predecessor Confucian literati, act as advisors and spokespersons for the political authority, and have occupied command posts in government, academia, the media, and the cultural sphere (Goldman, 1999). They often assume the leadership in policymaking institutes, think tanks, and professional associations, and they serve as links between the party and society (Goldman, 1999). They vie for the attention of political authorities by making sense of economic trends and offering new ideas, and many institutes and think tanks are under the auspices of political patrons. Conversely, political authorities rely on intellectuals for new ideas, which are particularly important in times of radical change and uncertainty (Chen, 1995). Moreover, political authorities use public debates and controversies to mobilize their factional support and test the strengths of their networks (Pye, 1981). For example, in the aftermath of the Cultural Revolution, Deng Xiaoping did not simply use backroom political maneuvers to replace Hua Guofeng, the Mao-anointed heir; he mobilized think tanks and the media to publicly champion a different ideological vision before officially dethroning Hua (Fewsmith, 1999). Because conservatives control the organs of the CCP most responsible for CCP rule, such as the State Planning Commission and the Propaganda Department, reform-minded political leaders have often cultivated their own intellectual networks and think tanks (Fewsmith, 1999). The alliances between authoritative and expert elites are forged not only through formal organizational ties, but also by informal intellectual and political networks woven together through shared political views and values (Goldman & Gu, 2004). In the following sections, we analyze three controversies between Chinese economists regarding the stock market. Table 7 identifies elites and their institutional command posts in these controversies.

Table 7: Elites and Their Command Posts in the Controversies.

	The Surname Controversy	The Casino Controversy	The MBO Controversy
Political Orientations of the Opposing Camps	Old Left vs. Liberals	Keynesians vs. Free Market liberals	New Left vs. Liberals
Intellectual/Expert Elites: Representatives and Their Command Posts	<p>Old Left*</p> <p>Gao Di: Head, <i>People's Daily</i>, 1989–1992; Member, Central Committee of the CCP (around 200 members, the top in power in the CCP); Vice Principal, Party School of the Central Committee of the CCP; Member, Standing Committee of the Chinese People's Political Consultative Conference (the official political institution of multiparty representations)</p> <p>Wu Shuqing: President, Beijing University, 1989–1996; Member, Finance and Economic Committee of the National People's Congress (the legislative branch of the government)</p> <p>Liberals</p> <p>Wu Jinglian: Researcher, Chinese Academy of Social Sciences (CASS); Advisor, Development Research Center of the State Council (the executive branch of the government); Vice Director, Economic Committee of the National Committee of the Chinese People's Political Consultative Conference; Chief Editor, <i>Reform</i> (a flagship magazine on China's reform)</p>	<p>Keynesians*</p> <p>Wu Jinglian (same as previous)</p> <p>Free Market Liberals</p> <p>Li Yining (same as previous)</p> <p>Dong Furen: Director of the Economics Institute, Chinese Academy of Social Sciences; Vice Director, Finance and Economic Committee of the National People's Congress; Vice Director, Economic Committee of the National Committee of the Chinese People's Political Consultative Conference</p>	<p>New Left*</p> <p>Lang Xianping: Chaired professor, Chinese University of Hong Kong</p> <p>Liberals</p> <p>Zhang Weiying: Professor and Dean, Beijing University</p> <p>Wu Jinglian (same as previous)</p>

Table 7 (continued)

	The Surname Controversy	The Casino Controversy	The MBO Controversy
	Li Yining: Professor and Dean, Beijing University; Vice Director, Finance and Economic Committee of the National People's Congress; Vice Director, Economic Committee of the National Committee of the Chinese People's Political Consultative Conference		
Authoritative Elites: Representatives and Their Command Posts	<p>Deng Xiaoping: 1st in power despite not holding a formal position; supporter of economic reform</p> <p>Old Left</p> <ul style="list-style-type: none"> Most Party Elders** Chen Yun: 2nd in power after Deng Xiaoping in 1980s Yao Yilin: Vice Premier in charge of economy, 1979–1993 Deng Liqun: Propaganda chief in the 1980s Wang Renzhi: Head of CCP Propaganda, 1987–1992 <p>Liberal Reformers</p> <ul style="list-style-type: none"> Zhu Rongji: Vice Premier, 1989–1998 	<p>Jiang Zemin: General Secretary of the CCP, 1989–2002, 1st in power; turned from conservative to pro-business and pro-market</p> <p>Liberal Reformers</p> <ul style="list-style-type: none"> Zhu Rongji: Premier, 1998–2003 	<p>Jiang Zemin: continued to be the 1st in power in the military until September 2004</p> <p>New Left</p> <ul style="list-style-type: none"> Hu Jintao: General Secretary of the CCP, 2002–2012 Wen Jiabao: Premier, 2002–2012
Allocative Elites: Representatives and Their Command Posts	Not Clear	<p>SOEs</p> <ul style="list-style-type: none"> Most listed companies Financial intermediaries Institutional investors 	<p>SOEs</p> <ul style="list-style-type: none"> Most listed companies Financial intermediaries Institutional investors <p>Private Businesses</p> <ul style="list-style-type: none"> Gu Chujun: President and controlling shareholder of Greencool

Assignments of political orientations of representatives in these controversies are based on scholarly work by both Western academics such as (Fewsmith, 2008; Oi, 2010) and Chinese intellectuals such as (Ma, 2012)

*The group is the aggressor in the controversy

**The “Eight Party Elders” are revolutionary veterans who do not occupy formal positions in the state but hold power over top leaders in the party and the government. The majority of the eight elders are conservative in ideological orientation

The Three Controversies and the Institutional Development of the Stock Market

The Surname Controversy: Should the Stock Market be Allowed to Open?

The opening of the stock market. Emergent, market-based grassroots efforts as well as deliberative, control-minded government' strategies propelled the opening of China's stock market. Since early 1980s, "township and village enterprises" (TVEs) took the initial risks to raise capital by issuing shares (Green, 2003). Small- and medium-sized SOEs followed suit. As part of market reform, local governments took over the control and cash flow rights of the vast majority of these SOEs in the early 1980s, and they sought more aggressive sources of investment capital than fiscal grants and bank loans (Xia, Lin, & Grub, 1992). Local governments, especially Shanghai and Shenzhen, became experimental sites for shareholding companies and public share issuances. Records show that the public issuance of shares by companies took place as early as 1980 (Li, 2001). By 1989, as many as 10,000 companies had issued shares (Economist, 1989).

The central government adopted stock market out of several concerns. First, the central government's budget deficit prompted it to seek alternative ways of raising capital for SOEs (Gordon & Li, 2003; Wong, 2006). Second, the proliferation of securities issues stimulated the formalization of a secondary market, which indicates a public need for liquidity (Ma, 2004). The Shanghai Branch of the People's Bank of China (PBOC) established an OTC market in 1986 to act as an intermediary agency for securities transactions between willing buyers and sellers. Fearing that the "share fever" of the public had gotten out of control and attempting to contain the frenetic black market activities, the State Council approved Shanghai's request to establish a formal security exchange (Walter & Howei, 2006).

The Shanghai and Shenzhen stock exchanges opened for trading in December 1990. Zhu Rongji, who assumed the position of the Shanghai Party Secretary and Mayor in late 1989, was the chief advocate for establishing the Shanghai stock exchange. Given the political climate, senior officials in Shanghai thought the stock market idea was politically dangerous (Li, 2001). The Shanghai PBOC governor presented Zhu with four objections: issuing shares could lead to the privatization of SOEs; it could reduce bank deposits from individuals and harm the banking system; trading would lead to speculation and social unrest; and the stock market could end up creating a new class of capitalists (Walter & Howei, 2006). Zhu nevertheless went ahead and persuaded the central government to approve the proposal. For the first year, the two stock exchanges combined had only six listed companies. The listed companies were collective enterprises, which were regarded as second-class enterprises to SOEs in the central planning system. SOEs, concerned about political risks, were yet to become active in IPOs in the newly established stock exchanges. Trading volume was extremely low. The public was deeply suspicious of the new market, and investors would not invest before the authori-

ties sent a clear signal about its prospects (Green, 2003). The conservative political climate dominated by the Old Left partially explains the dormancy.

Old Left as the dominant political thought. During the 1980s, reform leaders backed by Deng Xiaoping implemented liberal measures that fostered the growth of a market outside of the central planning system (Naughton, 1995). However, high inflation coupled with social turmoil in the late 1980s brought down the liberal regime. The 1989 Tiananmen movement, a society-wide crisis that began with pro-Western intellectual elites and student activists ended with government-ordered military intervention (Zhao, 2001). Its ending represents the downfall of the liberal regime that had experienced vital growth in the 1980s and a significant rollback of economic reform by the hardline faction occupying the most important command posts in the political and intellectual fields (Fewsmith, 1993; Naughton, 1995). The period 1989–1992 is often referred to by Western scholars as the *retrenchment period* (Naughton, 1995); however, at the time, many Western media concluded that China's reform had come to an end. With the most vocal pro-Western intellectuals seeking refuge overseas and the Old Leftists now in charge of propaganda, media, and higher education, the liberal discourse that permeated the society in the 1980s was largely suppressed (Fewsmith, 2008). The conservative leader Chen Yun's economic thought was restored as the guiding principle for China's economy, and the head of the Propaganda Department, Wang Renzhi, initiated a new round of attack on bourgeois liberalization, with an eye to curtailing the authority of Deng Xiaoping and negating the liberal economic policies of the previous era (Fewsmith, 1993). Ideological tensions between the elites deepened, and the Old Left started to use the language of pre-reform eras to describe intra-party conflicts as "line struggles," of which bourgeois liberalization was capitalist in nature (Fewsmith, 1993).

The controversy between Old Leftists and Liberals. Given that key CCP and government positions were occupied by cadres with leftist ideological orientation, the Old Left had the ideological upper hand during the 1989–1991 period of retrenchment (Fewsmith, 2008). This gives the Old Left the presumption, which means that the Old Left does not need to prove their claim that the stock market is a quintessential capitalist institution and is contradictory to China's socialist ideology and Marxist beliefs. The Old Left nonetheless acted as the aggressor and initiated the attack. The general thrust of the attacks includes: labelling market practices as capitalist; warning the danger of pro-market thoughts as bourgeois liberalization that destroys socialist spiritual civilization; interpreting the social turmoil in China and the subsequent collapse of communist regimes in the Soviet Bloc countries as evidence of the danger of the West to "peacefully transform" China into a capitalist society; and attacking liberals as allies with the West. Table 8 provides some of the points of departure in the surname controversy.

In January 1990, months before the official opening of the stock market, *Qiushi* (*Seeking the Truth*), the flagship magazine of the CCP, published Premier Li Peng's closing speech at the annual CCP meeting on the economy. Li announced that strict austerity programs would guide the economy for several years. In a brief mention of

Table 8: Contentious Argumentation in the Surname Controversy.

	Old Left	Liberals
Points of departure		
Central message	The surname of the stock market is Mr. Capitalism. The stock market fundamentally contradicts China's Marxist principles and should not be adopted.	The surname of the stock market is not Mr. Capitalism. It is consistent with China's ideology and beneficial to the reform. It should be adopted.
Premises relating to facts	The shareholding form creates property that is privately owned. The private nature of these companies determines that resources would be allocated by capital returns, not by labor inputs. Allocation by capital returns is deemed a capitalist practice, and therefore not conducive to China's socialist modernization.	The surname of the shareholding form is not "capitalism" but "commodity." The shareholding form can take care of the interests of many stakeholders and protect the interests of the shareholders. When employees see that they are the owners of their enterprise, they will be more motivated to take care of the enterprise.
	The shareholding system is a historical retreat from the socialist public ownership system.	The shareholding system is a new foundation for socialist enterprise.
	The shareholding form breaks up the public ownership of SOEs into diverse ownership types. This will not only cause problems in economic calculation, but will also lead to political and administrative chaos.	The shareholding form can help separate the ownership right from the operational right, so that enterprises have more autonomy.
	Turning SOEs into a shareholding system does not necessarily lead to efficiency and productivity.	Managers can use the stock market as a direct way to raise capital, thus lowering the cost of capital, increasing the mobility of capital, and helping clarify ownership rights.
Premises relating to values	Socialism cannot allow people to use monetary capital to speculate in a capital market and cannot allow the existence of a social class that, like parasites, makes a living from stock dividends.	Stocks are to investors like daughters and sons who will get married and move out. Therefore, it is not enough to have the primary market; we must also have the secondary market. The life of stocks is in their trading. The benefits of trading stocks outweigh the costs, and trading will not cause large speculations.
	The class nature of the stock markets is capitalist.	The stock markets are an institution and a way to organize, and therefore do not have a class nature.
Premises relating to arguers' ethos	The liberals intend to ally with the West to turn China into a capitalist society through "peaceful evolution."	We should guard against the Old Left because it ruined China in the past and is against the reform.

stock issuance, Li cautioned that it would cause an imbalance in capital planning and could even lead to inflation if it was not centrally planned by the government. In May 1990, an article published in *Qiushi* argued that it was still necessary to question the surnames of reform practices, and in August, another article published in *Qiushi* claimed that failing to question the surnames would blur the socialist direction of the country (Yang, 1998). In December 1990, Gao Di, the head of the *People's Daily*, published an article in his newspaper entitled "Socialism Will Definitely Replace Capitalism," stressing the exploitative nature of capitalism and predicting its inevitable demise. Wu Shuqing, a conservative economist and President of Beijing University from 1989 to 1996, argued that the issuance of shares by enterprises would stir a sense of inequality in society, foment an opportunistic mentality, and open avenues for abuse and malpractice. In the meantime, hundreds of newspapers and magazines published articles that accuse the stock market to be capitalist and therefore should not be allowed to open.

The counterattack by the liberals started with the publication of four editorials in *Liberation Daily*, an influential daily newspaper owned by the CCP's Shanghai Municipal Party Committee, over a period of two months in early 1991. These editorials advocated further reform, which was extremely shocking to the public. The pen name used in these editorials later became a symbol of the voice of market reform. Historical accounts reveal that three individuals penned these articles: the party secretary (first-hand man of the government or a government agency) of the newspaper publisher, the director of the newspaper's opinions department, and the director of the policy research department (akin to a think tank) of the Shanghai Municipal Party Committee. All three were elites in the field of the party propaganda in Shanghai. They decided to write the first editorial when the policy researcher shared a transcript of speeches by Zhu Rongji at a local party branch meeting. At the meeting, Zhu briefed the members of the party branch on Deng Xiaoping's recent speeches during a winter vacation in Shanghai. Earlier, in November 1989, Deng had withdrawn from his last formal position as the chairman of the Central Military Commission of the Central Committee of the CCP, arguably the most powerful position in China's ruling apparatus. Hence Deng's speeches in Shanghai were not publicized in the same way as speech by top party leaders in formal command posts. Instead, Deng's ideas, which essentially argued for more market-based reforms, were disseminated within the party organization through routine party branch meetings. The meeting in which Zhu disseminated Deng's ideas is referred to as "blowing the air" in the CCP vocabulary, indicating the testing of new ideas within the party organization. There are no historical accounts indicating whether the Shanghai party newspaper's publication of these editorials that espoused Deng's ideas without mentioning him was on the advice of Zhu Rongji or whether it comprised the initiatives of the three individuals behind the pen name. Later, the public generally assumed that Zhu was behind the editorials.

In this episode, Deng, Zhu, and the three Shanghai party members all took political risks in a climate dominated by the Old Left. Deng understood that using his informal visits to criticize the leftist trend in the party was risky. He said, “There is a reason to be worried. But I want to take the risk. Without taking risks, nothing is done, nothing can be done” (Yang, 1998: 515). When Zhu decided to ask for the central government’s permission to establish a stock exchange, he told his team that he would take the political responsibility if things went wrong (Li, 2001). The researcher and editors at the Shanghai newspaper ran the risk of being criticized, even demoted, if their “opinions” did not accord with the “party line” (Zhao, 2008). Such risky actions, however, can be worthwhile if they successfully change the climate. Deng was credited with playing the decisive role in reversing China’s course (Vogel, 2011), Zhu was promoted to head the central government as the Vice Premier, and the individuals behind the editorials were promoted to jobs in newspapers and research centers at the national level (Ma, 2008).

The Old Left fought back with innovative political actions. For example, a top-ranking political leader made an official visit to Shanghai and, in a speech to party cadres, openly criticized the Shanghai editorials for a bad influence that damaged the hard-earned consensus of the entire party (Ma, 2008). In response to the Shanghai editorials, the director of the *People’s Daily*, the most authoritative daily newspaper owned by the party’s central committee, secretly made a personal trip to Shanghai to investigate who was behind the editorials, rather than requesting the information through formal channels (Yang, 1998). The upper echelons of the party exerted pressure on liberals by criticizing liberal-minded journalists within the party organizations (Yang, 1998).

Heightened uncertainty was manifest in a rare episode of the party-controlled media. On September 1, 1991, China’s Central Television (CCTV) news presented an important editorial that would appear in the *People’s Daily* the next day. It is routine for CCTV to televise this kind of editorial, yet the fact that the version that appeared in the newspaper the next day would be different was an extremely rare event: it did not contain a sentence that said “we should question the surnames.” It turns out that the director of the *People’s Daily* had included this sentence, but Jiang Zemin ordered it dropped after he listened to the CCTV news (Ma, 2008). The Western media used this episode to speculate that there were two voices in the CCP Central Committee (Yang, 1998). This meticulous attention to specific words by the top party leadership was interpreted by the Chinese media as an indicator of the murky and uncertain political situation of the time (Ma, 2008).

Although the Old Left has the presumption, the liberal reformers sought to occupy the “ground” by arguing that what they advocated are not capitalist but socialist practices and institutions. The liberal economists had been instrumental in articulating rationales for the economic reform. As early as the 1960s, renowned economist Sun Yefang advocated for the use of the price mechanism (Yang, 1998). Wu Jinglian and Li Yining were actively pushing for the adoption of market mechanisms and the shareholding form in the 1980s as young economists. Facing the 1989 political turmoil,

the liberals had to refute the leftist argument that market reform led to political crisis. They argued instead that the problem was that market reform was incomplete and lacked determination. In contrast to the planners' idea that market adjustment should be undertaken within the framework of the planned economy, liberal economists advocated for a more independent role of the market economy (Naughton, 1995). However, they carefully crafted their arguments so that these would not be labeled as capitalist. For example, Gong Yuzhi, Deputy Director of the Theoretical Research Department of the Central Committee of the CCP, argued that China's reform was "socialist public ownership reformed by markets," not "privatization" or a "market economy of the West" (Yao, 1998). Dong Furen, director of the Economics Institute at the CASS and then a deputy director of the Finance and Economics Committee of the National People's Congress, interpreted China's economic system to mean a market economy under the guidance and regulation of the state (Dong, 2002). Xue Muqiao, a renowned economist who was one of the key figures in China's planned economy stage, wrote a formal letter to the politburo in 1990 and published a series of articles to put forth strong and comprehensive arguments for establishing a market economy, including the stock market. His theory framed the market as an economic means that could be employed by socialist countries for socialist ends (Xue, 1996).

The settling of presumption. From the perspective of argumentation, neither side of the controversy could persuade the other based on the logic and strength of its arguments. At this point, the political authority's response was critical since there was no remaining means of persuasion other than the opinions of the authoritative elites. Deng Xiaoping, the retired "reform architect" tried to send signals to Jiang Zemin, the general secretary of the CCP. In the spring of 1992, Deng Xiaoping took a tour to the Guangdong province, which later became the widely known symbolic event "Deng's Southern Tour." Deng personally asked Guangdong not to hold meetings or meet the media during the trip, but the Guangdong officials negotiated to obtain the right to video record his visits. The deputy editor of the newspaper Shenzhen Special Zone followed the visit and published a news story that contained many of Deng's words. The article was quickly reprinted by major newspapers. Liberal intellectuals organized conferences to support Deng's speeches, and numerous articles appeared in the media to express their pro-market reform standpoints. In March, the Politburo of the CCP Central Committee held meetings to study Deng's speeches and reached a consensus to carry out Deng's vision. In June 1992, the general party secretary Jiang Zemin gave a speech to the Party School in which he boldly announced that he preferred the term "socialist market economy" to define China's economic system. Jiang's embrace of "market economy" in 1992 was widely regarded as a signal to a much deeper commitment to market reform. These ideas were then formally incorporated into the 14th Party Congress Report in October 1992.

It is worth noting that even Deng Xiaoping did not outright refute the Old Left presumption. Rather, he expressed his distaste for debate:

Do not debate. This is our 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, p. 374)

Deng also did not argue that the stock market must be socialist and therefore should be allowed to open. Rather, he framed the stock market as an experiment:

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, p. 373)

Deng's response was strategic. He knew very well that the liberals were at a disadvantage and would probably lose if the debate continued. Deng's proposal that the debate should be set aside and that the experiment should be allowed until proven wrong subtly shifted the presumption to the side of the liberals. His argument that debate was an impediment to progress affirmed his positive attitude towards change. On the surface, Deng's response to the controversy seemed to grant a tie to the opposing sides, but it effectively shifted the political climate from the conservative Old Left to a liberal climate (Fewsmith, 2008; Yang, 1998).

Policy choices: a hybrid institutional design. As the founding controversy, the debate on whether the stock market is capitalist or socialist in nature had important consequences for the initial institutional configuration of China's stock market. Although Deng's response effectively granted the liberals permission to continue the stock market experiment, it did not mean that the liberals won full control of the design of the new institution. In fact, the concerns of the Old Left shaped the design of the market institution in important ways, and the stock market and the shareholding system bore significant socialist imprints. The resulting stock market institution is a hybrid of socialist and capitalist practices. Central control and planning measures were put in place in the core activities of the stock market. For example, the state devised quota systems to control the supply of shares through setting limits on the amount of capital to be raised through IPOs or number of companies to be listed (Walter & Howei, 2006; Wong, 2006). Regulations were also in place to restrict the sources of funds to be invested in the market. Regulators selected qualified issuers and determined the offering prices and P/E ratios regardless of the industries (Yao, 1998). The state also devised a segmented share structure, that is, only 25%-30% of the total shares of SOEs can be publicly traded on stock exchanges whereas the majority of shares are designated state or legal person shares and are non-tradable (Green, 2003; Walter & Howei, 2006). These socialist stock market imprints reflect the balance of

power between the conflicting views of the two sides of the surname controversy and the inability of either side to win the debate. The question of the moral illegitimacy of the stock market lingered, which explains why most of the first issuers were not large, centrally controlled SOEs. Chinese society would not be comfortable with having flagship SOEs on the stock market for another several years.

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

Meteoric growth from 1990 to 2000. The first ten years of China's stock market saw dramatic changes in a decade-long bull market. The number of listed companies went from a dozen to more than a thousand. The total stock market capitalization grew to become 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 performed better in almost all measures of stock market performance, including the number of listed companies, market capitalization, liquidity, and fundraising capacity (Pistor & Xu, 2005).

The regulatory framework also changed dramatically. For the most part of the first ten years, the Shanghai and Shenzhen municipal governments enjoyed extensive power in regulating the stock market, controlling the stock exchanges, and nominating and selecting SOEs to restructure and list. Local governments had strong incentives for growing the stock market and listing their most financially troubled SOEs, but poor incentives to regulate the market, which led to several crises and scandals. In response, the central government pushed for the unification and centralization of regulatory power (Green, 2004). The central government established China Securities Regulatory Commission (CSRC) in late 1992 as the regulator, and placed CSRC under the guidance of the State Council Securities Commission (SCSC) of which Zhu Rongji was personally in charge. Initially, the CSRC lacked authority. Other agencies, such as the People's Bank of China (the central bank) and the State Planning Commission had more regulatory control over the stock market. It was not until 1997 when the Asian financial crisis struck, that the central government reached a consensus and effectively consolidated power into the CSRC. In 1998, the CSRC was merged with SCSC and elevated to the rank directly under the State Council. The new CSRC became the powerful regulator with Zhou Zhengqing, an ally of Zhu Rongji, as its chairman.

Chinese leaders' perception of the stock market was also changing (Green, 2003). In the beginning, the leaders considered the stock market to be a quasi-legitimate experiment that could fail. By the end of the century, they seized on the idea that the stock market could be a viable fundraising vehicle for SOEs (Green, 2003), and the years 1997–1999 are commonly referred to as the “three years for saving SOEs from predicaments.” Under this policy, large SOEs began to list their shares on the stock market. The IPO rate reached a historical peak. Government leaders recognized the importance of institutional investors in a stock market, and thus the fund industry

was established in 1998. Leaders began to formalize the stock market by promulgating the Securities Law in 1999. As a result, legal cases against listed companies began to pick up.

Along with phenomenal growth, some serious problems emerged, the most prevalent being stock market manipulation and speculation (Wong, 2006). As most listed companies were SOEs, the government had a real interest in the market and was motivated to directly influence it. This institutional environment fostered stock price manipulation, with SOEs and institutional investors being the main manipulators. Market manipulation by SOEs may have been implicitly permitted by some political institutions under the belief that the state had a responsibility to lend 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). Excessive manipulation and speculation led to high volatilities and turnover rates (Ma, 2004). An implicit consensus among individual investors was that the only way to make money in the market was to follow the manipulators. It was, of course, not easy to follow them. In fact, the manipulators often pulled out of the market with all the gains, leaving individual investors trapped.

The regime of Jiang Zemin and Zhu Rongji made significant progress in market reform. Jiang advocated for recruiting private entrepreneurs into the CCP in his new theory of “Three Represents” in the early 2000s. As a capable reformer, Zhu Rongji combined building market institutions with strong administrative control (Brahm, 2002). Zhu’s political thought was importantly shaped by liberalism. But Zhu still had to face the problem of poor-performing SOEs and deal with the political agenda of the Old Left whose policy heavily favored listing SOEs. Many SOEs listed on the stock market became the nexus where political power and economic interests interconnected and therefore powerful manipulators of the stock market. CSRC’s official newspaper, *China Securities Daily*, reported in 2001 that 172 listed companies had given securities companies a total of RMB21.7 billion to be managed on a guaranteed-return basis (Walter, 2011). As a reformer, Zhu attempted to battle the interest groups by launching attacks in the *People’s Daily*, such as a “Special Guest Commentary” in 1996 that accused SOEs of manipulating stocks (Walter, 2011). 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 secure household money to save the failing SOEs, a way for the privileged to suck other people’s money into their own pockets by promising a chance of winning a small part of this game.

Division among Liberals. The end of the surname controversy saw a resurgence of liberal thought and a decade of rapid economic development, which was regarded by Western scholars as the Deng Xiaoping era (Vogel, 2011). The discourse of reform prevailed in the field of elites. The top political leadership justified ostensibly pro-market and pro-business practices (Fewsmith, 2008), and intellectuals who advocated a liberal, market economy faced no real challenge from the Old Left. The Old Leftist discourse had been largely subdued in this decade, represented by the shutdown of

some far-left magazines and the dominance of pro-market discourse in the public sphere. The change in the incumbent–challenger power relations in the broad environment was accompanied by the fragmentation of the new incumbents, i.e., those who advocated for market reform. While the first controversy took place in a socio-political environment with “unorganized interests” (Zhou, 1993), coalitions of interests had now emerged and were starting to become organized (Ma, 2008). Contention over regulating the stock market and profiting from it mainly took place along several dimensions, including contention between the central government and local governments (Green, 2004) and between the various power centers such as sectors and ministries in the central government (Wang, 2011).

The controversy between Keynesian and free market liberals. It is worth noting that by the time of the casino controversy, the stock market had gained legitimacy, and the question about whether its surname is capitalist was no longer lingering in the mind of stock market participants. A prominent economist wrote that 1996 marked a turning point in the people’s acceptance of the stock market as legitimate and worthy of rapid development, in support of SOE reform (Dong, 2002).

The casino controversy between Wu Jinglian, commonly regarded as “Wu Market” for his advocacy for market principles, and Li Yining, commonly regarded as “Li Shares” for his commitment to the shareholding reform, represents an important moment of breach in a coalition of intellectuals or expert elites who were united in their battle against the Old Left in the first controversy. The legitimacy test in this controversy concerns the rampant manipulation and speculative behaviors of stock market participants, i.e., SOEs, banks, mutual funds, and business media. One side of the controversy see these as illegitimate and call for their elimination, and the other side of the controversy see these as natural and tolerable given that the stock market is new and developing. Table 9 provide some of the points of departure in the surname controversy.

Wu and Li were both central figures who had acquired national reputations for advocating market reform in the 1980s and 1990s. They had different perspectives on the best reform strategies within the economics field in the 1980s, with Wu preferring price reform and Li in favor of enterprise reform (Naughton, 1995). In the 1980s, the disagreements between these two camps were marginal compared to their common grounds, which was the desirability of a market economy (Naughton, 1995). The casino debate revealed deeper division between the two camps. Wu, the initial attacker, perceived a danger coming from other liberal intellectuals who joined the coalition of interest groups that took advantage of the absence of rules and laws to engage in rent-seeking through manipulation and speculation (Wu, 2001). Wu prefers building a market institution with strong regulatory regimes. In contrast, Li advocates a more laissez-faire approach to market development.

Table 9: Contentious Argumentation in the Casino Controversy.

	Keynesian liberals	Laissez-faire liberals
Points of departure		
Central message	<p>The stock market is worse than a casino.</p> <p>The powerful players in the market take advantage of the lack of rules and regulations and this leads China to crony capitalism.</p>	<p>The stock market is young and healthy. The problems are normal phenomena associated with a new market.</p>
Premises relating to facts	<p>China's stock market lacks rules and regulations, which fosters fraudulent behaviors.</p> <p>China's stock market is a zero-sum game where one's gains depend on others' losses.</p>	<p>Too many rules in a young market stifle its development. The rules are conducive to its very survival in times of transition.</p> <p>China's stock market has created value that benefits all.</p>
	<p>Too many individual investors follow the "dealers" to "stir-fry stocks"—speculation is rampant.</p>	<p>The participation of individual investors is not enough. Some speculation in the stock market is normal.</p>
	<p>Speculation leads to economic bubbles and is detrimental to the stock market.</p>	<p>There is no great difference between investing and speculating. There would be no markets if there were no speculation or bubbles.</p>
	<p>The "dealers" as manipulators can directly or indirectly hand over the risk of speculation to the government: if the speculation is successful the dealers gain, but if the speculation goes badly the state foots the bill.</p>	<p>The "dealers" are similar to the "market maker" in Western stock markets. Their role is instrumental in maintaining liquidity.</p>
	<p>The Price-to-Equity ratio of Chinese stocks is too high and abnormal compared to that of other stock markets.</p>	<p>The Price-to-Equity ratio is definitely reasonable if Chinese stocks are compared to Japan's and those of some other stock markets. It is inadequate to make simplistic comparisons across countries.</p>
Premises relating to values	<p>The government should not intervene to "save" a bear market. The government should correct its own behaviors and establish and enforce regulations to clean up the wrongdoings of the manipulators and speculators.</p>	<p>The government should intervene to "save" a bear market. A prolonged bear market is harmful to the confidence of individual investors and hinders the development of the market. It is the responsibility of the government to maintain confidence in the market and the society.</p>

Table 9 (continued)

	Keynesian liberals	Laissez-faire liberals
	The nature of the casino-like stock market is that the properties of the population as a whole are used to subsidize the “dealers.” It is not a modern economy government by the “rule of law” and is therefore fundamentally unfair and unjust.	It is inappropriate to attack a young and developing market with such scathing and extreme remarks without considering the potential consequences: they can lead to shutting down the market, which would harm investors and delay market reform, a result that only those who favor the planned economy would like to see.
Premises relating to arguers' ethos	<p>Wu is acting as the conscience of the people, speaking on behalf of protecting people's interests.</p> <p>Wu's criticisms of the government are intended to prevent China from moving into crony capitalism. Wu is a public intellectual who tells the truth and holds the government accountable.</p> <p>Those who attack Wu have material interests in the stock market and have become the spokespersons for interest groups.</p>	<p>Wu is irresponsible to the interests of individual investors.</p> <p>What Wu describes are surface phenomena; Wu fails to appreciate the strategic steps the government is taking to ensure the healthy development of the market.</p> <p>Wu's weakness is that he is in favor of the real economy rather than the financial economy.</p>

The “casino” controversy was triggered by a report published in October 2000 by *Caijing (Finance and Economics)*, a commercial-based magazine devoted to China’s economic reform. The report, entitled *The Black Curtain of the Funds*, questioned the practices of the fund industry and revealed many of the techniques that mutual funds employed to manipulate stock prices. The fund industry struck back with a public statement accusing the report of being inaccurate, unscientific, and seriously distorted. However, individual investors echoed the arguments voiced in the report and expressed sharp criticisms of the fund industry.

A popular show on China Central Television (CCTV), “Economic Half-an-hour,” broadcasted its interviews with Wu Jinglian on January 14, 2001. Wu appeared on another CCTV show on January 13. In these shows, Wu supported the *Caijing* report and criticized the stock market as worse than a casino. Wu noted that the stock market had lacked adequate rules and standards from the very beginning and criticized the rampant speculation as unhealthy and destructive. He warned that if this were to continue, it would not be a safe place for investment. He pointed to “intermediary agencies, insiders of listed companies, and banks and other capital providers” as the manipulators and speculators and explained how they did these acts. Wu’s criticisms immediately sent the stock index on a downward spiral, and the idea that “a word

from Wu Jinglian ruined the stock market" became popular. The first response came from *Securities Market Weekly*, a highly influential magazine in securities markets, which published an article titled "Nine Questions for Wu Jinglian" on February 8. The article interrogated Wu with short, provocative questions.

CCTV's broadcasting of Wu's criticisms contributed to their widespread influence on public opinion and caught the regulators off guard. For example, Liu Hongru, the former head of CSRC, expressed his frustration over Wu's criticisms, complaining that Wu could have communicated with the CSRC directly rather than talking to the media (Liu, 2008).

To counter Wu's criticisms, Li and four other prominent economists organized a conference in front of the media on February 11. Among the five economists, Li Yining, Dong Furen, and Xiao Zhuozi were in their 60s and 70s, and held various positions in the Chinese Peoples' Political Consultative Conference, deanship or directorship in top universities and research institutes, and editorship in prestigious journals. The other two, Wu Xiaoqiu and Han Zhiguo, were in their 40s and rising stars in the field of economics. The organizers of the conference said that "the stock market has reached a critical point" and "if Wu wins this debate, it will be a disaster for China's capital market." The object of the media conference was said to be to "completely counterattack the various speeches of Wu" (Wu, 2001). For example, Li Yining commented: "Just because there are several bad apples in China's stock market, it does not mean that China's stock market is pitch black." Li recalled his role as the leader of the team that had drafted the Investment Fund Law, and he described the securities market as "a newborn baby" that needed care and tolerance.

Soon many economists with national reputation joined the debate. Some of them praised Wu for his open criticisms, while others supported Li and offered their own insights into how to better develop the stock market. Extensive media coverage made this one of the biggest controversies concerning the stock market. In 2001, Wu published a book to defend his standpoints and make counterattacks. In the following year, Wu's opponent in the casino controversy, Dong Furen, also published a book. Although not explicitly targeting Wu, Dong's book contained strong criticisms of Wu's arguments and pointed to the negative impact of the casino controversy.

The opponents disagreed on facts and values and attacked each other's ethos. Factual arguments abound in the debates. Economists from both sides employed technical languages to argue whether the stock market was overheated, and whether speculation was detrimental or conducive to the stock market. Value judgments were central to their arguments. Wu's camp denounced crony capitalism and warned the negative impact of an out-of-control stock market on the broader society. Li and his colleagues were most concerned about protecting the immediate interests of participants in the stock market; they argued that Wu's words were detrimental to the stock market because individual investors would suffer huge financial loss in a market crash caused by Wu's words.

Perhaps the most revealing attacks are on each other's ethos. Wu noted that a new social group that emerged from the transition had interests that lay in the absence of

rules and laws so that they could take advantage of their special positions to engage in rent-seeking. According to Wu, this new social group 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.” Advocates of the group proclaimed themselves radical proponents of marketization, and they labeled people like Wu as “idealists” or even “conservatives.” Wu warned of the danger of the public being fooled by this group. He asserted that the group could move 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 had power and status could embezzle public property in a process of arbitrary, self-interested administrative intervention in the market (Li, 2003: 98; Wu, 2001: 3–31). Li’s camp criticized Wu’s credibility and reputation as an economist. They argued that Wu’s preference of the real economy over the financial economy was the source of Wu’s negative attitudes toward the stock market.

The settling of presumption. Both camps in this controversy were keen to appeal to and convince the public of the soundness of their judgments. Wu’s criticisms quickly resonated with the common people. In 2001, Wu was portrayed by the media as someone who “maintains the intellectual’s independence” and “is the conscience of the field of Chinese economists” (Ma, 2006: 54). Even individual investors who suffered losses due to the market crash immediately after Wu’s criticism praised Wu for speaking the truth (Ma, 2006). However, the Shanghai composite index went below 1000 points in 2005, after four years of bear market. Liu Jipeng, an economist closer to Li’s camp, concluded that the casino controversy was the reason for the abnormal and long bear market between 2001 and 2005 when the Chinese economy was growing at double digits. A few years after the casino controversy, individual investors changed their mind and blamed Wu for causing the bear market, leaving numerous investors trapped, and losing money (Ma, 2006).

It should be noted that the debates that take place between economists are different from the sensemaking among the common people, which may explain why individual investors praised Wu in the beginning but became critical of him a few years later. The average individual investor does not approach issues from a moral or institutional perspective, but rather from material interests. Wu’s points that it is wrong for the government to “lift” the market when the market is down and that market manipulators should be prosecuted are concerns of expert elites. Individual investors in fact wish the government would lift the market to benefit individual investors, and they will approve of the manipulators as long as they leave some opportunities for individual investors to obtain a piece of the pie. They call these “nice manipulators,” in contrast to the “evil manipulators” whose manipulation strategies do not provide much opportunity for individual investors to profit. After all, the average individual investor in China at that time would most likely hold a split view. On the one hand, they would be critical of the manipulators, but on the other hand, they would not be

happy about government regulation, because tightening the regulation would almost always mean declining prices and decreasing trading activities (Li, 2001).

In the casino controversy, both sides acted as if neither held the presumption. Based on historical accounts, we determined that Li's side had weak presumption at the start of the controversy, but the presumption tilted to Wu's side after the controversy. Before the controversy, the idea that the stock market is like a casino is prevalent, but implicit. When renowned economists made this claim publicly with big fanfare, it exposed problems and assumptions that were previously hidden or ignored. Behaviors previously taken as legitimate now faced the burden to prove their legitimacy. Prosecutions of wrong doings that were weakly implemented previously now were taken much more seriously.

Policy choices: revising both sides of the hybrid institution. The presumptive tilt to the Keynesian side for stronger regulation prepared the public for many regulatory endeavors to correct the problems brought up by the initiator of the controversy. The casino controversy exposed the most serious problems of the stock market: unrestrained speculation, unlawful behaviors of listed companies, and rampant manipulation backed by state-owned companies, banks, financial intermediaries, and institutional investors. Some of these problems were addressed by the CSRC in the years following the controversy. For example, the CSRC announced a campaign to combat and eliminate the wrong behaviors in the stock market and to "cleanse and purify" the second largest Asian capital market (Bruce, 2001). The new head of the CSRC, Zhou Xiaochuan, endeavored to strengthen the prosecuting power of the regulator and indicted unprecedented numbers of fraudulent behaviors (Li, 2002). Between 2001 and 2005, 50 securities companies were forced to close and the securities industry as a whole underwent reorganization (Qi, 2010).

Along with stronger determination to regulate the stock market is the attempt to further liberalize the stock market from administrative interventions. Although Zhou Xiaochuan's attempt to bring the stock market more in line with international norms encountered great resistance from powerful interest groups (Walter, 2011), he was able to revoke many policies associated with socialist values. New policies reduced administrative interference in the IPO process, introduced international accounting standards, encouraged the further development of funds, listing Chinese firms on international stock exchanges, and deliberated adopting modern practices such as stock market derivatives. In a sense, although the Keynesian side seemed to have gained the presumption after the controversy, the initial defender in the controversy also got some of their proposed marketization policies implemented.

The MBO Controversy: Are Management Buyouts Abusing State Assets?

Bear market from 2000 to 2004. The years following the casino controversy were characterized by unrestrained issuance of new shares coupled with investors' reluc-

tance to supply capital. Issuance of shares was commonly referred to by individual investors as “entrapping money” by listed companies. Indeed, many believed that the sole purpose of many companies’ IPO was to raise quick cash. Seeing the market as a cash cow, SOEs fought for IPOs and listed companies continued to issue new shares, despite poor performance. The imbalance between supply and demand further depressed the market.

In the meantime, Western economic theories about the financial market and relations among economic agents became popular in China. Agency theorists used the principal–agent relation and assumptions about the two parties’ risks and interests to re-conceptualize the firm and firm activities. The Chinese leadership used 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 others by closing them off or selling them to private entrepreneurs.

Rising prominence of New Left. The environment in which the third controversy, the MBO controversy, took place was characterized by a new structure for the incumbent–challenger relationship in the intellectual elite field. The New Left gained power and recognition as a new challenger. Although the MBO controversy broke out in 2004, the rise of the New Left school of thought began in the late 1990s when scholars, some of whom had visited or studied at Western universities, drew inspiration from Western New Leftism for engaging in cultural and social critiques. In 2003, scholars from economics, management, political science, and other fields formed a flagship website known as “Utopia” to disseminate Chinese New Leftist ideas. Some of these scholars had been active earlier, but their viewpoints were sporadic and individually espoused. It was not until the early 2000s that these scholars were recognized as members of a loosely connected group of intellectuals, labeled as the New Left. The rise of the New Left was facilitated by a new generation of political leaders at the top, Hu Jintao and Wen Jiabao, who made important gestures to strengthen the left—such as visiting revolutionary heritage sites and expressing solidarity with the working class (Hook, 2007)—when they took the reins in 2002. The Hu–Wen administration reversed the previous leadership’s efforts to promote private businesses and instead focused on helping vulnerable social-economic groups. This new policy orientation was a response to heightened social tensions and growing populist frustration with the new class of wealthy entrepreneurs (Fewsmith, 2008). The New Left appealed to populist sentiments and soon found support in a broad coalition of interests (Qin, 2003). As the New Left gained momentum by speaking for vulnerable groups and criticizing market practices in China, they obtained acquiescence, if not support, from the top leadership. Their ascendance marked the formation of a credible challenger to China’s neoliberal orientation, seen by many as the hegemonic discourse.

The controversy between Liberals and New Leftists. The liberal orientation occupied presumption in the period leading to the third controversy as China further implemented marketization measures in accordance to its WTO commitments (Ma, 2008). Yet the New Left's discourse was in ascendance considering heightened social tensions (Fewsmith, 2008). Against this background, Lang Xianping, a western trained, finance professor at the Hong Kong University of Science and Technology, initiated the controversy by criticizing management buyout practices and accusing managers of publicly listed companies for embezzling state assets. Table 10 provide some of the points of contention in the surname controversy.

Table 10: Contentious Argumentation in the MBO Controversy.

	New Left	Liberals
Points of departure		
Central message	The stock market has become an instrument for MBO practices. Managers and private entrepreneurs strip state assets and place them in private hands. This harms the state, the people, and individual investors.	Managers and entrepreneurs are critical for economic development. They should not be demonized. They are not stripping state assets through MBOs; instead, they are saving state assets from dissolving altogether.
Premises relating to facts	Based on analysis of the financial statements of listed companies, Gu Chujun colluded with the local government who controls Kelong to manipulate its earnings, thus creating the impression of turning around its poor performance after acquiring it. Gu utilized the liquidity of Kelong to acquire other SOEs: he used 900 million Chinese yuan to gain state assets worth 13.6 billion yuan.	It is not enough to just look at financial statements because not all statements are accurate. Lang completely ignored evidence that Gu also takes on 1.26 billion yuan of Kelong's parent company's debt. The listed companies did much better after they were acquired by Gu. It is true that Gu violated law to divert funds from listed companies. But it is a pity for the society that Gu's dream to consolidate the white-goods industry was dashed.
	The controlling shareholders of SOEs—many of them local governments—were in a hurry to sell and sell cheap.	The poor-performing SOEs are like ice cream. If they are not sold quickly to entrepreneurs, the value of their assets is likely to dissolve.
	Managers of SOEs are like nannies: they are agents who work for the principal—the people. We should not allow nannies to become the owners and take state assets into their own hands.	Managers of SOEs are entrepreneurs who create extraordinary value. The problem in our country is the absence of “owners” for SOEs. SOE managers who sell SOEs to more capable hands are in fact executing the duty entrusted to them to protect the state's interest.

Table 10 (continued)

New Left	Liberals	
Managers cannot obtain ownership of the SOEs because the ownership belongs to the people.	The state as the owner of SOEs is abstract, and those controlling the SOEs are government officials. In this system, managers cannot obtain an adequate price for their contributions. Giving them stock options is a way to incentivize them.	
The stripping of state assets by private entrepreneurs through MBOs is rampant.	Many SOEs are in debt and burdened by social welfare for employees. Their being for sale does not necessarily mean the loss of state assets.	
SOEs are not necessarily inefficient. State ownership can be effective. The property reform is not the most effective way to turn around SOEs.	SOEs are not compatible with a market economy. Private property rights are the foundation on which a market economy can operate efficiently.	
Premises relating to values	It is wrong for the state to “retreat” from the economy by reforming the property rights of SOEs: it unjustly transfers state assets that belong to the people to private hands.	We should be more concerned about the danger of the state “marching forward” because it will likely lead to an unfair state monopoly, centralization of power, and appropriation of private assets.
The property right reform of SOEs should be stopped. Private entrepreneurs have embezzled state assets in the name of reforming the property rights of SOEs. These temporary workers suddenly become the “legitimate” owners. They feel no obligation to the duty entrusted to them by the state and individual investors. This is unfair.	The demonization of private entrepreneurs in public opinion is wrong. Private entrepreneurs contribute to the society and should be praised for creating some of the most successful companies in China. They help local government turn around poor-performing SOEs. The public and the media should be nice to these entrepreneurs.	
The neoliberalism and the “Washington Consensus” that dominate China’s SOE reform will lead to the downfall of China, just like what happened to the Soviet and Eastern Bloc countries. Neoliberalism will turn China into a capitalist country.	China’s reform has grown from exploration and practice on the ground, rather than following a neoliberal roadmap. The New Left assault has allied with the Old Left to negate and oppose China’s reform.	

Table 10 (continued)

New Left	Liberals
<p>Premises relating to arguers' ethos</p> <p>Mainstream economists have lost universal values and become the spokespersons for interest groups. Many economists sit on the boards of listed SOEs, and they do not tell the truth even though they know the scandals well. Economists who work for the government say whatever the government wants them to say. Mainstream economists as a group have lost people's trust.</p>	<p>Lang does not have a sufficient understanding of Chinese SOEs, the macroeconomic and transition conditions of China, and the complexity of China's history and society. He does not look at the correct data, fails to conduct adequate research, and does not know how to calculate the value of SOEs. He has no credibility for speaking about Chinese SOEs.</p>
<p>Lang is brave to launch attacks on so many high-profile listed companies and their star COEs. Like public intellectuals, he takes on the social mission, has public conscientiousness, helps the public get closer to the truth, and revolts against the discourse hegemony populated by vested interests.</p>	<p>The problem that Lang brought up has always been intensely debated among mainstream economists. It is inappropriate to bring these debates to the public's attention too early, because quiet changes are more likely to succeed than sensational ones. That Lang goes beyond the realm of academia and enters the realm of the public is irresponsible.</p>
	<p>Lang is motivated by a desire for fame, popularity, and stardom, rather than by a commitment to contribute to society. The greater a scholar's reputation, the more prudent he should be about what he says, because a few of his words may have a large impact on society. A scholar who wags his tongue too freely will bring great damage to society.</p>

On August 9, 2004, Lang Xianping gave a speech at Fudan University in Shanghai titled “Greencool: A Carnival at the Feast when ‘State Retreats and Private Sector Advances’.” In this speech, Lang directly criticized Gu Chujun, 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 subsequently acquired several other SOEs listed in mainland stock markets. Kelong was a leading mainland refrigerator company 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. Gu denied the charges and responded by suing Lang for crime of defamation.

Lang's accusation soon escalated into a heated debate among economists. Chinese scholars who considered themselves non-mainstream, New Left economists unanimously supported Lang. In fact, the New Left economists used Lang's attacks as an occasion for launching their long-suppressed grievances against the liberals, whom they regarded as

the “mainstream economists.” Lang’s criticisms are seen as the trigger that brought to the surface the conflicts and division between mainstream and non-mainstream scholars in the field of economics (Ma, 2006). Those who call themselves non-mainstream criticized the mainstream economists for occupying the key positions in academia, funding committees, and government agencies, and accused them of exerting the hegemony of neoliberalism and marginalizing non-mainstream economists and their New Leftist views. Economists who broadly identified with the New Left, individually or as groups, defended Lang’s point and attacked neoliberalism in the media through organized events and by sending public letters to the central party and government leaders.

On August 28, non-mainstream economists organized a conference sponsored by SOHU, an internet portal listed on Nasdaq. According to Yang Fan, a leader of the non-mainstream economists, the organizers faced the pressure from the government and prepared for changing the location of the meeting in case the sponsor suddenly changed minds and withdrew from providing the venue for the conference. Other New Left leaders, such as Han Deqiang and Zuo Dapei, are all university professors and have been vocal in criticizing the neoliberal hegemony in China. Lang Xianping gave the first speech and proclaimed that his intention to attend this conference was to “repudiate the neoliberalism that has dominated the property rights reform for the last twenty years.” Zhang Wenkui, an economist at the Research Center of the State Council, was the only opponent in this conference representing the liberals. Zhang directly refuted Lang’s points; however, his speech was interrupted several times by the emotional remarks of a New Left economist. Observers noted that this conference turned divergent standpoints into opposing camps: New Left and Neoliberals, and triggered much larger battles between the two. Right after the conference, the three leaders of the New Left published an open letter on the Internet addressed to the top leadership.

The liberal economists in mainland China at first dismissed Lang’s criticisms, only responding after a series of provocations by the media. For example, when newspaper reports about Lang’s speech failed to elicit a public response from economists, one newspaper published a piece entitled “Reflection on the case between Lang and Gu: Why has the field of economists collectively lost voice?” The piece lamented that Chinese economists had either limited themselves to the scholarly field or worked for investment banking or the government, and that in all three cases they chose to remain silent when society needed their voice. The article questioned economists for lacking the social responsibility of public intellectuals (Wang, 2004).

Zhang Weiying was the first elite liberal economist who publicly denounced Lang’s ideas and his action. On August 28, *Securities Market Weekly* published a long interview of Zhang Weiying, the economics professor and Vice Dean of the Guanghua School of Economics and Management in Beijing University. Titled “Zhang Weiying Responds to Lang Xianping: Be Kind to People Who Contribute to Society,” the article countered Lang’s point that it was wrong for the state to retreat and the private sector to advance, arguing instead that the process of the retreating state and advancing private sector was a process of wealth creation: “without the advancement of the private

sector, China would not have had the development it achieved.” Zhang also refuted Lang’s point that the biggest danger of the society was the loss of state assets, arguing instead that the biggest danger was the infringement on private property, and that delaying the SOE property rights reform would have meant even bigger depreciation of the value of state assets. Zhang also questioned the moral character of Lang, emphasizing the importance for scholars to be independent of the populist sentiment of the time. Wu Jinglian was interviewed by the media at the same time. Wu acknowledged that there were situations where state assets were embezzled during SOE restructuring; however, he disagreed with Lang’s conclusion that SOEs were generally efficient and that SOE property rights reform were wrong.

This round of counterattack generated a large amount of coverage by the media. The “mainstream economists” organized a series of events that showed support for Gu. On October 21, 2004, a dozen economists who were directors and deans of leading research institutions attended a workshop on “The Twenty Years of Development of Kelong and the Roadmap of China’s Enterprise Reform.” The Research Center of the State Council issued a report on Kelong, affirming the success of its restructuring, thus indirectly supporting Gu Chujun. A few days later, Gu appeared in another conference on SOE reform and the development of private businesses. In December, Gu gave a speech at the “2004 China’s Corporate Leaders Summit,” along with the Chairman of China’s central bank, other ministry officials, and Zhang Weiying. Gu’s appearances at these high-profile conferences show that he was still regarded as an extremely successful business leader in China.

As more economists joined the debate, the topic quickly moved away from the wrongdoings of a single company to the overall direction of the property rights reform of Chinese SOEs. At this point, the legal dimension of the property rights reform became a hotly debated issue, which the field of legal scholars was mobilized to address. Legal scholars published articles and organized conferences to proffer their opinions. They moved the debate of SOE property rights reform from moral and conceptual grounds to the legal realm of how to establish a set of transparent, independent, fair, and rigorous judicial practices that would ensure the legitimacy of the reform.

As the debate intensified, sociologists and historians joined in and started new topics. For example, the sociologist Sun Liping, widely regarded as a public intellectual, described this debate as representing the shattering of the reform consensus in China and pointed to the distortion of the reform by interests that led to deep cracks in the social structure. Another public intellectual, the historian Qin Hui, criticized both camps of economists and identified the fundamental problem as the lack of institutions for making the state accountable. Yet another sociologist, Ding Xueliang, directed his criticisms toward the entire field of economists for failing to engage in independent scientific research, which quickly became a hot issue in the media.

Participants in the debate also include older generations of scholars and retired party cadres who had overseen party propaganda and think tanks joined the discourse. Some directly participated in the substantive debates, others made observa-

tions about the significance of the debate, and yet others appealed to the central government to make up its mind and send clear signals concerning its stand in the debate. Although the New Left describe themselves as non-mainstream, they actually found allies in the Old Left, those who had occupied key party and government positions or who had been high-profile economists in the past. For example, Liu Guoguang, an economist who began advocating for market mechanisms in 1979 but later turned more conservative, used the Internet to publicize his criticisms of the Westernization of China's economics education and research, and he quickly gained popularity and support from the New Left (Ma, 2006).

The controversy far exceeded the wrongdoing of a single company and spun off many debates. For example, Lang's criticisms sparked debates on the poor corporate governance of listed companies, the lack of transparency, and poor protection of individual investors' rights. The state used these criticisms to argue that time was ripe for the "share fragmentation reform" to turn non-tradable shares tradable. Regarding SOEs, the MBO controversy turned into a debate on whether the SOE property rights reform is the right direction of SOE reforms. In the field of banking, the restructuring and listing of state-owned banks incurred interrogations like Lang's. Lang Xianping was described as a "storm" and soon several Old Left scholars started other "storms" that echoed Lang's concerns. To the liberals, the New Left had entered an alliance with the Old Left, with the intention to "negate and reject the reform." Several older generation liberal intellectuals and party cadres voiced their concerns about the New Leftist challenge to reform and called the top leadership to intervene. Sociologists pointed to the shattering of the reform consensus that had existed throughout the reform process. They framed the MBO controversy as a debate that concerned the life and death of the economic reform.

Settlement of presumption. Economists were deeply divided on the questions of whether Chinese SOEs and their managers were villains or heroes, whether top management stripped state assets in MBOs, and whether property rights reform meant the loss of state assets. At the beginning of this dispute, the liberals held the presumption since the reform had been enacted under a liberal orientation and MBOs had become a new trend in the reform of the stock market's share structures. Underlying the controversy was a further divide among Chinese economists about the direction of market reform that was driven by the rise of the Chinese New Left. Like the liberals, the New Leftists were critical of the government. However, where the liberals believed in the power of the market, the New Leftists directed their criticisms toward the dangers of market forces, such as an overly powerful managerial class (Fewsmith, 2008; Oi, 2010).

Several actions by the government indicate the shift of presumption to the New Left. While economists were engaged in this debate, the National Audit Office initiated an investigation into Gu's company. In September 2005, CSRC concluded that Gu violated Securities Law and turned him over to prosecutors. Gu was sentenced to eight years in prison in 2008. The arrest of the corporate entrepreneur Gu sent a clear message of the position the country's 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 had earned great recognition for being a successful corporate entrepreneur. His sudden fall from grace represents a significant turn of attitudes toward entrepreneurs. Whereas the rising social group of corporate entrepreneurs had previously been admired and praised for the wealth they accumulated during the reform, the new trend was one of suspicion and even hostility toward the wealth gained by this social group (Ma, 2008). There were discussions in Chinese society, as well as in top level meetings of the CCP, about the “original sin” of these Chinese capitalists. The phrase “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 (Ma, 2008). The arrest of Gu symbolized that the presumption of the public discourse had shifted to the New Left (Fewsmith, 2008).

Policy outcomes: transforming both sides of the hybrid. The immediate impact of the controversy was that the government implemented a series of measures to stop MBO and to take stronger steps to monitor the corporate restructuring and property reform of SOEs. The State-owned Assets Supervision and Administration Commission (SASAC) of the State Council provided detailed rules on the transfer of state property rights in September 2004. On October 29, 2004, the SASAC published an editorial in *People's Daily* announcing that the practice of “management shares” would be terminated. In a conference, Vice Premier Huang Ju spoke of big SOEs owned by the central government, stating that they would not be permitted to have MBOs. Furthermore, the “big shareholder model” in corporate governance, which provided extra incentives to managers, was no longer promoted, due to concerns about the increased inequality between workers and managers (Oi, 2005). In fact, the SOE property rights reform was no longer the core of SOE reform as evidenced by the wordings of Party Congress Reports between 2002 and 2007. Finally, because of the heightened populist sentiment against private businesses, the scheduled deliberation of the Property Right Law by the Standing Committee of the National People's Congress in December 2005 was unexpectedly cancelled, and the final approval of law did not go through until 2007.

In the meantime, a profound transformation occurred in the conception of the control of state assets. Conceptions of control are totalizing world views and cultural templates that structure actors' interpretation of problems and solutions (Fligstein, 1996; Fligstein & Brantley, 1992). As an accomplished professor in finance and accounting, Lang Xianping used the financial statements of publicly listed companies to accuse private entrepreneurs of stripping state assets when taking over SOEs. Although Lang's criticisms were widely rejected by mainstream economists as out of context and inadequate, his arguments indirectly populated the finance conception of control. A dominant model of modern corporations in the West since the 1970s, the finance conception of control is different from the manufacturing or sales/marketing conceptions of control in that it views firms as collections of assets with different rates of

return and uses financial tools to measure performance and manage firms (Fligstein, 1990). Around this time, the state seemed to adopt the finance conception of control in its understanding of its relationship with SOEs and the stock market. The state learned that it does not have to operate the factories to “own” SOEs; its ownership can be reflected in the amount of capital that the state controls.

The state pushed for two reforms, both consistent with the perspective of the finance conception of control. First, the state finally initiated the “share fragmentation reform” in 2005, which was to make non-tradable state and legal-person shares tradable. At first appearance, this is a step toward marketization and liberalization through removing the socialist imprints from the surname controversy, and it seems contradictory to what Lang advocated. Yet underlying the “share fragmentation reform” is the government’s confidence in maintaining control over listed SOEs even when all shares become tradable. In fact, the controlling shareholders, including the SASAC, the parent company of listed SOEs, and various levels of government, are the greatest beneficiaries of the share reform (Walter & Howei, 2006). The SASAC was established in 2003 and directly controlled 168 SOEs on China’s two stock exchanges, accounting for 34% of the overall market value. As a result, the reform needed to obtain approval from the SASAC, and the essence of the reform is a negotiation between the CSRC and SASAC (Shi, 2005). Inspired by the finance conception of control of firms, the state now sees the stock market not only as a vehicle for “helping” SOEs, but also as a mechanism for “growing” state-owned capital. Additionally, guided by the finance conception of control, the state shifted the central function of SASAC from one that largely involved facilitating selling SOE ownership from the state to private hands to one that focused on managing the 177 SOEs directly owned by the central government (Shi, 2005). This change of direction also occurred for regional SASACs who control regional SOEs. The SASACs were endowed with unprecedented power to restructure SOEs and list them in domestic and international stock markets. Between 2003 and 2012, the total amount of state assets held by SOEs directly controlled by the central SASAC grew fourfold, and their total tax grew fivefold (SASAC, 2013). By the end of the Hu–Wen administration, the SOE sector, which had been a liability and burden, became the darlings of the economy, with more than 40 SOEs listed in the Fortune Global 500, and it was even praised by Western academics as better performing than GE (Guthrie & Slocum, 2010). In other words, an indirect outcome of the MBO controversy was its impact on the SOE field: the state significantly strengthened the SOE sector through resource and policy support.

Elite Controversies and Changes in Presumption

Comparing across the three controversies, we found that controversies between elite actors changed presumption. Figure 12 graphs the contending parties and the shifts in presumption for each controversy. The surname controversy between the Old Left and the liberals over whether the stock market has any place in a socialist country

ended in a shift of presumption from the conservative Old Left to the liberal side. This means that the claim that stock market is capitalist is held as a belief that needs no proof before the controversy, and after the controversy, people generally believe that the stock market should be allowed to open and develop until it is proven to be wrong and ineffective. The presumptive tilt gave the liberal ideology an upper hand, and a pro-market and pro-business mentality prevailed after the surname controversy for more than ten years. During these years, policy orientation was dominated by marketization and liberalization of the economy.

In 2002, the casino controversy, over whether the stock market is too speculative and manipulative, pushed the presumption in the direction of more Keynesianism. The previous presumption that tolerated speculation and manipulation gave way to the belief that stronger regulation and prosecution need no proof. In 2004, the MBO controversy over whether management buyouts are striping state assets pushed the presumption further to a leftist direction. The presumption that was held by the liberals between the surname controversy and the MBO controversy was replaced by a new presumption of the New Left, which raised fundamental doubts about the previously held belief that pro-market and pro-business practices are generally beneficial.

Ideological Spectrum		
	Ideological Left (Conservatives)	Ideological Right (Reformers)
1st Controversy Surname 1990-1991	Old Left Presumption	Liberals Presumption
2nd Controversy Casino 1999-2000		Keynesian Liberals Presumption
3rd Controversy MBO 2004-2005	New Left Presumption	Free Market Liberals Presumption
		Liberals Presumption

*The start of the arrow indicates where the presumption lies before the controversy, and the end of the arrow indicates where the presumption shifts to after the controversy.

Figure 12: Shift of Presumption in Three Controversies*.

Furthermore, we provide a sketch of a model for understanding how controversies shape the trajectory of policy choices. As shown in Figure 13, t_0 indicates the time for the beginning political climate which contains the dominant political thought and the existing institutional arrangements. At t_1 , contentious argumentations by intellectual or expert elites may escalate and spiral into a societal wide controversy that involves other expert elites and induce the response from authoritative elites. Arguments from opposing sides strive to affect the presumption at t_2 by exposing contradictory assumptions and worldviews. The strength of arguments, the appeal of the arguments to the general public, together with leaders' response may determine which rhetoric win and become the new presump-

tion. The new presumption then tilts the judgment of what institutional arrangements are regarded as legitimate. The new legitimacy judgment shapes the political climate, including the emergence of new political thought and changes in policy choice at t3.

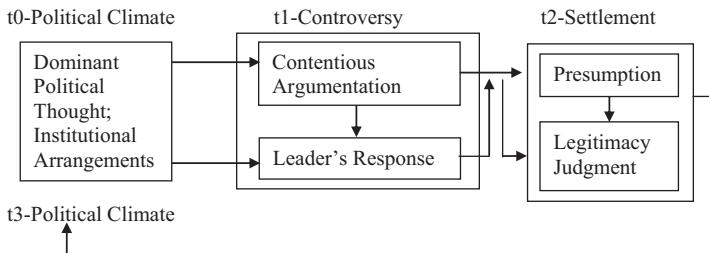


Figure 13: Controversies and Institutional Change.

Discussion and Conclusion

Elite Dynamics and Legitimacy

Our objective in this study is to examine how elites shape legitimacy beyond engaging in ostensibly coercive actions. Although institutional theory emphasizes cognitive and symbolic processes (Friedland & Alford, 1991; Hirsch, 1997; Zucker, 1987), few studies examine the dynamics of elites when they disagree. Our study contributes to studies of elite dynamics by showing how elites' spontaneous sensemaking through confrontational interactions affects the trajectory of institutionalization.

By studying three era-defining elite controversies about China's stock market, we found three structural components to this process. First, elite controversy is embedded in the broader landscape of political ideologies and the structure of the field of elites. Different political theories or ideologies that are dominant, latent, or emergent provide the context for elites to engage in confrontational discourse. Elites compete for resources and status by taking on the positions of incumbents and challengers. Controversies are thus manifestations of the changing power relations in the field and often mark the rise of new political schools of thought and associated intellectuals.

Second, different types of elites play somewhat different roles in controversies. In the contest for shaping legitimacy judgments of an emerging or controversial institution, elites, especially intellectuals, may spontaneously confront each other in public. These discursive confrontations are important moments of breach where taken-for-granted assumptions are challenged, and new legitimacy judgments are called for. The myriad of different arguments that elites employed in controversies reflect the struggle of elites in making sense and articulating a complex world of reality in times of confusion and uncertainty. Rhetorical theory suggests that whereas persuasion

takes the form of advertising and propaganda that move the audience to action, argumentation is associated with conviction or a quest for intellectual agreement (Perelman & Olbrechts-Tyteca, 1969). Through the production and dissemination of ideas and careful crafting of arguments, the Chinese intellectual elites sought to make sense of the stock market institution and to convince the public and the state of their points of view. Their winning public adherence for their points of view often places pressure on state actors to change their policy orientations.

Authoritative elites sometimes participate in these debates as well, and their participation can shift the balance of strength between the two sides of the argument. From all three controversies, it is evident that authoritative elites responded to the controversies with action and policies, which determined which side won the presumption. But it is also evident that authoritative elites do not just assign presumption arbitrarily to one side of the debate. Instead, they seemed to watch the controversies unfold and gauge public opinion before making decisions.

The allocative elites, i.e., elites of the corporate business sector, do not feature prominently in these debates. Corporate elites are a relatively new phenomenon that emerged only after the market reform. The restructuring of SOEs into shareholding companies and the transfer of state assets to private entrepreneurs fostered the growth of the corporate elites. Gu Chujun, the CEO who used MBOs to acquire SOEs, represented corporate elites. However, allocative elites seemed to be relatively nonexistent for the first two controversies and lost the presumption in the third controversy. This indicates that the allocative elites gained prominence after the first controversy but declined after the third controversy.

Finally, elite controversies are spontaneous and non-linear processes. Each controversy lasted for an extended period, between one and two years. In addition, at least the first two controversies saw revivals in later years, showing that they are still important sources for the collective construction of meaning (see Figure 11). As processes they are emergent rather than deliberate. The initial attackers probably never imagined the scope and magnitude of the debates they triggered. The process of controversy is non-linear, characterized by surprise and contingency, and held together by the ongoing agency of actors reflexively managing their situations (Tsoukas & Chia, 2002). Moreover, within each controversy, one can observe many smaller controversies, each involving a set of actors focusing on a particular debate. Not all small controversies are resolved. Yet they serve to trigger new questions, which invite rebuttals and hence new controversies. As more actors from different fields join the debates and expand the topic, and rounds of attacks and counterattacks between old and new opponents play out in the public discourse, the overall contentiousness escalates and intensifies. The impact of a controversy is the accumulation of these smaller controversies, each agitating a particular dimension of the public sentiment.

Understanding China's indigenous elite dynamics has important implications for theorizing China's radical change. Western observers often marvel at how China has defied conventional western wisdoms at economic reform (Pan, 2018; Specia, 2018).

Our study's emphasis on elite controversies tells a story of intense public scrutiny of western ideas by respected and prominent intellectuals. The relatively spontaneous contestations of sophisticated arguments were not confined in intellectual circles; they had wide impact on the public consciousness through the broad engagements of numerous local elites and opinion leaders. These contentious debates often trigger responses by the political leaders and thus play a role in shaping economic policies. Similar debates and controversies occurred in numerous other economic areas. This suggests that some western wisdoms, such as the benefits of public deliberation and debates, may have actually played a significant role in China's economic transition.

Contentious Argumentation as an Anchoring Mechanism for Legitimacy Judgments

Debates, disputes, and controversies play an important role in institutional change or maintenance by producing an effect on the legitimacy of practices, rules, and structures (Fritch, Palczewski, Farrell, & Short, 2006; Hoffman & Ventresca, 1999; Maguire & Hardy, 2009; Patriotta et al., 2011; Suddaby & Greenwood, 2005). Our findings suggest that controversy affect legitimacy through two mechanisms: contentious argumentation and presumption. In this section, we focus on explicating how contentious argumentation serves as an anchor for sensemaking, which shapes legitimacy judgments.

Sensemaking is interwoven with institutions by providing the micro-level anchor for institutions to emerge (Weber & Glynn, 2006). Sensemaking is inherently discursive (Phillips et al., 2004) and narrative (Brown, 2000), relying on vocabularies (Loewenstein, Ocasio, & Jones, 2012), symbolic processes (Zilber, 2002, 2006), and the production and dissemination of texts (Phillips & Oswick, 2013) to create meaning. Based on studying the three controversies, we argue that the anchoring effect of sensemaking on institutions is importantly mediated by contentious argumentation, for three reasons. First, contentious argumentation makes it imperative for actors to reexamine assumptions and thus provides an opportunity to weaken and loosen established assumptions. Green, Li, & Nohria (2009) found that as actors taken a belief for granted, they no longer state the premises or assumptions from which the belief derives. So, the suppression of assumptions indicates a high level of cognitive legitimacy of a belief. A recent study furthers this observation by showing that when taken-for-granted assumptions are explicitly reaffirmed by powerful authorities, they create uncertainty because the fact that these assumptions are being discussed decreases the level of cognitive legitimacy (Harmon, 2019). These studies point out the nuanced act of stating taken-for-granted assumption and the complications it may have on legitimacy judgment. In our study, each controversy opens up space for actors to reexamine assumptions. For example, in the first controversy, when the Old Left explicitly stated the assumption that stock market is capitalist and use it to claim that the stock market should not be allowed to open in a socialist country, it forced the liberals to come up with sophisticated and unorthodox theorizations that justified

the stock market based on Marxism and socialism. In a sense, explicitly invoking assumptions to shut down the legitimacy of a controversial practice leads to the opposite effect: it loosens the ossified assumption by creating uncertainty and it creates the conditions for development of new assumptions, in this case, the innovative claim by Deng Xiaoping that market is a means to an end, and therefore can be employed in a socialist country to achieve socialist ends.

Second, contentious argumentation fosters inquiry by offer opposing rationales for the same practice, thus forging two sets of perceptions and interpretations by weaving together identities, experiences, and environmental cues. As contending parties actively challenge and oppose one another, they bring more facts, broader views, wider lenses, and unconventional alternatives to the discussion (Simons, Pelled, & Smith, 1999). For example, in the casino controversy, liberals were divided in their perceptions and interpretations of the stock market and consequently called for opposite actions. Since the parties on both sides were renowned economists, the clash of their ideas was enabled by scholarly investigation, research, and formulation. Their debates drew upon the bubble behaviors of other counties and markets, comparing these with the condition of China's stock market. Disputes about facts, values, and credibility of economists greatly enhance the complexity of the issue and expand the scope of inquiry.

Finally, the outcome of contentious argumentation is often neither agreement nor an incommensurable fragmentation of positions. Agreement is hard to achieve since the contested issues often involve fundamentally conflicting interests and worldviews, yet what comes out of the controversy tends to be a new understanding that transforms the competing views and policies that take into consideration the interests of multiple social groups. For example, although neither the Old Left nor the liberals won the surname controversy, the "socialist market economy" slogan that the authoritative elites formulated after the controversy combined both sides and allowed China to strengthen its market mechanisms as well as maintaining some of the core socialist institutions such as SOEs. The many socialist imprints of China's stock market at its founding testify to the power of both sides to assert legitimacy of their worldviews. Similarly, policies after the casino controversy did not just move into the direction advocated by one side; instead, both Keynesian regulations and market liberalization measures were pursued simultaneously. In the third controversy, the New Left picked up cues from the emerging social problems that accompanied economic reform and raised questions that had been ignored by the then-dominant neoliberal discourse (Hong, 2010). The controversy transformed the state's view of its ownership rights of SOEs and unleashed a new era of strengthening SOE financial assets through the stock market institution.

Presumption as a Tilting Mechanism for Legitimacy Judgments

In addition to contentious argumentation which anchors sensemaking by challenging opponent's assumptions and rationales, we observe presumption to be another key

mechanism that mediates the effect of sensemaking on the legitimacy judgments of institutions. Presumption gives advantage to one party of a dispute over another by assigning the latter the burden of proof. In this way, presumption functions as an argumentative bind on future legitimacy judgments (Hoefer & Green Jr., 2016). We make three contributions to the understanding of the role of presumption in legitimacy judgments.

First, our findings suggest that presumption is an indicator of the relative strength of a competing ideological stance. Hoefer and Green (2016) contended that some institutional practices have stronger presumptive support than others, but did not provide an empirical case for what the relative strength of presumptive support meant in an institutional setting. Based on our close analysis of three controversies about China's stock market institution, we concluded that the initial presumptive strength is a measure of the relative strength of the political thought to which the most powerful authoritative elites subscribe. The dominant political thought in China has been the Old Left, the liberal, and the New Left ideologies. When politicians and intellectual elites occupied the most powerful command posts of the society and promoted the Old Leftist ideologies, the prevailing presumption was that anything against the central theorems of this ideology naturally bears the burden of proof. In contrast, when the liberals dominated those command posts and promoted more liberal ideologies, the prevailing presumption then gives the burden of proof to leftist ideas.

Second, we observe that elite actors actively pursue presumption or discharge their burden of proof through contentious arguments in controversies. For example, the Old Left had the presumption when they claimed that the stock market was capitalist and therefore should not be allowed to open: these arguments upheld the status quo and had high level of cognitive legitimacy in China. The liberal advocates for stock market adoption therefore had the burden of proof. However, instead of taking on the burden of proof, the liberals used rhetorical strategies to discharge their burden of proof and thus seized the ground of presumption. The liberals insisted that the stock market was *consistent* with socialist ideology and beneficial to advancing socialist interests. In this way, they forced their opponents to accept the burden of proof. The Old Left was put in the position of having to adduce reasons against something that *preserves* the institutional status quo. When one side successfully pushes the burden of proof to the other side, it tilts the argumentative bind and thus influences the legitimacy judgments of the audience.

Finally, the presumptive tilt that gives the party an initial advantage can turn into a disadvantage because of the nature of contentious argumentation. As we noted earlier, argumentation seeks intellectual comprehension instead of just propaganda or persuasion. Contentious argumentation helps reveal the truth because assumptions about facts, values, and characters are constantly questioned. Consider the example of the civil litigation again. Even though the defendant has the presumption of innocence, the defendant is still in a more vulnerable position because the case against the defendant would have already passed a motion to dismiss the plaintiff's allegation. A plaintiff can then demand information from the defendant, which may lead to the dis-

covery of evidence against the defendant. In this sense, initial presumption quickly loses its value and both parties face burden to prove their claims. Of course, the authoritative elites can always resort to coercive measures to reset the presumption. However, the authoritative elites cannot simply assign presumption as they wish. Their decisions are importantly constrained by the public opinion that can shift as the masses are mobilized to support and denounce arguments by opposing camps in a controversy.

The general public is an important audience that intellectuals target and seek to convince with their arguments. For example, an online survey conducted during the casino controversy suggests that 75% of the public agreed with Wu Jinglian (Editor, 2001), which may have affected the authoritative elites' decision to strengthen regulation. Public opinion polls on the MBO controversy indicated that the public overwhelmingly sided with Lang Xianping (Ma, 2006). Online polls also showed that the public no longer trusted mainland Chinese economists (Ma, 2006). These polls reflect the further fragmentation of social communities, such as the disenfranchisement of SOE workers facing job loss and peasant workers within the general public, and the individual investors who felt taken advantage of by institutional investors in the stock market. The fragmentation of society into distinct social communities leads to multiple, competing presumptions vying for domination. As intellectual elites tapped into the public sentiment against private business and triggered a society-wide controversy, a previously subordinate presumption held by some segments of the society was turned into the dominant presumption that is reflected in public opinion, which then shaped policy orientation of the top leadership.

In conclusion, this paper demonstrates that controversies are not errors to be corrected, failures to achieve agreement, or outbursts of irrationality. Rather, controversies are often the tipping points of the legitimacy judgments that the audience confers to an institution, thus shaping the trajectory of institutional change. They are the means by which various important interactions occur—between opposing arguments, between intellectual elites and the authoritative elites, and between elites and the populace. This paper highlights the role of contentious argumentation in institutionalization. Contentious arguments are critical for sensemaking because the dramatic and sustained contention challenge taken-for-granted assumptions and prepare the audience for new understandings. Presumption both marks the initial strength of competing ideologies, and becomes the goal of the argumentative maneuvers of opponents, as actors engage in contentious argumentation. The design and configuration of a focal institution such as the stock market in China is the result of discursive struggles in which elite actors, in the absence of a definitive answer, compete to give sense to the environment and seek presumptions to influence legitimacy judgments and ultimately shift the institutional trajectory.