Resolved: The Chinese system of “state capitalism” is better than the US system of “free market capitalism.”

China's Superior Economic Model

The Wall Street Journal, December 1, 2011, By Andy Stern

Andy Grove, the founder and chairman of Intel, provocatively wrote in Businessweek last year that, "Our fundamental economic beliefs, which we have elevated from a conviction based on observation to an unquestioned truism, is that the free market is the best of all economic systems -- the freer the better. Our generation has seen the decisive victory of free-market principles over planned economies. So we stick with this belief largely oblivious to emerging evidence that while free markets beat planned economies, there may be room for a modification that is even better."

The past few weeks have proven Mr. Grove's point, as our relations with China, and that country's impact on America's future, came to the forefront of American politics. Our inert Senate, while preparing for the super committee to fail, crossed the normally insurmountable political divide to pass legislation to address China's currency manipulation. Secretary of State Hillary Clinton, former Gov. Mitt Romney and President Barack Obama all weighed in with their views -- ranging from warnings that China must "end unfair discrimination" (Mrs. Clinton) to complaints that the U.S. has "been played like a fiddle" (Mr. Romney) and that China needs to stop "gaming" the international system (Mr. Obama).

As this was happening, I was part of a U.S.-China dialogue -- a trip organized by the China-United States Exchange Foundation and the Center for American Progress -- with high-ranking Chinese government officials, both past and present. For me, the tension resulting from the chorus of American criticism paled in significance compared to reading the emerging outline of China's 12th five-year plan. The aims: a 7% annual economic growth rate; a $640 billion investment in renewable energy; construction of six million homes; and expanding next-generation IT, clean-energy vehicles, biotechnology, high-end manufacturing and environmental protection -- all while promoting social equity and rural development.

Some Americans are drawing lessons from this. Last month, the China Daily quoted Orville Schell, who directs the Center on U.S.-China Relations at the Asia Society, as saying: "I think we have come to realize the ability to plan is exactly what is missing in America." The article also noted that Robert Engle, who won a Nobel Prize in 2003 for economics, has said that while China is making five-year plans for the next generation, Americans are planning only for the next election.

The world has been made "flat" by the technological miracles of Andy Grove, Steve Jobs and Bill Gates. This has forced all institutions to confront what is clearly the third economic revolution in world history. The Agricultural Revolution was a roughly 3,000-year transition, the Industrial Revolution lasted 300 years, and this technology-led Global Revolution will take only 30-odd years. No single generation has witnessed so much change in a single lifetime.

The current debates about China's currency, the trade imbalance, our debt and China's excessive use of pirated American intellectual property are evidence that the Global Revolution -- coupled with Deng Xiaoping's government-led, growth-oriented reforms -- has created the planet's second-largest economy. It's on a clear trajectory to knock America off its perch by 2025.

As Andy Grove so presciently articulated in the July 1, 2010, issue of Businessweek, the economies of China, Singapore, Germany, Brazil and India have demonstrated "that a plan for job creation must be the number-one objective of state economic policy; and that the government must play a strategic role in setting the priorities and arraying the forces of organization necessary to achieve this goal."

The conservative-preferred, free-market fundamentalist, shareholder-only model -- so successful in the 20th century -- is being thrown onto the trash heap of history in the 21st century. In an era when countries need to become economic teams, Team USA's results -- a jobless decade, 30 years of flat median wages, a trade deficit, a shrinking middle class and phenomenal gains in wealth but only for the top 1% -- are pathetic.

This should motivate leaders to rethink, rather than double down on an empirically failing free-market extremism. As painful and humbling as it may be, America needs to do what a once-dominant business or sports team would do when the tide turns: study the ingredients of its competitors' success.

While we debate, Team China rolls on. Our delegation witnessed China's people-oriented development in Chongqing, a city of 32 million in Western China, which is led by an aggressive and popular Communist Party leader -- Bo Xilai. A skyline of cranes are building roughly 1.5 million square feet of usable floor space daily -- including, our delegation was told, 700,000 units of public housing annually.

Meanwhile, the Chinese government can boast that it has established in Western China an economic zone for cloud computing and automotive and aerospace production resulting in 12.5% annual growth and 49% growth in annual tax revenue, with wages rising more than 10% a year.

For those of us who love this country and believe America has every asset it needs to remain the No. 1 economic engine of the world, it is troubling that we have no plan -- and substitute a demonization of government and worship of the free market at a historical moment that requires a rethinking of both those beliefs.

America needs to embrace a plan for growth and innovation, with a streamlined government as a partner with the private sector. Economic revolutions require institutions to change and maybe make history, because if they stick to the status quo they soon become history. Our great country, which sparked and wants to lead this global revolution, needs a forward looking, long-term economic plan.

The imperative for change is simple. As Andy Grove pointed out: "If we want to remain a leading economy, we change on our own, or change will continue to be forced upon us."

Mr. Stern was president of the Service Employees International Union (SEIU) and is now a senior fellow at Columbia University's Richman Center.

Why China's Political Model Is Superior

The New York Times, February 16, 2012, By ERIC X. LI

Shanghai. This week the Obama administration is playing host to Xi Jinping, China's vice president and heir apparent. The world's most powerful electoral democracy and its largest one-party state are meeting at a time of political transition for both.

Many have characterized the competition between these two giants as a clash between democracy and authoritarianism. But this is false. America and China view their political systems in fundamentally different ways: whereas America sees democratic government as an end in itself, China sees its current form of government, or any political system for that matter, merely as a means to achieving larger national ends.

In the history of human governance, spanning thousands of years, there have been two major experiments in democracy. The first was Athens, which lasted a century and a half; the second is the modern West. If one defines democracy as one citizen one vote, American democracy is only 92 years old. In practice it is only 47 years old, if one begins counting after the Voting Rights Act of 1965 — far more ephemeral than all but a handful of China's dynasties.

Why, then, do so many boldly claim they have discovered the ideal political system for all mankind and that its success is forever assured?

The answer lies in the source of the current democratic experiment. It began with the European Enlightenment. Two fundamental ideas were at its core: the individual is rational, and the individual is endowed with inalienable rights. These two beliefs formed the basis of a secular faith in modernity, of which the ultimate political manifestation is democracy.

In its early days, democratic ideas in political governance facilitated the industrial revolution and ushered in a period of unprecedented economic prosperity and military power in the Western world. Yet at the very beginning, some of those who led this drive were aware of the fatal flaw embedded in this experiment and sought to contain it.

The American Federalists made it clear they were establishing a republic, not a democracy, and designed myriad means to constrain the popular will. But as in any religion, faith would prove stronger than rules.

The political franchise expanded, resulting in a greater number of people participating in more and more decisions. As they say in America, "California is the future." And the future means endless referendums, paralysis and insolvency.

In Athens, ever-increasing popular participation in politics led to rule by demagogy. And in today's America, money is now the great enabler of demagogy. As the Nobel-winning economist A. Michael Spence has put it, America has gone from "one propertied man, one vote; to one man, one vote; to one person, one vote; trending to one dollar, one vote." By any measure, the United States is a constitutional republic in name only. Elected representatives have no minds of their own and respond only to the whims of public opinion as they seek re-election; special interests manipulate the people into voting for ever-lower taxes and higher government spending, sometimes even supporting self-destructive wars.

The West's current competition with China is therefore not a face-off between democracy and authoritarianism, but rather the clash of two fundamentally different political outlooks. The modern West sees democracy and human rights as the pinnacle of human development. It is a belief premised on an absolute faith.

China is on a different path. Its leaders are prepared to allow greater popular participation in political decisions if and when it is conducive to economic development and favorable to the country's national interests, as they have done in the past 10 years.

However, China's leaders would not hesitate to curtail those freedoms if the conditions and the needs of the nation changed. The 1980s were a time of expanding popular participation in the country's politics that helped loosen the ideological shackles of the destructive Cultural Revolution. But it went too far and led to a vast rebellion at Tiananmen Square.

That uprising was decisively put down on June 4, 1989. The Chinese nation paid a heavy price for that violent event, but the alternatives would have been far worse.

The resulting stability ushered in a generation of growth and prosperity that propelled China's economy to its position as the second largest in the world.

The fundamental difference between Washington's view and Beijing's is whether political rights are considered God-given and therefore absolute or whether they should be seen as privileges to be negotiated based on the needs and conditions of the nation.

The West seems incapable of becoming less democratic even when its survival may depend on such a shift. In this sense, America today is similar to the old Soviet Union, which also viewed its political system as the ultimate end.

History does not bode well for the American way. Indeed, faith-based ideological hubris may soon drive democracy over the cliff.

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Communist Party to U.S.: Stop Your Whining

International Herald Tribune, February 15, 2012 By MARK MCDONALD

HONG KONG — The future leader of the unfree world was in the house, and his visit was expected to be so polite, so scripted, so anodyne. Let a hundred platitudes bloom. Air kiss. Air kiss. *Xie xie.*

Then Vice President Joseph R. Biden Jr. got up and gave a luncheon toast that mentioned human rights, trade scams, jailed writers, currency manipulation, Beijing's *bù* and Moscow's *nyet* on sanctions against Syria — pretty much the full combo platter of American gripes about China. Not to put too blunt a point on it, but Mr. Biden definitely got up in the grille of his lunch guest, Vice President Xi Jinping.

Mr. Xi listened with a poker face, as my colleagues Mark Landler and Edward Wong reported, and there was "pin-drop silence" in the room.

The Biden Toast, as it may yet come to be known — or perhaps the Biden Roast, or the Biden Throw-down — certainly gave the state-controlled Chinese media an opening to hit back against the running dog imperialist lackeys.

The leading Communist Party outlets —the People's Daily newspaper and its tabloid subsidiary, the Global Times — have been quite restrained and straightforward in their reporting, at least on the English-language sites that most Americans and Europeans would visit. On the op-ed and opinion pages, however, it's game on.

In a People's Daily commentary, Ruan Zongze, a former political officer in the Chinese Embassy in Washington, said "the strategic suspicion between the two countries has never weakened."

In the first 10 years of this century, Mr. Ruan said, "the United States focused only on anti-terrorism and ignored taking precautions against big emerging powers, while China is drawing a new map of global wealth.

“However, the fact is that whenever the United States feels bad or has an economic difficulty, it always blames others. As the election campaign heats up in the United States this year, the trend of trying to ‘blame China’ to obtain political capital has appeared.’’

Xinhua, the official Chinese news agency, offered a similar rejoinder: “U.S. politicians have long resorted to blaming China for job losses and other domestic economic hardships.’’

An editorial in Global Times on Thursday said the United States seemed unable “to tolerate China’s rise.’’

“The U.S. always emphasizes ‘rules,’ but these are excuses to protect its leadership,’’ the editorial said.

“Chinese society understands the West’s anxiety caused by China’s rise and tries its best to adjust. China does not intend to undermine the West. The rise of China currently seeks to ensure basic standards of living. China is at least several generations away from legitimately challenging the U.S.’’

After Mr. Biden’s luncheon remarks, Xinhua said it had “learned” that Mr. Xi had “warned” President Obama against protectionist measures “in his behind-the-scenes talks.’’

Behind the scenes is always the funnest place.

Meanwhile, the Global Times editorial suggested that China is simply misunderstood, a naïf, a wide-eyed newcomer to global diplomacy. Innocents abroad, if you will.

“The U.S. demands that China clearly state its intentions,’’ the piece said. “Unfortunately, it is obvious China does not have a diplomatic master plan for the next 20 years. China is not as ambitious as people believe, but its promises are not believed.”

Global Times also has been featuring on its Web site an interview with Nicholas Platt, the longtime U.S. diplomat in Asia who was with Richard Nixon on his landmark trip that “opened up China” 40 years ago this week.

Q: Will Xi’s visit set the tone for future Sino-U.S. relations?

A: The U.S. and China have to realize one important thing, that the two have no other alternative but to work together.

“We are now so intertwined economically,” Mr. Platt continued. “Socially we may have big differences, but we are so intertwined that neither of us can take any kind of action against the other without hurting ourselves more.

“That’s a good, safe place to be. In the boxing ring, the safest place is in a clinch. When the boxers are holding each other, they are very, very close. That’s the safest place, because neither can hit the other. The U.S. and China are in a clinch. We should stay that way.”

The Facts About American 'Decline'

The Wall Street Journal, April 12, 2011, By Charles Wolf Jr.

It's fashionable among academics and pundits to proclaim that the U.S. is in decline and no longer No. 1 in the world. The declinists say they are realists. In fact, their alarm is unrealistic.

Early declinists like Yale historian Paul Kennedy focused in the 1980s on the allegedly debilitating effects of America's "imperial overstretch." More recently, historians Niall Ferguson and Martin Jacques focus on the weakening of the economy. Among pundits, Paul Krugman and Michael Kinsley on the left and Mark Helprin on the right sound the alarm.

The debate involves issues of absolute versus relative decline and concepts like "resilience" and "passivity." Some issues are measurable, like gross domestic product (GDP), military power and demographics. Others are not measurable or less measurable.

In absolute terms, the U.S. enjoyed an incline this past decade. Between 2000 and 2010, U.S. GDP increased 21% in constant dollars, despite the shattering setbacks of the Great Recession in 2008-09 and the bursting of the dot-com bubble in 2001. In 2010, U.S. military spending ($697 billion) was 55% higher than in 2000. And in 2010, the U.S. population was 310 million, an increase of 10% since 2000.

The notion that demography is destiny may be a stretch, but demographics are important when, as in the U.S., population increase-- due to higher birth and immigration rates than other developed countries-- cushions the impact of an aging population.

But there were also some important declines relative to the rest of the world. In 2000, U.S. GDP was 61% of the combined GDPs of the other G-20 countries. By 2010, that number dropped to 42%. In 2000, U.S. GDP was slightly more than eight times that of China, but it fell to slightly less than three times in 2010. Japan is a contrasting case: U.S. GDP was twice as large as Japan's in 2000 but 2.6 times as large in 2010, before the tsunami and nuclear disasters of 2011.

Between the inclines and declines are other data to be considered.

U.S. military spending inclined substantially to more than twice that spent by all non-U.S. NATO members in 2010 from 1.7 times in 2000; to 17 times Russian spending in 2010 from six times in 2000; and to nine times Chinese spending in 2010 from seven times in 2000.

Demographically, the U.S. population in 2000 (282 million) was 4.6% of the global population; by 2010, the U.S. population (310 million) had risen to 4.9% of the global figure. The U.S. population was 59% as large as that of the 15-member European Union in 2000; that figure increased to 78% by 2010 (counting only 2000's 15 members) and 62% if we count the 12 new EU members added between 2004 and 2007.

The U.S. population grew by 10% more than that of Japan and 13% more than that of Russia between 2000 and 2010. Relative to the huge populations of China and India (1.3 billion and 1.2 billion, respectively), the U.S. population during the past decade increased slightly (0.16%) compared to China and decreased by a similar margin compared to India.

What matters more than absolute numbers is the population's composition of prime working-age people versus dependents. Compared to most developed economies and China, the U.S. demographic composition is relatively favorable.

So what do all these numbers tell us about decline or incline?

Despite the Great Recession, the three crude indicators -- GDP, military spending and population growth -- show that the U.S. inclined in absolute terms.

But in relative terms, the picture is more complicated. Although U.S. GDP grew substantially in real terms during the decade, relative to the G-20 countries as a group U.S. GDP declined by 19%. Relative to China, the U.S. decline was even larger.

As noted, military spending by the U.S. increased across the board relative to NATO, China and Russia. Whether this suggests the U.S. is allocating too much, or other countries too little, is not evident from numbers alone. And numbers also don't indicate whether high military outlays have a positive or negative effect on economic growth.

As for demography, there was a small U.S. increase relative to global population, a moderate increase relative to the EU, large increases relative to Japan and Russia, and slight and opposite changes relative to China and India.

And there you have it: Some numbers show inclines, some show declines and some numbers are mixed. What the numbers omit is as significant as what they convey. Omissions include the societal and systemic factors that stimulate or impede creativity, innovation, entrepreneurship and new ventures.

Numbers also ignore the effects of culture, property rights, law and political freedom in the near and long terms. Nor do the numbers foretell how China's so-called "Red Capitalism" will fare in long-term competition with the multi-hued U.S. prototype. As for comparing and forecasting the resilience of countries and regions, the numbers ignore more than they convey.

The overall picture is far more complex than the simple one portrayed by declinists. The real world is complicated, so a portrait in one dimension distorts rather than reflects reality.

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The United States vs. China—Which Economy Is Bigger, Which Is Better

The Heritage Foundation, Global Backgrounder, By Derek Scissors, Ph.D., *April 14, 2011*

There is increasingly loud talk of China surpassing America in raw economic size within the next decade, or, adjusting for purchasing power, as soon as this year. Some of these claims are plainly inaccurate, most are misleading, and all are potentially harmful.

The claims contribute to false impressions about the future of the Asia–Pacific region, even the world as a whole. Perceptions of China's economic strength and importance underpin its global presence, from its own borders to sub-Saharan Africa and Latin America. A deeper look, though, shows that the People's Republic of China (PRC) is still far smaller and poorer than the U.S. on the most important economic dimensions, so its true global weight is correspondingly limited.

While this paper focuses on economics, all U.S. policy should be founded on good information about China's relative position right now and what the future will hold. The U.S. has a huge economic advantage that should last for several generations, at least. The best strategy to compete with the PRC thus begins with getting the American house in order—and in doing so, the U.S. should absolutely not imitate the PRC. A battle with Beijing over which government can intervene in its economy more is doomed to failure and comes with ugly drawbacks that have been lost in China hype.

America can and should win the economic competition. However, it should not hope for China's failure. An economically weakening or stagnant China hurts the rest of the world. In contrast, a China on a more sustainable course benefits everyone, including the U.S.

America vs. China: Today

One of the most surprising developments resulting from the financial crisis is the belief among ordinary Americans that China has become the world's leading economy. This view appeared in the roughest times of 2009 and has persisted even though the impact of the crisis has begun to ebb. U.S. media have frequently conveyed the same belief.[1] But it is patently absurd.

The principal reason for Americans' dismay is jobs: Official U.S. unemployment breached 9 percent during the past two years. It is even higher when counting those who have stopped looking for jobs, yet would work if they could. In contrast, Beijing issues an urban unemployment figure below 4.5 percent, but this includes only those officially recognized and no one, including officials at the Ministry of Human Resources and Social Security, believes it is accurate.[2]

The state-controlled Chinese Academy of Social Sciences placed urban unemployment at 9.4 percent before the full impact of the financial crisis was felt. The PRC's rural unemployment has long exceeded 20 percent.[3] True Chinese unemployment is certainly higher than true American unemployment, and, depending on how unemployment is measured, could be much higher.

China and the United States: 2009 by the Numbers

China		U.S.
	ECONOMIC LEADERSHIP	
$4.99 trillion	GDP	$14.86 trillion
$9.09 trillion	GDP, adjusted for purchasing power	$14.12 trillion
48	PC sales *(number per 1,000 people)*	243
	QUALITY OF LIFE	
$3,738	Average income *(GDP per capita)*	$48,153
$6,809	Average income, adjusted for PPP	$45,755
27.1%	Unemployment*	14.0%
36%	Freedom from corruption	75%
	ENERGY AND ENVIRONMENT	
8.06	Carbon emissions *(in billions of tons)*	5.31
3.65	Electricity use *(in billions of kilowatt-hours)*	3.95
4.3	Oil imports *(in millions of barrels per day)*	9.6
	INTERNATIONAL ROLE	
9.6%	Share of world goods exports	8.5%
7.9%	Share of world goods imports	12.7%
$2.69 trillion	Holdings of foreign securities	$5.98 trillion

* Those who want jobs as a percentage of the labor force.

Sources: See footnote 5.

Table 1 • B 2547 heritage.org

The contest in income, meanwhile, is utterly unequal. American Gross Deomestic Product (GDP) in 2009 was nearly $15 trillion, while China's was $5 trillion, despite a population more than four times as large. The average American had $48,000 in 2009 income, the average Chinese had less than $4,000. Both of these gaps narrowed in 2010, as they have almost every year in the past 30, but they remained huge.

It is true that many consumer goods are cheaper in China, some much cheaper. Economists try to formalize different prices in different countries by checking the purchasing power of the same amount of money. The idea is that the same amount of money should buy the same good or service everywhere. When it does not, because one country has far lower prices than another, for instance, it can be useful to compare incomes using differences in prices. The difference in prices is called purchasing power parity (PPP). PPP recognizes that earning $50,000 a year in London is very different from earning $50,000 a year in Luanda, Angola. But PPP is often not very accurate.

PPP is one of the reasons for the claims that China is about to pass the U.S. Adjusting for purchasing power, the CIA estimates China's GDP to be near $10 trillion in 2010.[4] PPP estimates are imprecise and some figures for China are still higher**.** Because China is growing quickly, the $5 trillion gap PPP shows between the U.S. and China could, if American growth stagnates, disappear in as little as five years. [5]

While PPP is a step in the right direction in principle, there are multiple pitfalls. For economies as large and diverse as those of America and China, differences in purchasing power within each country are huge. It is almost meaningless to find an average price for all of the U.S. or all of China. Perhaps even more important in comparing two economies, PPP changes over time. Because prices change at different rates in different places, purchasing power comparisons made at one point can be quite misleading just a few years later, and even more misleading when projected forward in time.

The PRC offers a dramatic example. Chinese inflation has generally been growing faster than American inflation since about 1999. Due to the cumulative effect, the World Bank retroactively cut the size of its 2005 PPP estimate of China's GDP by more than 40 percent.[6] In an instant, the Chinese economy became 40 percent smaller. If this had not happened, Chinese GDP would be comparable to American GDP right now. Moreover, since 2005, Chinese inflation has again been faster than American inflation. The World Bank has not yet adjusted for this faster inflation. Nearly all economic projections that show China surpassing the U.S. in the next few years are based on a PPP measurement that is out of date. These projections overstate Chinese GDP considerably and should not be trusted.[7]

If China's economy is well behind that of the U.S. now, how long will that last? While official Chinese data are certainly flawed, it is also certain that Chinese growth has outpaced American growth by a huge margin over the past 30 years.[8] Between 1981 and 2010, U.S. GDP increased a fairly impressive 4.7 times.[9]Chinese figures are less precise but it looks as if China's GDP increased approximately 30 times over the same time period. Such an outstanding performance appears to all but guarantee that China will surpass the U.S. in the next 30 years, and probably far sooner. In fact, the PRC's outstanding performance has led to some exceptionally inaccurate projections of its trajectory for the next three decades and beyond.

Whither Chinese Growth?

Economic results are not determined by history. If they were, Chinese reform would have failed and the pre-1978 suffering would have continued. If they were, the U.S. would remain the world's largest economy simply because it has been so for more than a century. If 30 years of rapid growth guaranteed 30 more, Japan would now be the world's largest economy. Instead, 40 years of Japan soaring up the global ladder have been followed by 20 years of stagnation.

Results are instead determined by a nation's resources and policies. Resources include but are not confined to natural resources; there are also critical human and financial resources. Beijing in particular has relentlessly pushed investment forward for a decade. In 2001, fixed investment was the equivalent of 38 percent of GDP. In 2010, because its growth easily outpaced GDP every year since 2001, fixed investment was the equivalent of 70 percent of GDP.[10] It is not possible to exceed 100 percent of GDP. The policy of boosting growth simply through the pure quantity of money spent cannot extend through the current decade as it did through the last decade—China must change course or face sharply smaller GDP gains.

In terms of natural resources, the PRC's environmental difficulties are widely known, as is its stark dependence on commodities imports.[11] China is the world's second-largest oil importer, the biggest coal importer, the biggest soybean importer, and accounts for two-thirds of global iron ore trade by itself. The same kind of results hold for many metals, and corn could be next.

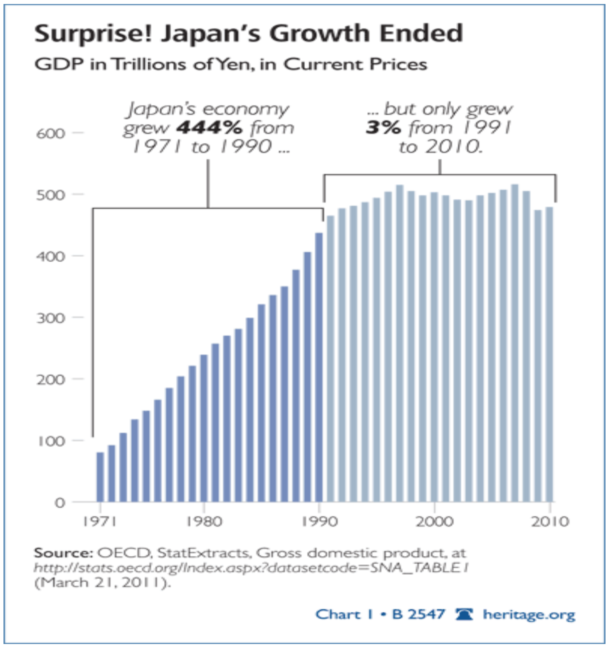
Food grain dependence stems from land depletion. More than one-fourth of China's land can be classified as desert, and nearly half suffers from sand erosion. Related, and perhaps even worse, China is exceptionally poorly endowed with water, needed for farming and industrial activity.[12] Greater agricultural productivity drove Chinese growth and helped balance income in the 1980s, but natural resources have long since become a major obstacle to growth rather than a spur.

The Communist Party has deftly used a generation's worth of fast expansion in the workforce to help create rapid GDP growth. The period of demographic expansion will end over the coming decade, though, and be followed by an exceptionally sharp period of contraction, due in part to China's one-child policy. Beginning in about the middle of the decade, the ensuing two generations will be as much as one-fifth smaller than the one before.

By 2035, close to 20 percent of the population will be age 65 or older. The analogous figure for Japan in 2008 was just over 20 percent age 65 or older. Starting in approximately 2015 and over the course of two decades, the pure quantity of labor will shift from contributing nearly 2 percentage points to GDP growth to subtracting around 1 percentage point.[13]

Limits on investment, depleted physical resources, and a coming plunge in the amount of available labor leave more efficiency in use of labor and capital as the drivers of future growth. Government bureaucrats may guess correctly, but inevitably make serious mistakes. Only competitive markets promote enduring efficiency gains. In the early 1990s, Japan faced a similar situation—resource weakness, declining return to capital, and a shrinking labor force. Tokyo repeatedly chose fiscal stimulus over reform. The outcome has been unpleasant.

After more than two decades of steady market reform, China intensified its state-directed stimulus in 2002 and again in 2008. The workforce has not yet begun to shrink and a mixed economy can sustain low-return investment for much longer than a market economy. Within a decade, however, the Communist Party must grit its teeth and return to a market path or suffer Japan's fate. If political will is lacking, China's growth story will vanish as Japan's did, and the many projections of Chinese predominance will prove as illusory as they were for Japan 20 years ago.



The obvious questions are if and when the PRC will restart reform. Here, China-watching is still guesswork. It is certain that the longer Beijing waits, the more painful a return to the market will be. The economy is now distorted by investment similar to how the U.S. economy is distorted by deficit spending. As with American budget warnings since 2007, China's State Council first cited investment dependence as a problem in 2004, and it has become far worse since.[14]

Sharp policy changes are more feasible in the PRC than in most countries due to centralized decision making. Still, an abrupt end to state subsidization of investment would cause several years of slow growth or even contraction, whether or not the party acknowledged it. A gradual change of direction is much more likely, but would extend the period of economic inefficiency and environmental destruction. Such an extension could cost China dearly as the labor situation deteriorates by the end of this decade.

So, Whose Century Is It?

Comparing the U.S. and China, the next World Bank inflation adjustment will drop China further behind (and bring the PPP comparison closer to the simple GDP comparison). America's growth rate is obviously another major variable. Nonetheless, its raw population means that the PRC will likely pass the U.S. at some point after a resumption of market reform.

For example, if the 2012 Communist Party Congress were to nullify actions by the 2002 Party Congress and restore Deng Xiaoping's economic model, this would enable roughly two more decades of rapid growth, perhaps in the 7 percent to 8 percent range, then gently decreasing to the 5 percent to 6 percent range over time. China would then surpass the U.S. in PPP-adjusted size before 2025 and pass the U.S. in simple GDP three or four years after that. Delaying reform or other missteps will postpone the dates. Finally, the somewhat bizarre example of Japan appears to indicate that China could also decline to reform, suffer long-term stagnation, and never pass the U.S. at all.

Raw size of the economy, though, is far from the whole story. At the time of GDP convergence, the average American's income will still be more than four times greater than that of the average Chinese. Despite polls describing China as the economic leader, no one in the U.S. would trade the number-one ranking in GDP for a 75 percent cut in salary. If it quickly returns to the reform path, the PRC will be bigger than the U.S. in less than a generation, but America will remain much richer, indefinitely.

What about other measurements? Economic leadership cannot be separated from technology. There are many technology indicators, and they change over time. At the moment, personal computers to some extent represent both productivity of citizens through technology and the setting for fresh innovation. The results mimic GDP: Annual Chinese sales will shortly pass American sales, but on a per capita basis, the U.S. is far ahead. This suggests that the PRC as a nation will be increasingly capable while individual Americans will remain more productive.

Productivity is reflected by employment, where the numbers may surprise those who see the PRC as the global leader. It is generally accepted that Chinese policy is driven first by the need to create jobs, but the magnitude of that challenge is not widely understood. When unemployment is measured by those who want jobs and do not have them, China's unemployment is double that of the U.S. even in a very weak American year. This is a staggering burden for China.

The PRC’s claim to leadership is stronger in other areas. China’s mountain of foreign exchange reserves is frequently cited as proof of its power. The official tally was $2.85 trillion at the end of 2010 and is still soaring.[15] Two important facts about reserves are usually missed, though. The first is that, for technical reasons, they cannot be spent toward pressing needs inside China and must be held overseas.[16] Even that suggests great Chinese financial clout around the world. The second fact is that American investment around the world is far larger. At the end of 2009, the latest figure available, U.S. portfolio investment overseas was almost $6 trillion. U.S. direct investment overseas exceeded $3.5 trillion.[17] Even when including Chinese investment beyond official reserves, total American investment is roughly three times larger than total Chinese investment.[18]

China is the world’s largest exporter and likely to become the world’s top trader in 2012. Its impact on global demand for many goods will rival and often exceed that of the U.S. There is the standard drawback associated with trade, of course: China is more dependent than America on foreign markets and supplies. Raw exports are roughly three times more important in Chinese GDP than in American GDP. The PRC’s energy dependence is comparable to America’s but China is far more reliant on foreign grain and metals than is the U.S. China’s bid for leadership in trade is evident, but comes with a price that is also increasingly evident.

Competing and Winning

China’s economy has obviously been catching up with America’s and is likely to grab the lead in important economic and trade measures soon, even while continuing to lag well behind in others. America has never faced this kind of economic test. For more than 60 years the U.S. was simply unchallenged; for 160 years before that, the U.S. was rising up the global economic ladder.

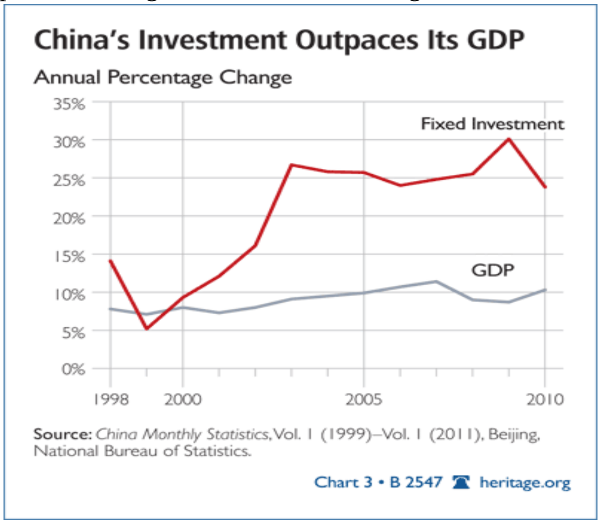
Nonetheless, America retains multiple, critical advantages over China. As noted, economic results stem from policy choices and possession of various kinds of resources. In natural resources, the U.S. has a clear edge. Depending on the measurement used, the U.S. may have twice as much water as the PRC. The U.S. has more arable land than China, with less than one-fourth the population to support.[19] The U.S. has larger coal reserves, while relying on coal less.[20] Pollution of nearly all kinds is far less of a problem in the U.S, indicating that the value of physical resources will remain higher well into the future.[21]

The resource comparison has immediate implications for the other half of economic success—policy. Around the world and throughout history, greater individual property rights have been shown to enhance both the short-term and long-term value of resources. This was seen in spectacular fashion in 1980s China, when a modicum of property rights for farmers caused an explosion in agricultural productivity and rural income.[22] Unfortunately, the past few years have seen the PRC re-embrace “state” ownership, which diffuses responsibility and undermines sustainability. Subsidies make matters worse, encouraging unsustainable development patterns.[23]

For labor, a simple indication of American advantage is the ratio of GDP to worker—the U.S. has a larger economy despite a smaller labor force. The American lead is on the order of 11:1; the average American worker is 11 times more productive. Manufacturing, where China is thought to be the new global leader, requires more than eight Chinese workers to equal the production of one American worker.[24] While productivity has been rising in the PRC, the demographic shift means its labor force will shrink. Over the next generation, China will transform from a society younger than America’s to a society that is older than America’s, with proportionately fewer workers.

Greater productivity makes the average American much more prosperous than the average Chinese. Nor has this prosperity come at the expense of jobs; more of the labor force is employed in the U.S. than in the PRC. Good policy thus embraces effective education and training and a youthful labor force. There is also a financial component to labor force changes: Unfunded pension liabilities must eventually be addressed. As vast as these are in the United States, they are smaller for the U.S. in relation to GDP than for China.[25]

As for capital, both countries are currently poor performers. Just a few years ago, the U.S. sustained 2 percent to 3 percent GDP growth without extracting $1.5 trillion to fund federal deficits. Until 2003, Chinese fixed investment rose roughly as quickly as GDP; since 2003, it has risen more than twice as fast. The two countries' return on combined public and private investment is falling as more financial resources run through the state and are applied to commercially wasteful projects, repeating the mistake made and continued in Japan. Also mimicking Japan, American real interest rates were below 2 percent in 2010 while Chinese real rates were negative. Dangerously low American and Chinese rates are linked by a set of poor policies in both countries that extend beyond simple interest rate targets and have created excess liquidity worldwide.



As the *Index of Economic Freedom* has demonstrated both across time and across counties, whichever nation can rein in public finance the quickest will have an edge in contributing to economic growth.[26] Whether it is American government borrowing or the many Chinese policies that exalt the place of investment within the economy, overreach will eventually be corrected, voluntarily or involuntarily.

In the meantime, the desire among some American politicians to imitate Chinese subsidies must be blocked. Chinese subsidies go almost exclusively to state entities tightly bound to the party institutionally and personally. Subsidies have widened income disparities after these were dampened in the first decade of reform (when subsidies were slashed). While subsidies appear to increase growth, they are ultimately unsustainable and apparent gains are illusory. Government is not organized to create wealth and subsidies encourage development of a less efficient economy.

What the U.S. Should Do

To compete successfully with China, the U.S. should:

- **Limit federal control of lands to defense needs and preservation of natural and cultural phenomena.** The Department of the Interior should avoid resource management, shown to distort the economy and reduce prosperity;
- **Immediately and sharply cut the federal deficit.** Congress must ignore claims that deficit spending somehow creates wealth, as it actually forces the nation's capital toward low returns;
- **In particular, reduce subsidies of every kind.** At this point, energy subsidies are especially damaging; and
- **Ensure a well-educated and growing labor force.** The Departments of Education and Justice should stress immigration transparency and education diversity, where the U.S. has an edge over China.

To encourage mutually beneficial Chinese development, the U.S. should:

- **Focus on subsidies as the biggest Chinese trade distortion.** The Department of the Treasury, the United States Trade Representative, and Department of Commerce should estimate Chinese subsidies for the purposes of reducing them through bilateral and multilateral negotiations; and
- **As part of these negotiations, should offer to welcome Chinese investment in natural resources in exchange for greater American access to the PRC market.**

The U.S. Holds the Cards

The PRC's rise from poverty due to the marvelously successful market reforms introduced in 1978 has obscured serious economic weaknesses compared to the U.S. These weaknesses have been exacerbated in important ways by renewed Chinese state intervention starting around 2003. America should not lose track of its advantages over China—in wealth but also in natural resources, and in surprising areas such as employment. Most important, the U.S. should not make the error of mimicking unwise Chinese policies, and should instead focus on getting the American house in order.

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China's Threat to World Order

The Wall Street Journal, August 17, 2011, By Jamie F. Metzl

Allegations that the Chinese government is behind the largest computer hacking operation in history will not come as a surprise to observers of recent trends in international relations. If there is one thing that China's actions across a range of fields have made clear, it is that Beijing will do whatever it takes to advance its narrowly defined economic interests, even if that requires riding roughshod over global norms.

Driven by the need to deliver economic growth as a major justification for its existence, the Chinese government has done a tremendous job of creating wealth and bringing hundreds of millions of Chinese people out of poverty. With over a billion Chinese aspiring to higher standards of living, the pressure on Beijing is enormous. But China's pursuit of growth at virtually any cost now threatens to undermine the very global economic system that has enabled the country's rise.

The hacking campaign, described in detail by the Internet security company McAfee, is a case in point. The five-year effort targeted 70 institutions in the U.S. and 13 other countries and stole arguably the greatest cache of intellectual property in history. As former U.S. cyber-czar Richard Clarke recently told the Huffington Post, "What's going on here is very large-scale Chinese industrial espionage. . . . They're stealing our intellectual property. They're getting our research and development for pennies on the dollar."

Outside of cyberspace, parallel Chinese efforts to seize economic benefits regardless of the international consequences can be seen across the globe. Beijing has laid claim to the entirety of the resource-rich South China Sea in clear violation of the U.N. Law of the Sea and used unrelenting diplomatic pressure to prevent the Southeast Asian countries whose territorial waters are being violated from coming together to address this issue multilaterally.

China's lack of respect for international intellectual property rights is also infamous. A recent report by the U.S. International Trade Commission asserts that Chinese piracy and counterfeiting of U.S. intellectual property cost American businesses approximately $50 billion in 2009. Beijing's policy of keeping the value of its currency artificially low gives Chinese exports an unfair advantage and is a primary cause (along with America's irresponsible debt and political crises and Europe's problems) of the instability we are now seeing in world markets.

Nuclear proliferation is one of the greatest threats facing the world, but China continues to shield North Korea from any meaningful pressure to give up its nuclear weapons. It acts as if even the smallest efforts to pressure Iran about its nuclear program are concessions to the U.S. rather than actions taken in China's and the world's interests. Although the West's record on human rights is far from perfect, China's financially motivated support for the violators of human rights in places like North Korea, Burma, Sudan and Zimbabwe has undermined the already flawed international human-rights system.

The U.S. has made many mistakes in its years of global stewardship. But warts and all, the pax Americana has brought the greatest increases in stability, innovation and development in world history. As China is the second wealthiest and second most important country in the world, its failure to support global norms is undermining the international system.

It is no longer acceptable for China to claim global leadership in some areas but then pretend it is a weak developing country and shirk its responsibilities in others. A China that leads the world in the theft of intellectual property, computer hacking and resource nationalism will prove extremely destabilizing. If it continues on this course, Beijing should not be surprised if other countries begin to band together to collectively counter some of the more harmful implications of China's rise.

A better outcome for all will be for China to embrace its responsibilities to help lead the world in nuclear counterproliferation and rules-based-growth that can make the international system, or a modified version of it, stronger and more beneficial to all nations.

The U.S. and Europe, meanwhile, must get their acts together at home to be credible proponents of a rules-based international system. They must also recognize that China's rise can be an unbridled good if a more globally responsible China has a right-sized seat at the table.

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China vs. the U.S.: The Case for Second Place

Bloomberg Business Week, October 13, 2011, By Charles Kenny

China will soon overtake the U.S. as the world's biggest economy. Should Americans be concerned?
It is now a foregone conclusion that China's economy will become the biggest in the world sometime very soon. According to the World Bank, the size of China's economy is $10.1 trillion, compared with $14.6 trillion for the U.S., based on purchasing power parity (which adjusts exchange rates to account for the different prices people pay for goods and services across countries). But China is narrowing the gap in a hurry. Over the past 10 years, the annual real growth of China's gross domestic product averaged 10.5 percent, compared with 1.7 percent in the U.S. The Chinese economy increased at an annual rate of 9.6 percent in the first half of 2011, vs. a rate of less than 1 percent in the U.S. America's days as top dog of global output are numbered, at best.

Should we care? People from Thomas Friedman to Niall Ferguson cite the looming change at the top of the world economic rankings as a bellwether of broader American decline. "We are the United States of Deferred Maintenance. China is the People's Republic of Deferred Gratification. They save, invest, and build. We spend, borrow, and patch," complained Friedman in a recent *New York Times* column. And yet having the world's largest economy isn't all it's cracked up to be—and you need look no further than the history of China and the U.S. to see that. The swelling size of China's economy may be a source of pride to the Chinese people, but America is still by far the better place to live—and will remain so for a long time.

Although economists are skeptical about China's ability to sustain its current levels of growth, most agree it is only a matter of a few years before the Middle Kingdom's 1.3 billion or so people produce more than the 310 million living in the U.S. That means history is repeating itself. The U.S.'s reign as the largest world economic power began a little before 1890, when it supplanted the previous global giant: China. According to data from the late Angus Maddison, an economic historian at the University of Groningen in the Netherlands, China boasted the largest economy in the world all the way back to 1500. Prior to the 20th century, its run at No. 1 was interrupted only for a brief period around 1700, when India took a turn at the top.

And yet during those five centuries when its economy was the world's biggest, China was never even close to being the world's wealthiest country. Italy was almost twice as rich in 1500, the Netherlands almost three times as rich in 1700, and the U.K. six times as rich by 1870. Today, though the GDPs of the U.S. and China are roughly equal, the average person in China lives on an income that can buy only 16 percent of the goods and services of the average person in the U.S., and it will take decades for that gap to close. If you're an American feeling down about losing top economy status, go take a holiday in Guizhou, a poor western Chinese province where incomes are about one-fortieth as high as the U.S. average. You'll feel a lot better.

Nevertheless, pessimists warn that being knocked off the top spot could still have all sorts of ill effects for the U.S. Being the biggest economy, they argue, has been vital to American prosperity because, since the close of World War II, the dollar has been predominant in international financial reserve holdings, allowing the U.S. to borrow and trade in its own currency. Arvind Subramanian of the Peterson Institute for International Economics predicts that as China's economy overtakes the U.S.'s, so too will the relative importance of the renminbi. He argues that within 10 years, the renminbi could replace the dollar as the world's largest reserve currency.

But the impact of that change might be less than dramatic. It's probably true that if the dollar loses its dominance, American companies will have to start hedging against exchange rate risk, and government borrowing might become a little more expensive. But foreign companies already have to hedge currency risk and yet still manage to compete, while less borrowing would surely be a good thing for the U.S. in the medium run. And a renminbi whose value rises—as it will have to if it is to become a reserve currency—should help even up the U.S.-China trade balance.

What China will soon discover is that being the world's biggest economy and holding its favored reserve currency have little bearing on a country's actual economic performance. For proof, just look at the U.S. Between 1890, when America became the world's largest economy, and 2008, the U.S.'s annualized per capita income growth was about a quarter of a percentage point lower than China's. America's growth performance during those 118 years ranked just 15th out of 37 countries for which the University of Groningen's Maddison has data—behind economies including Denmark, Canada, Sweden, and (wait for it) Greece. Even a number of really small countries have done better than America. Luxembourg has a GDP four-tenths of a percent the size of the U.S. economy, about the same output as the state of Delaware. And yet it is more than twice as rich per person as the U.S.

For a while in the 1940s, the U.S. showed that the combination of being the biggest and richest power can yield dividends—it was decisive in defeating two other world powers in war and making a global peace largely of America's own design. And yet being the planet's largest economy encouraged, or perhaps obliged, the U.S. to try to act as the world's policeman, which even the most unrepentant neoliberal would acknowledge has been a burden as much as a blessing. Not least, it meant that more American soldiers died abroad last year than troops from any other nation, according to data from Sweden's Uppsala University. Meanwhile, U.S. military spending now accounts for more than two-fifths of the world total, and it sucks up a larger percentage of GDP than any other member of the Organization for Economic Cooperation and Development.

If anything, supremacy confers even fewer benefits on the world's dominant power than it did a century ago. Thanks in large part to the postwar international system the U.S. drove to create, any country's ability to use size to strike unfair trading arrangements is considerably constrained by the requirements of the World Trade Organization. And China will likely be even more limited—because its economy is so reliant on exports, it needs the multilateral provisions of the WTO even more than does the U.S.

Of course, it must be nice for President Barack Obama to still be the guy at the Group of 20 afterparty who everyone wants to talk to. And it's surely a boost to the ego for the U.S. ambassador to the United Nations to sit behind a country nameplate that is permanently screwed to the table in the Security Council. At the same time, being No. 1 makes you a target of abuse and criticism. Perhaps an America that is No. 2 would be more popular. Country polls conducted for the BBC suggest that America's image abroad has improved markedly since 2007, when it came out only marginally ahead of North Korea and Iran, though it's still way behind less powerful countries such as Canada and Germany. Meanwhile, China's popularity ratings have been falling since 2005, perhaps in part a reflection of its growing economic muscle.

Ultimately, the best argument for Americans to let go of the idea of being No. 1 is that in the areas that really matter, we aren't. When it comes to measures of the broader quality of life, the U.S. ranks in the bottom half of the OECD club of rich countries on such health indicators as life expectancy. It ranks around 15th worldwide in terms of the proportion of people who say they are happy, according to Jaime Díez Medrano, director of the World Values Survey archive. That puts the U.S. behind a bunch of small economies, including Norway, Ireland, Singapore, Switzerland, and (once again) Luxembourg.

On the bright side, the U.S. still outperforms China on almost every conceivable quality-of-life indicator, including happiness polls (where China is in 70th place). The average American lives five years longer than the average Chinese person, while under-five mortality rates are less than half the Chinese levels. And though you may take a dim view of the abilities of Congress and the President to manage the economy—or even manage their way out of a paper bag—they remain the voters' to throw out. The same cannot yet be said of the leadership of the Communist Party of China. So rather than wring their hands over the decline of the U.S.'s relative economic weight, Americans should remember the wisdom of the Founding Fathers and focus on preserving the country's advantages in life, liberty, and the pursuit of happiness instead.

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State capitalism

From Wikipedia, the free encyclopedia

The term **State capitalism** has various meanings, but is usually described as commercial (profit-seeking) economic activity undertaken by the state with management of the productive forces in a capitalist manner, even if the state is nominally socialist.[1] State capitalism is usually characterized by the dominance or existence of a significant number of state-owned business enterprises. Examples of state capitalism include Corporatized government agencies (agencies organized along corporate and business management practices) and states that own controlling shares of publicly-listed corporations, effectively acting as a large capitalist and shareholder itself.

State capitalism has also come to refer to an economic system where the means of production are owned privately but the state has considerable control over the allocation of credit and investment, as in the case of France during the period of dirigisme. Alternatively, state capitalism may be used (sometimes interchangeably with state monopoly capitalism) to describe a system where the state intervenes in the economy to protect and advance the interests of large-scale businesses. This practice is often claimed to be in contrast with the ideals of both socialism and laissez-faire capitalism.[2]

China v America: how do the two countries compare?

The Guardian, April 20, 2011

Country	Metric	Value	Units
China	Current account balance	272.5	$ billion
America	Current account balance	-561	$ billion
China	Population	1330	millions of people
America	Population	310	millions of people
China	Emissions	7.7	billion tonnes
America	Emissions	5.4	billion tonnes
China	Active armed forces	2.2	million military personnel
America	Active armed forces	1.6	million military personnel
China	Exports	1506	$ billion
America	Exports	1270	$ billion
China	Market capitalisation	3.6	$ trillion
America	Market capitalisation	15.0	$ trillion
China	Performance in Olympics	51	Gold medals in 2008 Olympics
America	Performance in Olympics	36	Gold medals in 2008 Olympics
China	Reading ability	556	OECD reading score in schools
America	Reading ability	500	OECD reading score in schools
China	Diplomacy	251	number of embassies, consulates and missions
America	Diplomacy	289	number of embassies, consulates and missions
China	Unemployment	4.3	% of working population
America	Unemployment	9.4	% of working population
China	Economic growth	9.6	GDP growth for % on previous year
America	Economic growth	2.6	GDP growth for % on previous year
China	Economic growth	3,744	$ GDP per capita
America	Economic growth	45,989	$ GDP per capita