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CONCLUSION:

Chinese way, Western way, the 2008-11 crisis and beyond

The attentive reader has certainly remarked that Chapter 6 on the impact of New Public Management (NPM) on China's economy and society has been concluded by a long section on the rebalancing of Chinese society, whereas there is no such section in Chapter 5 on the impact of NPM in the West. There is a good reason for that: the West has not taken any significant measures to reduce income inequalities and poverty rates during the years of the triumph of Neoliberalism and of its two armed wings, the 'Washington Consensus' and the NPM (1979-2008). On the contrary, the persistent implementation of the neoliberal project in the West, which has in fact delegated to the market (or more precisely to the market 'freed' of state interferences) the task of developing and distributing wealth, has further deteriorated income inequality and poverty, as I have shown in Chapter 5.¹ Well documented research shows that since the beginning of capitalism, income inequalities have not ceased to increase, except during some limited periods such as the thirty years after the Second World War. But since the beginning of the neoliberal era (1980s) inequalities started to increase again and then stabilized at a relatively high level.² And this is one of the major sources of the 2008-11 crisis, as Joseph Stiglitz very well explains: 'in the years immediately preceding the crisis, (...) domestic demand had also been weakened by high oil prices. The problem of high oil prices and growing inequality – reducing domestic aggregate demand – afflicted many other countries [in addition to the US]. Income inequality increased in more than three-quarters of OECD countries from mid-1980s to the mid-2000s, and the past five years saw growing poverty and inequality in two thirds of OECD countries.'³ Moreover, 'growing inequality in the US and elsewhere around the world (...) shifted money from those who would have spent

¹ Remember the statement of the World Bank, already mentioned in Chapter 1, addressed to China in 1997 according to which '...the [Chinese] government must begin serving markets', World Bank, *China 2020: Development Challenges in the New Century*, Sept. 18, 1997, Report no. 17027-CHA, World Bank, p. ix.

² In this sense see Michel Husson, 'Les inégalités à l'échelle mondiale', *Chronique internationale de l'IREs*, no. 130, May 2011, pp. 55, 60-61. The researches upon which this article is based are quoted in note 62 of chapter 5. The case of the evolution of the UK Gini index illustrates this trend very well. We have presented it in Chapter 5, Figure 5.2.

³ Joseph E. Stiglitz, *Freefall. America, Free Markets, and the Sinking of the World Economy*, New York, Norton, 2010, p. 19 and note 21, p. 305, based upon data from OECD, *Growing Unequal? Income distribution and Poverty in OECD Countries*, Paris, October 2008. The whole Stiglitz book provides a convincing explanation of the crisis.

it to those who didn't' thus reducing global aggregate demand.⁴ As Stiglitz and associates have explained for years, 'in the world of globalization, global aggregate demand is what matters. If the sum total of what people around the world want to buy is less than what the world can produce, there is a problem – a weak global economy.'⁵

Of course, one has to take into consideration that during that period of time, China and the West were at different stages of their development: in principle there was more space for improvements in the equitable distribution of wealth in a developing country such as China than in the West. And in fact, during the first phase of its development (1978-1995) China increased its GDP and reduced poverty. Unfortunately, it also developed inequalities and deteriorated the environment (see above, pp. ...). Nevertheless, as soon as these phenomena were brought to the attention of decision-makers by academic researchers and critical intellectuals, the Chinese leadership has understood the danger that such phenomena could represent for the stability of the country and the quest for international power, and several measures were taken to rebalance economy and society (see above, pp. ...). Moreover, the different ways these issues have been treated by Chinese and Western leaders is quite striking, and even more so after the outburst of the 2008-11 crisis. I will come back to this point.

In order to evaluate and appreciate the reactions of China and the West to these phenomena, let us first recall the four hypotheses upon which this book is based. First, by implementing the NPM management type defined in Chapter 3, point 3.7 (in particular privatizations and deregulations), both China and the West have obtained, in addition to similar positive results for the economy (measured by GDP), also similar negative social outcomes: increasing unemployment or under-employment⁶, increasing income inequalities, increasing poverty rates (and/or appearance of new forms of poverty), increasing crime rates, and the deterioration of public health. Thus, the implementation of a type (some would say a model) of public management produced similar results.

Second, similar results are not necessarily identical, as in the process of implementing a model, one is confronted with the local conditions (i.e. particular features of economy, polity, legal system, political culture, and the heritage of history). So, we have seen that, in spite of the fact that practically all the Western countries have implemented NPM devices, those who have gone very far in implementing the NPM model, i.e. the strong-NPM

⁴ Stiglitz, *ibidem*, pp. 19-20.

⁵ *Ibidem*, p. 20. Stiglitz goes on to explain that the other source of weak global aggregate demand is that 'developing countries have put aside hundreds of billions of dollars in reserve to protect themselves from the high level of global volatility that has marked the era of deregulation, and from the discomfort they feel at turning to the IMF for help. (...) The oil-rich countries too were accumulating reserves – they knew that the high price of crude was not sustainable [and finally, as] export-led growth had been lauded as the best way for developing countries to grow (...) many turned to a policy of keeping their exchange rate competitive. And this meant buying dollars, selling their own currencies, and accumulate reserves.' *Ibidem*.

⁶ Under 'underemployment' I put both non-voluntary part-time employment, underpaid jobs (i.e., under the level of poverty), as well as people that have become unable to work as a consequence of stress and other type of disabilities contracted in the working place, in other word all the negative consequences (in addition to unemployment) of the deregulation of the labour market.

countries, have deteriorated income distribution, public health (with the exception of the UK), as well as poverty and crime rates much more than the weak-NPM countries, which have implemented

only part of the NPM model.⁷ Moreover, the overall impact of NPM has been, at least until the outburst of the 2008-11 crisis, more serious in China than in the West. This is due to the fact that before the implementation of NPM, Western countries had developed a whole set of social policies that the NPM has limited, but not dismantled. Nevertheless, there is today enough evidence to show that the crisis and the way the West is dealing with it are unfortunately producing a convergence movement amongst Western countries, precisely a realignment of many of the Continental European states on the Anglo-Saxon ones, especially the US and the UK. If this movement is confirmed in the years to come, this means that inequalities and poverty rates of these countries will attain the US and UK levels in the near future. I will come back to the reasons that explain this important outcome below. As for China, the verification of the second hypothesis has allowed us to conclude that after the abandonment of the Maoist safety nets, neoliberal policies aimed at improving economic efficiency have brutally deregulated the labour market, limited access to education and health (by making citizens pay for substantial parts of these services), and introduced pensions with very limited coverage, not to mention that until recently the urban areas have benefited from more efficient social policies than the countryside. As we have already said, only since the mid 1990s and especially after 2002 a vigorous strategy of establishing a modern safety net system has been gradually implemented.

Third, both China and the West have improved the strength of their economy (measured by GDP), at least up to the outburst of the 2008-11 crisis, by giving more space to economic efficiency thanks to NPM devices. But this has been obtained at the expense of social equity. This confirms that one cannot simultaneously maximize economic efficiency and social equity, and that, on the contrary, there is a trade-off between these two values. Fourth, when these phenomena appear in the process of implementation, as has been the case since the 2008 crisis, China has proved to be better armed to rapidly take adequate measures for re-establishing overall social stability and the smooth functioning of the economy. And this leads me to the second reminder that will also be useful for evaluating our findings related to this fourth hypothesis.

⁷ Let me remind the reader that within strong-NPM countries the UK is an exception as far as public health is concerned, thanks to the National Health Service NHS, in spite of reforms based upon the NPM model introduced by both the Conservative and the New Labour governments. Let us also remark that the NSH is presently under attack from the new government. See UK Department of Health, *Working together for a stronger NHS*, London, 2011, and the comment in the *British Journal of Medicine* by Tony Delamothe and Fiona Godlee, 'Dr Lansley's Monster', *BMJ*, 21 January 2011;342:d408, available at <http://www.bmj.com/content/342/bmj.d408.full> (accessed 15 August 2011): 'What do you call a government that embarks on the biggest upheaval of the NHS in its 63 year history, at breakneck speed, while simultaneously trying to make unprecedented financial savings? The politically correct answer has got to be: mad.' See also Nicholas Timmins (Public Policy Editor), 'No "US-style system" for NHS, says regulator', *Financial Times*, 13 May 2011.

The second reminder focuses our attention on the fact that NPM is the legitimate son of Neoliberalism and the twin brother of the Washington Consensus. The 2008-11 crisis shows very clearly both this filiation and brotherhood. The measures taken by Western countries to overcome the crisis are mainly directed at saving the dominant layer of capitalism, i.e. the financial system, by taking a number of measures that are not only meant to save this system with the injection of huge amounts of public money (ironically a clear contradiction to the neoliberal ideology according to which the state should not interfere with the 'natural' functioning of the market) but are also imposing drastic austerity policies that very clearly harm the citizens of the middle and lower classes, who are not responsible for the crisis, with the consequence of increasing inequalities, poverty rates and social exclusion. In fact, these measures impose privatization of public services, reduction of social security benefits, reduction of salaries (both in the private and public sectors), the increase of unemployment (especially for young people) and the increase of different forms of taxation that are more often directed to the lower and middle classes than to the rich, while those responsible for the crisis are practically untouched.⁸ The similarity between these policies implemented today in developed countries and those imposed in the past upon developing countries is quite striking. Let me quote two examples.

First, on 5 August 2011, the President of the European Central Bank (ECB), Jean-Claude Trichet, co-signed a letter with his successor, Mario Draghi, addressed to the Italian Prime Minister, Silvio Berlusconi, informing him of the conditions imposed by the ECB on the acquisition of Italian government bonds. First, the ECB asks Berlusconi to proceed by decree, not by a bill of law. It then lists the reforms it expects from Italy. In terms of privatization, it mentions municipal services (public transport, roads, electricity supply, with the exception of water which will remain public.⁹

⁸ At the moment of writing this conclusion (November 2011) the attention is focused on Greece where this type of measures is probably the most severe; but similar actions are being taken all over the West, especially in Portugal, Spain, Italy, but also in the US, UK, France and Germany. For the identification of those who are responsible for the crisis the best account is that of Stiglitz, *Freefall*, op. cit., which mentions in the first place leaders of the financial sector (head of central banks – especially the US Fed – banks and investment companies, and traders), mainstream economists and leading mass media who have approved the neoliberal project, politicians who have listened to both the above-mentioned leaders of financial institutions and economists, and last but not least rating agencies that have attributed the highest rates to financial institutions for a long time, and until the eve of their collapse. CEOs of multinational companies and banks, and traders continue to cash enormous salaries and bonuses. According to Nomi Prins, Standard & Poor's 'rubber-stamped \$14 trillion of toxic assets in the five years leading up to the crisis of 2008. This green light enabled Wall Street to thrive while it manufactured these assets and sold them globally', in 'Debt from bailouts didn't pan out', 10 August 2011, available at <http://www.nomiprins.com/articles/>, accessed 27 October 2011. Before becoming a journalist, Nomi Prins worked on Wall Street as a managing director at Goldman Sachs, and run the international analytics group at Bear Stearns in London.

⁹ The letter was to remain secret, but the influential Italian newspaper *Il Corriere della Sera* published it the day after, as reported by the French newspaper *Le Figaro*, 8 August 2011, <http://www.lefigaro.fr/conjoncture/2011/08/08/04016-20110808ARTFIG00475-la-bce-met-de-facto-l-italie-sous-tutelle.php>. Let us remark that the exclusion of water from privatization, which might have signalled a change in policy, is not in fact an extraordinary concession made by the ECB. In my opinion, the ECB would have ridiculed itself if it had asked for water privatization after an overwhelming majority of Italian citizens had refused water privatization in a national referendum only a few months before.

Second, let me quote the remarks made by the President of the European Central Bank, Jean-Claude Trichet, introducing his last press conference, 6 October 2011:

Fiscal consolidation and structural reforms must go hand in hand to strengthen confidence, growth prospects and job creation. The Governing Council therefore urges all euro area governments to decisively and swiftly implement *substantial and comprehensive structural reforms*. This will help these countries to strengthen competitiveness, increase the flexibility of their economies and enhance their longer-term growth potential. In this respect, *labour market reforms are key*, with a focus on the removal of rigidities and the implementation of measures which *enhance wage flexibility*. In particular, we should see the *elimination of automatic wage indexation clauses* and a strengthening of firm-level agreements. More generally, in these demanding times, moderation is of the essence in terms of both profit margins and wages. These measures should be accompanied by structural reforms that increase competition in product markets, particularly in services – including the liberalisation of closed professions – and, where appropriate, the *privatisation of services* currently provided by the public sector, thereby facilitating productivity growth and supporting competitiveness.¹⁰

If one adds to these two statements the measures already imposed by the ECB, the European Commission and the IMF (a new ‘Unholy Alliance’?)¹¹ on several European countries, one cannot but conclude that the era of triumphant Neoliberalism has not come to an end.¹² If we also take into consideration the well documented tendencies towards concentration of, and interconnections between capitalist companies, and the massive tax evasion or avoidance by multinational firms thanks to the persistence of the tax havens that they use for the purpose of hiding the exact amount of their profits,¹³ we are forced to recall

¹⁰ As reported by the British newspaper *The Telegraph*, 6 November 2011, ‘European Central Bank president Jean-Claude Trichet held his final press conference in Berlin on Thursday. Here is his opening statement in full’, <http://www.telegraph.co.uk/finance/financialcrisis/8811287/Jean-Claude-Trichet-ECB-statement-in-full.html>, accessed 6 November 2011. Emphasis added by us.

¹¹ A clear reference to the ‘Unholy Alliance’, the label that Ha-Joon Chang has attributed to the World Bank, the IMF and the WTO for their structural adjustment policies imposed upon developing countries, as already mentioned above in Chapter 3; in *Bad Samaritans. The Myth of Free Trade and the Secret History of Capitalism*, New York, Bloomsbury Press, 2008, p. 32.

¹² This situation unfortunately contradicts the statement made by Joseph E. Stiglitz in December 2009 announcing the ‘The triumphant Return of John Maynard Keynes’, *The Economists’ Voice*, Project Syndicate, The Berkeley Electronic Press, December 2008, available online at: www.project-syndicate.org (accessed 6 January 2009). We are instead witnessing ‘the triumphant persistence of Neoliberalism’.

¹³ On the concentration and interconnections of multinational companies see the results of a research by a team of the Swiss Federal Polytechnics in Zurich that has identified a network of 43’060 transnational companies that are interconnected thanks to the exchange of shares, of which 147 are mega societies that control about 40 percent of the wealth of the entire network: Stefania Vitali, James B. Glattfelder, and Stefano Battiston, *The network of global corporate control*, available at http://arxiv.org/PS_cache/arxiv/pdf/1107/1107.5728v2.pdf, accessed 30 October 2011. See also: Dan Braha, Blake Stacey, Yaneer Bar-Yam, ‘Corporate competition: A self-organized network’, *Social Networks*, 33 (2011), pp. 219-30, available at http://necsi.edu/affiliates/braha/Journal_Version_SON_Braha.pdf, accessed 30 October 2011.

the prophetic statement of Fernand Braudel (already mentioned in Chapter 2, p ...):
'...capitalism has always been monopolistic, and merchandise and capital have always circulated simultaneously, for capital and credit have always been the surest way of capturing and controlling a foreign market. Long before the twentieth century the exportation of capital was a fact of daily life, for Florence as early as the thirteenth century (...) Need I observe that all methods, dealings, and tricks ["ruses" in the French edition, p. 118] of the financial world were not born in 1900 or in 1914? Capitalism was familiar with them all, and, yesterday as today, its uniqueness and its strength lie in its ability to move from one trick to another, from one way of doing things to another, to change its plans ten times as the economic conjunctures dictate – , and as a result, to remain relatively faithful, consistent with itself.'¹⁴

Nevertheless, when one knows that the neoliberal policies imposed on developing countries have not worked in the past, especially in Africa and South America (where they have on the contrary devastated the state's finances and whole sectors of society, such as health and education, without bringing to these countries the development they promised) how can Western leaders imagine that these same policies will work today for the Western developed world? Moreover, it seems that so far no serious measures have been taken to reduce unemployment and promote growth, nor to avoid the recurrence of similar crises in the future. And this short-sighted attitude has discouraged those Western experts who hoped that the crisis would have brought to an end the irrational behaviour of political leaders who have surrendered to the dictates of the financial elite. Let me put this frustration in the words of Joseph E. Stiglitz: 'One might have thought that with the crisis of 2008 the debate over market fundamentalism (...) would be over. One might have thought that no one ever again (...) would argue that markets are self-correcting and that we can rely on the self-interested behaviour of market participants to ensure that everything works well. Those who have done well by market fundamentalism offer a different interpretation. Some say our economy

On the persistence of tax evasion and avoidance, in spite of the attacks launched on tax heavens by the OECD and the G20, see the Tax Justice Network (<http://taxjustice.blogspot.com/>) and its last report: Robert S. McIntyre, Matthew Gardner, Rebecca J. Wilkins, Richard Phillips, *Corporate Taxpayers & Corporate Tax Dodgers 2008-10*, A Joint Project of Citizens for Tax Justice & the Institute on Taxation and Economic Policy, Washington D.C., November 2011. For example, according to a report of *Citizen for Tax Justice*, a public interest research and advocacy organization, '280 Most Profitable US Corporations Shelter Half Their Profits from Taxes. "These 280 corporations received a total of nearly \$224 billion in tax subsidies," said Robert McIntyre, Director at Citizens for Tax Justice and the report's lead author. "This is wasted money that could have gone to protect Medicare, create jobs and cut the deficit." 30 Companies average less than zero tax bill in the last three Years, 78 had at least one no-tax year.', 2 November 2011, available at http://ctj.org/ctjreports/2011/11/corporate_taxpayers_corporate_tax_dodgers_2008-2010.php, accessed 4 November 2011.

¹⁴ Fernand Braudel, *Afterthoughts on Material Civilization and Capitalism* (The Johns Hopkins Symposia in Comparative History), Baltimore, The Johns Hopkins University Press, 1979, pp. 113-14.

suffered an “accident” (...) those who held this position want us to return to the world before 2008 as quickly as possible.’¹⁵

Finally, witnessing the consequences of neoliberal austerity policies, the protest movements of large sectors of the population of Western countries, and the violence that states may consider necessary for keeping the situation under control and implementing austerity policies, former French Prime Minister Michel Rocard (a moderate social-democrat) has declared to the influential French newspaper *Le Monde*: ‘given the state of anger of the [Greek] people, one can forecast that no Greek government will be able to face this situation without the support of the army ... This sad consideration is certainly also valid for Portugal and/or Ireland, and/or other, bigger countries. How far will we go?’¹⁶ This quite evidently poses the question of democracy; not only Western politics of liberal democratic countries have been under the control of the financial elite for several decades, not only the ECB asks a formally sovereign democratic state (Italy) to act by decree instead of using one of the typical instruments of democracy (the law) when demanding the implementation of severe austerity policies, not only do eminent political leaders manifest their disapproval when they learn that the Greek President envisages to submit these policies to universal referendum, but the risk of seeing police and military force resort to brutal force to silence those who dare protest has become a possibility, and in too many cases already a reality. The fundamental contradiction between the functioning of capitalism and democracy could not be more evident.¹⁷

The insistence of the present Western leadership upon the untouchable status of the neoliberal project, that has so blatantly failed, is particularly worrying for our future, because it is the sign of an incapacity to question past choices (and the ideology upon which they were based), and thereafter to redirect our policies away from the myths diffused by Neoliberalism during the last thirty years. A myth, as I have defined it in the preface of this book, is a set of ideas that one has defined once and for all, and considered to be valid everywhere, not subject to critique and reconsideration, and that moreover promises to realize objectives that in fact it is not capable of delivering. There is a terrible social, political and economic fraud imbedded into Neoliberalism that becomes apparent when one passes from that ideology to its implementation through the Washington Consensus and the NPM. This is in fact one of the functions of all ideologies: convince the people of their validity, by promising results that everybody would be ready to enthusiastically adhere to, but that in fact

¹⁵ Stiglitz, *Freefall*, op. cit., p. xiii. According to Stiglitz, increasing of taxes to increase government spending and lower deficits and debt is the best way to kick-start the economy; moreover, the austerity that is going on in Europe, America and so forth is effectively a suicide pact for our economies (in a speech in Toronto, end of October 2011, as reported by the *Globe and Mail* of Toronto, 25 October 2011, <http://www.theglobeandmail.com/report-on-business/economy/government-stimulus-measures-too-feeble-stiglitz/article2213385/>, accessed 5 November 2011).

¹⁶ *Le Monde*, 3 October 2011, http://www.lemonde.fr/idees/article/2011/10/03/un-systeme-bancaire-a-repenser_1581472_3232.html, accessed 30 October 2011, my translation from the French. The exact sentence in French is: ‘dans l’état de colère où va se trouver ce peuple, on peut douter qu’aucun gouvernement grec ne puisse tenir sans appui de l’armée... Cette réflexion triste vaut sans doute pour le Portugal et/ou l’Irlande, et/ou d’autres, plus gros... Jusqu’où ira-t-on?’

¹⁷ See my evaluation of Western liberal democracy given in Chapter 2, p.

ideologies cannot deliver. This is exactly what Neoliberalism (and its armed wings of the ‘Washington Consensus’ and – for this book – the NPM) have promised to realize: let the economy work according to its ‘natural’ laws, both nationally and internationally, let the market correct itself without state intervention (what Stiglitz has labelled ‘market fundamentalism’) and prosperity will become accessible to everybody. How far are we today from this promise! Prosperity for all did not materialize; on the contrary, Neoliberalism has produced a huge redistribution of wealth away from labour to the advantage of capital, whereby increasing not only income inequalities, but also insecurity in the labour market and poverty rates.

Since at least the mid 1990s it was clear that the NPM was a myth for at least part of society (i.e. people at the lower end of the wealth distribution); and after the 2008 crisis it has become apparent that NPM is also catastrophic for the entire economy and the middle class. Of course, defenders of NPM would say that NPM has nothing to do with all this; it is a box of technical tools aimed at improving public management. However, I have showed in this book that reality is that the tools have been used instead to realize the ideological goals of Neoliberalism, of which the NPM is one of its armed wings. The hammer has been used to harm people, not to drive nails. Will we be tempted today to restore the economy system that has produced the crisis, ‘we will emerge with a society more divided and an economy more vulnerable to another crisis and less equipped to meet the challenges of the twenty-first century.’¹⁸ This is the irrational character of Neoliberalism. But beware; whereas it is irrational for society as a whole, it is very rational for those who have rationally and systematically implemented it and benefited from it, and would like today to restore it after its blatant failure. How can someone rationally proposed to restore a system that led to the crisis for the purpose of overcoming the crisis, if not out of personal interest and greed?¹⁹

Today, the consequences of Neoliberalism, and the popular protest movements that are developing all over the West against the way Western leaders try to come out from the crisis (that point dramatically to their badly concealed desire to restore the management of the economy as it was before) shows an increasing fracture between our economic and political leaders who run Western states and economy on the one hand, and the people on the other. Not surprisingly, this situation has reminded me of the way I described elsewhere the situation in which China found itself at the end of the 1970s after the Cultural Revolution and that necessitated the reconciliation of the Chinese state, market and society.²⁰ Are we today

¹⁸ Stiglitz, *Freefall*, op. cit., p. xiii.

¹⁹ It is interesting to quote in this context the interview given by the famous Swiss entrepreneur Nicolas G. Hayek to the German review *Cicero* a few weeks before his death: ‘Unfortunately, during the second half of last century, a large part of the Swiss finance has taken example, increasingly and without any critical attitude, from the Anglo-Saxon stock exchanges and financial markets. Yet, the new Anglo-Saxon financial mentality has only one goal – money, money, and again money, the sooner and as much as possible, at any cost. This behaviour is extremely harmful for industry (...) it is harmful for the entire human kind. All these hypocrite acrobats, these preachers of finance, this plethora of speculators, (...) all these people do help neither the industry nor the whole of the American industry. Fortunately, they are only a small number, but there are still too many crooks and cheats’, as reported by the Swiss weekly *L’Hebdo*, 1 July 2011 (my translation from the French).

²⁰ Urio, *Reconciling State, Market and Society in China. The Long March Toward Prosperity*, London & New York, Routledge, 2010, especially p. xx.

in the West on the road of reconciliation? By concluding in October 2008 the manuscript of my book on China's reforms and commenting upon the 2008 crisis and the reactions to it by Western leaders that pointed, already then, to a restoration of the neoliberal project, I considered 'that at the end of this process the cynical and disabused remark of Prince Salina in the famous Italian novel *The Leopard* will, once again, prove to be true: "If we want everything to stay as it is, it is necessary to change everything ..." waiting for the next, fatal and final crisis?'²¹ While it is certain that the seriousness of the present crisis needs some radical restructuring of the various components of society (in a new form of capitalism or in a completely different form of societal organization), it is today difficult to forecast how the West will succeed in reconciling state, economy and society.'²² Three years after, I have no reason whatsoever to change this statement. And also Joseph Stiglitz seems to forecast the worst, as he has recently qualified the present Western strategy as a 'suicide pact'.²³

Of course one may object that also China has taken some massive measures in order to overcome the crisis, and some even consider that China has 'overacted', thus running the risk of overheating its economy (i.e. fuelling inflation) and of investing without evaluating the risk of creating (again as in the 1990s) a considerable number of Non Performing Loans (NPL).²⁴ Quite true, but there is a considerable difference. Whereas, as mentioned above, the money spent by Western countries (i.e. the money of their taxpayers) was injected into the financial sector for avoiding its collapse in the short run and, moreover, by simultaneously imposing drastic austerity policies upon their people, the Chinese government has taken the crisis as an opportunity for investing in projects that are meant to improve economy and society in the long run.²⁵ For years Western officials and mainstream economists (especially

²¹ Giuseppe Di Lampedusa, *The Leopard*, New York, Pantheon-Random House, 2007. The exact sentence in Italian is: '*Se vogliamo che tutto rimanga come è, bisogna che tutto cambi!*'

²² Urio, *Reconciling*, op. cit., pp. 202-03.

²³ See reference in note 15 above. On the crisis of capitalism see the most recent articles of Joseph E. Stiglitz published online by the *Project Syndicate*: 'Gambling with the Planet', April 2011; 'The IMF's Switch in Time', May 2011; 'The Ideological Crisis of Western Capitalism', July 2011; 'A Contagion of Bad Ideas', August 2011, all available online at www.project-syndicate.org, all accessed 29 August 2011.

²⁴ For a brief discussion of the development and management of NPL see Urio, op. cit., pp. 92-93 and 111, where you will find some additional references.

²⁵ Whereas the bailout of Wall Street by the Troubled Asset Relief Program voted by US Congress 3 October 2008 amounted to \$750 billion, the total US bailout is estimated at \$ 9.2 trillion, of which 4,792 went to Wall Street, 2,824 to GSE's (Government-sponsored enterprises; GSEs hold or pool approximately \$5 trillion worth of mortgages, according to Wikipedia, http://en.wikipedia.org/wiki/Government-sponsored_enterprise, accessed 6 October 2011), and 1,663 to US citizens (according to Nomi Prins and Krisztina Ugrin, *Bailout Report*, 1 October 2011, <http://www.nomiprins.com>, accessed 6 October 2011, where one can find the details of who gave it and who got it). The May 2010 approved European bailout package is estimated at nearly \$ 1 trillion according to the New York Times (<http://www.nytimes.com/2010/05/11/opinion/11tue2.html>, accessed 28 September 2011). Speaking on 27 September 2011 before the members of the European Parliament, the President of the European Commission, José Manuel Barroso, declared that 'in the last three years, Member States - I should say taxpayers - have granted aid and provided guarantees of € 4.6 trillion to the financial sector. It is time for the financial sector to make a contribution back to society. That is why I am very proud to say that today the Commission adopted a proposal for the Financial Transaction Tax.' *European renewal – State of the Union Address 2011*, available at <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/11/607&format=HTML&aged=0&language=EN&guiLanguage=en>, accessed 20 October 2011. Nevertheless, according to the Geneva newspaper *Le Courier*, 29 September 2011, the UK has threatened to oppose its veto as this tax would harm the London financial place.

Americans) have blamed China for not having developed a ‘modern and performing’ financial sector independent from the Party-State, and insisted in particular on the huge amount of NPL. Many even forecasted the collapse of China’s financial sector. But, as Stiglitz remarks ‘the irony that was US banks that collapsed, not those of China, has not escaped those on both sides of the Pacific.’²⁶ Taking a more general perspective (as, I have already mentioned in Chapter 2) the New Left Chinese intellectual Wang Hui comments: ‘China’s economic development has broken many predictions – a seemingly endless string of theories that China would collapse began to appear after 1989 [a clear reference to the crackdown of the protests on Tian An Men in June of that year] but then it wasn’t China that collapsed but those theories themselves.’²⁷ And, talking about the difficulty in understanding China’s development, one of the most knowledgeable Chinese economists comments: ‘Even I, a scholar who has long been involved internally in China’s reform and opening up, and who has studied China national conditions for more than 20 years, find it hard to get everything clear. Reading China is like reading an illegible script or ‘a book from heaven’ as the Chinese saying goes. It is very hard to understand, because China is so large, the situations are so complicated and the changes are so precarious that it is impossible to “be foresighted”. It would be good enough to “be hindsighted”. Modern China studies are harder and more complicated than was imagined.’²⁸ This suggests that one would expect, on the part of Western leaders and scholars, a more cautious and modest attitude when commenting upon China’s public policies.

Here again, we have to take into consideration that China is today at a different stage of development compared to the West; local conditions favourable for overcoming the difficulties created by the crisis abound.²⁹ Nevertheless, one thing is to be at a different stage of development that may offer some good prospects for overcoming the crisis, and another is to take the right measures in order to seize that opportunity. Now it is just what China has done.³⁰ In October 2008 China introduced its fiscal stimulus to be implemented between 2008

²⁶ Stiglitz, *Freefall*, op. cit., p. 301, note 12.

²⁷ Wang Hui, *The End of the Revolution. China and the Limits of Modernity*, London, Verso, 2009, p. xvii.

²⁸ Hu Angang, ‘How to know about contemporary China’, Foreword to Urio, op. cit. p. xii.

²⁹ Two remarks. First, by taking the present distribution of the 800 million people constituting the potential Chinese work force within the three sectors (see above, Table 6.1), considering that just under 40% or 320 million are (officially) still in the agriculture, even by subtracting some 120 million migrant workers (that are still under the rural *hukou* regime) and further subtracting another 50 million who will be necessary for the agriculture once China has completed its transition to an industrial and service economy (i.e. about 6% of the working population as in today’s developed countries) it still remains today about 150 million people in the agriculture who can be transferred into the other two sectors over a period of time. This will help keep the cost of labour low, even if the trend is towards increasing the salaries. As for the increase of salaries that may diminish China’s competitive advantage in the global market, another remark is interesting. According to calculations made by Oxford University about China’s level of poverty presented above (p. ...), by taking the World Bank \$ 2 per day level, we see that there were in 2003 in China 481 million people (i.e. 36 percent of the total population) under this level. Even if the number of poor people has decreased since 2003, this gives considerable margin for improving the income of these people (most of them in the inner and western provinces) thus boosting internal demand. And this will help China not only to improve the living conditions of these people but also to reduce its dependency upon the export-led strategy of development.

³⁰ For information about China’s stimulus package I am indebted to several articles by Barry Naughton published on line by the *China Leadership Monitor* of the influential Hoover Institution at Stanford University, available at <http://www.hoover.org/publications/china-leadership-monitor> (especially nos. 28, 29, 31 and 32); as well as to Wei Xing, Assistant Professor at the School of Public Policy & Management, who provided a non-

and 2010. The decision has been taken very rapidly and implementation has followed immediately. It is clear that a great part of the investments were already planned, their implementation has been simply accelerated as a timely response to the crisis. This may moderate the praise for China's rapid adoption of the stimulus, but it may be considered, on the contrary, as a sign that the Chinese leadership was already aware of the necessity of those investments, in line with decisions taken since 2002 in the framework of the new policy that departs from 'economic development first' to 'put people first'. The stimulus, as it was first announced in 2008, totalled 4 trillion RMB, it was revised in 2009 by the Chinese Parliament that, while maintaining the total at 4 trillion, increased the amounts allotted to well-being expenditures such as health, education and housing for low-income residents, thus strengthening the 'people first policy' by revising the structure of the stimulus after 2009. The stimulus investments were attributed to: infrastructure, i.e. railroad, road, airport, electricity grid (1500 million RMB); structure adjustment and technical reconstruction (370); health and education (150); rural residents' well-being (370); energy savings and environmental protection (210); housing for low-income residents (400); post earthquake reconstruction in Sichuan province (1000). All these measure are in line with the construction of infrastructures necessary for the further development of the economy and for sustaining domestic demand, a *condition sine qua non* for diminishing dependency upon exports. The sources of financing are shared between the Central government (1180 million) and local governments (three trillion, including 200 million of local debt, policy-related loans and local enterprise bonds).³¹

It is generally admitted that the Chinese stimulus has worked, but at the expense of some negative outcomes.³² After a temporary slowdown in the first half of 2009, the economy recovered to an astonishing GDP increase of 8.7% year-on-year for 2009 (after an increase of 13% in the fourth quarter of 2009) to reach 10.3 percent in 2010, thus compensating the temporary collapse of export; employment also grew and the massive unemployment among migrant workers never materialized. Nevertheless, there have also been costs. First, growth was based upon investments, which goes contrary to the declared aim of the government to rely more on consumption.³³ This is true, but one must take into consideration that the aim of the stimulus was to rapidly bring China out of the crisis, and there are signs that China is moving from investment to consumption. Moreover, other policies (i.e. social insurances) that help boosting domestic demand by reducing the high propensity to save of the Chinese households, are included in the stimulus - such as health and education – and, moreover, are already financed outside the stimulus. Second, and more

published paper. But I will mainly rely upon Christine Wong, 'The Fiscal Stimulus Programme and Public Governance Issues in China', to be published in 2011 in the *OECD Journal of Budgeting*, final manuscript kindly provided by author.

³¹ In fact, the stimulus can be estimated at 5.4 trillions RMB, if to the fiscal stimulus of 4 trillion we add 16 key science and technology projects (600 million RMB); social security (mainly health, 800 million); and if we add 10 industrial revitalization projects, not included in the 5,4 trillion, we would get a total between 6 to 8 trillion RMB (according to Wei Xing, loc. cit.). Moreover, in 2010 the central government decided an additional allocation of 572 million RMB. Some experts evaluate the total investment at 9.5 trillions RMB, according to Christine Wong, loc. cit., p. 9.

³² In this sense see C. Wong, loc. cit., pp. 16-17.

³³ Geoff Dyer, 'Economy: move from investment to consumption', *Financial Times*, 27 October 2010.

serious, the stimulus has produced a huge amount of debts, especially at the local level, and has probably been invested in projects whose risk has not been properly calculated.³⁴ This may result not only in inefficiencies but also in financial and budgetary difficulties that China will have to address in a not too distant future. But the Chinese leadership has demonstrated during the last 30 years being capable of mastering this type of problem. Of course, on condition that the right measures be taken as soon as possible, such as a strengthening of the fiscal capacity of the central government (if it wants to take the responsibility of providing some services instead of the local authorities) as well as its capacity of controlling the spending habits of local governments.

In spite of the difficulties mentioned above, it seems that China has managed the crisis better than Western countries. One reason for this is that China's choice in favour of NPM devices has not been oriented by ideology but by pragmatism; the tools have been used to drive nails. At the beginning of the 1980s, the introduction of market mechanisms combined with privatizations, deregulations and personal responsibility for facing unemployment, old age and education seemed to be the best means for rapidly developing the country and restoring China's power. But when problems appear, as in the 2008-11 crises, measures are taken without losing time discussing whether *laissez faire* or Keynesianism is the best choice. On the contrary, in the West, the dominance of the upper layer of capitalism (finance) is clearly orienting toward the restoration of the system that led to the crisis. It also shows that the heritage of the socialist features that were so present during the Mao era are operating still today and orient the Party-State. True, socialism under Mao has produced negative and, on several occasions, even catastrophic outcomes such as the Great Leap Forward and the Cultural Revolution. But, as I have sustained elsewhere, since then China's decision-making system has been transformed into one where decisions are taken collectively, and moreover it has been opened to all kinds of sources of information (not only from stakeholders but also from research performed nationally and internationally) which makes the occurrence of similar mistakes unlikely.³⁵

At the end of our journey into the world of NPM, it seems that the statement I put forward in Chapter 2 (p. ...) that China is on its way to succeeding in managing market mechanisms without introducing liberal democracy seems to be correct for the time being. Nevertheless, I also pointed to the appearance of capitalist behaviours performed by the new Chinese capitalists. Even if China is not today a capitalist country, we cannot exclude that it may become capitalist in the future. The decision belongs to the Chinese leadership and to the Chinese people. Whatever the outcome, here are some suggestions for avoiding not so much the evolution towards capitalism (as there are several serious intellectuals both in the West and in China who think that capitalism must and can be rescued from the greed of the financial sector)³⁶ but to orient China's policies towards the satisfaction of its citizens, which

³⁴ Jamil Anderlini, 'Banking: bad loans seem set to worsen', *Financial Times*, 27 October 2010.

³⁵ Urio, op. cit., pp. 183-190.

³⁶ I have quoted on several occasions Joseph E. Stiglitz, but there are many others such as Nouriel Roubini and Paul Krugman. Amongst the many Marxist analyses, in my opinion the best one is: Bellamy John Foster and Fred Magdoff, *The Great Financial Crisis. Causes and Consequences*, New York, Monthly Review Press, 2009.

should be the ultimate goal of any economic and political system, liberal or socialist. I hope that in this book I have suggested to the attentive reader some cues that should help him/her to decide which one is the best. Moreover, we can forecast that in a foreseeable future China will not change its political system, and hopes expressed by Western observers that the 2011 Arab Jasmine revolutions may spread to China are not taking into consideration the very different local situations.³⁷

Taking into consideration the remarkable progress China has made since the beginning of reforms, but also the major challenges facing today the Chinese leadership (especially disparities, accumulation of huge amounts of wealth by rich families in the presence of very low income for the majority of workers and peasants, corruption, pollution, aging of the population, to mention only a few) here are some suggestions the Chinese leadership may be willing to consider:

1. further develop the policies that ‘put people first’ (especially social security, i.e. health, unemployment, old age, housing, drinkable water, and access to public services) that will help reduce disparities, especially income inequalities. As I have pointed out (pp....), in spite of the convergence trend that reduces disparities between provinces and groups of citizens, income inequalities between households are still today quite high, even if the increase seems to have been brought to a halt in 2007 at Gini index equal to 48.³⁸ Moreover, the policies that ‘put people first’ constitute an important stimulus favouring the development of domestic demand that will reduce dependence upon investment and exports; for this purpose it is also necessary to
2. improve the well-being of the rural residents and migrant workers (the Chongqing experiment could be a source of information) and this will help the smooth management of the process of urbanization;
3. further open up the decision-making process so that it can base its decisions upon information from experts (both national and international), organized stakeholders, as well as ordinary people at the five levels of China’s political and administrative organization;
4. avoid all forms of market fundamentalism, keep on the road of Chinese pragmatism;
5. keep politics in command over the economy and its actors,³⁹ therefore
6. keep the new Chinese capitalists under control so that they do not develop behaviours similar to those of their Western colleagues that led to the dominance of the upper layer of capitalism (finance) and to the 2008-11 crisis;⁴⁰

For a philosophical analysis see Slavoj Žižek, *First As Tragedy, Then as Farce*, London Verso, 2009. For a revival of Marxism see Meghnad Desai, *Marx’s Revenge. The Resurgence of Capitalism and the Death of Statist Socialism*, London, Verso, 2002. For an appreciation of the interest of Marxism for the twenty-first century see Eric Hobsbawm, *How to Change the World. Tales of Marx and Marxism*, London, Little, Brown, 2011.

³⁷ For an excellent account of these differences see Bruce J. Dickson, ‘No “Jasmine” for China’, *Current History*, September 2011, pp. 211-216; and for an evaluation of the 2011 Arab revolutions: Emmanuel Todd, *Allah n’y est pour rien! Sur les révolutions arabes et quelques autres*, Loubiana, Arretsurimage, June 2011.

³⁸ According to the official statistics of the NBSC.

³⁹ One of the sources of the crisis in the West is that for a long time, but more so since the beginning of the neoliberal era (1980) economy has been in command.

⁴⁰ Do not forget that the crisis, a consequence of Neoliberalism, the Washington Consensus and NPM, has emerged because of the irresponsible behaviour of economic forces (‘interests, ideas, and ideologies’ in the

7. keep the banks under control; and keep the central bank under control;
8. promote the development of the ‘real market’, i.e. a market economy based upon competition and transparency (see also point 19 below)⁴¹; for this purpose it is necessary to
9. regulate the market so that it produces efficiently what society needs;
10. be ready to substitute the market when it fails to produce what society needs; and maintain within the state sectors that may be considered as strategic for China’s economy, and/or necessary for providing affordable services to the citizens;
11. improve the local authorities’ capacity to evaluate the opportunity of setting up public-private partnerships (PPPs); improve their capacity to manage PPPs;
12. further improve the management and efficiency of SOEs, including banks;
13. sustain the development of Chinese brands;
14. further eradicate corruption and tax evasion and avoidance;
15. further increase the fiscal capacity of central government and its capacity to control the spending of local authorities by setting up an efficient debt reporting system on local governments;
16. further develop the policy of reducing pollution and the use of scarce resources (green economy);
17. keep developing and improving the education system (that should be free of charge at the compulsory level and affordable at the upper levels), as well as science and technology;
18. in the international arena be ready to take the lead in international organization when blockages appear, for example in climate change, international finance, tax evasion and avoidance, and more generally for the necessary restructuring of the international economic, financial and political system;
19. continue the policy of opening up to the global economy, but practice selective protectionism, as recent economic history has shown and as the UK and the US have done before they became strong enough to promote global ‘free trade’;
20. establish and/or develop exchanges with the European Left (the American one being too weak and isolated and too much submersed by neoliberal ideology) as well as with European Green Parties for exploring common solutions to national and international issues; and
21. last but not least, revise the old categories used today both in universities and in economic, political and media circles, such as ‘capitalism’, ‘socialism’, ‘liberalism’, ‘free market’, ‘free trade’, and ‘protectionism’.

words of Stiglitz, *Freefall*, op.cit. p. xvii) that managed to convince politicians as to the benefit for society at large of privatization and deregulation.

⁴¹ The question of the opening of the economy by eliminating all obstacles to the entrance and to the exit of goods and service is highly debatable, as it is linked to the question of the validity of global market liberalization, which corresponds to another aspect of market fundamentalism. See Paul Bairoch, *Economics and World History: Myths and Paradoxes*, New York, Harvester Wheatsheaf, 1993 and the recent appeals to a kind of ‘soft’ or selective protectionism for the aims of protecting national jobs, health and environment; for example the French demographer and historian Emmanuel Todd, *Après la démocratie*, Paris, Gallimard, 2008, especially the Conclusion: ‘Le protectionnisme, dernière chance de la démocratie européenne’; and one of the candidates to the primaries of the French Socialist Party, Arnaud Montebourg, *Votez pour la démondialisation!*, Paris, Flammarion, 2011.

By succeeding in the above-mentioned issues and challenges, China could contribute in a significant way not only to the well-being of its own people but also to the rest of the world. Yet, one question remains open: is there a ‘China model’? This question has been debated by both Chinese and Western scholars and opinion leaders.⁴² The tentative answer I can give, based on the findings presented in this book, as well as on my evaluation of China’s reforms,⁴³ is for the time being, negative. There is no China model, or more precisely, and maybe also paradoxically, the China model is that there is no model, but a continuous transformation of the ways of thinking and managing the modernization process of this great country. Given the success of China and the relative failure (and persistence) of the ‘neoliberal model’ in the West, I would be tempted to end this book by wishing good luck to my fellow Westerner, and by encouraging my Chinese friends to go ahead on the road of pragmatism and continuous transformation.⁴⁴

⁴² On question of the ‘China model’ see the opinion of a group of renowned Chinese and Western scholars in two collective books: Cao Tian Yu (ed.), *The Chinese Model of Modern Development*, London, Routledge, 2005; S. Philip Hsu, Yu-Shan Wu and Suisheng Zhao (eds), *In Search of China’s Development Model. Beyond the Beijing Consensus*, London, Routledge, 2011; and Glasshouse Forum, Paris, 23-24 February 2009: ‘Is There a China Model? A summary and Video Documentation of a China-West Intellectual Summit’, Maison Louis Carré, Paris, 2009.

⁴³ Urio, *Reconciling*, op. cit.

⁴⁴ A clear reference to the interpretation of Chinese thought and strategy by the French philosopher François Jullien, as explained in Chapter 1 (pp. ... and note 28 for references) and Chapter 4 (pp. ...). Let me also remind the reader that in table 5.1. I have cautiously written for the topic ‘Institutional choice’: ‘In search of the China “model” for democracy and economy’.