

# Social Change and China's Dream

*Paolo Urio*

*University of Geneva, Switzerland*

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## **1. Introduction**

Two preliminary remarks before I deal with the core of this article. The « country's dream » has become a dominant theme in China during the last decade or so. It has gained new momentum since Xi Jinping, the new Party secretary general of the CCP, took office in 2013 and made it the central theme of his general approach to China's development for the next ten years. Of course, the theme of a "country's dream" is not limited to China. The US has also developed this theme, probably right from the beginning of the construction of their federal State, going back to the War of Independence against England and to the expansion of the American settlements in the Western part of the country, which led to the Indian Wars and consequently to the confinement of the original inhabitants, the American Indians, to the Indian Reservations, and to the establishment of the new Member-States of the US located between the original Eastern 13 British colonies and the Pacific coast. Moreover, the development of the US economy since the end of the XIXth century made it possible for a new middle class to have access to a comfortable way of living that has become the standard for the "dream of individuals and families" not only in the US but also in other parts of the World. Europe has been more reluctant to develop the "dream approach" to its future, maybe because of the realization, especially after the end of World War II, of the damage it has done not only to the rest of the World but also to its own population, through colonialism, imperialism and the related internal wars (in fact, European civil wars) between its major powers that led to the catastrophes of the First and Second World Wars. If there has been a Europe's dream, this is probably the one developed by the people of my generation (born around 1940) shocked by the revelations of the horrors perpetrated by Nazi-fascism and by the Second World War, but convinced that the process of European integration initiated in 1950 would lead Europe towards peace (both internal and international) and to prosperity.<sup>1</sup>

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<sup>1</sup> In 1950 the French Minister Robert Schumann put forward a proposal to create a European Community for coal and steel (the two major factors favouring the development of military power) in order to avoid the

This was the beginning of a thirty-year period of economic and social development called “the Glorious Thirty-years” during which millions of Europeans recovered from the horrors of war, improved their standard of living and gained access to a set of social public policies (the Welfare State) that protected them from the dangers of life, namely illness, unemployment and old age. It is now to be seen if the dreams of these 3 parts of the world (China, the US, and Europe) have come true, or whether the policies implemented by their leaderships have developed into the contrary, i.e. a nightmare. In this article, based upon theoretical thinking and empirical evidence, I will develop a strategy (some would call it a model or, more modestly, a framework for analysis) to evaluate the impact of public policies on the population both for the past and the future, endeavouring to answer the question: dream or nightmare?

The “country’s dream” is of course linked to the second concept in this article’s title, i.e. social change. We will see that social change is easier to define than “country’s dream”. Whereas a “dream” depends to a large extent on the ideas (ideological, theoretical, and/or empirical) of individuals, groups of individuals, or countries’ leaderships used for defining their dream, the definition of social change can be defined on the basis of empirical theory. Then, and only then can social change be evaluated on the basis of the dream. So there is a link between social change and dream.

## **2. Defining social change**

Let us start with the definition of social change. Social change can be defined as the set of changes that occurs within a society following the implementation of public policies that concerns one or several components of society, such as its different sub-structures (i.e. culture or ideology, economy, polity, legal structure, and communication structure); social, economic and political actors; and the physical environment.<sup>2</sup> Changes may represent an improvement

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resurgence of power politics among the European countries. Five continental European countries joined together with France to constitute in 1952 the European Coal and Steel Community, which was followed in 1958 by the creation of the European Community for Economy and the Euratom (the community for civil nuclear energy). These communities are the predecessors of the present European Union, comprising 28 European States.

<sup>2</sup> I have developed this approach in more detail in Paolo Urio, *Le rôle politique de l’administration publique*, Lausanne, LEP, 1984, pp. 254-282. For a summary of the approach see Paolo Urio, *Reconciling State, Market and Society in China, The Long March towards Prosperity*. London & New York: Routledge, 2010, pp. 159-171, and «Reinventing Chinese society, economy, and polity. A very short history and interpretation of

or a deterioration of the situation of individuals, groups of individuals (such as social groups or categories, classes, political parties, interest groups, mass media, etc.), public institutions, or the country as a whole. Of course, the criteria for assessing whether the outcome of social change is positive or negative must be chosen either by the researcher or by the political leadership which has implemented the public policies that are at the origin of social change.<sup>3</sup> And this is where the difficulties begin. Just consider the following example taken from the actual situation of China between 1978 and 1997. The policies of China's opening (both internally and externally) adopted under the leadership of Deng Xiaoping have produced a considerable increase of the country's GDP, as well as of the per capita GDP. This is simply an empirical assessment. As the goal of Deng was to improve the overall wealth of China (measured by GDP and GDP per capita), the empirical assessment will inevitably be associated with a positive evaluation of the social change induced by these policies. And this has been for a long time the official evaluation made by the Chinese leadership. Nevertheless, several researchers, since the end of the 1980s, have pointed out that along with the above-mentioned positive outcomes, there have also been some negative ones, such as the increase of social inequalities and environmental damages. This assessment has later been acknowledged by the Chinese leadership, and led to the implementation of policies that "put people first", especially after 2002.<sup>4</sup>

So the empirical assessment and the evaluation of social change induced by public policies depend on the point of view of the researcher and/or of the political leadership of the country concerned. And they can also be evaluated by individuals and groups of citizens who have a stake in the policies concerned. Moreover, as similar public policies will tend to produce similar results, one can consider that if a country wants to evaluate *ex-post* or *ex-ante*

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China's reforms", *Politics and Society*, Vol 1, No. 2, 2013, Central China Normal University, pp. 1-37.

<sup>3</sup> Of course, we cannot exclude that other countries will also evaluate the consequences of social change occurring in the country concerned. And China is a good example in this context, as its public policies and their consequences are continuously being assessed and evaluated by other countries and by researchers, think tanks, political parties, interest groups, NGOs, mass media, multinational and national companies living in these countries, as well as by international organizations.

<sup>4</sup> For an early assessment of Deng's policies, see Hu Angang, and Wang, Yi, et al., *Survival and Development. A Study of China's Long-term Development*, Beijing and New York, Science Press, 1992; Hu Angang and Zou Ping, *China's Population Development*, Beijing, China's Science and Technology Press, 1991; Hu Angang, *Economic and Social Transformation in China*, London, Routledge, 2007, *China in 2020: A New Type of Superpower*, Washington, DC: Brookings Institution, 2011, *Roadmap of China's Rise*, London, Routledge, 2011, *China by 2030: A Changing World towards Common Prosperity* (in Chinese), Beijing: Renmin University Press, 2011. See also Urio, *Reconciling*, op.cit., pp. 35-155 and *China, the West and the Myth of New Public Management*, London & New York, Routledge, 2012, pp. 145-197.

the outcome of these policies, it would be well advised to analyse not only its own experience with these policies but also the experiences made by other countries.<sup>5</sup> Therefore, in this article I will also assess and evaluate the consequences of public policies in the West and not only in China as the title of the article may suggest. There is a good reason for this. Since the beginning of the 1980s China and the West have embarked upon a whole set of public policies that, in spite of some considerable differences, present nevertheless some remarkable similarities.<sup>6</sup> These policies can be put under the umbrella of one of the two armed wings of neoliberalism, i.e. the New Public Management, the other being the Washington Consensus.<sup>7</sup> These policies have in common the privatization of large sectors of State activities, the deregulation of markets (both nationally and internationally), and a focus on economic efficiency at the expense of social equity.

### 3. Defining country dreams

The dream that these policies are supposed to realize, depend, as I have already suggested, upon the point of view of the evaluator. As I am a university professor and researcher and therefore, inevitably, also an academic evaluator, it is for me necessary, before we go any

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<sup>5</sup> For more detail see Urio, *China, the West*, op., cit., chapter 5 and 6.

<sup>6</sup> I have developed this approach in more detail in my book Urio, op. cit.

<sup>7</sup> On the similarities between these two armed wings of neoliberalism see Urio, *ibidem*, pp. 47-50 and on the similarities between NPM and China's reforms see *ibidem*, chapters 3 and 4, pp. 65-105. The best definition of the Washington Consensus is the one given by John Williamson, *Latin American Adjustment: How Much Has Happened*, Washington, DC, Institute for International Economics, 1990, and 'Democracy and the Washington Consensus', *World Development*, 1993, vol. 21, no. 8, p. 1331. Williamson's 10 prescriptions reflecting his interpretation of the Washington consensus in the early 1990s are (1) exhibit fiscal discipline, (2) redirect public expenditure, (3) reform taxes, (4) implement financial liberalization, (5) adopt a single, competitive exchange rate, (6) liberalize trade, (7) eliminate barriers to foreign direct investment, (8) privatize state-owned enterprises, (9) deregulate market entry and competition and (10) ensure secure property rights. My own definition of the 10 principles of New Public Management: (1) the principle of *economic efficiency* is the fundamental concept that gives coherence to the reform strategy of NPM and on which all other principles logically depend, particularly privatization or contracting-out of State activities, deregulation of the markets, decentralization); (2) the principle of *separation between strategic and operational decisions* reinforces the tendency towards privatization and contracting out by claiming that it is possible to manage in an optimal way the production of certain public services by decentralizing them to the private sector; (3) the principle of *decentralization* reinforces the two foregoing principles, i.e. the tendency towards privatization and contracting-out; (4) *orientation of state activity to results and therefore to customer satisfaction, rather than according to respect of procedures*; it is thus the customer who becomes the privileged reference of NPM, and not the citizen; (5) a *systematic policy of savings*; the implementation of this principle leads to the next two principles; (6) *the primacy of financial control*; and (7) *the generalization of audits and performance evaluations*; (8) *transfer of power in favour of the managers*, to the detriment of professionals (for example, to the detriment of doctors in hospitals); (9) *deregulation of the labour market* (as a special case of deregulation as it concerns people and not goods and services); (10) *marginalization of the trade unions*; more details in Urio, *ibidem*, pp. 85-87.

further, to explain what are my preliminary criteria. Some would call them postulates, but I will more simply qualify them as reasonable starting points. First, it is reasonable to consider that "country dreams" may be different from one country to another. And it can be demonstrated that they very often are different, as I have already suggested above by briefly comparing Europe and the US. This is due to their different, even if in part common, histories. As this is the case for the US and Europe, both belonging to the general category of liberal democracy with capitalist economies, this is very likely to be even more true when we compare China with the West.

Second, it is also reasonable to forecast that people and groups living in a country may conceive different dreams. Moreover, dreams of the same categories of people (e.g. the middle class) living in different countries may also be different. These differences depend upon the positions and roles individuals and groups play within their own country as a function of their social surface, i.e. their economic power, social status, access to political decision-making, prestige, and education. Just one example to illustrate this point: in the West the dominant opinion is that the developing Chinese middle class will inevitably assume the same values as the Western middle class. Consequently, it will evaluate the results of public policies in the same way and, more important, it will require the Chinese leadership to reform the political system so that it would benefit from the same kind of freedom enjoyed by the Western middle class. Although this hypothesis cannot be discarded in theory, it is by no means plausible, if we take into consideration the different histories, and therefore the different sets of fundamental values that emerged out of the very different paths along which the Western and the Chinese societies developed through the centuries.<sup>8</sup>

Third, if we consider that "country dreams" are most of the time constructed and diffused by the countries' leaderships, the question that immediately arises is: are the leaders able to understand, interpret and fulfil the needs of their people? It is here that the researcher has to unveil his preferences. If we take into consideration the formidable tragedies people of all countries have gone through in history (wars, famines, killings, torture, injustice, etc.) it seems reasonable to take as a starting point the Preamble of the Universal Declaration of Human Rights that has been undersigned by the great majority of the member-states of the

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<sup>8</sup> I have developed this point in more detail in Chapter 1 of Paolo Urrio, *Reconciling*, op.cit. For a good summary of the "Chinese model" see the work of the Italian sociologist Domenico De Masi, *Mappa Mundi. Modelli di vita per una società senza orientamento*, Milano, Rizzoli, 2014, pp. 55-74.

United Nations.<sup>9</sup> On this basis, we should evaluate whether public policies implemented by the leadership of a country have effectively improved, and are reasonably apt to effectively improve in the future the living conditions of its citizens, so that they will 'enjoy freedom from fear and want', as stated in paragraph 2 of the Preamble of the Universal Declaration.<sup>10</sup> Furthermore, the rights listed in the 30 articles of the Universal Declaration go well beyond the political and civil rights, generally mentioned by Western scholars and politicians. Indeed, they also deal with substantive rights such as "the right to a standard of living adequate for the health and wellbeing of individuals and their families, including food, clothing, housing and medical care and necessary social services; and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other hindrances to livelihood in circumstances beyond their control" (art. 25 of the Universal Declaration). Furthermore, the rights enumerated by the Universal Declaration are so numerous and cover such an impressive range of different dimensions of the human condition that it seems reasonable to consider that they cannot be satisfied simultaneously, but will take a long period of time to be fulfilled. And the history of the mankind, and in particular the history of Western countries, comfort this point of view. Consequently, it seems reasonable to accept that the leadership of a country may choose a strategy that gives priority to some rights over others. Furthermore, it seems reasonable to consider that there is not one single historical path, the one experienced by the West, for a country to fulfil the rights of the Universal Declaration. Also, one has to admit that Western countries themselves are miles away from having satisfactorily satisfied a whole range of substantive rights. Consequently, I would accept as "good" a strategy that leads to a society where nobody is poor, and everybody enjoys a sufficient protection in case of problems (unemployment, poverty, illness) sustained by an economy that is "society friendly" and "environment friendly". I will come back to these two concepts. For the moment it suffices to mention that this type of society will reduce inequalities that, as Stiglitz has convincingly demonstrated, is good not only for assuring social justice but also for the improvement of economic efficiency.<sup>11</sup> Moreover, this type of society will prevent social

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<sup>9</sup> The text can be found on United Nations website in English: <http://www.un.org/en/documents/udhr/>; and in Chinese: <http://www.un.org/zh/documents/udhr/>. The Universal Declaration is not an international treaty and, as such, is not legally binding for the countries who have signed it. Nevertheless, it may constitute a powerful moral incentive.

<sup>10</sup> I have dealt with this topic in more detail in Urio, *Reconciling ...*, op. cit, pp. 193-198.

<sup>11</sup> Joseph E. Stiglitz, *The Price of Inequality. How Today's Divided Society Endangers our Future*, New York, Norton 2012. The most recent and comprehensive analysis of inequality worldwide is the book by the French economist Thomas Piketty, *Capital in the Twenty-First Century*, Cambridge (USA), Harvard Univ. Press, 2014

unrest and contribute to social and political stability, a necessary condition for social and economic development. In short, a society in which the economy is at the service of the people and not the reverse.

Fourth, having said that, there is a controversy to which the researcher has to give a clear answer. Almost everybody agrees to a strategy aiming at increasing the overall wealth basis (generally measured by GDP), starting from which a country may be able to satisfy its people's needs. The controversy arises about the following dilemma: it is better to first make the cake and then to divide it up, or is it better to distribute the cake while it is still in the process of being made? The first strategy is generally preferred by liberals, and even more by neoliberals, who pretend to base this choice upon scientific considerations. And there are people in China who say exactly the same. Unfortunately for them, facts point in the opposite direction. In the real functioning of the economy the cake is divided up at the same time as it is being made. Just consider how the process of production of wealth is working in reality. An employee is remunerated generally at the end of the month as a reward for his contribution to the creation of wealth. But this is done so for practical reasons. In fact, he is contributing to the creation of wealth every week, every day, every hour, every minute while he is working. "Normally" he should receive his salary in real time, as he is contributing to the creation of wealth in real time. But for practical reasons he is paid at the end of the month. Now, for him the problem is: does he receive a fair salary? Is it enough for putting him above the poverty line? And for the people who are not needed by the economy, and therefore do not receive a salary, is there a public policy that allows them to obtain an allowance that permits them to be above the poverty line? The problem here is that for liberal and neoliberal the capitalist economy works on the basis of efficiency: people are given a job only if it is efficient for the economy to employ them. Moreover, when they are employed, their salary is determined by the overall efficiency of the company in which they work; which means that their salary may be fixed under the level of poverty if this level is compatible with the overall efficiency of the company.<sup>12</sup> People who are not needed by the capitalist economy (where prevails the option "you must first make the cake, and then you can distribute it") and who as a consequence do not participate in the creation of wealth, do not receive a salary. They can only survive if they

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(translation of *Le capital au XIXe siècle*, Paris, Seuil, 2013). This book confirms my own analysis as presented in Urio, *China, the West*, op.cit.

<sup>12</sup> This strategy has given birth to a new category of employed people: the "working poor", i.e. people who work full-time, but receive a salary that puts them under the poverty line.

can receive an allowance (in this case, some unemployment benefits) implemented by a public policy.<sup>13</sup> Of course, in practice, even in the most capitalist countries, some public policies are set up to help people who are not needed by the economy. But, empirical data show that the benefits of the social policies implemented in these countries are not enough to avoid rates of poverty that can go up to 15% and in some cases even above.<sup>14</sup> So, the choice in favour of this way of considering the problem of the cake and of its distribution is not decided on the basis of scientific analysis, but on the ideological preference in favour of the efficiency of the economy over social equity. Scientific analysis cannot help us to choose between economic efficiency and social equity. Indeed, we are here in the domain of fundamental values that can only be chosen on the basis of ethical, moral or religious considerations and, in short, on an act of faith.<sup>15</sup> The economic efficiency principle dictates the choice in favour of organizing the economic processes so that it employs only the part of the workforce necessary for satisfying economic efficiency. Consequently, the economy creates wealth in a way that satisfies only one part of society and leaves the other part at best in a very modest situation (e.g. the lower middle class), at worst under the level of poverty (e.g. the working poor and the unemployed).<sup>16</sup> Only later, when the cake is big enough (but who makes this decision?), these people are given adequate means to run a decent life.<sup>17</sup> The history of capitalism (especially at the time of its neoliberal variant) shows that these people have been waiting for a very long time. Apart from the fact that this strategy ignores or, at least, gives inadequate attention to the principle of social equity, it ironically contradicts the

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<sup>13</sup> The same reasoning is valid for people who are not in a position of working due to illness, accidents, or old age.

<sup>14</sup> See Paolo Urio, *China, the West*, op. cit., chapter 5.

<sup>15</sup> This position has been inspired by the works of the Nobel Prize winner Herbert A. Simon, *Administrative Behavior. Decision-Making Processes in Administrative Organizations*, New York, The Free Press, 1997 (4th ed.; 1st edition 1945), chapter 3: "Facts and Values in Decision-Making", pp. 55-71. Simon summarizes the argument in this way: "To determine whether a proposition is correct, it must be compared directly to experience - with facts - or it must lead by logical reasoning to other propositions that can be compared with experience. But factual propositions cannot be derived from ethical ones by any process of reasoning, nor can ethical propositions be compared directly with facts - since they assert 'oughts' rather than facts. Hence, there is no way in which the correctness of ethical propositions can be empirically or rationally tested.", *ibidem*, p. 56.

<sup>16</sup> In fact, this solution is an intellectual fraud that, if implemented, can become a political, economical and social fraud.

<sup>17</sup> Of course, this is not the only problem with capitalism. Another important problem is that the capitalists tend to invest for the sake of making money; this goal can be achieved not only by investing in productive processes (that create real wealth) but also by investing in financial speculative products that increase the capital without creating real wealth (the so-called "real economy"). The 2008 crisis shows very well that capitalists tend to invest more and more in these speculative financial products, thus subtracting investment from the real economy.

very same principle that constitutes its ideological basis, i.e. economic efficiency. As I have already mentioned, Stiglitz has convincingly demonstrated that the decision of deliberately leaving outside of the economic process people who could on the contrary be employed to contribute to the creation of the common wealth constitutes an uneconomic waste of potentially productive means.<sup>18</sup> As I have suggested above, I prefer the other solution ("making and dividing up the cake at the same time") and I would accept as "good" a development strategy that leads to a society where nobody is poor, and everybody enjoys a sufficient protection in case of problems (unemployment, poverty, illness) sustained by an economy that is "society friendly" and "environment friendly". More about this below.

#### **4. How to decide whether social change has realized the country dream?**

We must now turn to the difficult task of designing a strategy for measuring and evaluating social change induced by a development strategy. We have to look at facts. We have to look at public policies. But public policies are not the ultimate facts. They take the form of theories: if I implement policy A, I will obtain result B. But, after implementation, has B realized the aims of policy A? Or it has not realized them at all, or only in part; and it is possible that it has also realized some unwanted consequences C? If this is the case, what is the overall outcome for society and for its individuals and groups of citizens?<sup>19</sup> To answer these questions we have to look at the ultimate facts, that is at the impact that policies have on people and groups of people. As I have suggested elsewhere, we have to look at the following groups of indicators: (1) the quantity of employment, measured by its reverse, i.e. by the rate of unemployment; (2) the quality of employment, evaluated by the working conditions of employees in terms of salary, social benefits, working hours, paid leaves, protection against unjustified redundancy, etc.; (3) income distribution; (4) poverty rates; (5) crime rates; (6)

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<sup>18</sup> Stiglitz, op.cit.

<sup>19</sup> On these problem, studied since the 1930s, see for example Robert K. Merton, "The Unanticipated Consequences of Purposive Social Action", *American Sociological Review*, vol. 1, 1936, pp. 894-904, and "Bureaucratic Structure and Personality", *Social Forces*, vol. 18, 1940, pp. 560-568; Alwin W. Gouldner, *Patterns of Industrial Bureaucracy*, Glencoe, The Free Press, 1953; Philip Selznick, *TVA and the Grass Roots*, Berkeley, University of California Press, 1949; The most achieved version of this approach is due to the French sociologist Michel Crozier, *The Bureaucratic Phenomenon*, New Brunswick (N.J.,US),Transaction Publishers, 2009 (translation of *Le phénomène bureaucratique*, Paris, Seuil, 1963).

health of people; and (7) health of the physical environment.<sup>20</sup> I suggest to consider that the "country dream" is realized if the results obtained on these 7 dimensions are overall good enough.

## **5. The Western experience: between dream and nightmare**

Then, the question that arises is the following: what are the public policies to be implemented for obtaining good results on these seven dimensions? A first answer can be given by briefly looking at the results obtained in China and in the West between 1978 and 2008, i.e. before the explosion of the economic and financial crisis.<sup>21</sup> As I have suggested above this is a legitimate strategy because during this period of time both China and the West have basically implemented the same types of policies (namely privatizations, deregulations, contracting-out and decentralization) in spite of remarkable differences in the organization of their societies. In the West this process has been implemented under the ideological umbrella of neoliberalism and one of its armed wings, New Public Management, and has given to the private financial sector the status of dominant layer within the capitalist economy.<sup>22</sup> The results have been in short: less transparency, less competition, more economic efficiency (measured by GDP) and less social equity.<sup>23</sup> Of course, there are differences between Western countries. Whereas in all countries income inequality, poverty rates, and crime rates have increased and public health has deteriorated, the countries who have implemented these reforms more deeply, such as the US, the United Kingdom (UK) and New Zealand (NZ) are much worse off than continental European countries.<sup>24</sup> If we take for example income inequality, US, UK and NZ have the highest Gini index, and have also the highest poverty

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<sup>20</sup> I started to work on this approach in the 1990s; see Paolo Urìo, "La gestion publique au service du marché", in Marc Hufty (sous la direction de), *La pensée comptable. Etat, néolibéralisme, nouvelle gestion publique*, Paris, Presses Universitaires de France, Collection Enjeux, Cahier de l'IUED, Genève, 1999, pp. 91-124, and Urìo, *China, the West*, op.cit., pp. 55-63.

<sup>21</sup> I have dealt with these aspects in more detail in Paolo Urìo, *China, the West*, op. cit., chapters 5 and 6.

<sup>22</sup> The other armed wing of neoliberalism is the so-called Washington Consensus imposed by Western countries to developing countries. For the definition of the two armed wings of neoliberalism see note 7 above.

<sup>23</sup> For a detailed analysis see Paolo Urìo, *China, the West*, op. cit., chapter 5.

<sup>24</sup> I have no time nor space to deal in this article with the special case of Southern European countries.

rate and crime rate (especially the US).<sup>25</sup> True, these countries had a lower unemployment rate compared to the continental European countries. But this was masked by a considerable deterioration of the quality of employment, attested by the increase of short term and part-time contracts, and low-paid jobs. As soon as the 2008 crisis explodes, these people are easily laid off, and the unemployment rate of these countries increases to levels comparable to those of continental Europe. After the outburst of the 2008 crisis, people not needed or underemployed by the capitalist economy have not only increased in number but also saw their standard of living deteriorated in terms of per capita income and access to social services. This is particularly true for the southern European countries who were forced (and are still forced today) to implement a variant of the neoliberal agenda, the policy of austerity, imposed by the financial sector, under the leadership of the European Commission, the European Central Bank and the International Monetary Fund.<sup>26</sup> The US experiences the same situation. So, for a great number of Western people the neoliberal reforms have resulted in a nightmare, whereas it has continued to be a "dream come true" for the top 1%.

## **6. The Chinese experience: will the dream come true?**

During the same period of time, China has embarked upon a programme of reforms that has given space to market mechanisms and, as a consequence, to privatizations, contracting-out and deregulations. This reform programme has considerably reduced the number of poor people (by more than 500 millions, according to the World Bank), has increased the country's GDP by an annual rate of about 10% during three consecutive decades (that has placed China in the third position in the world, behind the European Union and the US), and has improved the personal situation of large numbers of Chinese citizens. However, the per capita income places China far below in the world's hierarchy at the 127th rank, far behind countries such as the US, Switzerland and the European Union. Moreover, at the same time, inequalities

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<sup>25</sup> The Gini index is well-known, but nevertheless it is necessary to make a few remarks on its use. First of all we remind the reader that the Gini coefficient can range from 0 to 1; it is sometimes multiplied by 100 to range between 0 and 100. Too often only the Gini coefficient is quoted without describing the proportions of the quantiles used for measurement, but its accuracy depends on the choice of quantiles. Moreover, being based on income, it does not reflect the distribution of wealth, which can be quite different. Also, small changes from one year to the next must be treated with care because they may not be statistically significant, as was the case for the small increase in the US index between 1991 and 1992. Sometimes another measure of income inequality is used: the ratio between the upper 10% (the rich) and the lower 10% (the poor). in my book, *Urio*, op. cit., pp. 117-122, I use both measures.

<sup>26</sup> The policy of austerity is similar to the policies of the Washington Consensus, see definition in note 7 above.

between people (for income and access to public services) have increased (Gini index from about 22 at the end of the Mao era to 44 in 1997 and about 48 today); and the disparities between regions, provinces and within provinces between rural and urban residents have increased as well. More worrying, the reduction of poverty came to a halt in 1997 and then started to increase, as new forms of poverty arose both in the urban and in the rural areas, and huge numbers of migrant workers have been left without proper access to social services (especially health, education, and social insurances). Finally, environmental damages, already present during the imperial and the Mao eras, have further polluted soil, air and water with negative consequences for people's health.<sup>27</sup> Of course, we must take into consideration that China is a big and very differentiated country. If we take the data for the provinces from the United Nations Development Programme (UNDP) that takes into account per capita income, life expectancy, and education, either separately or combined into a single index (the Human Development Index - HDI) we find that on the HDI eight provinces do as well as some Western countries such as Portugal, which is placed at the 34th rank, whereas the index for the whole of China places the country at the 89th rank.<sup>28</sup> And if we take education, the situation is even better: 16 provinces equal several Western countries, and Beijing does as well as the US as a whole, and Shanghai even better.

We may conclude that, on the basis of the results achieved by some Chinese provinces, China is moving in the right direction and is likely to be able to realize the China dream in a not too distant future, provided that the less advanced provinces are given the means to achieve "their dream". The Chinese government has recognized the seriousness of the situation since at least the end of the 1990s and has started to take measures to redirect the development strategy towards more social equity and less economic efficiency.<sup>29</sup> Moreover, following the outburst of the 2008 crisis the Chinese government has heavily invested in infrastructure, structural adjustment, health and education, rural residents' well-being, energy savings and environmental protection, housing for low-income residents, and post earth-quake reconstruction in Sichuan province. In other words, it has invested in the future of the country.

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<sup>27</sup> In addition to data in Paolo Urio, *op. cit.*, and the books of Hu Angang quoted in note 4 above.

<sup>28</sup> These provinces and municipalities are (with no surprise): Shanghai, Beijing, Tianjin, Guangdong, Zhejiang, Jiangsu, Liaoning, and Shandong.

<sup>29</sup> Urio, *op. cit.*, pp. 159-196.

However, we must recognize that for the time being, the dream is far away for several millions of Chinese citizens, and for many, as is happening in the West, their actual situation looks more like a nightmare rather than a dream.

However, there is a difference between China and the West: while China was investing for the future of its people after the outburst of the 2008 crisis, the West was investing heavily to save the upper layer of the capitalist economy, i.e. the financial system, which is responsible for the 2008 debacle, while imposing at the same time austerity programmes that hurt the Western lower middle class and especially poor people. As a consequence, the gap between the super-rich and the poor has further widened and protest movements have developed (and are still developing) in several Western countries. Even more worrying, several international moves from Western governments give the impression that the Western leaders, incapable of solving their domestic problems, turn, as often happens in such circumstances, to the international arena to find "enemies" to fight against, thus trying to reclaim popular support by awaking the nationalist fibre of their citizenry. Military interventions in Libya and in other African countries, diplomatic and economic interventions in Georgia and Ukraine, policy of isolation toward Iran, direct and/or indirect intervention in Syria, development of aggressive policies of containment towards Russia and China, are clear signs of the fear the West (and especially the US) has to lose its dominant position acquired in the World since the Renaissance.<sup>30</sup>

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<sup>30</sup> The changing structure of the international system should be dealt with in more detail, which is not possible in this article. Nevertheless, it was necessary at least to mention, even if very briefly and, inevitably, in an incomplete manner, the changing structure of the international system. Many interesting books have been published during the last 10-15 years on this topic. See for example about the American dream the book by one of the most famous American liberal journalists, Dan Rather, *The American Dream*, New York, Perennial, 2001; on the decline of the US Power see the book of the American military strategist, political scientist, and historian Edward N. Luttwak, *The Endangered American Dream*, New York, Touchstone, 1993; on the end of history after the collapse of the Soviet Union and the idea that American liberal democracy and capitalism had become the ultimate and unique way of organizing the world see the neoconservative Francis Fukuyama, *The End of history and the Last Man*, New York, Avon, 1993 and the reply by another American neoconservative Robert, Kagan, *The Return of History and the End of Dreams*, London, Atlantic, 2008; on the American empire see the books of the American sociologist Chalmers Johnson, *Blowback. The Cost and Consequences of American Empire*, New York, Henry Holt & Co., 2001, *The Sorrows of Empire. Militarism, Secrecy, and the End of the Republic*, New York, Henry Holt & Co., 2004, *Nemesis. The Last Days of the American Republic*, New York, Metropolitan Books, 2006, and *Dismantling the Empire. America's Last Best Hope*, New York, Metropolitan Books (Henry Holt and CO), 2010; the best analysis of the decline of the US is the work of the French demographer and historian Emmanuel Todd, *After the Empire: the Breakdown of the American Order*, New York, Columbia University Press, 2006 (translation of *Après l'Empire. Essai sur la décomposition du système américain*, Paris, Gallimard, 2002) ; see also by the Egyptian economist Myret Zaki, *La fin du dollar*, Lausanne, Favre, 2011 (unfortunately there is no English translation) ; on the relation between the US decline and the rise of Europe see the book of the American journalist and author T. R. Reid, *The United States of Europe. The New Superpower and the End of American Supremacy*, New York, Penguin, 2004, the book of the American economic and social theorist and political advisor and activist Jeremy Rifkin, *The European Dream. How*

## 7. Towards the country dream: a development strategy that is "society friendly" and "environment friendly"

Having defined the national and international context of the present situation, the next and last question I have to deal with in this article is: in order to overcome the negative consequences of a development strategy that has put more emphasis on economic efficiency than on social equity, with the negative consequences I have summarized above, what kind of development strategy a country (and its political/or administrative subdivisions) must implement in order to develop a more balanced society? For answering this question I will use a model I prepared for the research on Public-Private Partnerships for in-transition countries I directed between 2005 and 2008.<sup>31</sup> In fact, I do not like the concept of "model", especially when dealing with China. In the conclusion of my book on New Public Management, I wrote:

«... one question remains open: is there a 'China model'? This question has been debated by both Chinese and Western scholars and opinion leaders.<sup>32</sup> The tentative answer I can give, based on the findings presented in this book, as well as on my evaluation of China's reforms, is, for the time being, negative. There is no China model; or more precisely, and maybe also paradoxically, the China model is

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*Europe's Vision of the Future is Quietly Eclipsing the American Dream* and the one by the British political scientist Mark Leonard, *Why Europe Will Run the 21<sup>st</sup> century*, London & New York, Fourth Estate, 2005. It should be noted that all these books about Europe have been published before the outburst of the 2008 crisis. After 2008 commentators have been less positive towards Europe. Nevertheless, see the book by the American political writer, columnist and policy analyst Steven Hill, *Europe's Promise. Why the European Way is the Best Hope in an Insecure Age*, Berkeley, California University Press, 2010.

<sup>31</sup> I presented a first version of this model to an international workshop held at the office of the Geneva International Academic Network (GIAN) that financed the research, 11 July 2006: *Project Workshop on Creating a New Dynamic for Public-Private Partnerships for Peaceful and Sustainable Development: Human Security and Equitable Access to Resources*. The list of people invited to the workshop is available at the GIAN website <http://www.ruig-gian.org/conferences/conference996.html?ID=12>. A more elaborated version, dated August 2007, was published on the GIAN website: <http://www.ruig-gian.org/ressources/Urio-PPP.pdf?ID=204&FILE=/ressources/Urio-PPP.pdf>, under the title: Paolo Urio, "Under What Conditions Can Public-Private-Partnerships (PPPs) Improve Efficiency, Equity, Security and Sustainable Development in Countries at the Pre-PPP Stage?". I used this model for two conferences given at the China Executive Leadership Academy Pudong (CELAP), 25 October 2007 and 23 October 2008 under the title "Public-Private Partnerships: an alternative to the provision of services and infrastructures by the State?" With some minor changes, the paper has been published as Chapter 2 in Paolo Urio (ed.), *Public Private Partnerships. Success and Failure Factors in Transition Countries*, Lanham (MD) and New York, UPA (University Press of America), 2010, pp. 25-69. In the following pages I will heavily use this chapter by summarizing its major dimensions and by slightly updating it. Some paragraphs will be simply reproduced from this chapter, and as I am their author, I will take the liberty to use them without formal quotes marks.

<sup>32</sup> On the 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 also 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.

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 Westerners, and by encouraging my Chinese friends to go ahead on the road of pragmatism and continuous transformation."<sup>33</sup>

So, let us call it a framework for analysis. The framework is based upon four values defined as follows:<sup>34</sup>

**"Efficiency"** is used in the sense of a relationship between resources and results, as it has been defined in the well-established mainstream of cost-effectiveness (or cost-benefits) analysis. It may assume two orientations: either one fixes the level of cost and then maximizes benefit, or fixes a level of benefit, and minimizes cost. Both are considered rational, and the choice will depend on considerations that can be political, financial, administrative, social, ideological, national or international.<sup>35</sup>

**"Equity"** is used with reference to the fair distribution of goods and services, in particular access to vital resources and infrastructure. The objective of equitable development is to reduce either economic marginalisation or political discrimination of vulnerable groups such as minorities or women, and to prevent future socio-political tensions or grievances expressed in social or political conflict.

**"Sustainability" of economic development** refers to the human, social, political, economic and technological development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development is intimately linked to human security; without security, development is impossible. However, sustainability also includes another element, namely the fair distribution of economic and social development to all members of a community or country – hence the emphasis on equitable access to resources and infrastructure. In

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<sup>33</sup> Urrio, *China, the West, op. cit.*, pp. 219-220.

<sup>34</sup> It is necessary to remark once and for all that the definition of the concepts of efficiency, security, equity, and sustainability is an extremely complex and difficult task, as there is not a sufficient level of consensus among academics, politicians, and more generally, all the major stakeholders. Moreover this diversity is certainly due to differences in historical experience and culture.

<sup>35</sup> The theoretical rational foundations of cost-benefit analysis have been established for example by Anthony Downs, *Inside Bureaucracy*, Boston, Little, Brown & Co., 1967, Herbert A. Simon, *Administrative Behavior. A Study of Decision-Making Processes in Administration Organization*, New York, The Free Press, 1997 (4th ed.), and Aaron Wildavsky. "The Political Economy of Efficiency: Cost-Benefit Analysis, Systems Analysis and Program Budgeting", *Public Administration Review*, December 1966, pp. 292-310. Tevfik F. Nas, *Cost-Benefit Analysis. Theory and Application*, London, Sage, 1996. A bibliography referring to practical application can be found in Gilles Gauthier and François Huppé, *Cost-Benefit Analysis, An Extensive Bibliography*, Boucheville (Québec, Canada), Morin, 1991.

addition, sustainable development can also be taken to mean the protection of existing assets as well as future assets still to be developed, such as infrastructure that is vital for economic and social development and for the preservation of the natural environment.<sup>36</sup>

"**Security**" is taken here as one of the most important values contributing to sustainable development. The expression applies to all security considerations (community-level public safety, national security and international security) that are potentially influenced by, or can influence infrastructure and the preservation of vital assets for sustainable development. So defined, security is clearly also linked to equity and efficiency. Security requires a set of domestic policies aiming at establishing and maintaining a safe institutional, political, social, and physical environment favourable to social and economic development both nationally and internationally.

To each of the four values I associate a structure. Let us start with efficiency, equity and sustainability. I am very well aware that efficiency, equity, and sustainability are linked not only to a single structure. But this is the inevitable problem of every approach that analytically separates in theory what is not separated in reality. Nevertheless, I am confident that the privileged (i.e. predominant) link of efficiency with economy, equity with society, and sustainability with environment corresponds to reality. I may say that in doing so, I have proceeded according to the strategy used by Max Weber for building his typologies, trying to identify the "typical value" of the three structures, attributing equity to society, efficiency to economy, and sustainability to the environment.<sup>37</sup> The more difficult task has been with the concept of security, which even more than the other values, is not clearly linked to any of the three structures, but is a typical trans-structural value, as it can be assured or hampered by the economy (for example if the market excludes some people), the environment (if pollution threatens the health of the population), and by society (if its structure is unfair to some people).

The next step has been to associate public policies with the four values. The coordinated and integrated goal of these policies (represented in Figure A in the middle of the quadrangle: Economy-Security-Society-Environment) is to build a society that enables the

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<sup>36</sup> The basis for this definition is taken from: World Commission on Environment and Development. *Our Common Future*, Oxford University Press, 1987, p. 43.

<sup>37</sup> Max Weber, (1988) 'Die "Objectivität" sozialwissenschaftlicher und sozialpolitischer Erkenntnis', in Max Weber, *Gesammelte Aufsätze zur Wissenschaftslehre*, Tübingen: J.C.B. Mohr, 1988 (English translation: 'Objectivity in social science and social policy', in Weber, M., *Methodology of Social Sciences*, New Brunswick, NJ, Transaction, 2011).

attainment of the four values (efficiency, equity, sustainability and security) or at least one of the four values without harming the others, and that should present the following characteristics:

- an economy developing with a level of efficiency compatible with a sustainable pace,
- human activities (both private and public) organised and coordinated in a way that preserves the environment, and more particularly scarce and non-renewable natural resources,
- human activities (both private and public) organised in a way that realizes a balanced society with a reasonable, acceptable, and improving level of equity, and security.

Moreover I consider that social, economic and political stability will favour the attainment of this integrated goal. Last, but not least, the government should play the central role in coordinating the policies aimed at realizing the integrated goal. In particular, as I have suggested in the conclusion of my last book referring to China, the government (or, more precisely, the Party-State) should keep under control and orient the development of the private sector so that it contributes to the creation and distribution of the common wealth (the cake) for the benefit of all citizens and categories of citizens and not for just a minority.<sup>38</sup>

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<sup>38</sup> Urìo, *China, the West*, op. cit., pp. 208-209. The main suggestions were the following: (1) further develop the policies that 'put people first' (especially social security, i.e. health, unemployment and old age insurance, housing, drinkable water and access to public services) that will help reduce disparities, especially income inequalities; (2) for this purpose it is also necessary to improve the well-being of the rural residents and migrant workers and this will help the smooth management of the process of urbanization; (3) avoid all forms of market fundamentalism and continue on the road of Chinese pragmatism; (4) keep politics in command over the economy and its actors; (5) therefore 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 crisis; (6) keep the banks, and the central bank, under control; (7) promote the development of the 'real market': a market economy based upon competition and transparency; (8) for this purpose it is necessary to regulate the market so that it produces efficiently what society needs; (9) 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; (10) further eradicate corruption and tax evasion and avoidance; (11) further increase the fiscal capacity of the central government and its capacity to control the spending of local authorities by setting up an efficient debt-reporting system on local governments; (12) further develop the policy of reducing pollution and the use of scarce resources (green economy); (13) keep developing and improving the education system (which should be free of charge at the compulsory level and affordable at the upper levels), as well as science and technology; (14) continue the policy of opening up to the global economy, but practice selective protectionism.

## 8. Some strategic considerations

There is neither time nor space to develop these suggestions in this article. However, as they are of a strategic nature and therefore constitute a prerequisite for the success of the development strategy I will develop hereafter, it is at least necessary to briefly present the two most important ones. First, following Fernand Braudel, I consider that there is a considerable difference between market economy and capitalism.<sup>39</sup> In a market economy competition and transparency make it possible for the economic agents (both on the demand and the supply side) to rationally behave in the market and to produce in many sectors of the economy (but not in all sectors) outcomes useful for society at large. But when capitalism, by diminishing competition and transparency, takes the place of an increasing part of market economy, then, as the 2008 crisis very well demonstrates, several negative consequences appear. I have shown these consequences above, by briefly presenting the Western and the Chinese cases.<sup>40</sup> In the capitalist economy there is a 'zone of shadow', and of insiders' activities; and this is what Braudel considers to be the root of the phenomena that constitute the essence of capitalism, which is not the real, the true market economy, but so often its clear contradiction. So, it is the market that must be promoted and not capitalism.<sup>41</sup>

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<sup>39</sup> I have developed this in more detail in Paolo Urio, *China, the West, op.cit.*, pp. 26-35.

<sup>40</sup> This analysis has been confirmed by a report of the Organization for Economic Cooperation and Development, OECD, *Society at a Glance. OECD Social Indicators. The crisis and its aftermath*, OECD, Paris, 2014. Here are some of the most significant findings: (1) Income inequality varied considerably across the OECD countries in 2010. The Nordic and central European countries have the lowest inequality in disposable income while inequality is high in extra-European countries and in the United States (p. 110); (2) the share of pre-tax income of the top 1% earners more than doubled their share from 1985 to 2010 in the United Kingdom and the United States. In Spain and Sweden, the data show a clear upward trend albeit less marked than in English-speaking countries. The upward tendency is also less marked in France and most continental European countries (p. 110), (3) the average OECD relative poverty rate in 2010 was 11%. Anglophone and Mediterranean countries and some extra-European countries have relatively high poverty rates, 17.4% for the US, 14.4% for Australia 10.0% for the UK, less than 10.0% for all the continental and northern European countries. Only Israel, Turkey, Chile, and Mexico do worse than the US (p. 112).

<sup>41</sup> "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 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." In Fernand Braudel, *Afterthoughts on Material Civilization and Capitalism*, (The Johns Hopkins Symposia in Comparative History), Baltimore, MD, Johns Hopkins University Press, pp. 113–114.

Second, if it is true, as Braudel very strongly suggests, that capitalism is capable, after a crisis, "to move from one trick to another (...) and as a result, to remain relatively faithful, consistent with itself", a country must find institutional means to promote the real market and to forbid capitalism to develop and take over the whole (or the most important and influential part) of the economy. And this can only be done by the State, the only institution that can claim to represent society as a whole. In this perspective, the State should include in the development strategy the devices that help it to keep the economy under control so as to avoid the appearance of capitalist economic behaviours transforming the market economy into a capitalist economy. In short, politics must be in charge over the economy.

Third, Braudel's analysis of capitalism has also some important consequences for the country strategy in the international system. The problem is that China has progressively opened up its economy to the outside world. This has helped China to improve the overall investment capacity of its economy and has also favoured a transfer of technology from abroad. Nevertheless, some scholars think that this will inevitably integrate China into the world capitalist system. Li Minqi has expressed this thesis in the most radical way.<sup>42</sup> According to him China has already introduced in its economy the essential features of capitalism and, as it has opened its economy to the "capitalist economic world-system", inevitably it will be integrated into this system in the near future. One may think that the probability of this thesis is not very high. But even so, it cannot be discarded without careful consideration. Two aspects should be considered. First, if China becomes capitalist and is integrated into the capitalist world-system, then its society will resemble the already existing capitalist countries such as the US and European countries. In this case the Chinese leadership would be well advised to forecast its own future by looking at what happened to the society of Western capitalist countries since at least 1980. I have already summarized above the major features of these countries under "The Western experience: between dream and nightmare": increasing income inequality, poverty rates, and crime rates, deterioration of public health with the most negative results for countries who have implemented neoliberal reforms more deeply, such as the US, the United Kingdom (UK) and New Zealand (NZ), much less for continental European countries.<sup>43</sup> So, it seems that the Western experience, in particular that of the United-States, is not a model for China to imitate. Only the experience of the

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<sup>42</sup> Li Minqi, *The Rise of China and the Demise of the Capitalist World Economy*, New York, Monthly Review Press, 2008.

<sup>43</sup> I remind the reader that these findings have been recently confirmed by an OECD 2014 report, OECD, op. cit.

continental and northern European countries may eventually be worth being considered, although there is currently very strong pressure towards more measures to assure budgetary rigour with additional cuttings in welfare, as well as measures to further deregulate the labour market. From the point of view of social equity these measures will not improve the living conditions of the lower-middle and lower classes, but will, on the contrary, further increase inequality. And from the point of view of economic efficiency they will further depress internal demand.

The second strategic consideration is the following: for a very long time China has witnessed the interventions of Western powers all over the world, and in particular in its own territory. She has also witnessed Western interventions in Russia and in the former member-states of the Soviet bloc after the collapse of the Soviet Union, more recently in Georgia and Ukraine; and in 2010 she was informed that the US has made the Pacific region the new pivot of its foreign policy. But whereas these events, although worrying, do not place China in an extremely difficult situation, two international treaties being presently negotiated may very well create serious problems for China both nationally and internationally. These are the so-called *Trans-Atlantic Partnership (TAP)* negotiated between the US and the European Union and the *Trans-Pacific Partnership (TPP)* negotiated between the US and several far eastern countries.<sup>44</sup> The goal is to establish two free-trade zones in which the multinational companies will be free to invest and sue the government which may implement laws contrary to the interests of the foreign investors. The TAP will create a free-trade zone of approximately 800-900 million consumers in the most developed countries, and the TPP will create a free-trade zone dominated by the US in the Pacific region that will certainly become a strong competitor to China. The two treaties are a clear will of the US to integrate Europe into its own economic

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<sup>44</sup> The TPP originated from an initiative taken by Singapore, New Zealand and Chile in 2003 under the name of "*Pacific Three Closer Economic Partnership*". In 2008 the US joined the group and proposed to re-name it "*Trans-Pacific-Partnership - TPP*". Since then the US pushed other countries in the region to join the TPP: Brunei, Australia, Canada, Peru, Mexico, Japan, Vietnam, Malaysia; and South Korea may join the group in the future. On the TPP treaty see Gordon Lafer, "Partnership or Putsch?", *Project Syndicate*, 14 January 2014, [www.project-syndicate.org](http://www.project-syndicate.org), accessed 15 January 2014. Gordon Lafer is a professor at the *Labor Education and Research Center*, University of Oregon. On the TAP treaty see Lori Wallach, "Government by Big Business Goes Supranational. The Corporation invasion", Paris, *Le Monde Diplomatique (English edition)*, December 2013, available at <http://mondediplo.com/2013/12/02tafta>, accessed 12 January 2014. Lori Wallach is director of the *Public Citizen's Global Trade Watch*, Washington, D.C., [www.citizen.org](http://www.citizen.org); and Kim Bizzarri, *A Brave New Transatlantic Partnership. The proposed EU-US Transatlantic Partnership (TTIP/TAFTA) and its socio-economic & environmental consequences*, Brussels, Published by the Seattle to Brussels Network, October 2013.

system, and the clear will of the US and its allies to isolate Russia and China and to force them to accept the rules of international economy based upon capitalism. Should China surrender to this strategy, she will become a capitalist country among many others; its big companies will become new multinational companies. But will they still be Chinese, or will they become some new multinational capitalist companies sharing with the Western ones the same goal of making as much profit as possible, with the negative consequences for social equity we are witnessing today in the West? And, as the French saying goes "money has no odour", and I will add, as it has no nationality either, it is likely that they will lose their "Chinese characteristics". In this case the dream of a harmonious society with a "socialist market economy" where prosperity is equitably distributed amongst all its citizens will have faded away for a very long time.

## **9. Suggestions for a development strategy that should realize the country dream**

Let us now briefly comment on Figure A. The figure is divided into four parts: in the upper middle part we have placed the government (central and/or local) with its development strategy, comprising the coordination of different types of public policies aimed at developing the economy, assuring security, safeguarding social cohesion, and protecting the environment. In the lower middle part, we have represented our four basic components: Economy, Security, Society, and Environment, to which these policies are addressed. The left part of figure A presents the choice open to the government to organise alone, or through Public-Private Partnerships, or to leave to the private sector the provision of hard and soft infrastructures;<sup>45</sup> the policy of developing an efficient and reliable banking and insurance system, and financial markets; the related policy of sustaining and promoting the private sector (especially SMEs - Small and Medium Size Enterprises - as the major source of jobs creation). These policies should contribute to a **“society friendly job creation”**, i.e. a situation where the development

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<sup>45</sup> Before we go any further, it must be stressed that it is important to bear in mind the distinction between soft and hard infrastructure, the two vast domains where it is important to have clear ideas about the best means for providing the corresponding services. The first one, “hard infrastructure,” refers to physical resources and services (like roads, railways, energy, housing, etc.). Although hard infrastructure is not aimed at directly developing the human capital, it contributes nevertheless in a decisive manner to its improvement, provided people are in a position to have an equitable access to these resources. In order to enable people to take advantage of physical infrastructure it is necessary to develop the second type of infrastructure: “soft infrastructure,” whose aim is not to develop anything physical, but to directly improve human capital, namely attitudes, knowledge, skills, as well as physical and mental health. It is the domain of education, science and technology (including the dissemination of innovation and best practices) health, and more generally, the development of safety nets.

of an efficient and competitive economy (source of jobs and revenues) is balanced by a set of policies aimed at the development and support of the human capital. This is done by developing education at all levels (including adult education) and providing a reasonable but efficient safety net, including health care and insurance, old age pensions schemes, and unemployment insurance that will result in equitable development, a balanced society, and social stability.

For practical reasons not all the policies aimed at the realisation of economic and social development could be represented in the left part of figure A. For this reason, in the right part of the figure A I have added other policies that may contribute to social and economic development, and above of all land use planning (including urbanisation and urban regeneration). This is a transversal policy aimed primarily at defining which types of economic activities can be developed on what part of the national territory. Not only it provides the economic actors with the legal security they need when planning their activities, but it also sustains several policies, namely economic development and the modernization of agriculture. This is interesting not only for improving the efficiency of this sector (for satisfying national strategic goals of assuring a relative autonomy in food production, and for favouring the exportation of some agricultural products), but also, in the general framework of the strategy of economic development favouring the transfer of manpower to the other sectors. The reform of SOEs is another important domain, not only for improving the efficiency of these enterprises on both the domestic and the global market, but also for environmental protection. Finally, I have introduced the development of tourism (especially eco-tourism) and cultural activities that can contribute to both environmental protection and job creation. These policies will contribute to an **“environment friendly job creation”** that will result in a sustainable economic development, a “green” economy, and a healthy society.

Let us now summarize the dynamic suggested by Figure A: the government collects its revenues from taxation,<sup>46</sup> and invests this money in policies that should be coordinated so that they realize the integrated goal defined above. This can be achieved in many ways:

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<sup>46</sup> This is a very complex domain that is not possible to develop in this article. Here it suffices to say that the management of fiscal policy is an important part of the government task: a too heavy taxation (on enterprises and/or on households) may harm the development by increasing the cost of production for enterprises and depressing the internal demand.

- by investing in the 2 types of **infrastructure (soft and hard)**, alone or in partnership with private enterprises (local, national or foreign) or with Non Governmental Organizations (NGO) and Non Profit Organizations (NPO); the choice is not easy as I will explain hereafter;
- it must set up an efficient **banking and insurance system**, and a robust **financial market**;
- this will help to sustain the development of **enterprises** (both public, private and mixed) especially **SMEs**, as they are the main source of job creation;
- it must modernise **SOEs**, or privatise them in different ways: by fully privatising them (with or without a regulator) or by contracting out their activities (with or without a competitive tendering procedure); and in the case of a shareholder company the government should decide whether it wants to keep part of the shares, a golden share, or none;
- it must define a clear and reliable land use planning (including urbanization);
- it must set up a policy of **environmental protection**, including waste management;
- it must modernise the **agriculture** in order to increase productivity; this will enable the transfer of rural manpower to the second and third sectors. At the same time modernisation will introduce production techniques respectful to the environment;
- it must develop **tourism**, and more particularly eco-tourism (this being linked to the modernisation of agriculture), source of jobs and revenues;
- it must develop **cultural activities**, source of jobs and revenues;
- linked to the 2 previous items, it should **protect cultural and natural sites**;
- it should develop several strategies for assuring **security**;
- in order to reinforce the above-mentioned policies,
  - it should set up a modern (even if limited) **safety net**, that will help to provide equitable access to resources and services, will help to sustain internal demand, and will avoid the appearance of social and political unrest, and
  - a **legal and regulatory framework** in the perspective of introducing practices assuring transparency, evaluation, and accountability.

The framework shows several virtuous circles that will sustain the strategy of economic development, and more specifically thanks to the attraction of domestic and foreign investments towards both fully privately funded companies and PPPs:

- (a) the development of soft infrastructure will put at the disposal of private companies a well-trained local manpower, and this will further increase their willingness to join Public-Private Partnerships (PPPs), joint ventures, or to set up entirely privately funded companies (marked 2 Figure A);
- (b) the same is true for hard infrastructure: a good communication network (e.g. roads, railways, telecommunications) and housing will attract investment, especially from abroad and these activities will attract new investors (marked 1 in Figure A);
- (c) the development of an efficient banking system, of insurances, and robust financial markets will favour the development of both domestic and foreign companies, including Small and Medium Enterprises (SMEs); moreover, an effective regulatory framework implemented by competent supervisory bodies in these domains, will encourage foreign investors to join domestic companies in joint ventures, public bodies in PPPs, or even to create private companies;
- (d) the policies of environmental protection, land use planning, and modernization of agriculture will contribute to the creation of an attractive environment for both domestic and foreign investment (marked 3 in Figure A);
- (e) similarly, a policy of protecting scarce resources will not only help SOEs to achieve their reforms by adopting production processes respectful of the environment but will also help developing tourism and cultural activities, which in turn will contribute to the development of a pleasant environment capable of further attracting private investment.

The coordination and harmonisation of these policies pursue the integrated goal of sustaining the process of social change, leading to a balanced, secure and stable society, giving equitable access to resources and services to all citizens of the present and future generations, thanks to the organisation of a sustainable economic development, whose production processes will create wealth and jobs in a manner that is friendly to both society and environment.

The inter-dependence between soft and hard infrastructure is at the heart of the development strategy we have briefly described.<sup>47</sup> Both are necessary for developing the country. A well-educated workforce, in good health and having the assurance to be able to count upon reasonable safety nets in case of problems, is a prerequisite for the development of all the economic sectors. It is also a powerful factor for promoting a more open and dynamic society, and to realize economic, social, and political stability, as well as a reasonable level of security, provided that wealth is distributed equitably amongst the different components of society. Education in advanced technologies (both technical and managerial) will help the country to develop those sectors that will free it from dependence upon outside countries, at least in the strategic sectors defined by the government. Fundamental research and R&D within both public and private institutions will further improve the innovation capacity of the country, necessary to compete in the local and global markets. So the development of soft infrastructure will be a powerful driver for managing, maintaining, and improving hard infrastructure. But infrastructures (both soft and hard) must first be built. And it is possible that this may exceed the fiscal capacity of the central state or of the local governments. If this is the case, and if the development of infrastructures is considered urgent, then the resort to private capital may look like a good choice.

However, choosing the best way of building and providing infrastructure is not an easy task. In particular, the final, strategic decision in favour of the private sector (either by fully privatizing or by establishing public-private partnerships) needs to be preceded by four prior decisions: the “time decision,” the “efficiency decision,” the “management decision,” and the “who will pay? decision.” The “time decision” refers to the fact that providing a new service (or improving an existing one) will depend on the urgency of the matter. If there is no urgency, the government could first implement a set of policies aimed at improving the economy, which will eventually enhance its fiscal capacity. It will then be able to finance the provision of the service by the State. The urgency will depend on several domestic factors, such as the demand from the citizens and their intermediate organizations. But one external factor will play a determinant role, and this is globalization. Not the globalization of the economy, but globalization of information, and above all the access, even for population living in remote areas, to the image of the living conditions of developed countries and of the most developed regions of the country where they live. This is very likely the most powerful factor

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<sup>47</sup> For the definition of hard and soft infrastructure see note 45 above.

determining the urgency of financing services permitting the population to adopt the way of life of developed countries, and, if public money is not sufficient, to resort to private money.

The second prior decision is the efficiency one. If the government comes to the conclusion that private provision of services is more efficient than State provision (and/or if quality is better) then it would favour private investment. But the evidence in favour of private efficiency is mixed. Even the International Monetary Fund (IMF) recognizes that “much of the case for Public-Private Partnerships (PPPs) rests on the relative efficiency of the private sector. While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed.”<sup>48</sup> Moreover, financing through the market is generally more costly than through government borrowing, and management of important infrastructures like hospitals, prisons, and schools by private bodies may be more expensive, as the UK experience shows. Consequently, decision in favour of private provision might be heavily oriented by ideological considerations.

The “management decision” concerns some of the advantages put forward by proponents of the private sector, such as better managerial skills and better human resource management. Here again, evidence is at best ambiguous.

Dealing with the fourth prior decision, the government must choose who in the end will pay the service provided. I am referring here to a truism that is perhaps worth mentioning: money must come from somewhere. If private companies are the only investors, money will have to come from consumers, as the selling of the service by the private investor will have to cover production costs (including profits). This may pose some problems for equitable access, as low income households may not be able to afford to pay the price charged by the private company. If on the contrary, it is the government who provides the service the money will come from taxation and this may pose problems of high taxation, or of increasing public debt.

The final decision in favour of private provision will be based upon a delicate balance between the evaluations of the dilemmas posed by the four prior decisions, to which the government will certainly add some strategic considerations, which may exclude from private

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<sup>48</sup> International Monetary Fund (IMF), *Public-Private Partnerships*, prepared by the Fiscal Affairs Department (in consultation with other departments, the World Bank, and the Inter-American Development Bank), March 12, 2004, p. 14. See also for health care the case of the results of the British Private Finance Initiative: Allyson Pollock, *NHS plc. The Privatisation of our Health Care*, London Verso, 2004.

provision sectors considered of political and economic strategic importance. Moreover, in case the government decides in favour of private capital it must be able to attract private investors. In this context, a reasonable hypothesis is that private investors, both local and foreigners, will be willing to invest in sectors where return is attractive and safe.

## **10. The special case of soft infrastructure**

All domains in which the private sector could invest may pose problems for at least one of the four fundamental values (Efficiency, Equity, Security and Sustainability). From the point of view of equity the most sensitive domains are clearly those in the category of soft infrastructure: education, health, safety nets, to which I propose to add two hard infrastructures clearly more closely linked to soft infrastructure and human capital, i.e. water and housing. Let us briefly discuss these cases.

The provision of clean water is generally considered as a hard infrastructure, but as it provides a resource for human survival more vital than electricity, gas or transportation (and is moreover a natural monopoly), its link with “soft infrastructure” is so close that it certainly needs special attention. Private investment in water provision should therefore comply with very strict requirements for making it accessible at a cost affordable for the entire population.<sup>49</sup> The obstacle for attracting private money is represented by the level of expected return by the private investor. If this is rather low, the only possibility open to the government for attracting private investment would be to subsidise the provision of this service in order to reduce the selling price. Moreover, some strict measures should be taken for limiting the use of drinkable water, and for recycling used waters. Also it is essential to set up strict rules defining the quality of water and assuring the investment needed for the constant maintenance and update of the infrastructure. In this context, the British experience of privatisation of water supply strongly suggests the creation of an agency (the regulator) for supervising compliance with the above mentioned rules.<sup>50</sup> Last but not least, if compliance with such measures cannot be reasonably assured by a private company, the government should

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<sup>49</sup> I mention *in passim* the possibility of making this resource accessible to people at a different price, depending on their financial situation. This could also apply to other resources, especially soft infrastructure (education, health, safety nets), but also transportation.

<sup>50</sup> In fact in the UK there are 3 bodies regulating the provision of water: one for the price level, one for the quality of water, and one for environmental protection.

consider the possibility of managing this natural monopoly as a legal one, i.e. as a State monopoly, totally financed by public money.

Housing is less problematic than water, but it is also a basic resource, along with a decent income, access to clean water, education, health, and a decent safety net. Moreover, given its importance in developing countries for improving the living conditions of a large part of the population, it also needs special attention. Nevertheless, the difference with water provision is that housing allows more opportunities for private investments. The most important difference is that it is not a natural monopoly. Experience in Western countries allows to envisage many different possibilities for providing this resource: the most interesting consists in segmenting the market into a “free market” where competition among private investors provides different types of lodgings at market prices for those who can afford them, and a regulated market where government intervenes for providing housing to those who cannot afford market prices. In the regulated market the possibilities go from the provision of lodgings by the government (generally local governments, eventually with the support of central government) financed totally with public money, to measures for encouraging private investments (e.g. preferential fiscal treatment, provision of public land at a preferential rate) or even the establishment of Public-Private Partnerships (PPPs) funded by a mix of public and private money. Here we will find the same problems as for water: government subsidies would be necessary to provide sufficient return for private investors and equitable access for low income households, generally at prices lower than market prices. Again, as for water, some strict rules are necessary: first, for deciding who is entitled to enter and exit the “regulated market,” second for the construction of this type of lodgings. The latter concerns: type and quality of construction materials, sanitary and kitchen facilities, size of rooms, and last but not least construction standards for diminishing the use of energy (namely heating and air conditioning).

Finally, each of the “soft infrastructure” sectors (education, health and safety nets) would require a more detailed discussion. Here I will limit myself to the some fundamental considerations. First, for reasons similar to those already mentioned for water and low rent lodgings, the government may consider to set up Public-Private Partnerships (PPPs) and to come in with enough public money in order to reduce the selling price, so that the service is affordable for low income households. Or it may leave part or the entire sector to the private sector if it considers that at least part of the population is willing to purchase

this service at market prices. And we run the risk of coming across the same problems mentioned above: (a) an overspending of public money not necessarily in tune with the development strategy, and/or (b) an inadequate government financing, that will result in a selling price high enough to prevent access for vulnerable groups of citizens (e.g. in the case of higher education) or in a dual system (e.g. for health and safety nets) one for the lower incomes and another (more generous) for medium and upper bracket incomes. In all these cases a satisfactory level of equity would not be attained, or at least it would be debatable. It is in these domains that on the side of the “private” end of the partnership it would be advisable to look not only for private companies, but also for Non Governmental Organizations (NGOs) and Not-for-Profit Organizations (NPOs). Although these organisations are in principle more suitable for realising equitable access for vulnerable groups to the services concerned, they will have more difficulties in providing enough money for PPPs. Nevertheless, the government should consider (as in the case of housing mentioned above) the possibility of “segmenting the market,” by setting up PPPs with private investors for the middle and upper classes of households (or leaving it to the free market), and try to cooperate with NGOs and NPOs for providing these services to the lower classes.

## **11. Conclusion**

This is what the framework described above suggests to a government (central or local) who would like to improve social and economic development thanks to a whole set of public policies that is "society friendly" and "environment friendly". But there remains an unanswered question which is of fundamental importance: what are the actual results of the development strategy? Towards what reality, towards what type of economy, of polity and society? Towards a dream or a nightmare? In order to answer this question we must draw from the framework the questions that must be posed in order to discover the actual social and economic changes that have been realized. Here is a non-exhaustive list of such questions.

Have the policies implemented been able to:

- improve the competencies of public officials (both administrative and political)
- improve the fiscal capacity of the State at all levels (central and local)
- improve education at all levels (from primary schools to university), as well as for continuous education
- improve social services, especially health, education, and housing

- improve access to social services, especially health, education, and housing
- improve the social security system (health, unemployment, old age)
- improve the situation of poor families in rural and urban areas
- reduce the gap between rural and urban areas
- improve the conditions of transfer of migrant workers from the rural to the urban areas
- improve the quality of the physical environment (air, water, soil)
- improve the quality of, and access to, clean and drinkable water
- improve the security of individuals, groups and enterprises (physical, moral, property), in particular against crimes
- improve attractiveness for private investment (both from the country and from abroad)
- improve roads, railways, metro, and urban fast roads
- improve the general transportation network facilitating trade between the country (central and provincial) and the economic partners in China and abroad
- improve the telecommunication system (nationally and internationally)
- improve access to finance for private companies, especially for the Small and Medium Enterprises
- protect cultural and historical monuments

However, in order to ascertain whether the policies implemented have realized the integrated goal of social and economic development, in other words that the China dream has been realized, we have to come back to the basic indicators. The dream is realized if the quality of employment has been improved, the rate of unemployment has diminished, the inequality of income distribution has decreased, the poverty rate and crime rates have also diminished, the health of the people and of the environment has improved. Of course, it will be difficult to do well on each of these indicators; most of the time the overall picture will be contrasted. As a consequence, it will be necessary to have a balanced approach to evaluation. And here we will find again, inevitably, the ideological biases of the evaluators: academic, politicians, public administrative high officials, head of state-owned enterprises, private entrepreneurs and investors. However, I am confident that these indicators constitute a simple and uncontroversial way of measuring the results obtained, and, consequently, also the quality of the management of the country at all levels of government. In short, it will allow to

determine whether the country is developing in the right direction, i.e. if the China dream is approaching for all the citizens and will be realized in a not too distant future.

Figure A

Framework for analysis of a sustainable and equitable social and economic development

