An Example of Chinese Pseudo-Marxist Political Economy

In the current issue of *The Economist* (Oct. 20, 2018) there is a two-page paid advertising article produced by *Beijing Review.* This is one of a series of Chinese government ads which appear in Western magazines, especially business magazines, attempting to explain and justify Chinese government policy to the West. This particular advertisement/article is entitled "What Financial Crashes Teach Us: Targeted structural reforms are essential to economic growth and stability", the text of which is entirely included below, interspersed with my own comments on it. It was written by Wang Yongli, who is a former vice-president of the Bank of China and "a senior researcher with the Chongyang Institute for Financial Studies of Renmin University of China". As such, while presenting his own views, this article also pretty much represents the general views of the current national bourgeoisie rulers of China.

There are a number of points of interest in this article, but what I found most interesting of all was the bourgeois theory of capitalist economic crises implicitly masquerading as Marxism. But there is also a discussion of how the Chinese ruling class hopes to survive the next financial crisis on the near horizon along with the trade war (and developing new Cold War) with the United States.

The article begins as follows: "Erupting in September 2008, the global financial crisis has lasted a decade." This first sentence is refreshingly correct (though the author sort of reverses himself in the next sentence—see below). Unlike the standard view in the U.S., Mr. Wang seems to partially recognize that this basic economic crisis has in fact *not* ended, and still continues, though at the present time less sharply so. He continues:

> "After the crisis, the worldwide trend of surplus production capacity and inadequate demand could not be reversed and the world economy has remained sluggish, leading to significant changes in the world and creating serious social problems. We need to analyze the root causes and lessons of the crisis so as to better address any likely new crises.
>
> "After the crisis, many reasons were listed, such as greedy financial institutions and financial product investors who cared only for high investment returns but were regardless of the high risks; loopholes in the accounting system and problematic practices and principles of the industry; irresponsible rating firms whose credit scores were not in line with facts; and excessive financial innovation but incompatible financial regulation, which caused systemic risks.
>
> "All these need to be rectified, but they are not the root causes of the once-in-a-century crisis."

Here again, most of what is said sounds fairly good. The "once-in-a-century" quip is quite dubious, but so far Wang almost seems to be putting forward the correct Marxist view that capitalist economic crises are in fact *overproduction crises* caused by the more rapid expansion of production (and of the means of production itself) than the expansion of the market for that production. He is certainly correct to dismiss the usual bourgeois explanations in the West for the 2008 financial crisis, that it was due simply to recklessness on Wall Street and inadequate government regulation. But just when it appears that Wang is about to talk about the general overproduction of capital and the collapse of the vast credit bubble that had allowed that to go on for some time, his own explanation of the "true nature" of the crisis gets really weird instead!

> "Against the background of globalization and the history of the 20th century, we can figure out the real root cause: the massive surplus caused by information asymmetry and inadequacy during the process of international capital and production capacity transfer. It led to both the Great Depression in the 1930s and the recent Great Recession."

How's that again?! He continues:

> “**Causes of the crisis**
> “Since the end of World War II, increasing amounts of international capital and production capacity have flowed to Latin America, Southeast Asia, East Europe and then China, accelerating economic globalization and changing the world trade structure. Along with the arrival of global capital and production in a certain region, asset bubbles and financial risks also emerged [He doesn’t explain *why* — S.H.] and intensified while these funds and production capacity promoted local economic and social development. Once such problems occurred, capital soon moved to other markets, causing financial or economic crises. Affected economies had to input more money and production capacity to rescue the economy, leading to more redundant liquidity and production capacity. As such crises expanded, there was a worldwide surplus of capacity and liquidity, triggering a global financial and economic crisis as a result.”

What Wang seems to be saying here is not that overproduction is inevitable under capitalism, but rather that this excess productive capacity somehow came about only because new parts of the world also developed their own productive capacity. This theory implies that one important aspect of “globalization”, the aspect of the extensive new development of production in previously backward economies, is the “basic cause” of the problem after all! (This actually goes against the previously positive official Chinese position on globalization, and is more along the lines of Trump’s ignorant views on the matter.)

The actual situation is quite the reverse. *Because of already existing overproduction of capital* in the home markets, capitalists in the imperialist era need both to find new external markets and to also export capital to new regions. Especially when this means building more and more factories in low-wage regions this does in fact lead to the massively increased production in those regions (and especially China, of course, over the past few decades). And this does in turn ultimately lead to the even greater overproduction of capital on more of a world scale. But the finding of new markets and the export of capital is *not at all* the basic cause of this overproduction crisis. These are in reality two of the most important ways of *temporarily postponing* the most acute outbreak of that world overproduction crisis for a certain period of time.

Mr. Wang continues, and starts to get into some implicit ideas about how he thinks this basic economic problem can be resolved:

> “With the expansion of world population and a restriction of the globe’s bearing capacity, there has been overcapacity and inadequate effective demand throughout the world, which will not be reversed within a short time. Under such circumstances, stimulus policies will only cause more problems, challenging the effectiveness of many major economic theories and macroeconomic policies.”

So first he suggests that the problem is that there are not enough people in the world to absorb all this excess production. He even seems to lament that the planet is not big enough and that the “globe’s bearing capacity” for more human beings has supposedly nearly been reached. But, of course, this is not today’s economic problem at all, that there supposedly are “not enough” human beings who need the commodities being produced. After all, there are literally billions of destitute and poor people on this planet who could definitely make use of this “excess production” if they had the money to buy it. *That* is the essence of the problem with capitalism which leads to overproduction crises: the expansion of capital leads to the capability to indefinitely expand production, but the workers produce more value than they are paid for and thus cannot possibly buy it all back. (And of course this is even more obvious in the case of those who have no jobs.)

The claim that “stimulus policies will only cause more problems” confuses the short term with the long term. Of course stimulus programs somewhat ease an overproduction crisis in the short term, by developing new artificial demand through the creation of more consumer, corporate and government credit and debt. But just as surely, the long-term result is to get the economy closer to a major new financial crisis when the ever-expanding credit bubble finally pops.

Wang's comment that this problem of overcapacity and inadequate effective demand "will not be reversed within a short time" is also disingenuous. How does the mere passage of time in any way help?! If there is excessive productive capital there will remain excess productive capital *until it is destroyed*. Wang continues:

> "After the global financial crisis broke out in 2008, major economies of the world significantly increased money supply and expanded production capacity. Although this curbed rapid worsening of the crisis and helped avoid the collapse of the financial market, it also created more risks and new factors for crisis, exhausting the potential of existing policy instruments. Together with rising trade protectionism, unilateralism and populism, a more serious crisis is looming over the world."

This again is true, and reaffirms what Marx & Engels said in the *Communist Manifesto*, that the means of (partially) resolving one capitalist overproduction crisis only serve to make the next one worse. However, once again Wang is confusing secondary *effects* of the continuing crisis—such as rising trade protectionism, "unilateralism" (growing nationalism), and "populism" (increasing fascism)—with the primary *cause* of such crises, despite his indication at the start of the article that he didn't want to do that.

Mr. Wang now shifts gears a little bit and talks about China's action in the economic crisis:

> "After the crisis broke out [in 2008], China immediately readjusted its macroeconomic policy and launched a massive stimulus package, making it the first major economy making a rebound. China then became the second largest economy in the world, with its role in international affairs remarkably improved. [Actually, by 2013 or 2014 China become the world's *largest* economy in the more truthful Purchasing Power Parity terms. —S.H.] But after that China faced increasing economic downward pressure, entering a new stage of development where deeper and more extensive reform and opening up is needed."

Note that while Mr. Wang previously said that stimulus packages only make the situation worse, now he at least suggests that in China's case it was appropriate and successful. (This is just one of many subtle inconsistencies in his article.)

Before the final assertion in the paragraph quoted above we could say that Wang still sort of looked at the continuing world economic crisis in a way at least somewhat reminiscent of that of Marx. But now he has gone completely off the rails. Now he says that for China anyway the real solution to the crisis is "more extensive reform and opening up". And what is that all that about? It means even further implementation of capitalist markets, mutual interpenetration of world capitalist economies (via economic imperialism), and, in essence yet stricter adherence to capitalist principles!

What is impossible to understand is how anyone could imagine that while the rest of the capitalist world remains stuck in a prolonged economic crisis and one which is in ever more serious danger of taking a new turn for the worse, the supposed way out of this same economic crisis *for China* is to become even more like the rest of the capitalist world than it already is! (Or at least, more like the neoliberal or laissez faire ideal of capitalist ideology.)

The only thing I can surmise is that some of the ideologists of the national bourgeoisie in China are still stuck in a bit of cognitive dissonance; that they still vaguely accept aspects of Marxist political economy which they learned decades ago, while at the same time upholding capitalist ideology ever more firmly! How else to argue more and more insistently for "free market" principles while still thinking that financial crises arise from more general overproduction crises which in turn arise from the necessity of capitalism to expand production regardless of the inability of effective market demand to keep pace?

Mr. Wang then moves on to the geopolitical contention between the U.S. and China:

> "As China became the second largest economy and the gap with the United States narrowed, the United States has sought to contain China.
>
> "Inside China, the economic downward pressure continued from 2011 to the end of 2017.
>
> "The 19th National Congress of the Communist Party of China in October 2017 established a goal: By the middle of the 21st century, China will have become a global leader in terms of composite national strength and international influence. This goal is of vital importance. But it inevitably worried the United States. Now the United States has launched a trade war against China, posing new challenges to China's development. Like the first half of the 20th century, the first half of this century is also an era of drastic internal changes and external challenges for China."

In actual fact, it has been obvious to careful observers for well over a decade that the U.S. has been in the process of launching a new Cold War against China, and also re-establishing its old Cold War against Russia. This is an imperative for a declining superpower desperately trying to hang onto its control over much of the rest of the world.

At this point Mr. Wang then tries to connect up the geopolitical struggle between China and the U.S. with the Chinese bourgeoisie's general solution for China's economic problems arising in large part from the continuing world excess production capacity.

> "China has now entered a key stage of economic transformation, facing various daunting tasks. Of them, preventing and addressing major financial risks has become a top priority.
>
> "Since China's accession to the World Trade Organization in 2001, as the economy grew rapidly, its financial sector also grew at high speed. The country ranks first in the world in terms of monetary aggregate, scale of central bank assets, foreign exchange reserves and total financial assets. Rankings of its financial institutions in the world are also improving. After reform and opening up, great changes have taken place in China's financial market.
>
> "However, China's financial development still faces many problems in spite of great achievements. Because of the weak basis but rapid development, those in the financial sector have not fully understood monetary finance. Also, the responsibilities of financial regulators remain unclear, leaving many potential risks in the financial structure and financial legal system.
>
> "Until now China has not experienced the real test of a local financial crisis. After the bankruptcy of Hainan Development Bank in 1998, no Chinese bank went bankrupt. From financial institutions to regulatory authorities and even the coordinating agency at the national level, none has adequate experience in forecasting and addressing financial risks."

An important thing to note here is the implicit notion that financial risks *can always be successfully dealt with!* This is simply not the case under the capitalist system, especially in the imperialist era. And *thinking* or *assuming* that the right policies can always deal with such problems is the biggest piece of bourgeois ideological self-deception and foolishness of all.

So how then is China planning to deal with its economic problems arising from the continuing world overproduction crisis and the new Cold War with the United States?

> "**The way ahead**
>
> "Compared with the financial systems of advanced countries, the Chinese financial sector still falls behind in terms of vitality, inclusiveness, the level of opening up and competition, and in particular, the international influence. As part of the country's core competitiveness, the financial sector has yet to live up to expectations. Therefore China urgently needs to deepen financial reform and opening up in an all-round way.

> “A decade after the global financial crisis, facing even more complicated international and domestic economic and financial conditions, China needs to reflect and summarize lessons and experiences from the crisis to address new and more serious crises.
>
> “Despite the huge challenges, China still has vast opportunities and great comparative advantages. It is the largest developing country in the process of industrialization, urbanization and informationization, with huge space and dividend for reform. China has $3 trillion of foreign exchange reserves but its debt level is low, enabling it to withstand external impact; the debt level of the central government is very low, leaving a great space for carrying out proactive fiscal policy; the overall interest rate level is high, leaving ample room for supply-side structural reform in the financial sector; and financial institutions have become more able to address risks. There are good reasons to believe that China will effectively prevent and address financial risks and realize better financial, economic and social development.” [End of Mr. Wang’s article.]

So according to this ideologist for the Chinese bourgeoisie, China’s financial system needs to become more vital and innovative (perhaps with more exotic derivatives??), more competitive, more influential (dominant) internationally, and in general more “free market” oriented. In other words, more like America’s Wall Street. I can’t help but laugh! Do they really think this is going to save them from a future financial crisis?

When (not if!) a major financial crisis does occur in China will the ruling class there be able to deal with it as easily as Mr. Wang suggests? Well, that depends on the severity of the financial crisis of course.

First, it is true that China currently has huge foreign reserves. But in a major financial crisis vast reserves can very rapidly shrink to almost nothing. This has happened to many countries in the past, including Britain and the United States.

Second, the claim that China has low levels of debt is not true at all. Yes, the debt of the central government is at a reasonable level. (I.e., it is high by rational standards, but low compared to many other countries in today’s increasingly debt-ridden world.) But local government debt in China is dangerously high, which leaves less and less room to deal with new financial and economic crises. Corporate debt in China is also already quite high. If the central government needs to bail out many overextended local governments and corporations then its level of debt could suddenly mushroom overnight. This could lead to a run on the renminbi (Chinese currency), *especially* if that currency has become more internationally exchangeable as the Chinese government hopes that it will.

It is true, however, that at present China has a much tighter control over its financial industry, most of which is state owned—and thus directly controlled by the CCP Politburo. For example, this makes it possible for China to write off excessive and noncollectable debt in a much more calm and controlled way than this is possible in other countries. And yet this is just the sort of advantage that would be qualitatively diminished if the Chinese government follows through on its present desires to make the sort of “free market” reforms of its financial sector that Mr. Wang suggests they are planning to do.

What it all comes down to is this: China does have some advantages in dealing with overproduction crises and their associated financial crises as compared with the U.S. and other major countries. But these advantages are are still quite limited, and no capitalist country can really flout the hidden contradictions of capitalism indefinitely. And the proposed “financial reforms and opening up” in the financial sphere will only have the effect of removing some of the limited advantages that China now has in this regard. Economic and financial crisis of the most serious nature is inevitable in China in the fairly near future, just as it is everywhere else in a capitalist world.

—Scott H. (Oct. 25, 2018; with further slight editing on Nov. 1, 2018)