The Intra-Capitalist Struggle in China

[This is a letter I sent to friends on June 4, 2012,
together with an article from *Businessweek*. –S.H.]

Hi everybody,

Last December I sent out an email about "Western Fears and Criticisms of State Capitalism in China" (now available at http://www.massline.org/PolitEcon/ScottH/China/WesternFearsOfChina-111209.pdf).
The large number of articles in the Western business press about this issue has continued apace. One of the relatively recent ones from *Businessweek* is appended below. (It's well worth reading, despite its obvious biases.)

The Western view, of course, is entirely hostile to state capitalism in China. They view it as unfair competition, and at the same time they condemn it as not being in China's own interests (which they are supposedly concerned about) and constantly call for "reforms" to further dismantle it. As I suggested in my earlier email, they have a contradictory, even schizoid, attitude toward Chinese state capitalism—both a real fear of it and a great ideological distaste for it.

But what has been the attitude among the rulers in capitalist China itself toward state capitalism vs. Western-style monopoly capitalism? This has been a fairly complicated story, with the dominant opinions shifting back and forth with major events.

The first stage, as Deng Xiaoping came back to power, changed China's state-owned enterprises (SOE's) from socialist economic units into functioning like Western-style corporations, despite still being state owned. But the workers, and even some of the managers, forcefully resisted many of the changes this entailed. So the new bourgeoisie in China found it necessary to go further than merely *transforming* the SOE's; they had to get rid of many of them, by either selling them off at bargain rates to "private" ownership (which usually meant bigshots within the ruling class, or their relatives), or by closing them down if they were unprofitable and nobody wanted to buy them (which meant the pieces were bought up for a song by private companies).

At the same time the "opening up" to foreign corporations entering China established the new standard way that Chinese workers were to be treated even within SOE's. Health care and other benefits were stripped away, and real wages were greatly lowered.

I don't think the original plan by Deng Xiaoping and his cohorts was to totally get rid of the SOE's, but for a decade or two that plan was adjusted more and more in that direction.

However, the new bourgeoisie in China, despite their internal contradictions, still generally thinks and operates more collectively than is typical in the West. And in particular, because of the history of socialism in that country, they never completely gave up thinking that the SOE's at least had an important role to play in making China a great power. They wanted to maintain collective control (through their control of the CCP) over the commanding heights of the economy, the banks and financial corporations, and the most important basic industries, and of course over the industries of most direct importance to the military.

Thus, even the nominally "private" local corporations in China are subject to far more government direction than occurs in the West.

Then too, international capitalism began to show more signs of not being quite the unqualified wonderful thing that many capitalist roaders had imagined it was. Japan went into a funk in the early 1990s which it has never recovered from. European capitalism slowed way down too. (And look at the mess Europe is sinking into now!) And then there was the Asian Financial Crisis of the mid-1990s, which suddenly showed that following the Western capitalist path might have some really serious dangers after all!

China used its state control of the "commanding heights", together with a big round of Keynesian deficit financing, to essentially avoid the problems that had sprung up in South Korea, Taiwan, Thailand, etc., and which even spread to Russia and Brazil. I think this first lesson made quite an impact on the Chinese rulers about the need for caution in the further transformation of their economy into Western-style "private" capitalism.

The second lesson, from the "Great Recession" (starting in late 2007 in the U.S., and still continuing, no matter what the bourgeois economists say), drove that point home even more strongly. China wasn't able to completely avoid the impact of this bigger round of capitalist crisis, but it contained it remarkably well. And once again it did so through its state control of the "commanding heights" and through even more massive Keynesian deficits.

Since these great signs of serious trouble in the rest of the capitalist world have become so obvious, one large section of the Chinese ruling class has really developed second thoughts about eliminating state capitalism in China. So while the campaign to sell off or close the SOE's was never formally ended completely, it has slowed down to almost a stop.

And actually, partly because of easier access to state bank loans, Keynesian stimulus money, and government promotion, the SOE's have really been doing very well in recent years. So well, in fact, that the perception is widespread that the government no longer wishes to dismantle the SOE's, but rather now wishes to promote and expand them. [*Guojin mintui*—“the state advances, the private sector retreats.”]

(The article below even says that the SOE's have increased their share of China's "economic revenue" [GDP?] from about 40% to more than 50% over the past 5 years!)

But there are additional complicating factors. First, there is now also a fairly large trend among economists and managers in China which is ideologically opposed to state capitalism, just like that strata in the West. I don't think this is the dominant trend within the controlling CCP, but it is quite significant. Second, there has been the recent fiasco around Bo Xilai which has harmed the promoters of state capitalism politically, at least for the time being.

There is, in short, a major struggle within the Chinese bourgeoisie over which of the two capitalist roads to take, or at least which to emphasize from this point on. I think the continuing world economic crisis will lead them to continue to have a major state capitalist sector, and probably even to allow it to continue to expand relative to the Western-style "private" capitalist sector.

Of course none of this has anything whatsoever to do with socialism! It is really pathetic to see the supposed "Maoists" grouped around the Utopia website attempting to support Bo Xilai and other capitalist gangsters who promote state capitalism in China.

There are indeed some real Maoists in China today, but I think that a great many of those who now view themselves as Maoists count state capitalism as "socialism". This is not much different than the social democrats in Europe who (used to) consider the nationalization of some industries there to be "socialism". These "Maoists" seem to be almost completely ignorant of the genuine Maoist political economy of socialism so strongly promoted during the GPCR.

Scott

From: http://www.businessweek.com/articles/2012-05-17/chinas-state-enterprises-have-to-pay-up

China's State Enterprises Have to Pay Up

By Dexter Roberts on May 17, 2012

The Chinese are experts at letting important news slip out quietly. The latest example: a May 4 announcement made during annual bilateral talks with the U.S. that the SOEs will increase the amount of dividends they pay to their owner, the state.

Some 100,000 government-owned and -controlled enterprises use their favored status and ready access to cheap land, loans, and energy, to become ever more powerful. If they can hold onto most or all of their earnings, they can tighten their grip on the economy. If the central government can coax higher dividends out of them, it can better fund badly needed social programs—and weaken the SOEs as well.

ImagineChina; Aly Song/Reuters; Jerome Favre/Bloomberg

Why would policy makers want to weaken the SOEs? More than a decade after money-losing state enterprises were shuttered and millions of state workers laid off, government companies today dominate aviation, railways, steel, telecom, finance, energy, and electricity. That trend, which took off following the massive stimulus package launched in 2008, is called *guojin mintui*—"the state advances, the private sector retreats."

As growth slackens, new scrutiny is being put on state-led capitalism. On April 3, Premier Wen Jiabao delivered a speech attacking the monopoly powers of the state banks. Wen and other officials worry the SOEs are growing so strong that they will smother the private sector. Wen's ally in this struggle is Liu He, the Harvard-educated deputy director of the Development Research Center, which is part of the State Council. The DRC has pushed the dividend issue for years.

On the other side of the struggle is the State-Owned Assets Supervision Administration and Commission, created in 2003 to oversee the state sector. The most influential official at the commission is Vice Chairman Shao Ning, a lifelong bureaucrat who as a teenager was caught up in the Cultural Revolution and shipped to a remote part of Shaanxi province to work on a farm. His ambition is to build state-owned companies that can rival the largest multinationals.

Shao has advanced his agenda well. SOE revenues have risen from around 40 percent of China's economy five years ago to more than one-half today, estimates Fred Hu, chairman of financial advisory firm Primavera Capital Group. "We have seen the government preside over a significant expansion of state monopoly power," says Hu. "If this trend is not stopped, [the future of] China's vibrant, fast-growing, competitive economy is very much in doubt." The commission has ensured that most dividends collected now go straight back to the SOEs.

Today the top 117 state companies, which are directly controlled by the commission, include China Mobile (CHL), Baosteel Group, and other big players. Last year the revenues of the 117 grew by 20.8 percent, to 20.2 trillion yuan, ($3.2 trillion), while profits rose 6.4 percent, to 917 billion yuan. "By restructuring them and restraining competition, they picked up their profitability," says Barry Naughton, a professor of economics at the University of California, San Diego. "They have given the state sector a warrant to do whatever it wants."

Most Chinese government companies still pay no dividends, and the top rate for even the most profitable ones is 15 percent of profits. By contrast, state-held enterprises in other countries issue dividends that average 33 percent of profits, says Louis Kuijs, an economist at Fung Global Institute who previously worked at the World Bank.

With China's state-led investment boom running out of steam, many now recognize that profligate, ever-bigger government enterprises have become part of the problem, pumping easy credit into risky property and feeding other asset bubbles while private companies struggle. "State banks rarely give loans to private enterprises," and the resulting credit crunch has caused many to go bankrupt over the last year, says Chen Jun, vice chairman of the Zhejiang Chamber of Commerce in Beijing.

Reports of lush salaries, generous perks, and corruption in SOEs are angering Chinese. The assets commission, along with the finance and supervision ministries, announced a ban on excessive spending on May 9. The fact that princelings, the progeny of revolutionary leaders, are often involved in China's most powerful SOEs makes clipping the companies' wings more difficult, says Hu Xingdou, a professor of economics at Beijing Institute of Technology. He estimates that *hongerdai*—literally, the "second-generation red"—run 90 percent of the biggest companies. "China has a power-based economy, not a market one."

The bottom line: *With revenues at the top state companies growing 20 percent, China's reformers fear SOEs are smothering the private sector.*