

China's Stimulus Program

And Commentary on the Need for Scientific Political Economy to Make Predictions

[This is a letter I mailed to a friend on April 12, 2009, regarding a news report about the massive Keynesian stimulus program being implemented in China. –S.H.]

Hi J-----,

Thanks for sending the link.

It's true that the massive "stimulus" package ([Keynesian deficits](#)) are starting to show some mild improvements in China. China has a history of quickly resorting to massive Keynesianism during crises, as they did during the Asian financial crisis of the late 1990s. They acted so forcefully at that time that the crisis barely appeared at all in China, despite the major problems in South Korea, Thailand and other Asian countries, and even spreading to Russia and Brazil.

So it isn't at all surprising that the Chinese are by far the most determined Keynesians in this much greater new crisis, and this is one of the big reasons why they are already showing some early improvements in their economy. The second most determined country when it comes to Keynesian deficits is of course the U.S., both under Bush and even more so under Obama. There hasn't been much sign of the easing of the crisis in the U.S. so far, but I expect that by late this year there will be some temporary improvement (in GDP, but probably not unemployment). The Federal government is predicted to have a deficit of around \$2 trillion this year alone! The deficit for just the one month of March was reported to be \$192 billion!

Japan and especially Europe have been laggards about implementing massive budget deficits, though Japan apparently saw the light at the recent G-20 conference and announced a big new "stimulus" package.

But the very term "stimulus" shows that all these countries don't really understand the situation. Yes, these massive deficits ease the problem—but only as long as they *continue!* In an overproduction crisis they do NOT actually "stimulate" the economy to permanently return to health. That's why this easing of the crisis (at least in China and the U.S.) towards the end of this year will not last. Obama is already planning to ease off on the accelerator for next year, and therefore I also predict that next year there will be a relapse.

Obama is following the path of Roosevelt during the Depression of the 1930s, who eased off on the deficits as the economy improved a little during 1935-37 only to have a new collapse in 1938. The bourgeoisie talks a lot about how they have learned from the Great Depression, but they really haven't. Their ideology about how capitalism works *prevents* them from understanding it and from even doing the most effective job of dealing with its crises.

Keynesianism (huge deficits) definitely works for a while. But the problem is that the deficits have to both continue and constantly increase! And this can't go on indefinitely. Eventually there is the inability of the government to keep borrowing money or else a currency collapse (if the deficits are produced by simply printing money).

In the case of the U.S., the big deficits of the past decade and up until last year at least, were mostly covered by China, Japan and other countries buying U.S. Treasury bonds. These countries (especially China) are already getting very nervous about this and growing more and more reluctant to continue doing so. Moreover, the size of the deficits is growing so big that China and Japan cannot continue to fund it all even if they remain determined to do so! This means that the deficits will have to be created—to ever growing degrees—simply through expanding the money supply (equivalent to just printing money). ... This will be one factor leading to even more nervousness and reluctance on the part of China and Japan to buy more Treasuries. And it will be a factor reinforcing the ideological desire of the bourgeoisie to “move in the direction of balanced budgets”, or in other words to cut back on the deficit spending that for a bit is easing their economic crisis.

Thus there will be a series of big bouts of Keynesianism as the economy shrinks, followed by periods of partial easing off on the rate of expansion of the deficits as the Keynesianism slightly improves the economy, back and forth, back and forth. But it will get harder and harder to keep doing this, and ultimately—some time during the next few years—this entire house of cards must inevitably collapse completely. The financial crisis we saw at the end of last year (which still continues at a lower level of panic for the moment) is *nothing* compared to what is coming fairly soon! And that will mark the true entrance into the developing New Depression.

Well, that's it in outline form! Notice that I make a lot of predictions here, ones that I've been making for some time now. As you note, I did predict that the Chinese crisis would ease a bit for a while, as it now seems to be doing. However, the Chinese bourgeoisie also predicted that their deficit spending will help their economy, but they have a different theory than I do about why this happens and how effective it will be in the long run.

It is important to be able to make predictions in science. If you can't do so, it shows that you do not really understand the basic laws governing the situation. If you make major predictions and they turn out to be wrong, then it also shows that at least to a considerable degree you do not understand the situation. Of course, even if you make a few predictions that turn out to be right, it doesn't show that you really understand things, or that you understand things deeply. After all, you might have just been lucky in a couple cases, and the results you predicted might have occurred for other reasons. But if over a fairly long period of time you can predict major overall developments, and many of the secondary developments, especially when other theories aren't able to do anything equivalent, then this does strongly indicate that your theory of the laws governing the situation must have at least a great deal of truth in it. And that is how I see Marxist political economy at the present time (or at least the version of it that I put forth).

Very few bourgeois economists (and by no means even all Marxist economists!) predicted that this major crisis that developed last year would occur at all. It seemed utterly impossible to most of them. But a handful of them did see the wild financial speculation and recklessness with regard to subprime

mortgages, etc., and predicted that this might lead to a crisis. In light of what has happened so far, most bourgeois economists have now come around to this same view. Their theory is that the speculation is the *ENTIRE* cause of the crisis, and therefore once this speculation and all the “toxic assets” are cleared away, everything will be fine again. Thus the government’s program is to buy up (“nationalize” or “socialize”) the toxic assets, on the one hand, and [“prime the pump”](#) to get the economy started again, on the other hand.

My Marxist theory says this won’t work because the basic problem is an [overproduction crisis](#), which means primarily an overproduction of capital (rather than simply commodities). Even if all the “toxic assets” were bought by the government the basic problem of the great excess of productive capacity would still exist. Thus no “pump priming” or “stimulus” will actually work to “restart” the economy. On the other hand, to the extent that money is *somehow* put into the hands of those who will spend it, the problem will be eased until that money stops coming.

So both bourgeois Keynesian theory, and my version of Marxist political economy, predict that the big deficits will help in the short term, but the difference is that their theory says it can soon get the whole economy back on track to the point that the deficits can be trimmed, and eventually eliminated, while I predict that as soon as they cut back on the huge deficits the problem will return. Furthermore I predict that if they try to keep running massive deficits (and continually increase them as necessary) they will *STILL* end up in disaster (because those loaning them the money will stop doing so and/or because the currency will eventually be destroyed through massive inflation).

In short, I don’t claim much credit for correctly predicting that Chinese Keynesianism would soon start to ease the situation there, or even for being one of the few (even among contemporary Marxists) to firmly predict that the current massive financial/economic crisis would develop. The real test of my (i.e., Marx’s!) theory is still to come.

Scott

bcc: Other friends

----- Original Message -----

From: J.....

Sent: Saturday, April 11, 2009

Subject: Article on China's stimulus package

http://news.yahoo.com/s/afp/20090411/bs_afp/financeconomychina_20090411103028

[Link no longer active]

Scott, here is a general article on China's economic stimulus package...as you predicted there seems to be small upsurges building up...only to fall back down. Hope all is well.

J-----