Liberal US, developmental China

Luiz Carlos Bresser-Pereira

Chapter 15 of the book being written, *Rentiers-Financiers' Capitalism*. December 2020 version.

In 1978 China realized that the economic potentialities of "socialism" (actually, statism) had been exhausted and began its transition to capitalism, to a developmental form of capitalism. At the same time, the US, whose growth strategy was developmental since Alexander Hamilton was secretary of the Treasury, led the neoliberal turn thus embarking into a liberal economic policy regime. I know that this affirmation may be surprising because Americans believe that their country was "liberal" from the Independence, because since them it adopted a political liberalism. Not, however, economic liberalism. In its whole growth until 1980 the US adopted a developmental regime because, until 1939, its import tariffs on manufactured goods were very high, and we already saw that in the post-war Golden Years the state in the more advanced capitalist countries intervened firmly and moderately in the economy. Is worth also to note that until the neoliberal turn, the World Bank, always closely controlled by the US, was the main hub of developmental economists. This only changed with the election of Ronald Reagan. From this time on the US and China adopted opposite economic strategies whose results were radically different. In the following 40 years China experienced a spectacular growth, while the US saw its secular growth rates to fall substantially. We may attribute these different outcomes to China's much lower starting point of China when compared with the U.S. This is just one part of the story. It is impossible not to relate the different results achieved by the two countries in the opposite policy regime choices that they made. China learned fast that the statist system was only effective in producing growth while investments were concentrated in infrastructure and in the heavy industry and changed fast (much faster than Russia) its policy regime. The US, although counting in its foundation with the patron of the developmental economists – Alexander Hamilton – for two centuries adopted developmental while they affirmed – and were likely to believe – that they were liberal policies. They knew, however, that to grow the US needed to give full priority to industrialization (a thesis defended by developmentalism and criticized by economic liberalism) and did not hesitate in adopting high import tariffs on manufactured goods. They justified this policy with the old infant industry argument which Hamilton had formulated in his 1792 *Report of Manufactures*, but in the early twentieth century the American manufactured goods industry required import tariffs to remain competitive. Not because the local industry was inefficient, not because it was infant because it was not anymore, but because the Dutch disease originated from the exports of oil and agricultural commodities appreciated the dollar in the long-term and made American manufacturing industry not competitive. Policymakers in the US (as in many other countries) didn't have the concept of this major market failure that makes non-competitive investment projects in manufacturing utilizing the best technology anywhere, nor

Luiz Carlos Bresser-Pereira is emeritus professor of Getúlio Vargas Foundation. bresserpereira@gmail.com www.bresserpereira.org.br.

knew that tariffs neutralized it in relation to the domestic market but resisted to the liberal pressure to eliminate the tariffs because they were a condition for the industrialization.[1] They were developmental policymakers.

Around 1980, while China moved from a radical and inefficient statism toward a historically efficient combination of market and state coordination – a developmental policy regime – the US moved from such regime to a radical and inefficient form of organizing capitalism – economic liberalism. 40 year later, after an extraordinary growth of China and a meagre growth of the US, something that was unthinkable at that time became the talk of the town: the move of the core of the world economy from the North Atlantic to the Pacific, and the replacement of the US by China as the new hegemonic potency. And with this predicted change the old idea about the historical shifts of civilization, as we read in Toynbee, or of hegemons within the capitalist mode of prod, as we read in Fernand Braudel, Immanuel Wallerstein and Giovanni Arrighi, are brought back. We already discussed the views of the later in Chapter 1 together with my analysis of the phases of capitalist development. The problem is that they speak in cycles, but cycles are endogenous processes following a certain logic, which is lacking in the "secular cycles" of Braudel, or the world-system of Wallerstein, or the "systemic cycles" of Arrighi. Wallerstein tries to relate his cycles with the long cycles of Kondratieff and the exhaustion of the innovation process discussed by Schumpeter, but the long Kondratieff cycles are much shorter. Arrighi uses Braudel's observation that in the end of each secular cycle the investment opportunities fall, and the lead of the economic system moves from the industrial entrepreneurs to the financiers – what makes sense. But they don't present a general theory for the phases of capitalist development probably because each phase change follows a different logic. Thus, to understand the e change of hegemon from the US to China, we have to consider the specific historical facts behind. Which, in this case, I view the choice economic growth strategy. The historical new facts that commanded the substitution of the US for Great Britain as the hegemon in the first half of the twentieth century were the Organizational Revolution, which was centred in the US, the huge immigration to the country, and the ensuing much bigger population of the US in comparison with Britain. The present transition has many causes, including the much bigger population of China, but I am proposing that the main cause was the right choice of economic policy regime made by China and the wrong choice made at the same time by the US.

By changing to capitalism and adopting a developmental policy regime Chine experienced the more spectacular growth in history, more than 850 million Chinese people have been lifted out of extreme poverty, and the poverty rate, which was superior to 80 percent 40 years ago, today is 0.5 percent of the total population. The twentieth century was the American century;[2] the twenty first century is likely to be the Chinese century. In this chapter I will discuss the time the US was a successful empire, the rise of China since the 1949 independence and, since 1978, its capitalist revolution in the framework of developmentalism. Although producing an economic liberal discourse since its independence, the US was a developmental nation-state until 1980. It was developmental until 1939 because only in this year it finally opened its economy; from that year to 1980, because the New Deal and the Golden Years of Capitalism involved a moderate intervention of the state in the economy, which distinguishes a developmental from a liberal policy regime. It was a successful developmentalism because until 1980 its wealth and power haven't ceased to grow, it became the world hegemon after the war, and won the Cold War in the 1980s. In Chapter 7, I discussed globalization as a historical process of productive integration at world level; in the last chapter, globalization as an imperial project that was successful in Latin America while failed in East and South Asia. In 1980 the US, despite its successful developmental history, moved to a liberal policy regime and has been growing slowly since then, while from 1978 China is moving to capitalism and a developmental policy regime. I will discuss these two divergent paths in this chapter.

When the US was a successful empire

The American elites, although always affirming their faith in economic liberalism, up to 1980 build their nation as a developmental rather than a liberal national economy. This may be surprising, but it is the necessary inference from the concept of developmentalism and economic liberalism as the two only historical economic forms of capitalism. In a giving capitalist country either the state is just supposed to guarantee property rights and contracts and keep the fiscal budget balanced, and the economic system will be liberal, or the state gives to the market the key role in the coordination of the competitive sector of the economy, while intervenes in the non-competitive sectors, keeps the economic system stable, sets limits to economic inequality, protects the environment, and capitalism will be developmental.[3] While countries that have experienced all phases of capitalist development as Britain or of France only moved to economic liberalism around the 1840s, when they opened their economies, and maintained it liberal up to 1929, the US that kept its economy closed, its manufacturing industry firmly protected, up to 1939. After the war, in the Golden Years, in the framework of the Bretton Woods agreements, the US remained developmental together with all rich countries as they combined market and state coordination and have grown with stability.

I am not the only person to say that the US was a developmental economy. Emily S. Rosenberg (1982: 7), studying the American economic and cultural expansion between 1890 and 1945, argued that the defining ideology of the period was "liberal developmentalism" – an ideology that merged nineteenth-century liberal tenets with the historical experience of the US's growth experience, which included "growing acceptance of governmental activity to protect private enterprise". Until 1939 the US maintained high import tariffs for manufactured goods, and, so, its economic policy regime was developmental, not liberal. Notwithstanding free enterprise has been always extolled, Rosenberg remarks "the government intervened in the economy primarily in order to release the energies of the private sector" (p.9). No country was so convincingly capitalist as was the US, but capitalism does not need to be liberal to be capitalist. Capitalism is better defined by the profit motive and the transformation of the businessman into its hero who assumes risks and innovates, than by exclusive market coordination. As Joseph Schumpeter, the greatest ideologue of capitalism well understood, what assures good profits are monopolist innovations, not competitive markets.

It is usual to hear that the twentieth century was the American century, and date its beginning from the end of the First World War, when the US's GDP was already more than the double of the UK and income per capita, similar. In a fascinating introductory essay, historian Andrew J. Bacevich, who organized the book *The Short American Century* (2012) dates its beginning from the early 1940s, when the US was considering enter the war. He starts from Henry R. Luce, the editor of *Life* magazine, publishing in its February 17 issue a famous essay with the provocative tittle, "The American Century". Following Bacevich, Luce argued in this piece that the Americans were unhappy, gloomy, while the British were happy because they were fighting for their survival as a nation, but the time had arrived for Americans.

> To Luce, the moment had arrived for the United States to answer history's call. As he put it, 'the complete opportunity of leadership is *ours'…"* No nation was better positioned to determine the character of this new world than the United States. As 'the inheritor of all the great principles of Western civilization – above all Justice, the love of Truth, the ideal of Charity' – American already embodied.[4]

In that moment and for the next sixty years, we lived the American Century, which "soon found expression in a "Pax Americana", Washington wielding broad authority throughout the 'Free World'" (p.10). From the 1940s the world was under a "benevolent" empire – an expression that it chose to be called. Which, according to Bacevich, may have been inspired by the network of Protestant reform societies that between 1815 and 1861 existed to cultivate a moral and virtuous public, but was also inspired by the republicanism that the founding fathers adopted together and contradictorily with political liberalism. Given that the US ceased to have a state-sponsored religion, most Americans agreed that a good and moral citizenry was essential for the national project. In twentieth century, when the US were the paradigmatic empire, but the word "empire" had ceased to legitimate, empire required a good adjective and "benevolent" did the job.

The US was a formal but unimportant empire in the nineteenth century, an informal and powerful empire in the twentieth century. Since the beginning of the twenty first century and the Iraq War, it has been a challenged and declining empire. An empire whose high moment was the 1950s, when the US emerged victorious in the war. At that time, the idea of a benevolent hegemon was not absurd. It had just proved a champion of democracy and exhibited a soft stance toward the developing world because it needed its compliance in the Cold War, because the American society had achieved and extraordinary level of cohesiveness which only the racial problem denied, and because a developmental or industrializing strategy on the part of the developing countries was something acceptable to the American elites. Michael Mann, in a 2003 book, *Incoherent Empire*, showed in a balanced and objective way how the US acts as a classical empire which subordinates the other peoples or, in the time of capitalism, the other nations-states formally, using its military power, and informally, using its ideological hegemony. Mann wrote his book just after the September 11 attack, when the US was still in the top of its hegemony. Before president George W. Bush, curbing to the neo-conservative imperialism of his mentor and vice-president, Dick Cheney, initiated the wrong and demoralizing Iraq war.[5] Mann (p.29) remarks neoconservatives don't like the expression "imperialism", but like the sounding of the world, "empire", and of its adjective, "imperial". Charles Krauthammer argued that the collapse of the Soviet Union established the US as unipolar potency dominating the world.[6] Robert Kaplan wrote the victory in the Second World

War made the US a “universal potency”.[7] Joseph Nye celebrated the “soft power” of the US and shared with many the idea that the US was a “benevolent hegemon”, or, more clearly, “a benevolent empire”.[8] As if a benevolent empire was possible. Mann (p.7) doesn’t believe in such possibility; the US is a militarist, not a benevolent empire. Yet, he is not immune in relation to the main argument the defenders of imperial condition of the US offer: this country would have the role of warranting universal order, it would be the bastion of the “Pax Americana”. Mann remarks that the US has good intentions but is clumsy in its interventions. The new imperialists don’t want to dominate permanently the other countries; they just want that their country plays the role of an indirect and informal empire; a country which although it threatens, coerces and sometimes invades foreign states, improves them and then go away. (p.26) Mann is wrong on that. The first thing that Bush did while his book was being published was to invade Iraq – an invasion that represented a defeat to both sides: to Iraq, whose society and economy were destroyed, and to the US, whose loss of global leadership this war triggered. This war, a resentful and irrational response to the September 11 terrorist attack, marked the beginning to the fall of the American ideological hegemony.

One year later, Anatol Lieven publishes a book on the same direction.[9] He searches to make “the anatomy of American nationalism”. Americans do not see themselves as imperialist. Yet, “a great many Americans are not only intensely nationalistic but bellicose in their response to any perceived attack or slight against the United States”. He acknowledges that in his country there is a hard, “antithesis” nationalism, which stems above all from ethnoreligious roots” and involves “the nativist sentiments on the part of America’s original White population, the particular culture of the White South, and the beliefs and agendas of the ethnic lobbies”. But, as a trade-off, he speaks of a “civic nationalism”, which is founded in what he calls the American Creed: “a set of great democratic, legal and individual beliefs and principles on which the American state and Constitution are founded”. Lieven defends the first form of nationalism or imperialism, but, independently of this distinction of two forms of nationalism, he is concerned that “American nationalism is beginning to conflict very seriously with an enlightened, viable, or rational version of American imperialism; that is to say, with the interests of the United States as the world hegemon and heir to the roles of ancient Rome and China within their respective regions”. This “liberal” American thus confirms the imperial destiny of America, which seems condemned to a nationalist and increasingly failed imperialism. Stephen M. Streeter (2009: 197) saw globalization as an “American project”. Instead of dating it from the neoliberal turn, as I do, he dated it from the 1960s, the Kennedy administration and the “struggle for hearts and minds” of the Cold War. The US officials hoped to persuade the developing countries to join “the liberal capitalist world order”. For that, “they conveniently forgot or ignored that the US government had historically subsidized the private sector and erected tariff barriers to protect local industry”. The world lived then the time of modernization theory, which posed the US as the ideal society and economic development as the adoption of the American model. In that line, modernization theory’s paradigmatic book was Walt Whitman Rostow’s (1960) book on the stages of economic growth, the take-off corresponding to the industrial revolution and the final stage, the “era of mass consumption” identified with the post-war American society. In this intellectual and international political context, the Kennedy administration (1961-1963) was devoted to counterinsurgency strategy and nation building, two concepts that "were thoroughly infused with empire and imperialism" (p.198). In this framework, "nation building" is big brother's doublespeak language; it does not mean to strength the developing nations, but to submit them to modernization. Yet modernization was not associated to neoliberalism, but to Rosenberg's "liberal developmentalism". Thus, before the neoliberal turn the American imperialism was not anti-industrialist as it would become from the 1980s. And this is one of the reasons why many countries were at that time successful in industrializing and, as was the case of Brazil, completing their capitalist revolution.

The 1970s were a time of crisis for the American economy and the world hegemony. It faced defeat in the Vietnam war, and suffered a significant economic crisis, whose novel characteristic was stagflation. It eventually overcame the crisis with a flight forward (*une fuite en avance*): a violent increase in the interest rate to fight inflation and a huge increase in state expenditures paradoxically in name of neoliberalism. Add to this the unexpected fall of the Berlin Wall in 1989, completed two years later by the collapse of the Soviet Union and the US was again raised to the top of the world – to the condition of the single hegemon. Yet, such hegemony with clay feet was costly to America. The substitution of a neoliberal policy regime for a developmental one was a big mistake. It left the American manufacturing industry defenceless vis-à-vis the explosively successful exports of manufactured goods by China, which, also around 1980s, changed from a statist mode of production to a developmental capitalist social formation. While the US abandoned voluntarily its developmental policy regime, involved itself in a vast deregulation program which debilitated its economy, and remained paralysed in face of the Chinese competition, China adopt boldly a developmental policy regime. Meanwhile, the successive neoliberal administrations in the US adopted pro-rich policies and caused an increasing division of the American society, while identified the American capitalism with efficiency, although China was more efficient, with justice, although inequality achieved new highs, and with democracy – the only item in which the US had a clear advantage over China. But the hegemon was blind by its own power. It called itself the "benevolent hegemon" but turned each time less benevolent and more clearly imperialist with the support of neo-conservative intellectuals organized in a great number of think-tanks. In 2015, Saccarelli and Varadarajan, after listing a series of neoconservative intellectuals, argued that "what united them was the claim that the imperialism practiced by liberal states (Britain in the past and the US in the present) was not just beneficial but necessary to maintain peace and stability in the world".[10]

While China was rising to power and Russia was recovering from the bad mistakes it made after the fall of the Berlin wall, the US suffered the September 11, 2001 terrorist attack. Instead of just chasing the terrorist organization, the Alkaid, whose origin was in the Saudi Arabia, the American government invaded Iraq. It was a war decided under the dominion of national hubris and resentment and, as Perry Anderson observed at the time, the US was transformed into a "house of war", under the influence of the neoconservative falcons and the Israeli lobby– a war to a mildly nationalist and highly incompetent dictator who was hated in Washington although was not associated to terrorism and did not possess arms of mass destruction.[11] The war was "won" in one month, the Iraq president was killed, the country was destroyed, while the political control was transferred pathetically from the Sunni to the Shia, from a friendly Islam denomination to an "inimical" on whose headquarters are in Iran. This war made evident that there was not a Pax Americana; on the contrary, what we have are the Unending American Wars, as the US is permanently engaged in small wars. The time of the military intervention in Latin America, particularly in Central America is over, but since the 1990 Gulf War the world faces a sequence of small US wars in Afghanistan, Somalia, Syria, Libya, Yemen. War that gave a rationale to US's military bases around the world: to facilitate waging small imperialist wars and the imposition of "sanctions" to the non-friendly countries. The fact that they were not successful and are increasingly rejected by the American people led, eventually, president Barak Obama, in 2011, to start withdrawing the American troops from Afghanistan, but a slow and hesitant process that seems endless. The American century is over, but the American elites are still to realize that the time of empire is over. This will only become clear when a larger number of developing countries shows real autonomy, defines their own national projects, and proves able to grow and catch up. While this does not happen and most countries only reject formal domination, the imperial illusion will remain alive in the North.

The winner of the globalization project

The ultimate change that world capitalism has undergone in the last forty years was the rise of China since 1949 – the transformation of a statist social formation into developmental capitalism. After expelling the Japanese, which had invaded the North of China in 1937, Mao Zedong was finally victorious in the "civil war", actually an independence war because the politicians in office counted with the full support of the West's main countries. China came out of the "century of humiliation" ended in 1949 as a poor and quasi-stagnating country. As we can see in Table 15.1, in 1960 the US' income per capita was 17.4 times greater than China's income per capita. Today, US' income per capita of is just 3.8 times greater and this difference continues to diminish given the faster growth of China. Given that China has a population 4.2 times bigger than the American population, since 2016 the GDP of China is the greater in the world in purchasing power parity terms. A development that also happened in social terms. From 1960 to today China's, life expectancy moved from 32.3 to 76.6 years.

Table 15.1: Income per capita in PPP, US and China, 1960 and 2019

	1960		2019		US / China (times)	
	China	US	China	US	1960	2019
Income per capita	567	9,895	16,830	65,298	17,4	3,8
Life expectancy	32.3	76.6	73.3	78.8	2,4	1.1

Source: For 1960, Source, Penn World Table; for 2019, World Bank. PPP = purchasing power parity.

China begins its capitalist transition in 1978; in the following year happens in the West the neoliberal turn and begins the globalization project. Comparing China and the US from this year, the results are still more impressive. As we can see in Table 15.2, while in the US, GDP per capita just doubled in these forty years, it was multiplied by almost 24 times in China! As to the dismal 1.3 times for Brazil, it is a sad testimony of its quasi-stagnation. I have been discussing for the last 20 years – a theoretical framework explains why the West have been falling behind the East Asian countries since the 1980s and Brazil is falling behind even the rich countries.[12] Considering the last 40 last years, these were the years of neoliberal or Rentiers-Financiers' capitalism and the American globalization project. A project that successful in halting the industrialization of the Latin American countries but failed in East Asia. The greater winners were the East Asian countries and particularly China. Instead of protecting their manufacturing industry, they made a bet on globalization, liberalized their international trade unilaterally, invested heavily in education, infrastructure and new technologies, adopted strategic industrial policies and an active macroeconomic policy, and were extremely successful.

Today China is a developmental capitalist society which grows much faster than the US's liberal capitalism. The Communist Party continue to view their society as a socialist society, but in the last forty years a large and prosperous capitalist class has emerged, and inequality increased substantially. It is true that the standards of living also increased and extreme poverty was eliminated, but this is not enough to define China as a socialist society. It is not also a case of a "state capitalism", first because either a society is statist or it is capitalist; second, because in China the market coordinates the economy together with the state. Nevertheless, Marie-Claire Bergère wrote two books to defend that China is a "new state capitalism".[13] I will discuss this issue in chapter 17, when I will discuss the future of capitalism.

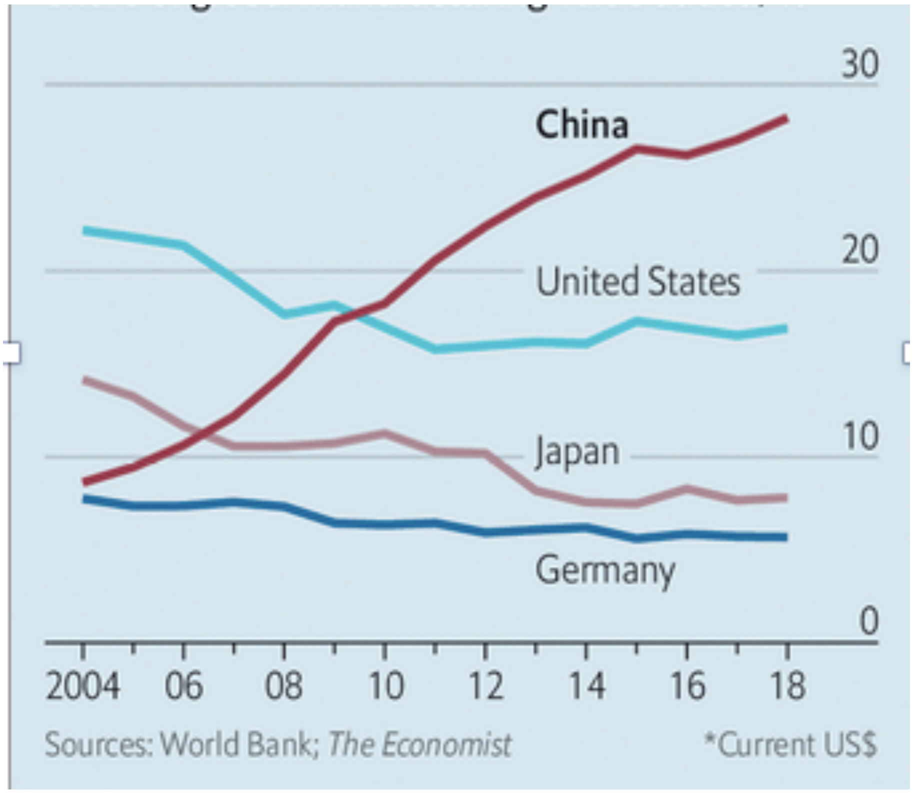
Table 15.2: Increase of GDP per capita between 1980 and 2019

Countries	2019/1980 (times)
US	2.0
Rich countries [3]	1.9
Brazil	1.3
China	23.7

Source: WEO/IMF e World Bank Development Indicators. Observations: Constant prices in the National money. Rich countries: OCDE except Turkey Chile, Mexico, Poland, Check Rep., Hungary, Slovakia, Lithuania, Estonia and Latvia. The OCDE data refer to 2018.

Figure 15.1: China's manufacturing industry compared with the US, Japan and

Germany, from 2004



Source: World Bank, *The Economist.*

Thus, the winners in the globalization game were the East Asian countries and in special, China. They adopted capable developmental polices and experienced fast growth and catching up. We see this in the two tables just presented and also in Figure 15.1, which compares the growth of China with the US, Germany and Japan from 2004. In transforming globalization into a neoliberal project, the US assumed, first, that trade liberalization was the criterion to determine whether a country is liberal or developmental, second, that a liberal policy regime was superior to a developmental policy regime. They were wrong. Provided that does not face the Dutch disease and does not adopt the growth with foreign indebtedness (current accumulation deficits) policy, new-developmental economics shows that a country can open trade and compete globally while remaining developmental. On the other hand, although developed countries can count more on the market coordination of the economy than developing countries because they have more developed markets, they would have if they had remained developmental instead of making the neoliberal turn, if the state had not been debilitated but strengthened to face the new challenges that the 1970s' crisis had posed.

The century of humiliation

How can we explain this extraordinary economic achievement? First, it is important to consider history. Although income per capita was very low in China, around 5 percent of American income per capita in the 1950s when the first comparative statistics on the level of economic development began to be calculated and published, China didn't begin from zero.

On the contrary, it had a past of wealth, culture and power. It was only in the eighteenth century that Great Britain became the wealthiest and more powerful nation in the world. Before that China had occupied such position for at least two thousand years, and the Chinese viewed it as the centre of the world, the “Middle Kingdom”. As Henry Kissinger, who was the artifice of the US-China approximation in the 1970s, wrote in his book on China, “no other country can claim so long a continuous civilization, or such an intimate link with its ancient past and classical principles and strategy and statesmanship.” And he quotes Lucien Pye, the American political scientist who famously said in 1992 that China, in the modern age, “remains a civilization pretending to be a nation-state.” And continues Kissinger, “China’s splendid isolation nurtured a particular self-perception. Chinese elites grew accustomed to the notion that China was unique – not just a ‘great civilization’, but civilization itself.”[14] Reflecting how poor had become China after a century of imperialism, in the 1950s, 80 per cent of the population was illiterate. Only the existence there of a culturally sophisticated and powerful political-bureaucratic elite, which have not been fully destroyed by a century of Western imperialism, and an experienced business elite, including the businessmen that had migrated to the neighbouring countries with the socialist revolution, can explain the rise of China after 1949.

In the sixteenth century the Europeans, when the European countries began the colonization of America, they proved strong enough to submit the indigenous people in South and in North America. Only, however, in the nineteenth century they were strong enough to build empires in Africa and Asia. A century before Britain, and soon after, France and Belgium made their industrial and capitalist revolutions and were the first countries in history to experience economic development and become richer than China. In mid nineteenth century, disposing of new and more advanced industrial armaments, they became powerful enough to reduce Asia and Africa to the colonial condition. The domination of China began then, when Great Britain waged the first opium wars against China on the allegation that the Qing dynasty was forbidding the British merchants to sell opium to Chinese merchants. China didn’t become a straightforward colony like India, but from the two opium wars until the victory in the civil and independence war in 1949, it was reduced to a quasi-colonial condition, under the rule not only of Britain but also of the other rich countries including Japan, which invaded it in 1937. The Chinese call the century from the first opium war, 1839, to the national liberation led by Mao Zedong, “the century of humiliation”. In this century, China suffered a political fragmentation, lost several wars, and was often forced to give major concessions and pay large amounts of money as “reparations” to Britain, France, Germany, Japan and the US. Not surprisingly, it experienced a major process of deindustrialization (China produced mainly silk), and a radical economic decay. Not knowing that China had been the richest country in the world until the eighteenth century, in the 1960s, when I read *The Wealth of Nations*, I was surprised with Adam Smith insistently comparing Britain to China. It was much later that I learned with Paul Bairoch, the Swiss economic historian, how huge was China’s decadency under the imperial rule of the European countries and the US.[15] People search for explain why China stopped in the eighteenth century while Great Britain developed. They come with institutional, cultural, or economic explanations. But they make two mistakes. First, the question they pose is wrong. China didn’t stop in the eighteenth century; until this century all peoples around the world including the European didn't really know what economic growth was, as there was not increase in productivity and the idea of capital accumulation and technical progress was not part of ancient merchants. Everything changed when some countries, beginning with Britain, made their capitalist revolution for a series of reasons including some degree of hazard.

Second, they disregard the weight of imperialism. Like the Spanish and Portuguese in the sixteenth century, in the nineteenth century the British and French were persuaded that they had a civilizing mission. In fact, they were involved in an incredible imperialist exploitation not only of a few primitive people who they decimated in countries like the US and Australia, but also of ancient civilizations like the Chinese and the Indian. Some historian search for internal causes for the Chinese decay, like the Taiping revolt (1860-1864), which ravaged la China in this period, involved major loss of tax revenues for the state as it eroded its fiscal basis, and led the Qing emperors to increase the taxes of the people still under its authority. But the key factor explaining the century of humiliation was Western imperialism. The first Opium War began in 1839 and ended in 1842 by the British obtaining the concession of Hong Kong and the opening of the Chinese market to foreign trade. A second Opium War, now with the French associated to the British, has opened the whole Chinese domestic market to the imperial powers, forced the adoption of very low import tariffs on manufactured goods, and the legalization of the opium. Profiting from the weakness of the country and the loss of legitimacy of the imperial system, the Russians invaded Vladivostok in 1858, France obtained the concession of Indochina in 1885, Britain obtained the concession of Burma in 1886, Japan, the concession of Taiwan, in 1895. In the 1890s, profiting from the Boxer Rebellion (an anti-imperialist and anti-Christian uprising of Chinese supporting the Qing dynasty then still in office), an eight nations alliance coupling American, Austro-Hungarian, British, French, German, Italian, Japanese, and Russian troops occupied Peking, and the emperor was put under the guardianship of it. This meant the practical end of the Chinese Empire, a breakdown that was formalized in the 1911 Revolution which established the republic in China. At this moment, the Chinese government was fully demoralized, a condition that didn't change when, 1927, the Kuomintang assumed the control of the country, while Mao was beginning the socialist revolution. In 1937 China suffered the invasion of Japan.

The role of Mao Zedong was to wage war against the Japanese and the "nationalist" Kuomintang – the political party associated to the Western imperial potencies which was in office in China. With his victory in 1949 and the recovery of China sovereignty, the Chinese nation was able to form a real nation-state, organize state power, invest heavily in education, infrastructure, and heavy industry, and finally began its industrialization. These were policies that aimed the socialist revolution but served as foundation for the transition to capitalism that begins in 1978 under the leadership of Deng Xiaoping. Michel Aglietta and Guo Bai, in their 2012 book on China, explain which was the key economic obstacle that the new Chinese government faced initially: it was not "absence of a market economy, but China's incapacity to overcome the limits of the 'exportation' of labour force from agriculture to the urban industrial production."[16] The productivity of rural production was small, and the threat of famine was always present. As it happened also in Europe in the eighteenth century, fast industrialization based in low wages increasing below the growth of productivity only began after this problem was solved.

The 1949 victory was the victory of a "communist" revolution led by Marxist politicians who believed they were building a socialist society, but what they actually did was the first phase of China's capitalist revolution. I already discussed this fact in chapter 6. Socialism was not really a possibility for China. Thus, as it have happened before in Soviet Union, the socialist revolutionaries were able to do was to build a statist society – a society fully dominate by technobureaucrats where the collective ownership of the means of production (which I call "organization") substituted for the private property of the means of production (capital), profits ceased to the form of appropriation of the economic surplus, replaced by high salaries and other advantages, and state planning coordinated the whole economy. During the Mao Zedong administration this form of social organization proved effective in building a strong nation-state, educating the people, building the infrastructure, the heavy industry, the armaments industry, and a domestic financial system. Giovanni Arrighi, for instance, argues that the main attraction for foreign direct investment was not low-cost labour but "the high quality of labour reserves in terms of health, education, and capacity for self-management".[17] Yet, once this founding stage was overcome and the continuation of the growth process turned dependent of innovative investments in an increasingly complex and sophisticated manufacturing, commercial and service industries, the statist system proved inefficient. The Chinese realized this earlier than the Russians, and in 1978, two years after Mao's death, Deng Xiaoping assumes the command of China e begins its transition from statism to capitalism.

The Chinese developmental model and new developmentalism

In the next forty years the world assisted surprised if not astonished the greatest process of capitalist development in history. As it happened in all previous major episodes of growth and catching up, it was concentrated in the manufacturing industry. China became "the factory of the world". As we can see in Figure 15.1, the manufacturing industry of China supplanted the American manufacturing industry in 2004; today, China is by far the biggest producer of manufactured goods of the world. And its technological progress was still more impressive. Today China is likely to be more advanced than the US in internet technology and in artificial intelligence. Roselyn Hsueh, who made a research on China's telecommunications and textile industries, wrote in the first paragraph of her 2011 book that "I confronted immediately a paradox: the omnipresence of the state in economic activities along with genuine capitalist practices and values." A paradox that she "resolved" by arguing that has adopted a "bifurcated strategy" or a "two-step liberalization":

> In the strategic sectors – those important to national security and promotion of economic and technological development – the government centralizes the control of industry and strictly manages the level and direction of foreign direct investment. In less strategic sectors, the Chinese government relinquishes control over industry, decentralizes decision making to local authorities, and encourages private direct investment.[18]

This is linear interpretation of China's development, while it is only possible to understand China if we think dialectically as the Chinese often do. Dialectics is already present in their form of writing using ideograms instead of the alphabet. While alphabetic writing follows a linear, cause and effect logic – you write as you speak –, the use of ideograms involves a complex system of relations which may be causal but is also contradictory; it is an open form of communication which is essentially dialectical. Daniel A. Bell, in a book on Confucianism in China, writes briefly on the dialectical way of thinking and gives an example: in an editorial in the *Southern Weekly*, a leading intellectual newspaper in China, the editorialist argues that

> The exemplary persons seek "harmony, not conformity". Then, it breaks down the characters in the term "harmony" with the explanation that the first literally refers to "grain into the mouth" meaning people and social security, and the second refers "everything can be spoken", meaning democracy and freedom of speech.[19]

Thus, if we think in these terms, the concomitance of the "omnipresence of the state" with the existence of a strong market, this is not a paradox but a dialectical way of thinking and behaving. Second, although the criterion national security plays a role in the choice of the sectors of the economy that should be state coordinated, the main criterion adopted is economical; is new-developmental economics' central distinction between competitive and non-competitive sectors. China has achieved amazing economic results by adopting policies that are in the core of the new-developmental economics. Not because the Chinese have read the literature already existing on this new theoretical framework, but for the opposite reason: because in developing this new theoretical framework, I and my associates had as the basic source of empirical information the growth of the East Asian countries. And also, the Brazilian experience in the 1950s and in the 1970s. Recently, Luiz Fernando de Paula, Elias Jabbour and I have written a paper showing the close relation between the new theory and the East Asian experience.[20] Thus, when we study China's growth, we find there the following ideas which explain their economic attainment and are central for new-developmental economics:

First, China's political economy. As all other countries, China has begun to grow with the capitalist revolution – the formation of the Chinese nation-state and the industrial revolution. Mao Zedong led the formation of the nation-state and the heavy industry and infrastructure phase of the industrial revolution, while from 1978 Deng Xiaoping led the second phase, the diversification and decentralization of the economy and the transition to capitalism. In China there was not originally a developmental class coalition associating the industrial bourgeoisie with the communist bureaucracy, but specially the second phase of its industrialization counted with the active participation of the business people that were part of the "Chinese diaspora" in Taiwan, Hong Kong, Singapore. The technobureaucratic class in the Communist Party and the administration took charge of creating investment opportunities to the capitalist class that was rising while conserving firmly the political power.

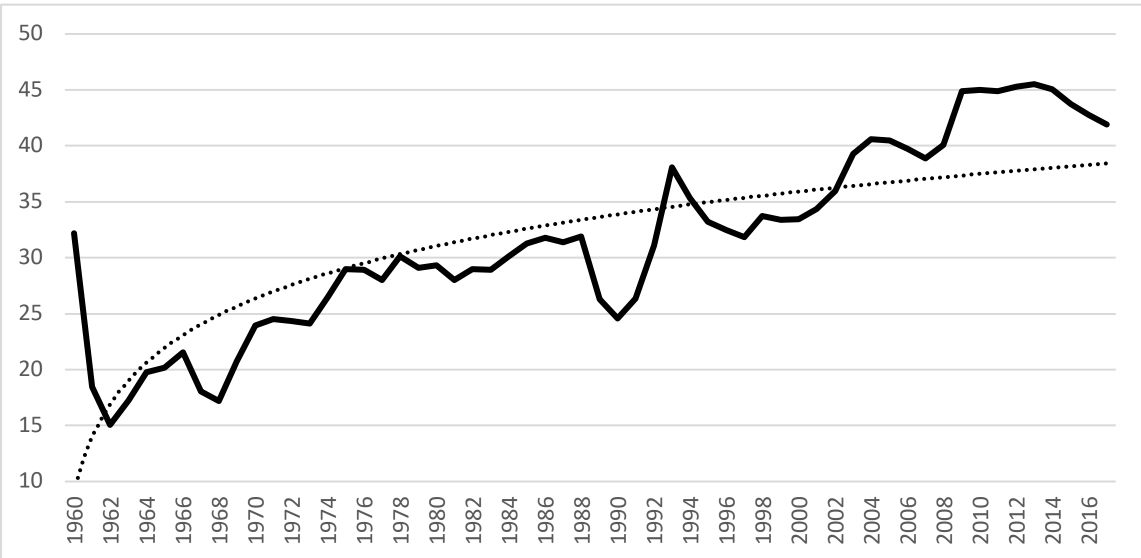
Second, the microeconomics. I visited China for the first time in 1979. When I made my second visit, in 2011, I arrived with the macroeconomic explanation that was the core of new-developmental economics: by combining the right macroeconomic prices with low wages, China was able compete successfully with the Western countries in exporting manufactured goods. Yet, after ten days in China I realized that this explanation, although right, was not sufficient to explain the incredible things that I was seeing. And it came to me the second secret of China: the microeconomic logic. Which is not industrial policy, although they used it, strategically, as should be done. The Chinese divided their economy into two sectors in a similar way to what did John K. Galbraith in his classic book, *The New Industrial State* (1967), a competitive sector and a non-competitive, and established a simple and logical rule: the state is supposed to plan and manage the non-competitive sector (infrastructure, some basic inputs, and the big banks too big to fail) where there is not a market, while in the competitive sector the state is supposed to be market coordinated. In this sector the economic role of the state guarantee the general conditions of capital accumulation (education, infrastructure, institutions, financing, distribution, the protection of nature, and the right macroeconomic prices), but the coordinative role is entirely up to the market.

As to the macroeconomic policies, the compatibility of the China's practices with the new-developmental policies is complete. The central idea is to keep the five macroeconomic prices right, particularly a satisfying rate of profit, so as to encourage investment in the manufacturing industry and increase the rate of capital accumulation. While in the short-term Keynesian macroeconomics investment depends on the interest rate, i.e., on the movement of the interest rate along the curve of the marginal efficiency of capital, in new developmentalism, which works with a simple production function where growth depends on the rate of investment and the productivity of capital, investment depends rather on the shifts of this curve to the right or to the left caused respectively by the increase or the reduction of the expected profit rate. Several factors cause these shifts, but variations in the real exchange rate play a major role in making the companies more optimist or more pessimist in relation to its expected rate of profit. The role of the exchange rate in the development process is to give (or deny) access of the capable companies to their own domestic and foreign markets; is to connect to or disconnect from their markets the investment projects that adopt the best technology.

In the case of developing countries, the national currency tends to be overvalued, because almost all of them adopt a self-defeating policy, the growth with foreign indebtedness policy, and or because many of them face the Dutch disease and are unable to neutralize it. Many countries having the disease were able to industrialize although they ignored its concept. They did that by imposing high tariffs on the imports of manufactured goods, a policy that neutralizes the disease in relation to the domestic market, and in some cases also by creating subsidies to the exports of these goods, which neutralize the disease on foreign markets. They acted intuitively, because they had learned with classical-developmental economics, which was mainly developed in the 1940s and 1950s, that economic development required industrialization or "structural change" – the transference of labour from low-income per capita primary industries to the manufacturing industry. On the other hand, they soon realized that import tariffs were a condition for industrialization. Given these two things, they defended their policy, which was called the "import substitution model of industrialization", with the infant industry argument, although often the respective industry was not anymore infant. Brazil, for instance, began its industrialization mainly in the 1930s, but in the 1980s it continued to protect its industry with tariffs; the US, which obviously had a Dutch disease problem due to its exports of oil, maintained very high import tariffs up to 1939; the American policymakers were also intuitively defending their manufacturing industry.

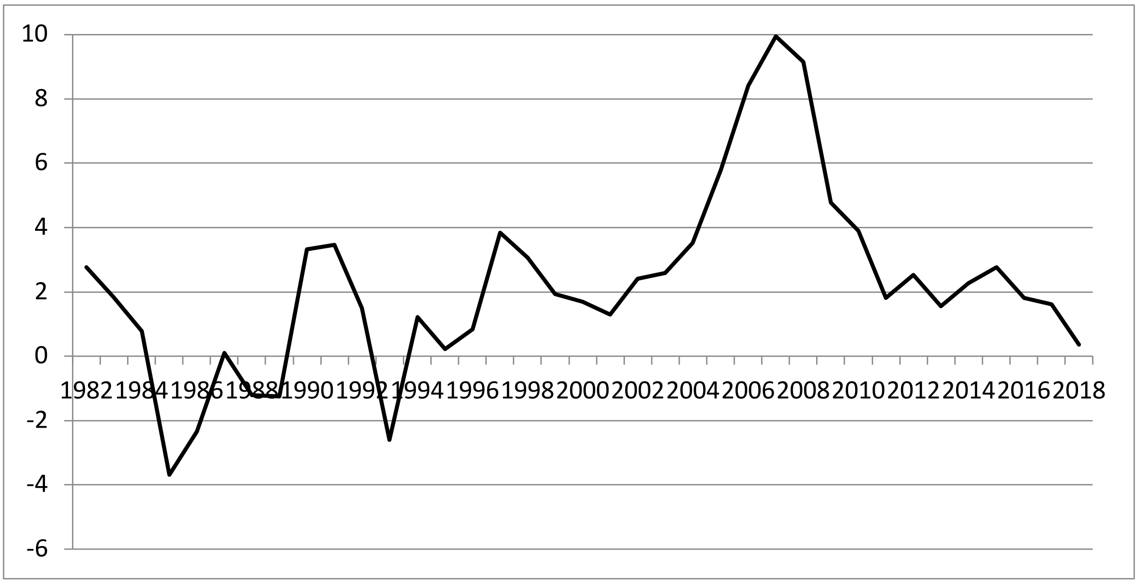
Liberal economists criticized harshly the import substitution industrialization saying that it was protectionist. Actually, it was not protectionist but assured equal condition of competition for the manufacturing companies in the country. With its model of Dutch disease, new-developmental economics added to the infant industry argument a second argument legitimizing import substitution which is not protectionist. By not having abundant natural resources to export, China and the other East Asian countries didn't have the problem of defending the import tariffs and export subsidies. This was not the case of the other developing countries, whose industrialization and growth depended on adopting these policies. Yet, after the 1980 neoliberal turn, the US and the other rich countries moved from a developmental to a liberal policy regime and pressed developing countries to follow suite. Lacking good arguments, developing countries abode and experience deindustrialization and quasi-stagnation since then.

Figure 15.2: Gross Fixed Capital Formation/GDP – % (China, 1960-2017)



Source: World Bank

Figure 15.3: Current account of China, 1982-2018 (% of GDP)

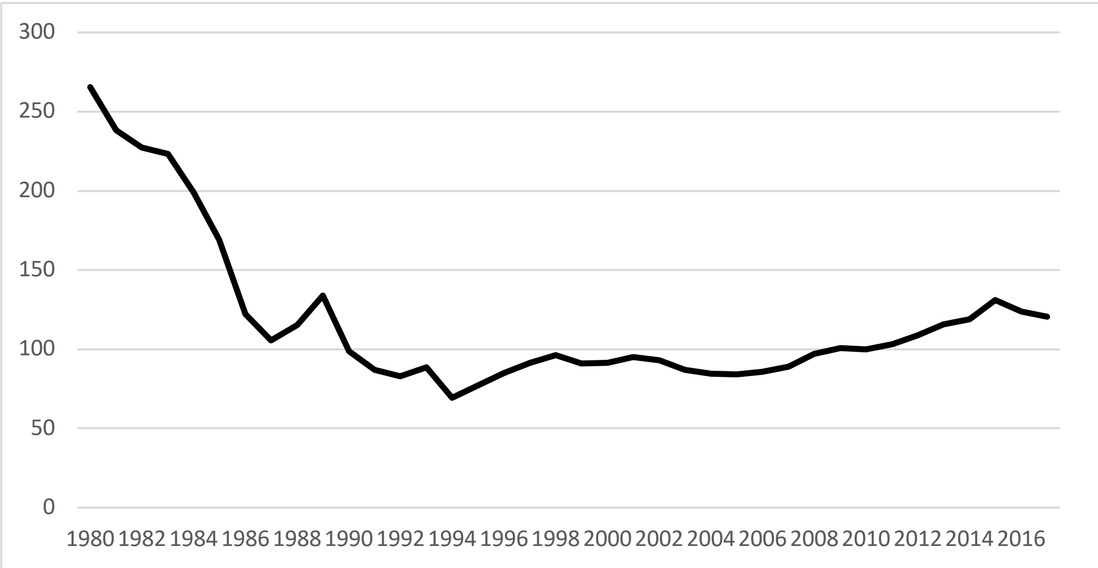


Source: World Bank

The second reason why the exchange rate tends to be overvalued in developing countries is the growth with foreign indebtedness policy or current account deficits. They share a simple say that most economist agree – that "is natural that capital-poor countries incur in current account deficits and benefit from the net transferences of capital-rich countries" provided that the foreign debt increase at a rate equal or below the increase of GDP. Indeed, this condition is true in relation to currency crises, which will be avoided, but is false in terms of growth, because the net capital inflows will appreciate the national currency and increase consumption while makes not competitive companies and new investment projects and discourages investment. Thus, to keep the exchange rate competitive and the profit rate satisfying countries should firmly avoid current account deficits. They should grow with their own savings, although they are small when growth is beginning. This was exactly what did China. Capital has been made at home. As we can see in Figure 15.3, in these last forty years China had only three years with current account deficits. The rule were large current account surpluses – sometimes excessively large and, so, unfair with other countries. Something that Germany have also been doing in this century. What did China did with the surpluses? They financed the foreign direct investments of China and the increase of international reserves. What represented the investments of multinational corporations in China? They had no role in financing capital accumulation, but they contributed to growth due the transfer of technology and the opening of new export markets. foreign indebtedness policy.

Thus, the happy fact of not having the Dutch disease and two policies (keeping the interest rate low and rejecting current account deficits) were instrumental in keeping exchange rate competitive in China, but to understand that we must consider also the devaluations that happened in the 1980s, whose outcome we can see in Figure 15.4. The yuan followed a continued trend of devaluations from 1981 until the 1994 maxi-devaluation, which took place alongside with a sharp domestic fiscal adjustment. A fixed exchange rate (1 US$ = 8.3 RMB) was in force in 1995-2006. Starting in 2006, a semi-fixed exchange regime was implemented. Since 2015, the People’s Bank of China has been intervening in the foreign exchange market, depreciating the Yuan in controlled manner.

Figure 15.4. Real effective exchange rate of China (1980-2017)



Source: Federal Reserve Economic Data.

The firm management of the five macroeconomic prices was essential to turn effective China’s export-led strategy. In 1980 exports represented just 5 percent of GDP; in 2007, 36 percent. After the 2008 global financial crisis China changed its priority to the domestic market and the export coefficient has fallen to 20 percent of GDP today. Classical developmental economists in Latin America are often critical of export-led growth and would like to return to a domestic-led growth as it was the import substitution industrialization. This is a mistake. The import substitution model was only domestic led while tariffs neutralized the Dutch disease on the domestic market. When, for instance, Brazil, in 1967, created subsidies to the exports of manufactured goods, the growth of the country was strongly accelerated, and Brazil became of the major developing countries exporting manufactured goods.

Summing up, China was the great winner of the globalization project because it moved from statism to capitalism in the right moment and adopted the right developmental policies, while the US moved from a developmental strategy and its economy faced secular stagnation. While China exhibited a surplus current account, its exchange rate is always competitive and its manufacturing industry, booming, the US exhibit chronic current account deficits, the dollar was always relatively overvalued, deindustrialization was not the sound outcome of the transfer of labour to sophisticated services but in large part, premature. If China had also changed to economic liberalism, it would not have experienced the incomparable growth that it achieved in the last forty years. But developmentalism is no guarantee of growth. It is only a condition for growth, which will be effectively achieved if the country adopts the right institutions and policies, if together with industrial policy it assumes the long-term supply side policies which are a condition for capital accumulation and growth, if it keeps the five macroeconomic prices right and the two main macroeconomic accounts (the fiscal and the foreign or current-account) balanced, and if it encourages private investment while keeps the capacity of the state to finance public investment. These were policies that China adopted, not the U.S.

References

Aglietta, Michel; Guo Bai (2012) *La Voie Chinoise – Capitalisme et Empire*, Paris: Odile Jacob.

Anderson, Benedict (1983 [1991]) *Imagined Communities*, 3rd edition. London: Verso. First edition, 1983.

Arrighi, Giovanni (2007) *Adam Smith in Beijing: Lineages of the Twenty-First Century*, London: Verso.

Bacevich, Andrew J. (2012) "*Life* at the down of the American century", in Andrew J. Bacevich, ed. (2012): 1-14.

Bacevich, Andrew J. ed. (2012) *The Short American Century*, Cambridge: Cambridge University Press.

Bairoch, Paul (1963 [1974]) *Révolution Industrielle et Sous-développement*, Paris: Mouton. First edition, 1963.

Bairoch, Paul (1993) *Economics & World History*, Chicago: Chicago University Press.

Bell, Daniel A. (2008) China's New Confucianism: Politics and Everyday Life in a Changing Society, Princeton: Princeton University Press.

Bergère, Marie-Claire (2007*) Capitalismes & Capitalistes en Chine: Des Origines à nos Jour*s, Paris: Perrin.

Bergère, Marie-Claire (2013) *Chine – Le Nouveau Capitalisme d'État*, Paris: Fayard.

Bresser-Pereira, Luiz Carlos (2017) "The two forms of capitalism: developmentalism and economic liberalism"**,** *Brazilian Journal of Political Economy* 37 (4), October 2017.

Bresser-Pereira, Luiz Carlos, Elias Jabbour; Luiz Fernando de Paula (2020). "South Korea's and China's catching-up: a new-developmentalist analysis". *Brazilian Journal of Political Economy* 40(2): 264-284.

Bresser-Pereira, Luiz Carlos; Eliane Cristina Araújo; Samuel Costa Peres (2020), "An alternative to the middle-income trap", *Structural Change and Economic Dynamics*, 52, March: 294-312.

Hobsbawm, Eric J. (1994) *The Age of Extremes*, London: Michael Joseph.

Hroch, Miroslav (2005 [2015]) *European Nations: Explaining their Formation*, London: Verso. Original in German, 2005.

Hsueh, Roselyn (2011) *China's Regultory State*, Ithaca: Cornell University Press.

Kaplan, Robert (2001) *The Coming Anarchy: Shattering the Dreams of the Post Cold War*, New York: Vintage.

Kissinger, Henry (2011) *On China*, New York: The Penguin Press.

Krauthammer, Charles (2002) “The Unipolar Moment Revisited”, *The National Interest* 70, Winter: 5-18. https://www.jstor.org/stable/42897438

Mann, Michael (2013) *The Sources of Global Power. Volume 4: Globalizations*, New York: Cambridge University Press.

Nye Jr, Joseph S. (2002) *The Paradox of American Power: Why the World’s Only Superpower Can’t Go it Alone*, New York: Oxford University Press.

Rosenberg, Emily S. (1982) *Spreading the American Dream – American Economic and Cultural Expansion, 1890-1945*, New York: Hill and Wang. Kindle book

Rosenberg, Emily S. (2012) “Consuming the American century”, in Andrew J. Bacevich, ed. (2012): 38-57.

Rostow, Walt W. (1960) *The Stages of Economic Growth*, Cambridge: Cambridge University Press.

Saccarelli, Emanuele; Latha Varadarajan (2015) *Imperialism: Past and Present.* Oxford: Oxford University Press.

Streeter, Stephen M. (2009) “The US-led globalization project in the third world: The struggle for hearts and minds in Guatemala and Vietnam in the 1960s’, in Stephen M. Streeter, John C. Weaver, and William D. Coleman (2009): 196-211.

Streeter, Stephen M.; John C. Weaver; William D. Coleman (2009) *Empires and Autonomy. Moments in the History of Globalization.* Toronto: UBC Press.

---

[1] The two papers defining originally the Dutch disease are Corden and Neary (1982) and Bresser-Pereira (2008); the first paper to discuss the two alternative forms of neutralizing the disease – a variable export tax on the commodities that originate it, or variable and linear import tariffs and export subsidies on manufactured goods to neutralize the disease respectively at the domestic market and in the foreign markets – is Bresser-Pereira (2020b).

[2] Poverty rate according to World Bank criterion: are poor people living on the equivalent of US$1.90 or less per day in purchasing price parity terms.

[3] Bresser-Pereira (2017).

[4] Bacevich (2012: 4-5).

[5] The film “Vice” (2018), a biographical docudrama in which director Adam McKay has shown how Dick Chaney occupied with his associates the main positions in the White House and had a decisive role in promoting wars.

[6] Krauthammer (2002).

[7] Kaplan (2001).

[8] Nye Jr. (2002).

[9] .Lieven (2004: 5; 11)

[10] Saccarelli and Varadarajan (2015: 12). The intellectuals listed were Niall Ferguson, Robert Cooper, Stanley Kurtz, Max Boot, Deepak Lal, and Sebastian Mallaby.

[11] Anderson (2007).

[12] I developed this theoretical framework also to explain why the East Asian countries have grown while Latin America and particularly Brazil has fallen behind since 1990 when they submitted to neoliberalism. See Bresser-Pereira, Araújo and Peres (2020).

[13] Bergère (2007; 2014).

[14] Kissinger (2011: 2; 10; 11).

[15] Bairoch (1993).

[16] Aglietta and Bai (2012: 105).

[17] Arrighi (2007: 351).

[18] Hsueh (2011: 1-3).

[19] Bell (2008: 14). Daniel A. Bell is a Canadian intellectual teaching at Shandong and Tsinghua universities. He should not be confused with Daniel Bell, the Harvard sociologist who wrote on post-industrial societies.

[20] Bresser-Pereira, Paula and Jabbour (2020).