

You Can't Get There from Here: Reflections on the "Beijing Consensus"

Paper for the International Symposium on the
"China Model or Beijing Consensus for Development"

Tianjin Normal University, Tianjin, China

August 8, 2005

There is a story told in the United States about a young man who has lost his way on the back roads of rural Kentucky. He pulls his car into the driveway of a small farmhouse and asks the farmer sitting on the porch, "What is the best way to get to Chicago?" The farmer draws on his pipe, then replies laconically, "I'm sorry, son, but you can't there from here."

Think of China as Chicago and any underdeveloped non-socialist country today as rural Kentucky. I will argue that you can't get to China from any of those countries. It is futile to look for policies derived from the Chinese experience that might allow other poor countries to develop as China has developed.

But perhaps one shouldn't try to get to Chicago from rural Kentucky. Chicago, the city in which I have lived for thirty years, is a marvelous place, but it is by no means "the shining city on the hill" about which our ancestors dreamed. Chicagoans like to say that ours is "a city that works," and it does work for many of us, but it is, at the same time, a city of stupendous inequality, public schools and public health services in disarray, vast areas of urban blight: desolation, crime, gang violence, homelessness, drug trafficking and addiction. We also have huge numbers of young men (and not a few women) in prison, more being added each year.

The situation is not so different with China. China has astonished the world with its economic accomplishments over the past quarter century, but China faces problems of epic

proportion. Much dire poverty remains, especially in the countryside; the gap between rich and poor is widening; corruption is widespread; unemployment is rising; environmental degradation is immense.

I do not think China should be regarded as a developmental endpoint, a goal to be achieved by suitable "Beijing Consensus" policies. I think it more fruitful to view present-day China as an historical experiment of world-historical importance that is far from finished. I think it illuminating to view China as a grand attempt at constructing a viable, equitable society beyond capitalism. (Whether or not it will succeed in doing so remains an open question.)

In what follows I would like to propose a theoretical framework, which I call "successor-system theory," that I think clarifies the situation of China in the context of the modern world. It is a framework grounded in historical materialism that

- helps us understand the positive accomplishments of the Chinese reforms,
- points to desirable future reforms,
- warns against a wrong course of action, and
- demonstrates the inapplicability of the current "Chinese model" for most (but not all) developing countries today

Successor-System Theory/ Economic Democracy

Historical materialism, as a theory of history, rests on a conception of human beings as beings at once social, pragmatic and creative. When confronted with difficulties, we try to solve them. If individual solutions don't work, we try collective ones. When old institutions prove inadequate, we invent new ones. We are not confined by our biology to simply repeat the

patterns of our ancestors until random mutations and natural selection produce a change.

For an historical materialism imagination is a decisively important human capacity. As Marx has noted,

A spider conducts operations that resemble those of a weaver, and a bee puts to shame many an architect in the construction of her cells. But what distinguishes the worst architect from the best of the bees is this, that the architect raises his structure in imagination before he erects it in reality.¹

It is this imaginative, creative capability that allows us to develop our productive forces and our social relations, extending our control over nature, increasing our capacity for species solidarity. Thus we can speak meaningfully of "human progress." To be sure, we often make mistakes. Our pragmatic experiments often lead to dead ends. But we learn from our mistakes. This capacity for collective learning also distinguishes us from other species.

Historical materialism posits a certain structure to historical change. It makes central the concept of economic class. The relationship between individual and society is mediated by class. Economic classes have interests, and the interests of various classes often conflict. When economic forces begin to change as a result of our creative, pragmatic endeavors, the balance of power among the classes also begins to shift. Certain institutional relations that were once conducive to economic development, or at least to social stability, become the opposite. They become "fetters" on the productive capacity of society. The stage is set for institutional transformation.

Historical materialism views capitalism as a once-progressive socioeconomic order that

has essentially exhausted its potential. Its institutions have become detrimental to the overall interests of mankind and are blocking the realization of social and economic achievements that capitalism itself has made possible. Historical materialism predicts that a new order will come into being that will preserve the positive accomplishments of capitalism but eliminate, or at least sharply mitigate, its destructive tendencies.

As is well known, the classical historical materialists were silent as to the structural features of this predicted new economic order. They should not be faulted for this. As a scientific theory, historical materialism requires empirical data, and but at the time of its formulation, there were no data on post-capitalist formations.

Historical materialists of the nineteenth century would have anticipated a period of institutional experimentation. They would not be surprised that that institutional innovations did not always work out as the innovators had hoped. But since we are creative, pragmatic creatures who learn from our mistakes, and since the internal contradictions of capitalism appear to be grounded in the peculiar institutions of capitalism and not in the transhistorical "nature of things," historical materialism inclines us to be optimistic about the future. It predicts, not only a desirable post-capitalist future, but before that future becomes present, increased theoretical clarity, derived from constantly accruing experiential evidence, as to what the structures of a viable post-capitalist society might look like. For after all, we must "raise these structures in imagination before we can erect them in reality."

What I like to call "successor-system theory" claims that we have now reached the point where we can specify these structures. Successor-system theory posits a form of socialism that can be shown to be, theoretically, as efficient as capitalism, more rational in its growth and far more in accord with the key human values that have developed along with capitalism, namely

equality and democracy. It holds this form to be the next stage beyond capitalism. Of course any real-world instantiation of such a socialism would exhibit a complex structure, but its basic institutions are simple enough to specify, as are the basic institutions of capitalism. The essential structure of what I call "Economic Democracy" can best be understood in comparison with the essential structures of capitalism and the pioneering model of socialism, the Soviet "command economy."

Capitalism, in its essence, consists of three basic institutions: private property (meaning private ownership of means of production), the market, and wage labor. That is to say, capitalism is a competitive market economy in which the bulk of the means of production are privately owned and most of the workforce are engaged in wage labor.

As a negation of capitalism, the Soviet model eliminates the market, replacing it with comprehensive planning, eliminates private ownership of the means of production, replacing it with state ownership, but retains wage labor. Workers are now employed by the state, rather than by private capitalists.

Economic Democracy deviates from capitalism in a different manner. It retains the market, at least for goods and services. It replaces wage labor by workplace democracy. It restructures ownership so as to give society democratic control over investment. Let me explain.

Economic Democracy recognizes that a competitive market for goods and services is indispensable to an efficient, dynamic modern economy, at least so long as conditions of scarcity prevail. But it rejects the claim that competitive labor markets and capital markets are also necessary. Labor-power need no longer be regarded as a commodity. Capital should not be allocated by market forces.

Workplaces should be democratized. Of course appropriate institutional checks and

balances must be put into place to take advantage of the efficiency strengths of democracy--as is also the case for political democracy.² Management must have sufficient autonomy to manage effectively, but workers must have the ability to remove them if they are ineffective. (An elected worker council should appoint top management and approve major enterprise decisions.)

Worker incomes should be tied to enterprise profits, so that workers are motivated to select good managers, and all are motivated to work diligently. Worker participation should be encouraged, so as to take advantage of local knowledge, to enhance enterprise loyalty, and to develop democratic skills.

Social control of investment involves a) generating the investment fund publicly via taxation (ideally a capital assets tax) instead of relying on the savings of private individuals, and b) allocating these funds via public financial institutions. As a general rule, each region of the country has a prima facie entitlement to its per-capita share of the societal investment fund. Public banks dispense these funds taking into account profitability, but also other societal goals, above all, employment creation

It should be noted that social control of investment is compatible with various forms of enterprise ownership. Society relies neither on the voluntary "abstinence" of wealthy individuals, nor on state ownership for funds to invest. The investment fund is generated by a fair and transparent tax on all productive property, whether state, collective or private. (In the pure model all external financing comes from this public fund. In practice, other sources might be allowed, although care must be taken to keep these sources subordinate to public funding.)

I will not argue here that an economy structured along these lines would "work," that is to say, would be as efficient as any form of capitalism, and at the same time, more rational, more democratic, more egalitarian and more sustainable. I have done so at length elsewhere.³ Let me

ask the reader to accept this claim as true and to consider how contemporary reality appears if such a form of market socialism is indeed as viable and desirable as I claim it to be, and if something like this form of socialism is the post-capitalist future that historical materialism predicts. Let us begin with China.

Implications for China

Of all the countries in the world today, China is one of the best situated to make the transition to Economic Democracy. The transition, however, will not be easy. Not only does China face the daunting challenges mentioned above, but there are major political and intellectual forces in China today urging, usually behind closed doors, that China "join the mainstream" by becoming a full-fledged capitalist economy (albeit, of course, "with Chinese characteristics").

However, these are by no means the only forces active in China. There are those who recognize what should be obvious: capitalism cannot solve the fundamental problems now facing China. Capitalism will not eliminate poverty, provide full employment, reduce inequalities, or produce a harmonious, sustainable interaction between human beings and nature. It has not done so anywhere else on the planet. There is no reason to think it will do so in China. Clearly a different model of development is needed.⁴

Economic Democracy is a more appropriate model. Of course the model as I have specified it is abstract. It is far from a blueprint for solving China's problems, but it does provide a framework for evaluating Chinese reforms to date and for suggesting additional reforms. Consider the following implications that successor-system theory has for China:

1. Successor-system theory makes it clear that China was right to embark on a course of market reforms. A viable socialism must be a market socialism.

2. The theory implies that China should encourage the development of workplace democracy. China is particularly well-suited to do so, since a) workplace democracy is ideologically in accord with the socialist values proclaimed by the Communist Party of China, and b) worker congresses and worker assemblies are already in place in many enterprises.⁵ Moreover, if properly implemented, workplace democracy can be expected to enhance enterprise performance.⁶ Moral and material considerations are not in conflict. (As we shall see below, claims to the contrary, frequently voiced in China, are highly suspect.)

3. Successor-system theory suggests that the Chinese government should not relinquish major control over the allocation of investment funds. It is true that the banking system needs major reform, but this reform should be carefully crafted so as to insure that funds for investment are distributed to regions on an equitable basis, and that criteria in addition to projected profitability are used in allocating these funds. Although foreign investment and private domestic savings may supply a portion of the investment fund, the government should generate as much of this fund as possible via enterprise taxation, so as to avoid becoming hostage to foreign or domestic "investor confidence." (The danger here should not be underestimated. The threat of an "investment strike" is one of the capitalist class's most potent weapons in securing and maintaining domination. Since everyone's interests are adversely affected by an economic recession, the interests of investors appear to be universal

interests. Hence investors must be kept happy. Their interests trump all others.)

4. Since successor-system theory regards control of investment rather than ownership per se as the key to rational development, it lends support to China's current experimentation with a variety of ownership forms: state ownership, collective ownership, shareholding cooperatives, worker-manager ownership, joint ventures, petty-capitalist ownership, even grand-capitalist and corporate-capitalist ownership. We know from historical experience that earlier models of socialism failed on at least two counts. They did not recognize the intractable informational and motivational difficulties inherent in central planning, which would lead to gross inefficiencies, and they failed to provide incentives for effective entrepreneurial activity. These are distinct problems. The efficiency problem can be resolved by introducing competitive markets. In theory at least this can be done while retaining state ownership.⁷ The entrepreneurial problem is more complicated. A developing society, indeed any dynamic economy, needs a class of individuals willing to take the responsibility and risk of setting up new enterprises, developing new products, experimenting with new technologies. Such individuals perform a genuine service to society and should be duly rewarded.

It is not clear that the entrepreneurial problem can be resolved in a formerly centrally-planned economy that is making the transition to Economic Democracy without its allowing a genuinely capitalist sector to develop; i.e., a sector of enterprises owned by private individuals that employ wage labor. For one thing, it takes entrepreneurial skill to develop the small business sector that efficiency requires. It is much easier for an individual or small group to set up a capitalist enterprise than for a group of workers to come together and set up

a worker-run enterprise. Moreover, worker-run enterprises may be less willing to take the sorts of risks that might prove socially beneficial than a capitalist firm would be, since, having to share the gains, individual workers cannot reap the spectacular rewards that a capitalist can reap. We simply don't know at this point how dynamic an Economic Democracy might be without a capitalist sector, nor can we specify what an optimal level of entrepreneurial risk-taking should be. (By definition a risky undertaking involves a significant probability of failure. Failures waste resources, human as well as material.) We want an economy in which enterprises are both prudent and daring. It makes sense to experiment with ownership forms to find the right mix.

5. Although successor-system theory provides support for allowing a capitalist sector to develop in a socialist society, it also warns of the danger this poses. It can scarcely be doubted that the capitalist class that has emerged in China would like to become the ruling class. Indeed, it is a basic Marxian insight that every rising class aspires to political power. If it is true that capitalism cannot resolve China's fundamental problems, then policies must be put in place that would allow a capitalist class to develop, but would confine this class to a subordinate role in the economy.

To formulate an adequate set of policies, it is important to distinguish two quite distinct roles that capitalists play in capitalist economies. One is active--the entrepreneurial role. The other is passive--the capitalist as mere supplier of capital. The former role, which is generally progressive, is the one stressed by capitalist ideology, but it is the latter role that tends to dominate in advanced capitalist countries and is most directly responsible for the massive inequalities characteristic of capitalist societies and the other deep irrationalities of

the system.

(That unconstrained capitalism will increase inequality over time is virtually guaranteed by the laws of mathematics. Consider a billionaire--a person whose net worth is in excess of \$1 billion--who simply provides capital to the system. He deposits his money in a capital fund that earns a 5% return per year. This fund will pay him \$50 million a year, quite apart from any work he might do, year after year, forever. (The income flow does not terminate with his death, but passes on to his heirs.) If he does not spend this \$50 million on consumption (a near impossible task), but leaves it in the fund, he will make even more. His \$1 billion will grow to \$2 billion in 15 years, now generating an income flow of \$100 million per year, to \$4 billion in 30 years, now generating \$200 million per year, etc. Such is the magic of compound interest. No mathematician will find it surprising that the top one-percent of U.S. households, which includes 341 billionaires, now own 40% of the national wealth?⁸)

The fundamental question is this: how can a society encourage the development of an entrepreneurial capitalist class without that class becoming an entrenched, dominant class? The theoretical answer is to put in place policies that allow entrepreneurial capitalists to flourish, but block their becoming passive capitalists. Does there exist a feasible set of such policies? The answer would seem to be yes, at least for an Economic Democracy, which does not rely capitalists to supply capital. A set might consist of the following provisions:

- When an entrepreneurial capitalist wishes to sell his business (or his shares in the business), the state has first right of purchase.
- When an entrepreneurial capitalist retires, he must sell the business (or his shares in the

business).

- When the state gains controlling interest in a firm, the firm is turned over to the workers, to be run democratically.
- All non-labor income, e.g., interest income or income from stock dividends, is subject to a sharply graduated tax.

If judiciously applied, these policies should suffice to keep the capitalist class in a subordinate position. When an entrepreneurial capitalist ceases to be actively involved in a business, his ownership ceases. His shares do not pass on to his heirs. They revert to the state, which, in effect, passes them on to the workforce. Ownership does not concentrate in private hands. Property income is itself held in check by the graduated tax.

It is important to note that what needs to be controlled is not an individual's income, per se, but his ownership of an ever larger share of the economy. The income tax, for example, should not be so steeply graduated as to prohibit a high rate of capitalist consumption. The possibility of high consumption is precisely what is being employed to encourage entrepreneurial activity. What needs to be checked is income in excess of what can be consumed. It is important to understand that the destabilizing factor in a capitalist economy is not what the capitalists consume, but what they don't consume. What the capitalists don't consume, they save. But as Keynes has made clear, these savings can be destabilizing. For if savings are not invested productively in the domestic economy, then aggregate demand suffers and a recession ensues. When private individuals control the investment process, the government thus becomes hostage to the "confidence" of these people. Hence the critical importance of generating the bulk of society's investment fund

via taxation, rather than from private savings, and having a tax policy that keeps the savings of the wealthy in check.

6. Although successor-system theory encourages experimentation with ownership forms, it points to a specific danger for transitional economies. The theory, recall, has two components--an affirmation of the basic tenets of historical materialism and an economic model. The latter component of the theory suggests, as I have noted, that China should encourage the development of workplace democracy. The historical materialist component sensitizes us to issues of class struggle. It alerts us to the fact that, as China experiments with various ownership forms, different classes will have quite different interests. Workers, of course, will favor worker control. Managers, on the other hand, are ambivalent. Top managers of state-owned and collectively-owned firms are poised to become owners of their firms, i.e., to become capitalists. They may need the support of their workforce to engineer a worker-manager buyout of a state or collective enterprise, but they will instinctively resist infringements on their own managerial autonomy--be it from the state, the township, or their own workforce. (Managers of capitalist firms in the West are similarly resistant to "outside" interference, including that of the company's stockholders. Managers always crave autonomy, whether or not this autonomy is compatible with the long-term interests of society.) Therefore, if the possibility exists for managers to gain full control of a worker-owned enterprise that does poorly, an ominous conclusion follows: managers will have a strong incentive to see that the worker-owned enterprise fails.

The case of the Jing Wine Factory, as reported by The Washington Post is instructive.⁹ The Jing Wine Factory in the city of Pan Daye was sold to its 700 workers in

1997, the bulk of the shares purchased by senior managers, the former director purchasing by far the most. The director was kept on by the workers, despite the fact that he had wanted to buy the factory outright himself, but had been turned down by the city authorities. He wasn't happy. "Under the old system, I needed the approval of party officials," he said. "Under the new system I needed the approval of the workers." He became frustrated. "To be honest, I was relatively negligent. My heart wasn't in it. When performance fell, frankly speaking, I had something to do with that." (The manager's candor here is astonishing.)

The factory began to lose money. Party officials decided to reverse the sale, making the workers sell their shares to the director. Opposition was intense, but in the end futile. One woman wept. "I trusted manager Wu, but he was buying out our decades of work. Now we were just his laborers. The factory wasn't ours anymore." In the end, Wu got a great deal. State banks lent him the money he needed, which was some 20% less than the factory's assessed value. He now owns a profitable, capitalist enterprise with \$35 million in annual sales.

Conclusion to be drawn? The Washinton Post headlined this article, "Workers in China Fail as Owners of Factories." The perspective of successor-system theory suggests a different conclusion--not that capitalist enterprises have no place in socialist China, but that arguments for the superiority of managerial buyouts in comparison with democratic enterprises, based on the failure of the latter, should be treated with great skepticism. Policies need to be put in place that counter the managerial temptation to sabotage workplace democracy.

You Can't Get There from Here

Successor-system theory suggests that China's post-Mao reform program has been on the right track, and has well-positioned China to move toward full Economic Democracy, a viable, desirable post-capitalist future. The theory also highlights the dangers posed by the emerging capitalist class, but suggests that further reforms can limit this danger. Whether these reforms will be implemented depend in no small part on the state of class struggle in China

I hesitated to venture an opinion as to the outcome of this struggle, for it would be no more than a conjecture. It is worth noting, however, that workers and peasants in China--and those intellectuals and government officials who support their interests--have more resources at their disposal than do workers and peasants in most other parts of the world.

First of all, there are ideological resources. The Communist Party of China is publicly committed to socialism. This is no small thing. Those of us in the United States who are appalled by the degree to which concentrated wealth has undermined our democratic institutions often say that we live in an oligarchy, not a democracy. This is not false. But at the same time it is important that we can appeal to ideal of democracy to ground our critique. There is much cynicism among the citizenry about our political institutions, but the language of democracy still resonates. I suspect (I hope) the same is true about China and the language of socialism.

There is also an important material condition that enhances the power of workers and peasants in China. The political class of China knows full well, given the history of China in the twentieth century, that things can fall apart, that large scale worker or peasant discontent can explode. They know full well that the tremendous accomplishments of the Revolution and subsequent reforms could be seriously jeopardized if worker and peasant discontent is not addressed. Repression alone will not suffice. This condition--the real threat of mass disruption

and possible chaos--is absent in the West. It is present to a degree in many parts of the global South, but there the structure and balance of class forces are quite different from what they are in China.

This consideration brings us to the claim implicit in the title of this essay: that there does not exist a set of policies derived from Chinese experience, a "Beijing Consensus," that might function as the U.S. Treasury/IMF "Washington Consensus" has functioned in underdeveloped regions of the world. There does not exist, nor can there exist, a set of policy recommendations for governments of poor countries, derived from the Chinese experience, that, if implemented, would lead to sustained economic development. More precisely, there is no set that would likely work any better than those of the (failed) Washington Consensus.

To see why this is so, we need to reflect on the economic structure of China on the eve of reform. For all the mistakes, chaos and human suffering of the Maoist years, a stunning transformation had taken place in China over the course of the preceding three decades. In 1949 China was a much poorer country and far less industrialized than was Russia when the Bolsheviks made their revolution thirty-two years earlier. By 1979 China had an industrial base that employed some 50 million workers and accounted for more than half of its GDP. The value of its gross industrial output had grown thirty-eight-fold and that of heavy industry ninety-fold. China was manufacturing jet aircraft, modern ocean-going vessels, nuclear weapons and ballistic missiles. In the countryside mammoth irrigation and water control works had been constructed. A largely illiterate population had been transformed into a mostly literate one. A public health system had been created where none had existed before. Average life expectancy had increase from 35 to 65. All this had been accomplished with virtually no external assistance--which meant that China entered its reform period with zero external debt.¹⁰

To be sure, the people of China were still very poor. The surplus labor of the population had gone into producer goods and infrastructure. Consumption had been held down. A new model was needed that could exploit the accomplishments of the Maoist era for the benefit of the people. Fortunately, the structure and balance of class forces were such that a new model, creatively and intelligently constructed, could be implemented.

For China entered this period

- without a landlord class poised to block or undermine any attempt at land reform. The move from agricultural communes to the household-responsibility system was able to take place with minimal disruption and maximal effect.
- without an entrenched local bourgeoisie that would not have tolerated the explosion of collective industries that sprung up in the villages and townships across the country.
- with its resources in its own hands and its markets free of transnational penetration. Its new businesses did not have to compete with sophisticated multinationals. China has been able to set conditions concerning technology transfer as it opened up that almost no other poor country could set.
- without a powerful economic class intimately linked to the capitalist transnational corporations that would have supported the advice of the international "experts" steeped in the ideology of transnational capitalism. China has been free to experiment cautiously with a whole range of market and ownership arrangements.

It should be clear from this list that the workers and peasants of most of the rest of the world face a very different set of obstacles to development than did the workers and peasants of

China on the eve of the Reform and Opening Up period. In comparison with China, most poor countries still lack the infrastructure suitable for rational development. (Although huge amounts of money have been loaned to poor countries to develop their infrastructure, a relatively small portion has been well spent.¹¹) Investment in literacy and health care has also, for the most part, lagged behind China.

More serious than these material obstacles, which could conceivably be addressed by more judicious policies, are the class structures that stand in the way of serious reform. In most poor countries there exists a landlord class willing to use any means necessary to block meaningful land reform. (It is worth noting that in the two post-World War II success stories, Taiwan and South Korea, the power of the local landowning class had been broken by the new elites that came to power after the war.)

Most of these countries also contain a bifurcated capitalist class, both segments well-connected politically. One segment has been long involved with the local economy, not very entrepreneurial, often protected by monopoly privilege. (This class was the chief beneficiary of many post-war import-substitution developmental efforts.) The other segment is allied to, or has become part of, the transnational capitalist class.¹² In most poor countries transnational firms have penetrated deeply into the economy, and often control, directly or indirectly, large portions of the countries' natural resources.

In contrast to poor countries contemplating structural reform today, China entered its reform period without a capitalist class at all. This was a hugely important fact. Not only was there absent a propertied class that could block any serious structural change, but the capitalist class that has been permitted, indeed encouraged, to emerge has been much more entrepreneurial than long-dominant capitalist classes tend to be, and hence more useful to society in general.

Several conclusions follow from this analysis:

- Countries that have had a socialist revolution and have a party in control still committed to the ideals of socialism should pay close attention to the Chinese reforms that have transformed a centrally-planned economy into an incredibly dynamic market economy. Experiments relevant to their own situation have taken place and continue to unfold. These countries can learn from the mistakes as well as from the mistakes of the Chinese experience.
- It is not inconceivable that some of those formerly Communist countries that have renounced their past might also find elements of the Chinese experience relevant, but only if the political leadership is willing and able to reverse those Washington Consensus reforms that have wreaked so much havoc. It should be clear by now that an historical opportunity was missed, post-1989, when intellectuals and politicians cast their lots with the Western advisors and the Western political and economic forces backing them up.¹³ Unfortunately, the degree of corruption in these societies and the sense of demoralization and powerlessness of their working classes cannot make one optimistic about such prospects, at least not at this moment in time.
- For countries with long-entrenched capitalist/landlord classes there is little to learn from China, apart from the abstract (but by no means unimportant) lesson that poverty and oppression are not invariable aspects of the human condition against which it is futile to struggle. The policies of the Chinese reform period can scarcely be implemented in these countries, for the preconditions are not right. Moreover, these preconditions cannot be

brought into being the way they were in China, since the prospect of a Chinese-style revolution seems no longer feasible either. Something like Economic Democracy remains a useful orienting goal, but the path to it will not be the Chinese path.

The Twentieth Century from the Perspective of Successor-System Theory

The twentieth century, especially the latter half, has been a time of remarkable economic experimentation, large-scale attempts, always in response to felt contradictions, to create a new and better economic order. Without exception these experiments have generated their own contradictions, leading to either hopeless dead-ends or further creative adjustments. Let us consider the major systemic experiments from the perspective of successor-system theory. Let me offer a sweeping, over-simplified illustration of this perspective. (See the accompanying diagram, Figure 1.)¹⁴ [Insert Figure 1]

This diagram is essentially about the post-World-War-Two period, although the great split in the twentieth century occurred in 1917, when socialism for the first time moved from theory to practice. A socialist "Second World" came into being to challenge a capitalist "First World" that had by then colonized the globe.

The worldwide Great Depression coming little more than a decade later (which devastated the capitalist world, but not the Soviet Union), rendered First World capitalism highly vulnerable. Workers, peasants and intellectuals all over the world felt the appeal of this new economic order. In reaction, fascism was tried in Italy and "National Socialism" in Germany, experiments in militarized capitalism aimed at preventing the radical Left from coming to power. As economic experiments fascism and Nazism failed. They were too aggressively militaristic to

avoid self-destructive war. However, they did buy capitalism needed time to find a better solution. The threat (and example) of fascism/Nazism served to justify a much larger role for government in economic affairs than laissez-faire orthodoxy countenanced, as well as the massive amounts of war-related deficit spending that pulled the Western economies out of the deep depression into which they had fallen.

Let us pick up the post-war story and trace the capitalist branch of the diagram.

Following the great decolonization movements of the post-war period, the capitalist world split into two parts, as newly independent "Third World" countries broke away from their colonial masters. If we trace the development of the First World branch, we find two distinctive forms of capitalism making their appearance. The first form is "social democracy," which might also be called "Keynesian liberalism," since it takes its theoretical orientation from Keynes's radical revision of neoclassical orthodoxy. This form became dominant in the United States, Canada, Australia, New Zealand and Western Europe. A large state was deemed necessary to ensure the social security of the citizenry and to mediate the conflicts between ever-more-organized labor and ever-more-concentrated business. High levels of government spending and high wages counteract the problem Keynes identified as endemic to laissez-faire: the tendency for savings to outpace investment, leading to deficient aggregate demand, then recession.

For several decades this model was successful--high growth, rising real wages, low unemployment, economic stability. (This period is sometimes referred to as capitalism's "Golden Age.") However, as time passed, the internal contradictions of this model began to intensify. Since negotiated wage settlements could be passed on to consumers by near-monopoly enterprises, inflationary pressures began to build. Moreover, as these enterprises became hard pressed to sell all the goods they were producing, they became reluctant to engage in large

amounts of new investment. So Western countries found themselves struggling with "stagflation"--rising unemployment and inflation, a situation that, according to orthodox Keynesianism, couldn't happen.

Laissez-faire liberalism, seemingly buried forever by Keynesian liberalism, came roaring back (under the auspices of Margaret Thatcher and Ronald Reagan) with its proposals to privatize, deregulate, cut back the welfare state, and open up domestic economies to more globalized competition. This set of policy prescriptions, which we now call "neoliberalism," eclipsed Keynesian liberalism and soon became what it remains today, the dominant economic ideology of Western policy-making elites, the "Washington Consensus."

The other great post-war experiment in First World capitalism took place in Japan. In this second alternative to laissez faire, the state also plays a much larger role than neoclassical orthodoxy would allow, but of a different nature than under Keynesian liberalism. Here the state makes a conscious decision to pursue a policy of export-led growth. Consumer credit is kept tight, and pensions and other welfare provisions are kept low, both measures aimed at securing a high rate of private savings. The government then targets certain industries for global expansion and provides them with easy access to these savings, while at the same time engaging in heavy protectionism so as to allow the less favored sectors of the economy to survive.

This model also proved to be remarkably successful. The world witnessed a "Japanese miracle"--a rate of growth that resulted in a fifty-five-fold increase in GDP over the space of thirty years (1946-76). By the late 1980s there was concern in the West that "Japan, Inc." would soon become globally dominant. However, this was not to be. The Japanese economy stalled--and remains stalled. Japanese exports now have to compete globally with lower-cost exports from other Asian countries. Their banking system has become overloaded with bad loans.

Domestic demand, despite increased government expenditures, has been insufficient to pull the economy out of its doldrums. So the pressure is on Japan to reform: deregulate, open its markets to foreign competition, reduce the role of government planning--in short, to also adopt the neoliberal agenda.¹⁵

If we look now at Third World capitalism during the post-war period, we also see two basic models. The first is the one most widely adopted in the wake of formal decolonization. A local elite takes the reins of political power. A regime of "comprador capitalism" is established. For a while many comprador capitalist countries embraced "import-substitution" as an economic strategy. Local industries were to be developed to supply what was currently being imported. However, given the low level of domestic demand, the lack of access to requisite technologies, and the insistence on the part of First World countries that poor-country markets be kept open, this recipe failed. A few countries experienced spurts of economic growth, but even in these cases the wealth did not "trickle down." The mass poverty endemic to all comprador-capitalist countries intensified.

There were protests. When these protests threatened to become insurrectionary--as they often did--martial law or outright military rule was established. These Third World equivalents of the fascist-Nazi experiments, heavily assisted by the United States and utilizing all the means of torture and terror at their disposal, were usually able to check the revolutionary movements, but these militarized-capitalist regimes, like their First World predecessors, failed as economic models. Therefore, when the Left threat receded, most of them were overturned and replaced by more democratic governments. These new regimes, currently in place, are now advised, cajoled and often heavily pressured (notably by the international lending agencies) to sign onto the Washington Consensus.

The second model of Third World capitalism was considerably more successful than the comprador model. Taiwan and South Korea, the "baby tigers" of Southeast Asia, are the key examples. The model here is essentially a Third World version of the Japanese model. (Hence its placement in the diagram next to the Japanese model) Since these countries were to serve as showcase alternatives to Chinese and North Korean communism, they were not only given substantial financial support by the United States, but they were also allowed a degree of economic independence uncommon in the Third World. The political elites of Taiwan and South Korean (in both case newly established) used this independence to institute large-scale land reform (thus breaking the power of the older elites) and to discipline capital as well as labor. Protectionist barriers were set up to shelter local industries, allocation of capital was overseen by the state, and production for export was emphasized.

Later other Third World countries began to embrace export-led growth as their developmental strategy, although without as much regulation as Taiwan or South Korea. Then came the East Asian crisis 1997-98, which rocked South Korea as well as Indonesia, Thailand, Malaysia and the Philippines. These countries are now being told to cut back on governmental expenditures, governmental regulation, governmental direction, and cast their lot with the wholly-free market. For the first time in history, a single strategy is being pressed on First and Third World countries alike. All are being urged to cut social spending, deregulate, privatize, lower all barriers to the free flow of goods and capital.

But, as is being increasingly recognized, the neoliberal road is a dead-end. Global instability has intensified, as unregulated capital shifts rapidly from one country to another, looking for the highest possible short-term profit, fleeing in panic when things go wrong. Moreover, the "Keynes-Marx problem" promises to increase in severity, as competitive pressures

compel enterprises everywhere to a) cut costs, thus weakening global effective demand, and b) introduce the newest technologies, thus expanding productive capacity. The threat of a globalized overproduction crisis grows ever more serious.

It is by no means clear that globalized capitalism can pull back from the trap it has set for itself. In the absence of radical transformation, economic stagnation, together with gradually rising global unemployment and ever growing inequality within and among countries, may be the best that can be hoped for. Also possible (as most serious analysts recognize): a deep and enduring global depression.

Let us now look at the socialist branch of our tree. Shortly after the Second World War various experiments in non-Marxist "nationalist socialisms" (not to be confused with Hitler's "National Socialism") were attempted--Egyptian socialism, Algerian socialism, Indonesian socialism, Guyanese socialism, etc. In this model widespread nationalization of private businesses takes place, and large state bureaucracies are created. The party in power attempts to direct the economy.

Unfortunately, little in the way of genuine development occurred under regimes of this sort. These experiments soon enough came to resemble, or revert to, comprador capitalism (hence their placement on the diagram).

Far more important--and far more successful--is the model of centrally-planned socialism pioneered by the Soviet Union, then imposed on Eastern Europe. This became the developmental model for China, North Korea, Cuba and Vietnam and inspired Third World revolutionary movements everywhere. The Soviet Union changed its status from semi-feudal backwardness to global super-power in four decades. China moved from being the "sick man of Asia" to a great power in even less time. Cuba proceeded to eradicate illiteracy and poverty in so

short an order that its example became a hemispheric "threat," against which the United States mobilized (and continues to mobilize) its vast resources.

But, as we have noted, this model too ran up against its internal contradictions. Bureaucratic planning is able to provide for basic needs, but its incentive structures are too perverse to yield efficient and dynamic development. Hence reformers began to experiment with ways of combining market mechanisms with collective ownership of means of production, first in Yugoslavia, then elsewhere. These experiments gave rise to "bureaucratic market socialism." In Eastern Europe and Russia these experiments were cut short by the events of 1989-91. In China, however, they have borne remarkable fruit. Whatever the shortcomings of the Chinese experiment, it cannot be denied that never before in human history have so many people been lifted out of poverty so quickly.

Successor-system theory does not allow us to make confident predictions about the actual evolution of the Chinese Revolution or the reforms underway now in Vietnam and Cuba, but it allows us to be hopeful. It also suggests that in Russia, or perhaps elsewhere in Eastern Europe, a market-socialist evolutionary trajectory might be resumed, now that the huge costs and meager benefits of the attempted capitalist restoration have become apparent. (In the countries that comprised the former Soviet Union and in much of Eastern Europe the ruling class lacks legitimacy, since everyone knows that the successful "capitalists" are mostly criminals who have looted the national patrimony.) Successor-system theory suggests that there are more possibilities latent in that part of the world than conventional wisdom would allow.

Notes

¹ Karl Marx, *Capital* v. 1 (New York, International Publishers, 1992), p. 174.

² For a suggestive specification of details, see David Ellerman, *The Democratic Firm* (Beijing: Xinhua Publishing House, 1997), especially Chapter Six.

³ See my *After Capitalism* (Lanham, Md.: Rowman and Littlefield, 2002; Chinese translation (Beijing: Social Science Documentation Publishing House, Chinese Academy of Social Sciences, forthcoming); for a more technical theoretical presentation, see my *Against Capitalism* (Cambridge: Cambridge University Press, 1993; Chinese translation, published by Renmin University Press (Beijing) in 2003).

⁴ *Against Capitalism* and *After Capitalism* both set out in detail the theoretical arguments and empirical evidence for this claim. Although capitalism's historical record is clear enough, the causal connections between the empirical phenomena of poverty in the midst of plenty, excessive inequality, and environmental degradation, and the internal structures of capitalism are less transparent.

⁵ According to the report "Chinese Trade Unions Participate in Democratic Management," issued by the All-China Federation of Trade Unions on November 19, 2004, "At present, 320,000 enterprises and institutions at the grass-roots level have set up workers' congresses across the country. The workers' congress system has been set up in almost all enterprises in China's large and medium sized cities." The report points out that the Constitution of China mandates that "state-owned enterprises practice democratic management through congresses of workers and staff and in other ways in accordance with the law." The report goes on to assert that "the Chinese trade unions will perfect the workers' congress system in stock companies composed of State-owned assets, overseas-funded enterprises, township enterprises and private enterprises.

At the same time they are vigorously exploring additional ways and means of implementing democratic management."

⁶ For a summary of the comparative evidence, see *After Capitalism*, Chapter 3. For evidence concerning productivity increases related to the introduction of participatory mechanisms into capitalist workplaces, see Eileen Appelbaum, Thomas Bailey, Peter Berg, Arne L. Kalleberg, *Manufacturing Advantage: Why High-Performance Work Systems Pay Off* (Ithaca, NY: Cornell University Press, 2000). In their in-depth study of forty-four U.S. manufacturing firms, the researchers report that self-directed teams were able to eliminate bottlenecks and coordinate the work process and that task forces created to improve quality communicated with individuals outside their own work groups and were able to solve problems. They found that expensive equipment in steel mills operated with fewer interruptions, turnaround and labor costs were cut in apparel factories, and costly inventories of components and medical equipment were reduced.

See also, Gregor Murray, Jacques Belanger, Anthony Giles and Paul-Andre Lapointe (eds.), *Work and Employment Relations in the High-Performance Workplace* (New York: Continuum, 2002). For evidence concerning China, see Tseo, George K.Y., Hou Gui Sheng, Zhang Pengzhu and Zhang Lihai, "Employee Ownership and Profit Sharing as Positive Factors in the Reform of Chinese State-Owned Enterprises" *Economic and Industrial Democracy* 25(1) (2004): 147-177 and Li Minqi, "Workers' Participation in Management and Firm Performance: Evidence from Large and Medium-Sized Chinese Industrial Enterprises," *Review of Radical Political Economics*, v. 36 (Summer 2004): 358-379.

⁷ The early debates concerning market socialism focused on this point. The major protagonists in the debate that raged in the 1920s and 30s were Ludwig von Mises and Friedrich von Hayek,

who argued against the viability of market socialism, and Fred Taylor and Oscar Lange who argued for it. The principal papers can be found in F. A. Hayek, ed., *Collectivist Economic Planning* (New York: Augustus M. Kelley, 1935) and Benjamin Lippincott, ed., *On the Economic Theory of Socialism* (Minneapolis: University of Minnesota Press, 1938).

⁸ According to the *Forbes's* annual survey (March 2005), there were 691 billionaires in the world in 2005--341 in United States, two in China.

⁹ *The Washington Post* (December 4, 2002).

¹⁰ The data I've presented have been taken from Maurice Meisner, *Mao's China and After: A History of the People's Republic*, Third Edition (New York: The Free Press, 1999), pp. 415-419.

¹¹ Lest one think that this has been due solely to the ignorance and venality of poor country governments, one should consult John Perkins, *Confessions of an Economic Hit Man* (San Francisco: Berrett-Koehler Publishers, 2004) for a riveting personal account of the role of international consultants and transnational construction firms in these sordid affairs.

¹² For recent theorizing on the transnational capitalist class, see William Robinson, *A Theory of Global Capitalism: Production, Class, and State in a Transnational World* (Baltimore: Johns Hopkins University Press, 2004). See also William L. Robinson and Jerry Harris, "Toward a Global Ruling Class?: Globalization and the Transnational Capitalist Class," *Science and Society* (Spring 2000): 11-54.

¹³ For an account of the G-7 strategy to thwart Mikhail Gorbachev's dream of rebuilding the Soviet economy along non-capitalist lines, see Peter Gowan, "Western Economic Diplomacy and the New Eastern Europe," *New Left Review* (July-August, 1990): 63-84.

¹⁴ This diagram and much of the accompanying text is drawn from *After Capitalism*, Chapter 6.

¹⁵ For a forceful argument that Japan's economy is much stronger than is commonly believed, see Robert Locke, "Japan's Refutation of Neoliberalism," *Post-Autistic Economics Review*, January 2004, www.btinternet.com/~paenews/review/issue23.htm. Locke argues that the key to Japan's enduring success derives from the government's control of capital allocation.