The Age of Plunder
— The 2008 Economic Crisis as a Turning Point in Chinese History and World Civilization

By Chen Ping
Translated by Stacy Mosher
Edited by Ming Xia
Author’s biography:

Mr. Chen is a Chinese entrepreneur, scholar, and director of iSun Media Group. Formerly worked for the Chinese government, he was a researcher, participant and promoter in the Chinese economic reform in 1980s. He founded the Tidetime Group in 1990 and was the investment pioneer in industries such as Internet, Electronics, Education, Media.

He took over SunTV in 2005 and hosted several talk shows such as The Economist, Debate and Midnight, and published several books including Recessionary Times. He initiated the launching of iSun Affairs, the first interactive iPad magazine on current events in August 2011, and established the iSunTV Chinese Documentary Awards in the same year.

After the financial crisis and tsunami, Mr. Chen believes there is a strong need to actively transform the global financial and commerce activities to be more equal and democratic. Through founding iSunMedia, he extends the credibility from SunTV to promote the development trend of crowdfunding and New Economy, and to increase the sustainability of the civilization.

Editor's biography:

Ming Xia is a Professor of Political Science at the College of Staten Island and a doctoral faculty member at the CUNY Graduate Center. He previously taught at Fudan University (1988-1991) and served as a residential research fellow at the Sigur Center for Asian Studies at George Washington University (2003) and the Woodrow Wilson International Center for Scholars (2004).
Book summary

The Age of Plunder recorded Mr. Chen Ping’s public comments during 2008 - 2011. It is about the 2008 Economics Crisis, its pathogeny, its long-term reverberations and its implications for China’s future. The author indicates this great crisis hasn’t fully subsided and it’s an irredeemable crisis of the “one-legged capitalist” social apparatus.

The author predicted and called for a new civilization (following the industrialized civilization) to overcome the prolonged, painful era of decline. A new emancipation movement is needed to break through the vested interests and mainstream values, to foster new cultures, new ways of living and to build a more fair and equitable democratic society with sustainable economic growth.

In China’s perspective, the author proposed that China’s party-controlled development model in the past 20 years is in a historical turning point. China has to rebuild a new republic and democratic state with new system, culture and value to achieve sustainable development.
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Editor’s Introduction

Ming Xia

Why should you read *The Age of Plunder*? As editor, it’s my duty to answer this question.

First of all, who is Chen Ping? In Chen Ping’s own words: “Chen Ping is one of many individuals with the same name. This Chen Ping is a Han Chinese, a Hong Kong resident, entrepreneur, scholar and CEO of Sun TV, a gravelly-voiced and tone-deaf talk show host and commentator. In his 50s, he’s short and burly with a round head and shorn hair. Born in Shanghai to a prominent military family, he was sent as an infant to Wuhu, a small town on the banks of the Yangtze River in Anhui Province, where he was raised by his grandparents.”

Now Chen Ping has a second home in Long Island, New York, and has become an American citizen. With the non-stop growth of his business, his list of titles has grown longer, but not his hair, which now shows signs of balding as well. But his passion for books, freedom, human rights, democracy, good food, thinking, talking and taking charge remains unchanged, as does his devotion to truth.

His good friend, the well-known economist Luo Xiaopeng,1 describes him this way: “He is broad-minded and magnanimous, of forthright temperament, a dependable friend and a shrewd businessman. He has an in-depth and insider’s understanding of China’s power games, but has never had any desire to become an official or seek personal gain in that area. Inured to human greed and the fickleness of human relations, he retains an intense hope for political and social progress, and is confident that he can contribute something to this end.” Another of his good

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1 Translator’s Note (TN): Luo Xiaopeng was a founding member of China’s first autonomous reform think tank which contributed to major policies reform in the 1980s. Luo holds a PhD in Economics from the University of Minnesota. He was recipient of a Luce Scholarship at Harvard University and was a visiting scholar at Oxford University. After working for an international NGO involved in poverty reduction in South Asia, as guest professor at Zhejiang University and as consultant to international organizations such as the World Bank, Luo joined Chen Ping’s Hong Kong-based electronic magazine, *iSunAffairs*, as contributing editor.
friends, the prominent journalist Lu Yuegang,\(^2\) sees him as a contradictory combination of pessimist and genuine revolutionary. In trying to define Chen Ping as a Liang Qichao\(^3\) or a Chinese Rupert Murdoch, Lu Yuegang points out that the Liang Qichao had “only one mouth,” while Murdoch has “under his banner countless Liang Qichaos and countless mouths.” The disparate observations and comments of these two friends give a general idea of Chen Ping’s character and the social role he attempts to play. My own view is that Chen Ping aspires to be a synthesis of Liang Qichao and Murdoch.

Chen Ping has a natural talent for speaking like a master essayist. This book is compiled from some 70 commentaries and interviews he published from 2008 to 2011 following the 2008 financial crisis. As an independent entrepreneur and investor, Chen was positioned in the eye of the hurricane, while heading the Sun TV media group also put him at the crest of the tidal wave. As a former member of a government think-tank, he has many close personal connections in Beijing who keep him in touch with what’s going on in the capital. His methods of intellectual growth have been diverse: reading countless books, traveling far and wide, being involved in all kinds of matters and making friends with all kinds of people. This identity, experience and situation has given him many unique perspectives, counterintuitive modes of thought and novel viewpoints and opinions. More important, “he puts his money where his mouth is” by using his vast financial resources to stake and endorse his social, political and economic analysis.

The shamelessness and hypocrisy of many politicians and writers is displayed in the discrepancy between what they feel and what they say, and between what they say and what they do as they employ their Machiavellian skills to create “happy slaves” while having no intention of following their own advice. Chen Ping observes: “The flaw in Chinese culture is that people don’t cry until they see the coffin. If it hadn’t been for Mao Zedong committing all kinds of evil

\(^{2}\) TN: Lu was senior editor of *China Youth Daily’s* weekly supplement *Freezing Point* until January 2006, when he was fired along with chief editor Li Datong, for publishing an essay by historian Yuan Weishi that took issue with nationalism in Chinese school textbooks. Lu is also author of several influential works of literary journalism documenting the struggles of China’s working class and highlighting the immense social challenges accompanying China’s emergence as a global economic powerhouse.

\(^{3}\) TN: Liang Qichao (1873-1929) was a Chinese scholar, journalist, philosopher and reformist who lived during the late Qing dynasty and early Republic.
and making the Cultural Revolution as disastrous as it was, Reform and Opening would never have happened. Now it’s clear that ecological, economic and social disasters will proliferate in the future. But I don’t think anything will change; the mentality of officials, at one moment slaves and at the next moment masters, shows that they see human lives as playthings. It’s all well and good to say that officials are bad and that the ruling Party has turned into a massive vested interest group. But where do those officials and ruling Party members come from? They’re bred in the soil of our people, and the soil of our people is nurtured by our culture. So whose fault is it? Everyone’s and no one’s.” Of course, this ugliness is probably not unique to the Chinese, so Chen Ping also says, “I say humanity has a characteristic, which is ‘better dead than rational.’ Personal interests blind people and turn their wisdom into mush.” Here I’d like to add that if people use tangible benefit to console themselves for their willful ignorance, that’s not the worst that can happen. But one fears that this benefit will not be lasting, or that satisfying their desires will actually lead to their undoing.

Even the best Gospel can only be shared with those who seek it, and unfortunately, those seekers are few. But if you’re one of those who’s become suspicious and cynical toward all kinds of authorities and values, I urge you to turn to Chen Ping; neither a nihilist nor a relativist, he espouses a pessimism and skepticism that can serve as the starting point for seeking truth, arguing fearlessly and as equals, and constructing a democratic system. Chen Ping lays out all his ideas for skeptical examination, and subsequent events have already borne out much of what he has said. As issues develop and erupt, we’ll have further opportunity to verify his theoretical and observational powers. If he’s wrong, his own investments will suffer, not to mention his reputation, which is a high price to pay for a billionaire entrepreneur. The fact that he so boldly faces these risks is good reason for us to give serious consideration to Chen Ping’s diagnoses and predictions.

As China’s economy has taken off amidst endless proclamations of “China’s rise” and the “China Dream,” research into China’s politics and economics has become a growth industry in global academic circles. An immense number of books have been published on this topic in Chinese and in foreign languages, and while they include many inferior works, Chen Ping’s thinking shines
out even though he’s been shut out and cold-shouldered by the Beijing regime. In explaining why, I need to evaluate Chen Ping in a comparative framework. American scholars such as Barry Naughton, Nicolas Lardy and Eswar Prasad have carried out similar in-depth analysis of China’s politics and economy. In terms of style and arguments, the closest to Chen Ping is the independent writer James Gorrie in his book *The China Crisis: How China’s Economic Collapse Will Lead to a Global Depression*, published in 2013. The problem is that Western scholars are excessively “objective” in their study of China’s various crises, while only a tiny minority of Chinese writers can directly access the English-speaking world. Consequently, these works seldom step outside of the “academic ivory tower” or intellectual elite circles, and their influence on the broader reading public is limited.

Worst of all is the emergence in the Western world of a group of “friends of the Chinese people” who carry out pilgrimages to the Celestial Empire and return with vessel full of loot, paving their road to success with their lavish praise of the “China Model” and China’s “rise to great nation status.” The world’s banks, in particular Goldman Sachs, were early cheerleaders for “China’s rise.” By the time China’s people discovered the transience of their “China Dream,” these old friends of China had moved on to greater and better things. We all know about the Wall Street businessman Robert Lawrence Kuhn who “wrote” a book called *The Man Who Changed China: The Life and Legacy of Jiang Zemin*, while Henry Kissinger’s book *On China* suggests that Chinese are only suited to living in the present. Former US Treasury Secretary and former Goldman Sachs CEO Henry Paulson, who has visited China at least 100 times, energetically endorses China’s past 20 years in his book *Dealing with China*. The famous futurologist John Naisbitt was even quicker to the mark, taking his wife Doris to China to pitch his tent and offer up their book *China Megatrends*, which declares “Chinese democracy” superior to American democracy. Putting it bluntly, many Westerners think of China in terms of how China and the Chinese might bring benefit or disaster to them or their country, without never considering the 1.4 billion people who live in that vast country, flesh-and-blood individuals with their own joys and sorrows and independent existence, with a 5,000-year-old civilization and the pride that goes with it, and the dignity, values and dreams of a great race and culture. Under the progressive
slogan of “respecting diversity,” Westerners often regard CCP leaders as the true representatives of the Chinese people or even as stand-ins for the Chinese people as a totality, and forego any criticism of China’s system and government policies.

Fortunately, many overseas Chinese scholars continue to focus on China, and have conscientiously offered their wisdom for the benefit of the people of China and the world. Chen Xhiwu’s *The Logic of Finance* (in Chinese), Yasheng Huang’s *Selling China* and other works, Minxin Pei’s *China’s Trapped Transition*, Frank Tian Xie’s *The Dragon’s Vault: Chinese Economy Behind the Curtain* (in Chinese), Victor Shih’s *Factions and Finance in China* and He Qinglian’s writings are representative of this group. Compared with the afore-mentioned Western authors, these writers and Chen Ping have an obvious “native Chineseness” and global vision grounded on China’s future, but what distinguishes Chen Ping from these others is that Chen Ping is an entrepreneur, businessman and investor. He has personal experience with the ruthless competition of the globalized economy and China’s economic marketplace, and this gives his analysis and suggestions a technical, operative and down-to-earth quality.

Chen Ping’s unique thinking and profound views also have an intense focus. Frank and outspoken, Chen doesn’t play games or gloss things over, and his focus and critical thinking are clearly displayed in his debates with Party hacks and critically-minded “New Leftists.” Chen has been unambiguous in his criticism of fawning shills such as Zhang Weiwei⁴ and the sentimental nativist thinking of China’s “angry youth.” On the other hand, he has much in common with the “New Left,” particularly regarding social justice, environmental protection and economic democracy, so their debate is carried out in an atmosphere of mutual respect and an intense humanitarian concern for ordinary Chinese people.

It is this focused, critical, pragmatic, technical, thoughtful, down-to-earth, skeptical and global perspective and humanitarian concern that gives Chen Ping’s thinking such value; it is a practical wisdom that combines knowledge with practice. Because many of his judgments are policy-

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⁴ TN: Zhang Weiwei is a professor of international relations at Fudan University, and a senior research fellow at the Chunqiu Institute. He has written extensively in English and Chinese on China's economic and political reform and China's development model.
related and predictive, we can easily test them with fact after six or seven years. For example, when Chen Ping debated with a government expert on subjects such as the property bubble, the state’s advance and private sector’s retreat in China’s economy, and the excessive issuing of currency, the government expert believed that all of the problems were being dealt with and said “with great confidence” that “in five years, the situation will definitely be much better than now.” Another official expert disputed Chen Ping’s “unconstructive” criticism of current problems and policies as indicative of “problems that have emerged in the entire system.” Five years later it has become abundantly clear whether the Chinese situation has become better or worse, and whether the entire system is showing problems.

I write these words shortly after the 94th anniversary of the founding of the CCP and approaching the 239th anniversary of the founding of the United States. A new stock market crash has been the CCP’s “birthday present” and can only be a source of grief to the world’s largest ruling party. With the Chinese stock index dropping nearly 30% from 5174.2 to 3696.91 in the two weeks from June 15 to July 3, 2015, what is most worrying is that official media and monitoring organs are still predicting a bull market that will raise the index to 6000. Meanwhile, some famous professors have come out with a proposal to save the stock market with an “equalization fund,” while the propaganda apparatus and “angry youth” Internet posters have been howling about an “international conspiracy to bad-mouth the Chinese economy into failing,” and are calling for a “defense of the 4000 mark” for the sake of the “success or failure of the China Dream” and the “rise or fall of the China Century.” Read against this background, Chen Ping’s book shows its timeliness and freshness. The experience of reading Chen Ping’s book while observing what’s going on in China is like taking a sightseeing tour on a luxury roller-coaster with on-site commentary by a CEO. If you’ve fastened your safety belt, this experience will bring you unforgettable enjoyment and endless excitement.

Understanding Chen Ping’s book requires an awareness of the spatiotemporal shift it encompasses. Spanning a time period from 2008 to 2013, the book’s dynamic timeframe gives it a “playing it by ear” quality. Added to that, the content was originally spoken, resulting in a degree of repetition and occasional conflicting details. Rather than patch over these flaws, I’ve
combined Chen Ping’s viewpoints into logical arguments, and have allowed him to make the same point more than once in different contexts. I was also careful not to insert my viewpoints into Chen Ping’s narrative and thinking, while also doing my best not to omit any of his ideas or viewpoints.

At least four factors drew me to editing Chen Ping’s book: 1) My knowledge structure resulting from research from the perspectives of history, theory and humanity and analysis of international politics and economics, and my special interest in China affairs, draws me into Chen Ping’s discussion. 2) As someone who began his college education in 1981, I had the good fortune to experience ideological liberation, Reform and Opening and political reform, and my mindset and theoretical background match Chen Ping’s. 3) My ten years of studying, teaching and establishing myself as a scholar at Shanghai’s Fudan University gave me the ability to understand Chen Ping’s Wu dialect, and this allowed me to eliminate many errors in the original transcript. 4) Having just passed my 50th birthday and having spent half of my life in China and half in the US, I understand a great deal about the collision, exchange and fusion of Chinese (Eastern) and Western culture. In short, Chen Ping’s profound thinking, penetrating viewpoints and sagely advice have long reverberated in my brain. I believe that readers who embark on this literary journey will not return disappointed, and will be glad that they accepted the invitation that Chen Ping and I have extended to them.

Chen Ping’s words below express the shared expectation of both author and editor:

“Many people, including many well-meaning friends, have advised me not to talk about these things, but I feel society needs to wake up, and people need to wake up! I don’t have the answers; I just hope that everyone will join in trying to find a solution, and will act with a sense of conscience and urgency to rescue our future.”
Author’s bio:

Ming Xia is a Professor of Political Science at the College of Staten Island and a doctoral faculty member at the CUNY Graduate Center. He previously taught at Fudan University (1988-1991) and served as a residential research fellow at the Sigur Center for Asian Studies at George Washington University (2003) and the Woodrow Wilson International Center for Scholars (2004). He has also worked as research fellow at the East Asian Institute and Asian Research Institute under the National University of Singapore. Prof. Xia’s research interest includes political governance and transition in China, organized crime, international political economy, globalization, Asian women in politics, and a comparison of China and India.
Foreword

David J. Firestein

Chen Ping’s The Age of Plunder is an original and provocative analysis of the 2008 financial crisis and its long-term implications for China and the world – a valuable contribution to the literature on this important topic and a timely reminder that the impact of the “Great Recession” has not yet fully subsided.

Chen Ping’s treatment of the Marxist critique of capitalism has renewed, even surprising, relevance today and will no doubt resonate not only in the land of “socialism with Chinese characteristics”, but also in the United States, where, in 2016, a strong major-party candidate for president is arguing, with some early electoral success, that the U.S. economy and political system are “rigged” and run by “millionaires and billionaires” for their own benefit; and it will resonate in many other countries that, like both China and the United States, continue to grapple, often unsuccessfully, with the phenomenon of sharp and often growing income and wealth inequality.

Chen’s argument about the crucial importance of pervasive, equal access to information in the 21st century economy is profound and compelling – an important contribution to the discourse on “Google capitalism” (or perhaps “Facebook capitalism”), in which information has effectively become the new means of production.

Chen’s extensive and thoughtful discussion of “China’s choice” and the future of Chinese economic development – and governance – will certainly get attention, and generate some heated debate, in China and within the China studies community worldwide. Though, of course, there will be some disagreement with a number of his premises, conclusions and recommendations, The Age of Plunder puts Chen Ping right in the thick of public discourse on an enormously consequential topic for China and the world: what actions will Chinese leaders need to take in order to sustain China as a viable economy and polity in the coming years and decades?
For those interested in the 2008 financial crisis, its long-term reverberations and its implications for China’s future, and for those interested in the trajectory of China’s economic and political development, I highly recommend this significant, rich and engrossing work.

Author’s bio :

David J. Firestein is vice president and Perot Fellow at the EastWest Institute, a U.S.-based foreign policy think tank. In this capacity, Firestein oversees the Institute’s work on U.S.-China relations, East Asian security, and U.S.-Russia relations, as well as its emerging work in the area of U.S.-Iran trust-building. A career U.S. diplomat from 1992 to 2010, Firestein is a published expert on China, Russia, public diplomacy, U.S. politics and American country music. In his Foreign Service career, Firestein served at the U.S. embassies in Beijing and Moscow for a total of nine years; domestically, he worked in the State Department’s China affairs and East Asia economic policy offices, as well as in a senior capacity at the U.S. Advisory Commission on Public Diplomacy. He speaks near-native Chinese and fluent Russian. Firestein is the author or co-author of three books on China, including two China-published best-sellers, a number of influential policy reports, and about 150 articles published mostly in China, Russia and the United States. Among his professional honors and distinctions are the 2006 “Secretary of State’s Award for Public Outreach,” selection in 1997 as one of Peking University’s “50 Most Distinguished Alumni,” and numerous keynote invitations; he was also the first foreign citizen to have a column in a P.R.C. newspaper and the first sitting U.S. diplomat to have a teaching position at Russia’s top international affairs university, MGIMO. Firestein has degrees from Georgetown University and the University of Texas.
Preface

I turned 60 this year, and this book is the most precious gift I could give myself, as well as the best birthday present Professor Ming Xia could have given me. After reading a number of my writings last year, Professor Xia suggested compiling them into a book that preserved my personal style and train of thought, but without my having to exert any personal effort. Without him, this book would not exist, so I must start out by expressing my most heartfelt thanks to Professor Xia.

This book weaves together things I wrote from 2008 to 2011, but basically encompasses and represents the thinking and knowledge I’ve developed over decades of reading countless books, traveling all over the world, studying, thinking and working. By using the word “basically” I must emphasize that it doesn’t represent or include all of my thinking, but rather what I consider the most important ideas and knowledge I’ve acquired in recent years.

Mainly:

1) Universal values defy the laws of nature but are considered the products of human civilization’s advancement. While republican and democratic capitalist society is the best option for human civilization that can be imagined for now, it is difficult, and I consider it the most momentous upheaval in 8,000 years.

2) Therefore, capitalistic society built on universal values is a long and conflict-ridden process of historical development that has not yet “matured.” Existing capitalistic societies such as the United States still fall far short of representative democracy and in economic terms clearly violate the core value of republican democratic society, which is to “reward people according to individual ability, effort and contribution. This kind of one-legged democratic capitalist society nevertheless has a historical inevitability.
3) Marx’s analysis and critique of capitalism more than a century ago, and that provided 100 years later in Piketty’s *Capital in the Twenty-first Century*, both achieve their desired goals of serving as rigorously objective descriptions, analyses and critiques of “immature” one-legged capitalism, but they only raise questions and prescribe the wrong medicine or give no prescriptions at all.

4) We have yet to emerge from the global economic crisis that began in 2008. It is not only a crisis of unsustainable traditional industrial civilization, but an irredeemable crisis of the one-legged capitalist social apparatus. However, the result of the technological progress humanity created has established the necessary conditions for one-legged politics to develop into a democratic capitalism on the two legs of politics and economy, and this result of technological advancement is none other than the widespread application of information technology, represented by the Internet, which has been merged in revolutionary fashion into all aspects of social existence.

5) With only the essential condition of the technological achievement of the Internet, and lacking genuine “network neutrality” and other important and related social transformation, the old system, or rather the existing system, combined with the Internet will not automatically advance from “one leg” to “two legs,” but rather will lead society towards even more serious polarization and unfairness.

6) Internet systems, capitalistic democratic systems and laws ensuring that everyone has equal access to information are the prerequisites to establishing a fair and sustainable capitalistic society that is democratic in both politics and economics.

7) The revolutionary development of information technologies such as the Internet has carried human society into a new spatiotemporal dimension. The various organizational forms, structure and functional orders of human society will continue to experience fundamental change,

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including superficially revolutionary changes in commercial organization, commercial models
and commercial activity, and changes to society’s relations of distribution and value systems.

8) A mature capitalist society based on universal values should not only acknowledge that people
are born equal, but also grant them equal access to information in their social lives. The
democratization of capitalism should combine direct democracy with the representative system,
and place the ultimate authority in direct democracy.

In his “Editor’s Introduction,” Professor Xia gives me excessive credit for combining knowledge
with practice, but I can only claim to have done that in the past three years, what I call “making a
fresh start at 60.” The knowledge is in the form of returning to the television screen with my talk
show Das Kapital of Sun. The practice is in developing the Internet platform iSunCloud to give
people equal access to information, autonomy, mutual assistance and mutual enjoyment, and
establishing the crowd-sourcing platform iSunCrowd to democratize capitalism and give
everyone the chance to become a capitalist. I devote my full effort to using the combination of
knowledge and practice to push the world toward a bright tomorrow that is increasingly fair and
sustainable.

Chen Ping

July 5, 2015, in Hong Kong
Chapter 1: Debating the “China Model”

2008, the Turning Point

At the beginning of 2008, the People’s Daily New Year editorial predicted “an extraordinary year.” Moving into 2009, I have to agree: 2008 was a most extraordinary year in human history.

Chinese remember how the period of Reform and Opening put China on an economic fast track and raised living standards non-stop. By 2007, China was like a big carnival, and the United States was also feasting at a great banquet in the years preceding the 2008 financial crisis. By the time of the 2008 Beijing Olympics, it seemed that China had reached its historical zenith, and national sentiment was at an all-time high. It was probably unrealistic to hope that people could maintain a sense of rationality, restraint and caution. Around the time of the Beijing Olympics, people were talking about the “Beijing Consensus” replacing the “Washington Consensus” in the international sphere, thanks to the “China Model” that had put China on the road to success.

The “Beijing Consensus” was laid out by Joshua Cooper Ramo, a Tsinghua University professor and senior consultant at Goldman Sachs, in an op-ed published in London’s Financial Times on May 8, 2004. Ramo summarized three theorems of how China formed itself into a giant among developing nations through its “China Model”: “a ruthless willingness to innovate and experiment... a lively defence of national borders and interests... and by the increasingly thoughtful accumulation of tools of asymmetric power.” The “China Model” became a hot topic throughout the world, and as China’s economy remained on track following the global financial crisis, the “China Model” took on an even greater luster. Scholars all over the world spoke of “China’s flourishing age.” If anyone had calmed down enough, they might have asked, for example, whether it was really such an honor for Chinese banks to join the top global rankings. Would that have been possible without the monopoly status China’s banks enjoy? Prowess established through brute force is bogus, and is not an honor but a shame. A true “flourishing age” manifests itself in political loosening, freedom of expression, a rich and varied lifestyle,
contentment among the people, and also less pressure from those in power. It should be measured in terms of the ability to safeguard national interests in foreign affairs, and the protection of individual citizens’ lawful rights in domestic affairs. What kind of model is the “China Model”? Is today’s China in a genuine “flourishing age”?

If people had been a little more rational back in 2007, they would have seen the global crisis looming, and that China would not be immune to it. By then, oil prices had risen to more than US$100 per barrel, and the prices of all kinds of mineral products were doubling, while stock market gains skyrocketed. I repeatedly warned of an impending crisis during private discussions in 2007 and 2008, but of course I didn’t dare proclaim these views publicly because at that time Chinese were all caught up in their “century-old Olympics dream.” It seemed that times had never been better, and no one was in the mood to listen to an objective analysis introducing a more pessimistic note.

The collapse of Wall Street’s Lehman Brothers in September 2008 brought a complex and subtle transformation, as everyone in China, from the government to the people, initially denied that China would be affected by the crisis, then embraced the hope that the effect would be minimal, and finally, and most absurdly, began to fantasize that China might actually save the world. An even more extreme view proposed that while China had originally hoped to surpass the US in 2027 to become the world’s top nation in terms of GDP, this goal could now be accomplished even earlier thanks to America’s decline. As the crisis gained momentum and took on a life of its own, it was Premier Wen Jiabao who explicitly stated that 2008 would prove to be an “extraordinarily difficult” year.  

At that time, China’s economy had just begun feeling the shock of the economic crisis; the serious effect on the real economy in Europe and America had just begun, and there was a time lag before it reached China. At that time, the main effect was felt in exports, where growth began to drop as the consumer indices major importing countries in America and Europe hit record

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lows. As Christmas orders evaporated, China could no longer deny the effects of the crisis, and as rising unemployment in Europe and America sent consumption further on its downward slide, China’s export market likewise could only continue to decline.

The trajectory of the crisis in almost every month of 2008 contradicted most people’s expectations and countermeasures, resulting in countless errors and misjudgments. If the framework of a civilization is effective and sustainable, the popular consensus is sure to be highly accurate, but once a civilization framework begins to lose its efficacy, the vast majority of the knowledge used to interpret social phenomena will become absurd. In this sense, what Thomas Samuel Kuhn referred to as “paradigm crisis” reached its extreme in modern economic civilization. Our cognition also faced a crisis in “research programs,” and traditional methodology had to be rebuilt (a la Imre Lakatos).

In global terms, 2008 was a landmark year in which industrial civilization went from boom to bust. But while 2008 was just the beginning of the pain that would grow as the economic crisis progressed, its positive side was that it forced humanity to choose new modes of growth and development, and to take the initiative to revolutionize itself. 2008 marked a turning point for humanity’s production and development models, and as China faced the challenges of globalization and the financial tsunami, it gained a historical opportunity to come up with something new.

2009, Civilization’s Transformative Leap

Following the eruption of the crisis, I predicted that 2009 would be a year in which humanity’s head-bloodying efforts to rescue the market would begin to take a new direction, and that 2009 would bring in a new civilization. This wouldn’t be due to a willful shift or from following the logical inferences of the original civilization framework, but because our present civilization would hit the wall and there would be no choice but to turn onto a new path.
This process presents humanity with new choices and the opportunity to engage in introspection and innovative reform. In the first half of 2009, the economic crisis manifested itself with increasing ferocity, shattering one newly-constructed market-saving line of defense after another, and developing into a situation more horrible than anyone had previously experienced. The entire world staked everything on rescuing economies and social systems and protecting social stability, but none of this proved more than marginally effective.

In 2009, the Chinese government and people will gradually discover the limited effectiveness of the market rescue measures so vigorously rolled out in the two last months of 2008. As an increasing number of enterprises declared bankruptcy, unemployment rapidly increased and social conflicts intensified, it became clear that economic methods alone were insufficient to resolve the economic crisis. As the traditional growth model fails to save the economy, people will begin to recognize the importance of systemic innovation and transformation.

The overweening success and unique mentality of the “China Model” has hampered this kind of innovation. What is currently referred to as the “China Model” means that as soon as things start going well, the government reclaims all power and benefit, and “the state advances and the private sector retreats.” We need to remember why we embarked on Reform and Opening 30 years ago. Back then there was complete control – even the people belonged to the Party and to Mao, and Deng Xiaoping was also Mao’s man. Under the reforms of the Deng Xiaoping era, the core of the “China Model” that eventually bore fruit was in fact “delegating power and yielding profit,” which gave the citizenry an opportunity to recuperate and rebuild, and gave some people access to economic life and governing power. The “China Model” that took shape in 1979 emphasized “neo-authoritarianism,” a combination of autocracy and limited market economy that demonstrated the advantages of autocracy in deploying natural resources (including the citizenry) and in establishing and achieving objectives (especially relatively simple objectives). For example, China attracted business and investment through the advantages it offered in terms of rapid and intensive supply and production; few countries have boasted such a high rate of productivity as China in the last few decades. Of course we mustn’t forget that from a more macroscopic perspective, the authoritarian “China Model” has a global universality. The England
described by Charles Dickens soon after the Industrial Revolution was very unjust in its protection of the rights of the great masses of society, and this “capitalist authoritarianism” also existed in the US early on.

“Neo-authoritarianism” has played an important role over the past decades, but now we can perceive its abusive systemic side-effects: Unrestrained power, combined with the lack of barriers between government and business, has led to monopoly and corruption. Neo-authoritarianism has given rise to a new nomenklatura, producing a highly polarized society severely lacking in fairness and equality. When those in power demand that people can only apply their thinking to the economic realm and not to other areas, this is not sustainable in the long term; social life is integrated, and giving people greater economic rights naturally means giving them the right to think and speak out on political issues. Since the financial crisis, however, political authority has further tightened control over society and the economy. The “advancement of the state and retreat of the private sector” that we see today is in fact “the government advancing and civil society retreating.” This is not merely on an economic issue; when state-owned enterprises (SOEs) advance, political power advances with them, and they end up appropriating rather than yielding profit. “Delegating power and yielding profit” versus “state advancement and the private sector’s retreat” – which is the genuine “China Model”? If we say both are, that shows that reform is just an expediency. The reason I ask, “What is the ‘China Model’?” is because globalization’s dividends, along with the dividends of population and natural resources, have become extremely overdrawn within a short period of time. That’s why the China Model collapsed under the financial crisis. Will this bogus model even be spoken of in a few years’ time?

If a transverse comparison is carried out with Southeast Asian countries such as Malaysia, Singapore and Thailand to evaluate the pros and cons of the growth process in terms of what people have gained (including happiness, improved interpersonal relations, etc.), it’s hard to reach the conclusion that China has gained more than it has lost. Politics is an extension of economics, and while China has the second largest economy in the world, the majority of its people still live in a Third World environment and are frequently ushered into the next world
through mine cave-ins, fallen buildings, dam breaks, mud-slides, collapsed bridges and run-away vehicles. Some joke that Maoist principles have been revived, with the slogan of “Large and collective” now being used to deprive farmers of their land rights, “Regard the factory as your home” being used to strip workers of the right to choose their occupation, “One red heart, two preparations” being used to strip students of their freedom of thought, and “One country, one party, one leader” being used to strip people of their right to recall officials. Those who insist that China’s economic organizational model is superior are, first of all, removed from it in space and time, and second, overlook the fact that China has become a low-value-added processing plant with minimal freedom and rights. Being the most competitive doesn’t mean it’s the most beneficial for the people inside.

Various social, economic, political and ecological crises are bringing “neo-authoritarianism” to an end as humanity faces the new challenge of modern society being transformed into a post-modern society and eco-civilization. What position does the year 2008 hold in the thousands of years of civilization’s evolution and the 500-year history of modernization?

Using the relationship between humanity and nature as a measure, the historical development of the human epoch can be divided into stages. The first is the stage of natural circular economy, typified by agricultural civilization and hunting civilization. During this stage, human beings had only a simple and superficial knowledge of natural laws, and even though people had begun to use tools, humanity was still in complete submission to the laws of nature. During this period, whether in Eastern or Western civilization, people revered Nature, and considered their means of survival and their living space to be Nature’s gift to them. China’s Temple of Heaven, Temple of Earth and Temple of Agriculture are prime examples of sacred spaces where rulers offered their sacrifices to Heaven and Nature.

Human society then developed into the second stage, which was the era of industrial civilization. Originating in Europe, industrial civilization used the analytical methods of Hellenic thought to

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7 TN: According to this slogan, blind loyalty to the Chinese Communist Party meant being prepared to being accepted or rejected from the next level of education.
develop science, which helped people understand the reasons behind natural phenomena. Humanity’s relationship with Nature went from understanding it to transforming and utilizing it. In the 500 years of industrial civilization, people became increasingly self-confident, and reverence for Nature turned into despising and thoroughly plundering Nature. This was reflected in the emergence of a “nouveau riche” culture of unquenchable greed and self-confidence in which traditional morality, ethics, feelings of intimacy were all degraded or faded into obscurity amidst the feeding frenzy.

In the 1970s, the Club of Rome produced a report entitled The Limits to Growth, which took an extremely pessimistic tone: Our earth could no longer bear the weight of humanity’s frenzied consumption, and could not bear the excessive growth of personal desires and demand for material goods resulting from industrial society. The Club of Rome’s warnings look prophetic now, but throughout history, prophets have typically been cold-shouldered. Even after various countries experienced the 2008 financial crisis, the mainstream market rescuing measures show their inability to abandon the development orientation that has satisfied humanity’s material desires for centuries. But while many people may find this hard to accept, I feel compelled to say that 2008 put a full stop at the end of 500 years of industrial civilization.

China entered 2009 in an even more difficult environment than America and Europe. Because Chinese society is not yet a mature industrial civilization, it’s that much harder for it to pull out of a crisis caused by mature industrial civilizations. Chinese society is modern in terms of forms of production, consumption model, etc., but its social system has not yet shifted from a centralized society of traditional agrarian civilization toward a modern democratic political system. China’s top half is Western culture and its bottom half is traditional Chinese culture, with communist Russian culture sandwiched in between, and there’s no easy way to choose between them. Before we’ve had a chance to complete the crucial step of conventional modernization, we face a historical leap to post-modernization that makes the challenges China confronts even more formidable.
The historical leap that has to be completed is not just from agrarian civilization to industrial civilization, but also leaping over the stage of industrial civilization onto a higher plane of civilization. That is what makes China’s future challenges so immense: Economically, we’re at a disadvantage in terms of division of labor under globalization, while politically, socially and culturally we need to achieve two leaps by completing the modernization of our social system and then embarking on the long journey toward a new form of civilization.

The 30 years of Reform and Opening

If we consider the Third Plenum of the 11th Central Committee that ended in December 1978 as the starting point of Reform and Opening, 2009 marked 30 years of Reform and Opening in China. In these 30 years, the chief architect of the reforms, Deng Xiaoping, created a profound and far-reaching strategic policy that allowed China to rapidly and effectively grasp the excellent situation in the world economy.

The 30 years of Reform and Opening can be divided into stages. The first stage, from 1978 until the late 1980s, was the stage of liberating thought, or what could be called the survival stage. The first fundamental change was conceptual, that is, going from a mindset of despising material comforts and stifling material pursuits to holding that everyone should be able to enjoy life and pursue happiness. The Mao era’s suppression of material demands could be considered a historical necessity, but how could society develop under the original official value system of “the poorer the better, and the more miserable the better”? Every impediment to economic development had to be overturned, and it was the rationalizing and legitimizing of the desire to live well that enabled the “China miracle” to surge like a tidal wave with “economic construction at its core and development as its core principle” over the next 30 years. That’s why I say that reform meant first and foremost liberating thought and pursuing the human right to material comfort, which reverted China to the original features of human society and normalized the Chinese people.
The second stage, beginning in the 1990s and continuing up to the present, consists mainly of reforms carried out at the systemic level. Its symbolic transformation was going from treating private property ownership as criminal to rationalizing and legitimizing property ownership. The reforms also had some major breakthroughs. For example, the building of a market economy, the lifting of price controls, etc., all derived from a change in recognized values and society’s mainstream ideology. The breakthrough from planned economy to market economy came with Deng Xiaoping’s great Southern Tour speech, which synthesized “political tightening and economic loosening” – or “freedom for the markets but not for citizens” – into the “Deng formula” and gave China new space for development. Political tightening centered on “development as the top priority” in order to avoid turmoil in the social environment and provide a good environment for rapid and steady development. In this respect, it required a degree of restraint on personal rights, and controls on divergent voices could be considered reasonable if not altogether desirable. If in those 30 years China had put a greater emphasis on fairness, it might have gained a smaller slice of the globalization pie. Sometimes what seemed unreasonable in part is reasonable as a whole, and things look like errors at the time turn out to be wise moves from the perspective of historical development.

Looking back at Chinese history, we see that, China survived because some of the great men of history engaged in many “reasonable but undesirable” acts. Why did China continue to suffer crushing defeats from the 1840 Opium War onward? During that period, Western industrial culture presented a dual challenge to China: colonial encroachment on the one hand, and advanced humanistic thinking, advanced social systems and advanced culture on the other. Responding to this challenge was an extremely backward, closed off and arrogant traditional imperial autocracy and an agrarian civilization. By the end of the Qing dynasty, the 400 million Chinese were so weighed down by the burden of their 5,000-year-old civilization and value system that no one was willing to fight. The May Fourth Movement called for “overthrowing official Confucianism,” not because people had lost the ability to discriminate right from wrong, but because Confucianism had evolved into the symbol of that historical and cultural burden. The period from the end of the Qing dynasty right up until the Third Plenum in 1978 can be
characterized by one word: ruin. In this long historical period, everyone was busy smashing an old world and considering how to establish a new world. Looking back on it now, it had its historical inevitability: How can we establish something without first smashing something else? Although people of this era (including myself) were victims of the Cultural Revolution, and feel bitter hatred and disgust toward the era’s totalitarianism and lack of moral clarity, in a rational sense we have to recognize its inevitability. Its immense destructiveness released people from the old conventions, but also removed their moral and ethical fetters. This destructive obliteration meant that once the time arrived for establishing the new in the late 1970s and 1980s, there was almost no objection to “development as the core principle.”

Although hard to accept from an emotional standpoint, it has to be acknowledged from a rational standpoint that the 30-year economic miracle originated in the destruction of the past. After everything was destroyed in the previous 30 years, Chinese didn’t believe in anything anymore, and no one questioned doing what was needed to facilitate development, and that’s how the miracle was engendered. The fact that this miracle could survive the unimaginable destruction of the previous 100-odd years and become a mainstream phenomenon shows the greatness and tenaciousness of Chinese civilization. I say this because no other civilization or nation in history has been able to emerge from the cocoon of self-ruin. Today the private discussions of Chinese are the freest in the world, because the webs that might have enmeshed our thinking were destroyed long ago. Perhaps this is the responsibility that Heaven has assigned to the Chinese.

In summing up the process established in these 30 years, the basic lesson that can be drawn from experience is “development as the top priority.” As the great man of his era, Deng Xiaoping was able to firmly establish this point. I believe Mao Zedong also wanted China to develop into a strong and wealthy nation, but he attempted to do so without destroying the restricting framework of imperial despotism. In historical terms, some things have to be destroyed. In some cases, things improperly ruined can be gathered up again and repaired, but some are lost forever. The Chinese race will forever regret the utter destruction of many ancient artifacts and cultural objects, but compared with saving the nation from extinction, regret over the loss of these things seems less important.
In this 30 years of development, efforts were directed in two areas: reform and opening. Neither was possible without the other. If not for the global financial crisis, the next phase of Reform and Opening might have learned from Western value systems and social systems. Instead, China has boarded the bus that humanity is taking toward a new civilization. At present it’s impossible to predict where this new civilization will be established.

Will reform, opening and development still be the main theme of China’s next 30 and 60 years? The next step is an excellent opportunity for creating new cultural forms and new systems. China will join the world in creating these things and exploring humanity’s future together.

**Why the 30 years of reform succeeded**

Reform and Opening allowed China to develop its material economy and enhance its strength while improving its citizens’ education and knowledge, giving free rein to advantages that produced the splendor of those 30 years.

The main accomplishment was reaping the dividends of globalization. After Mao’s Cultural Revolution brought the country to the brink of collapse, China opened its doors and grasped the opportunity presented by globalization as the demands of the vigorous international market pulled it out of the crisis of shortage economy. For all of the attendant unfairness, our enormous progress resulted from gaining a major slice of the globalization pie.

Globalization provided the external conditions for Chinese-style reforms described by Deng Xiaoping as feeling for rocks while crossing the river, crossing where the water is shallowest, taking the easy road before the hard road and bypassing large rocks in deep water. However, the other side of that sidestepping was the accumulation of problems to form a crisis. This isn’t a question of right and wrong; it’s a natural human instinct to choose the easier path, and given the pragmatic and secular inclinations of Chinese culture, and development as the top priority, whatever facilitated development was what was done.
Furthermore, the achievements of 30 years of reform cannot be separated from the dividend of population. In the 1950s, Mao struck down the Western-trained economist Ma Yinchu and foolishly imitated the Soviet Union’s encouragement of childbearing. As a result, by the time of Reform and Opening, there was a multitude of people ready to throw themselves into the new openness to the outside world and the rapid development of the private sector economy. Most of these people came from the countryside and had very low personal demands, and no need for social security and benefits. The downside to this enormous population dividend was increasing bifurcation between the countryside and the urban areas.

Finally, China’s secular and pragmatic traditional culture and lack of steadfast adherence to idealism also facilitated economic transformation.

Deng Xiaoping intuitively led China to grasp the new division of labor under the global economy, recognizing the opportunity that began in the 1960s and when Asia’s Four Little Dragons made their rise in the 1970s. Deng spotted the shift in the global economy’s industrial chain underwent with the end of the Cold War at the end of the 1980s and the early 1990s, and in his Southern Tour speech, Deng no longer argue about socialism versus capitalism but called for quickly grasping the opportunity and making development the core principle. Following the violent suppression of the democracy movement in 1989, Deng felt he had to defend the established political system while developing the economy, and he knew the only way to make people forget the political wounds was to ensure that each day was better than the next. How could he do this? Domestic demand was not an option, because the entrenched political system precluded changes to investment and consumption patterns. If life was going to get better, the wellspring had to be the world market and external demand. This coincided with the availability of an immense pool of Chinese born during the population booms of the 50s, 60s and 70s, who were educated but didn’t demand their rights, and who satisfied the demand in the worldwide division of labor for young, strong workers to engage in simple work. All of these factors combined gave rise to the China Miracle that began in the early 1990s.
Deng Xiaoping is considered great because he fully understood and recognized what China was. The “white cat – black cat” theory, the theory of “feeling for stones while crossing the river,” the theory of “development as the core principle,” were all abstractions of Chinese culture that Deng used as his guiding principles of governance. But in making long-term plans, the choice of which stone to use in crossing the river along a particular route had a certain inevitability, which was the development model required by the economic structure and the social model of distribution decided by the political system. However, Chinese paid a price for not tapping into the stock of state-owned enterprises, for retaining collective ownership of rural land, for failure to balance investment and consumption in China’s economic structure, as well as for domestic consumption comprising too small of a share of GDP. All of these became the roots of today’s crisis.

The Emergence of the Latent Crisis

The first ten years of the 30 years of Reform and Opening were mainly characterized by delegating power and yielding profit to the lower levels. The next 20 years, especially the last 15 years, were characterized by economic growth stimulated by government investment and demand and exports. Government investment and demand became increasingly excessive because officials enjoy the largest share of the national economy, and ordinary people the smallest. In the current setup of the world economy, this national economy pie isn’t growing, and the portions in fact diminishing. Exports cannot be considered excessive, but they make up too great a proportion of the overall economy. This wouldn’t have been a problem if export growth has continued, but the economic crisis changed the situation, and exports will never return to what they were before the crisis. In sum, there will be no return to the situation of nonrenewable resources being turned into a consumption and overdraft-fueled Western market.

Thirty years of Reform and Opening surmounted the crisis of the shortage economy, but it covered up the latent crisis of steadily accumulating overproduction, dependence on export and inadequate domestic demand. Each step along this development route built up toward headache-inducing crises rooted in inadequate domestic demand. As long as exports continued to grow, the
problem of domestic consumption was ignored, and the share held by domestic consumption continued to decrease over these 30 years. Of course, many policies that seem unreasonable today had their reasons at the time. The 30 years of Reform and Opening took the route of local governments grabbing land to create industrial areas and constructing buildings to sell to investors for factories, to the detriment of the interests of the peasantry. But from a different perspective, if not for the lure of cheap land resources, would the manufacturing industries of the developed world have shifted en masse toward China? The unfair treatment of our peasant brethren allowed China to grasp the benefits of globalization in a timely fashion. Reform and Opening implemented market competitive industrialization in a social system that today looks unfair and unreasonable. We’ve now reached a new historical stage that requires us to emphasize resolving this injustice and unfairness.

The latent crisis in China’s economy was long-standing. In the past and now, when the productivity of the Chinese economy is mentioned, our indicators have shown no great progress in terms of either energy consumption or capital output. In fact, the growth of the international market began slowing, the RMB exchange rate began to rise, and the crisis in China’s enterprises began to be apparent in the latter half of 2006 – well before the global financial crisis. The Chinese government began energetically promoting technological innovation in 2006 because it realized that a crisis was looming and that prosperity and rapid growth were unsustainable. China’s economic crisis and the international economic crisis had common reasons as well as varied manifestations over time. The factors of China’s crisis had been accumulating over a long period of time, and this decided the form the crisis took when it became apparent. External and internal factors both played important roles in the predicaments the Chinese economy faced.

In concrete terms, the eruption of the subprime lending crisis in the US in the latter half of 2007 led to the gradual shrinking of the American consumer market, which hastened and exacerbated China’s economic crisis. But the Chinese economy was already in crisis by then, as manifested in the following aspects:
First, the share taken up by domestic demand dropped steadily from more than 60% of GNP at the beginning of Reform and Opening to just over 30% in 2007. Second, the backward industrial structure mainly relied on labor-intensive production and lagged behind in the development of technology and related support systems. Although China was referred to as the “factory of the world,” it would be more appropriated to say it was the “workshop of the world” – merely carrying out OEM work. In the manufacturing industries in which China was most competitive (such as electronics), its technology lagged far behind the rest of the world. Especially in the core technology sector, the vast difference between China and developed countries was a crisis in itself. Third, China ran an overdraft on its once abundant natural resources and clean environment. We’re now largely reliant on imports of minerals we exported 20 years ago, and the environment in many places has deteriorated the point of being a threat to human health. All of these factors explain why this economic crisis has been such a heavy blow to China’s real economy, and why some OEM enterprises that looked strong in the pasts are being offered for a pittance or can’t even be given away.

China’s economic crisis has manifested itself in a crisis in the real economy and in serious unemployment, and will manifest itself further in forms that threaten social stability. First of all, there has been a long-term inability to jumpstart domestic consumption, and income growth and consumption have fallen behind GNP growth and behind the growth in government revenue. This becomes a problem once the Chinese economy can no longer rely on foreign trade and on exports to achieve growth. A healthy economy has a stable proportion of distribution in which all of its citizenry enjoy the fruits of the national economy’s development. If ordinary people enjoy progressively less of these benefits, how can this be considered healthy?

Second, industrial upgrading has for many years been highly problematic, because it requires enterprises to carry out substantial infrastructural investment. The power to allocate the most important, valuable and core national resources, including precious natural resources and financial resources, has been largely monopolized by state-owned enterprises (SOEs), while privately-managed enterprises have only been able to fill in the gaps. Given the effect of unreasonable allocation of resources and discriminatory policies, how can privately-owned
enterprises engaged in low-profit processing work invest in infrastructure and compete with large and powerful multinational companies that enjoy a supportive social environment? Many talented and ambitious scientists with immense creative abilities enter the market, only to be forced into OEM work, castrated by the system.

These various reasons have led to the 30 years of economic development extracting a high price in terms of environment and resources. Even if the US hadn’t experienced its subprime crisis and trigged economic recession, China’s crisis would have ultimately arrived in any case, but in the form of a chronic illness rather than the acute disease it now has contracted. And this acute disease will also turn into a chronic disease, which is even worse.

China’s economic crisis isn’t an import; it’s a crisis of our own making: First of all, the crisis itself is global, so it can’t be said who imported it to whom. Secondly, the lack of domestic demand and technological competitiveness and the environment degradation that ultimately manifested themselves in unemployment and recession predated the crisis. If we had carried out the necessary reforms in advance, all this might have been gradually resolved. Without negating the great achievements of the 30 years of Reform and Opening, we need to recognize that they were accompanied by a series of detrimental factor that at a certain point constituted a latent crisis.

The Economic Crisis has Highlighted the Importance of Social Justice

The period of China’s rise was one in which opportunity coexisted with risk. The risk at this point is enormous if our internal system isn’t changed. The coexistence of opportunity and risk is the difference between China rising or declining and changing or not changing. In the past, China grasped the opportunity, resolved its crisis and achieved development but at the same time planted the seeds for today’s crisis. These contradictions are part and parcel of development, where each road is a choice, and every choice has its pros and cons; it’s just a matter of which choice has pros that outweigh the cons. Based on the situation in China today, I feel that the choices back then brought more benefit than loss.
China’s reforms initially chose transformation involving minor pain. The road of reform chosen at that time was to set aside disputes and controversies and concentrate whole-heartedly on development. As a result, the original power monopoly and unjust bifurcation of the urban areas and countryside, including inequities in the system of ownership, were transformed under the market economy into a model with unequal distribution of benefits under which the majority of people enjoyed only a small portion and a minority enjoyed a large portion. Continuing to apply the old methods to the current crisis won’t work. First of all, the 30 years of Reform and Opening existed in conditions of suboptimal domestic demand. The peasant workers who were the principal force behind the enormous prosperity of Reform and Opening are still being treated unfairly and haven’t been able to grow along with the economy, and the consumption capacity of China’s general populace has not kept up with economic growth.

The new worker class formed during the 30 years of Reform and Opening, the rural migrant workers engaged largely in labor-intensive export production and lacking social safeguards, was the first to suffer from the economic crisis. Why not apply the hundreds of billions in stimulus funds to rescue this most needy and perhaps most unstable group? Ensuring that they have enough to eat will put them in the right frame of mind to surmount the current difficulties, while at the same time accomplishing a middle and long-term reform objective of fairness. Meeting urgent needs is a race against time to preserve stability, while reform is to create the time and space for further development. Rather than rescuing the stock market or the property market, rescue efforts should be directed at meeting urgent needs to give society the space and time to solve problems. So what is most urgent? First and foremost, people must be fed, people must have work and enterprises must be saved from going bankrupt. In the face of the present urgent economic crisis, we need to buy space and time and increase the centripetal force and cohesion for reform, and to raise people’s confidence.

Of course, reform isn’t going to be smooth sailing. Development resolved old crises but also built up the new crisis of lagging political reform. Since a key reason for today’s inadequate domestic demand is the lack of emphasis on political reform from the outset, saving China’s economy and stimulating domestic demand depends on such reform. Having said that, the earlier
rational and selective delay in political reform, and the inequality of economic opportunity, unreasonable distribution of wealth, corruption and lack of human rights that came with it, could be considered historically rational. It could be argued that if political reform had been given priority, we might have grasped the opportunities of globalization less thoroughly and efficiently.

The paths chosen over the past 30 years minimized conflicts of interest to the greatest extent possible, but now any reform of the political system will involve intense conflict of interest. Today’s economic crisis has hurt everyone, but reform to stimulate domestic demand will be painful for everyone as well. At least now that the past reforms have given everyone enough to eat, we can rationally and calmly discuss the new problems of reform without rumbling bellies.

I feel that saving the economy requires ensuring employment, stimulating domestic demand and preserving stability, and that means starting with reform, especially political reform. The objective of political reform is democracy, and the objective of democracy is to allow ordinary people a greater share of benefits. If the pressure of this crisis leads those in power to see that taking the initiative on reform will help sustain their rule and preserve social stability, the obstructions to political reform will be substantially reduced, along with the costs.

**Long-term Historical Analysis: 60 years and 30 years**

Discussing this economic crisis, especially with the spotlight on China, requires accurately analyzing the effect of this crisis on China’s economy as well as China’s performance during the crisis. Given that the crisis resulted from both external and internal factors, resolving it and moving forward requires viewing today’s problems from the perspective of the 30 years of Reform and Opening or even further back. In fact, I think we should go all the way back to 1949, when the CCP’s victory was secured.

The major incidents of this time need to be viewed from a “rational historical interpretation,” which shouldn’t be confused with “moral historical evaluation,” otherwise there will be no end to the discussion. For example, from a “rational historical interpretation,” we’re compelled to
acknowledge the contribution Qin Shihuang made to the formation of China. Without the unification of written script, unified roadways, a unified wheel radius and unified weights and measures, would China or the Chinese people or the marvels of Chinese culture exist today? Prior to Qin Shihuang was the violent Six Kingdoms period, and it’s unlikely that Qin Shihuang could have united these kingdoms without killing. From a moral perspective, Qin Shihuang shouldn’t have acted the way he did, but from a historical perspective, if he hadn’t done it, China wouldn’t exist as it is today. Likewise, in modern times, the Qing empire’s inability to ward off the foreign gunboats resulted in the practice of “learning from China for substance and from the West for practicality.” The past century saw repeated engagement in cultural innovation and exploration of social systems, but from Sun Yat-sen’s democratic revolution to Yuan Shikai’s restoration of the monarchy to Chiang Kai-shek’s single-Party government, to the Communist Party’s same single-Party rule, it has always been a matter of one party, one ideology and one ruler. We can’t attribute all of this to on particular wrong-headed, iron-fisted political system; in essence, it is the unique social and political system engendered by the response of China’s agrarian civilization to the challenge of Western civilization.

Using this method to analyze the establishment of the PRC as well as its rise, I divide the 60 years after 1949 into two periods of 30 years. The first 30-year period I’ll summarize as setting the foundation for China’s subsequent rise under Reform and Opening. Starting in 1946, the regions over which the CCP had gained control underwent Land Reform. At that time, the idealistic Chinese historical expression used was “land to the tiller,” which meant that land once owned by landlords and rich peasants was distributed to all peasants. The pressing objectives of Land Reform at that time were mobilizing the peasantry and rural resources for China’s Civil War and the subsequent Korean War.

But I believe the leaders at that time had even more long-term strategic objectives. Without destroying the structure of traditional Chinese rural society, it would have been difficult to accomplish industrialization in the short term as well as implementing national rejuvenation and the historical requirements for the nation’s rise. Only by obliterating the villages that had formed over the course of thousands of years (referred to as a hyper-stable social structure) was it
possible for the Communist totalitarian system (or the totalitarian system of the industrialization period as opposed to the traditional imperial system) to permeate every corner of the countryside and fully mobilize the resources of China’s villages. Villainizing landlords and rural gentry was necessitated by the situation and struggle of that time. The truth is that evil and despotic landlords were a minority, and that most landowners earned their own living while also providing employment to others. But as representatives of the social structure, the landlords and rural gentry had to be obliterated, however brutal the process. Destroying the existing leadership core was what allowed the CCP apparatus to extend into the production teams and natural villages and mobilize them effectively and efficiently.

In the five years from the 1948 Land Reform to the 1953 collectivization movement, China’s land ownership changed once again from dispersed to centralized. Rural families had just begun to enjoy a measure of comfort and security on their newly allotted land when they had to turn it over to the People’s Communes. When the old rural social structure was destroyed and then replaced with a new structure by gaining control over the land and the peasants on the land, China’s agrarian society began to catch up with industrial society in the rest of the world. If not for the “large and collective” People’s Commune Movement, land would have remained in the situation of small-farm economy with private land ownership by individual farmers. And if land had remained in private hands, would it have been possible for the Reform and Opening that began in 1979 to so rapidly improve the investment environment and provide so much infrastructure and factors of production to lure in so many foreign investors? If the government had not obtained so much financial revenue from land, would it have had the money to improve the infrastructure? That’s why I say that talking about today requires looking back 60 years to see the causes of the results we have now.

Land policies over the past 60-odd years brought about a bifurcation of the urban areas and the countryside and the arrangement of a social system that we now consider unequal and unfair: separate rural and urban household registrations (hukou). But without this measure, it would have been impossible to obtain the resources from the countryside needed for industrialization. Our industrialization was able to cover the same ground in several decades as the West did in
several centuries because we sacrificed more than other people. Many people were stripped of their rights, and in terms of politics, this required a high degree of totalitarianism. But relying on dictatorship alone is not enough; it requires a unification of thought and culture. Strengthening the CCP apparatus to the exclusion of all other organizational bodies ensured that individual rights and interests would be sacrificed to national interests. Constant brainwashing in a unified ideology and culture made people submissive to state power. From the Anti-Rightist Campaign until the subsequent Cultural Revolution, thought and culture moved closer to religion. From the perspective of rational analysis, history had to move in this direction.

I summarize the 30 years before Reform and Opening as carrying out the national will through a high degree of centralization of state power, a high degree of state ownership, and a high degree of unification in thought and culture; in other words, unification in politics, the economy and in thought and culture, and all in the same direction. Viewed from today, this unification created the foundation for the subsequent 30 years of Reform and Opening. Couldn’t there have been a better and more humane road? It can only be said that history had no hypotheticals; we can only regret that there didn’t emergence a more conscionable, moral and humane road that better safeguarded basic human rights. In saying this, I’m not endorsing the past 30 years in terms of morality or conscience, but only viewing its historical function in terms of a rational historical analysis.

In other words, the sacrifices that the Chinese people made in the 30 years before Reform and Opening were not in vain, even the three-year Great Famine, which extracted a tremendous price in terms of suffering. Most of those who made the policy decisions at that time are now deceased, and in the afterlife they should suffer the pangs of morality and conscience. Mao and his colleagues claimed that they cared about the Chinese people, but this entire process showed a real deficiency of caring, and they deserve moral censure by themselves and by posterity. At the same time, it should be recognized that the policy-makers and people in power at the time also paid a painful price. I don’t believe that Mao felt no pangs of guilt, but sometimes history is merciless.
How should we evaluate the causality of the first 30 years after the PRC was established and the subsequent 30 years of Reform and Opening? My summarization is that the social form of the first 30 years of backwardness should be called the three dictatorships: political, economic and ideological-cultural. Today we can see that the following 30 years of Reform and Opening consisted of dictatorship in politics as before, with the economy largely free with a small portion still under the state’s centralized power, and ideology and culture basically free, but with no freedom in vehicles of social mobilization and organization, including political parties.

The Advantages and Historical Limitations of a Whole Nation System

In the preceding discussion, I attributed the causality of some of the problems we’re currently encountering to the early years of the PRC. If the perspective is placed on 1978 to the present, what relationship is there between the various actions at that time and the predicament we face at present?

On the political front, the 30 years of Reform and Opening continued the centralized government under the CCP of the previous 30 years. It also partially continued the economic system of government monopoly (I’m not saying state-owned monopoly, the concept of “state-owned” being too vague, when in fact it is a monopoly by those in power). Before Reform and Opening, ownership rights were monopolized, but after Reform and Opening began, the government mainly monopolized industries relating to natural resources, infrastructure and key services, including finance. It also continued the pre-reform controls on thought and culture, but substantially pulled back the depth and breadth of those controls. During Reform and Opening, channels for communication with the leadership gradually opened, and people could basically say what they wanted, but news and publication were not free, in spite of the Constitution stating that China has freedom of the news media and freedom of publication. This situation of being “partially free” and “partially not free” was tied to the needs of these 30 years of development, which combined the advantages of the “whole nation system” (juguo zhi tizhi) with the desires of the populace to cast off poverty and prosper. By rapidly and efficiently grasping the historical
opportunity of globalization, China rapidly achieved industrialization and basic economic modernization and move toward a decent standard of living.

By combining the advantages of the whole nation system and the strong desire of the populace to cast off poverty and prosper, these 30 years to some extent successfully replicated and even surpassed the development model of Asia’s Four Little Dragons. In spite of its backwardness, China was able to rise so rapidly by continuing the path of the previous 30 years: Centralized power in politics, which ensured mobilization and deployment of resources, allowed China to grasp the opportunity of opening up and grab a share of the world economy, while at the same time protecting China from any real loss of sovereign rights and dignity. Even with foreign investment taking up such a large share of the economy, China didn’t experience the economic colonialism that hollowed out the national industries of Latin American countries in the course of their modernization. This might not have been the case if China’s government hadn’t been highly centralized.

Centralized power entrenched a group of elites as China’s rulers. These elites to a certain extent could look beyond the temptations of immediate benefit to take a longer view and put a greater emphasis on the interests of China as a whole, and avoided the problem of the general public becoming preoccupied with a superficial and short-term viewpoint. In order to grab a portion of the globalization pie and make the entire world a market for goods manufactured in China, the human rights of some people were sacrificed under the rationalization of ensuring China’s right to exist and develop.

Today, state-owned enterprises (SOEs) are criticized for monopolizing infrastructure, natural resources, finance and other service industries, but China couldn’t have relied on private enterprises to build investment and development zones or take on massive infrastructure projects. Monopoly has the drawback of obstructing equality among citizens, but also the benefit of blocking foreign investment and foreign businesses from entering these sectors or engaging in monopolistic investment. If the government hadn’t imposed a monopoly in these key sectors, China might have lost control over its core industries. Furthermore, the government monopoly of
key industries was combined with more liberal policies in other sectors that resulted in private enterprises, joint ventures and single ventures springing up like mushrooms after rain, with the result that the “Made in China” label spread over the entire world.

In term of thought and culture, this sphere could also not be completely opened up if the government was to safeguard its monopoly in some economic sectors as well as the centralization of power under the ruling party. The merely partial opening of thought and culture has been problematic for both government officials and citizens, but history is like a river, and sometimes countercurrents and bends prevent the current from moving forward. Intellectuals need to have a rational understanding of this.

Continuing along these three lines, the CCP headed toward an enlightened autocracy just as it took a new role in the world economy. The process of globalization gave China space to develop, as demonstrated by export growth of 30 to 40 percent per year, and by China being the world leader in attracting foreign investment for many years. Its dependence on the outside world reached 70 percent, yet it was able to preserve its sovereignty, and its international standing increased. In this respect, it can be seen that the road taking in these 30 years was in fact reasonable and wise. In spite of many policies actions that ran counter to world trends, from a historical perspective, I feel Deng Xiaoping truly deserves the accolades he received for his brilliant strategy and bold vision as he led China to maintain a low profile and bide its time until it could grasp this valuable opportunity in the world economy.

While China enjoyed unprecedented benefit from a whole-nation system, it also suffered some of the drawbacks, including the tax burden. Now state power and state enterprises are rolled together in a system in which the cadres of SOEs are vetted and appointed by the CCP Central Committee Organization Department. Although referred to as companies, they’re actually inextricable components of the state regime and of the Party. So while looking at successes, we must also look at factors that have been detrimental to China’s political, economic, ideological and cultural systems. These factors result from choices that in turn are products of their historical stage, and no such choice or arrangement is permanent. Nations or cultures that have made the
wrong choice have usually died out, while those who have made the right choice have survived. From this perspective, enlightened centralized government, a “semi-open” economic monopoly and ideological constraints allowed China to maximize its market share and development opportunities under globalization. But the drawbacks were centralized political power, government monopoly over key economic sectors, and limited freedom in the ideological and cultural sphere. This limited freedom includes an inability to completely understand and deal with the old or establish the new – that is, a social period in which values existed in a vacuum, inevitably giving rise to business-government collusion, rampant corruption, and moral and ethical decline. This was the price that was paid.

Re-acknowledging critiques of growth and productivity

The phased and limited nature of China’s development is also manifested in vagueness and confusion. Something that’s “a bit off” conceptually can result in massive absurdities in social and political life; for example, the concepts of “growth” and “productivity,” which have taken root in the minds of the Chinese and are gradually becoming better understood.

The traditional model of economic development puts a particular emphasis on growth, but people, especially government policy-makers, fail to ask why we want growth. The purpose of growth is so we can live better and find a measure of happiness. But living better is not determined solely by GNP growth. GNP is more a measure of material wealth, and according to the famous psychologist Abraham Maslow’s “hierarchy of needs,” the satisfaction of material needs are at the lower end of the pyramid. Above the satisfaction of material needs come spiritual needs, feelings of accomplishment and being respected by others, and this is known as self-actualization. From this angle, I propose a criticism of “growth for growth’s sake.”

For example, why must China absolutely have 8% growth? It’s because of unreasonable distribution of the wealth resulting from growth. It is through systemic reform, rather than growth, that Chinese will feel that they are living better. Growth figures are both absolute and relative. In economic terms, how is the wealth produced by growth to be distributed and utilized?
What kind of social structure allows people to benefit from wealth? This is also a very important point. Taken beyond economic terms, the bigger question is: Why do we have growth? I want to propose the need to transform the objectives of growth. Changing the objectives of growth allow us to transform the growth model, and our way of life is what decides growth objectives. Just as some people are unhealthy because of poor eating or living habits, the present economic crisis is rooted in a way of life resulting from factors of Western culture and industrial civilization, in particular the dependence on non-renewable resources and the excessive inflation of personal desires. This model of excess simply doesn’t work anymore.

How should we adjust the objectives of growth under the conditions of the current economic crisis? First, trace the crisis back to its source, and instead of treating it as a scourge, regard it as bitter but effective medicine for curing the illness of excessive and foolish greed in human society. I say greed is foolish because human beings are products of nature, but greed makes people constantly sabotage the natural environment on which they depend for their survival – if that isn’t stupid, what is?

Returning to the topic of means of growth, we first have to view growth in terms of its objective. We need growth because we want to live better. But what does it mean to live better? Facing today’s economic crisis, we need to ask if we have any real demands that are tied to the growth that came before. If so, those demands could provide us with the space for future development. Demand comes from within, but its objectives also come from technological invention. What is best for us to wear or eat? Where should we live? What should we do? All of this involves deep-seated life-styles and values, and giving up bad living habits is also a growth concept.

The bitter medicine of economic crisis presents humanity with an opportunity to rethink our way of life, rethink the value system that guides our way of life, and come to a new understanding of what growth is. The governments of the world shouldn’t invest so much money in satisfying the greed of unhealthy lifestyles or in the black hole of irrational growth models, but should rebuild the social values mechanism and engage in a search for a new growth model, allowing unhealthy growth vehicles to wither away.
While asking why we want growth, we should also rethink productivity. Thirty years ago, when China began to carry out economic reforms, “productivity” became a popular and positive term, but now it’s worth considering: Doesn’t productivity mean the input-output ratio should be as large and fast as possible? But if we go faster, where is it we’re going, and what are we taking there? Are the objectives worthwhile?

During this economic crisis, growth and productivity have become symbolic to the point where they’ve become “growth for the sake of growth, and productivity for the sake of productivity.” If we think about it, we realize that productivity is a means, not an end, just as growth is a means and not an end. We promote growth in order for people to live better rather than worse. In the past decade or more, I feel that as industrial civilization has peaked and declined, growth and productivity have led us into living conditions in which the good things are outweighed by the bad. Growth has ruined the environment, but what have we gained from growth? Taking electronics as the most representative example, we feel compelled to keep upgrading to expensive new computers with components and functions we don’t know how to use, and by the time we’ve learned to use them, we have to replace them because of the prevailing fashion and even more because a vast amount of software is no longer supported. This is led partly by culture but also by changes forced on you for the sake of growth, such as software upgrades that render your old computer unusable. In the pursuit of productivity, people’s lives have become busier, more stressful, more exhausting; we’ve lost our tranquility and joy and a great deal of the pleasure of family life. The loss of joy in the frenzy of this last stage of industrial civilization is an indicator of its decline.

Of course, it’s hard to blame this on productivity in itself, but when productivity is worshiped like a totem and becomes an end rather than a means, it tends to get extreme. Rather than negate productivity, I want to ask: What are the things we really need? I always maintain that we should acknowledge the right of people to be selfish and greedy; this is the source of human society’s glorious development. Of course, it’s also the source of human society’s ugliness and evil. We shouldn’t refuse to rethink and critique things just because they’re part of human nature. Since
people create culture, we should enhance our understanding of and emphasis on the side-effects of culture, of human behavior and of human pursuits.

Returning to the premise of our discussion: Culture determines demand, and demand is the objective of our productivity. How do we create our own culture? Culture exists in the form of information, and information requires various vehicles of transmission, which we call media, so the flourishing of the media should result in the flourishing of our culture. As the development of modern technology has allowed information to be transmitted with greater speed and virtuality, it should be reasonable to say that humanity has entered an era of unprecedented flourishing of culture, but every one of us knows from experience that this era has yet to arrive, and that the majority of us are becoming increasingly distanced from cultural life. The cultural enjoyment that satisfies the higher-level demands of spiritual life is becoming increasingly scarce; television is becoming increasingly developed, but the number of people going to the opera house or concert hall is diminishing. At a time when we have a greater possibility of cultural development, what we’re seeing instead is a cultural retreat or amnesia. An interesting but lamentable phenomenon I’ve discovered is that the value indicators that guide the demands of human society have become increasingly severed from the objectives a person should pursue. Productivity and growth have accelerated this separation. What triggered this growing alienation? We need look no further than human selfishness and greed, but the specific demands formed by selfishness and greed are also side-effects of culture. Productivity forces us to reflect on where humanity is headed. Having reached today’s state of affairs, we cannot deny human instinct but must correct what goes off on a tangent in the evolutionary process. Establishing a rich spiritual culture, enjoying meaningful leisure time, finding happiness that is not based on material things, and realizing personal self-fulfillment and freedom are the things that are genuinely worth aspiring to, pursuing and treasuring.
A Bull Year for Reform Will Spur Confidence

2009 marked the Year of the Ox, and I projected that China would have a bull year, not in the stock or property market, but for reform. The new generation of leaders had an opportunity to turn the crisis into an impetus for reforms that would otherwise be very difficult. The central government has been talking about deepening reform since 2000, but what has changed? SOEs are even bigger and more monopolistic than ever and corruption is worse than ever. Reform has been the main theme of every Party plenum and every session of the National People’s Congress, but where are the results?

I believe China’s leaders truly want change and to develop people-centered policies, but lack of movement on reform is mainly due to vested interests. Only under enormously challenging conditions can we undertake major reforms in the face of vested interests. For example, there’s been debate over the issue of fuel oil tax for more than a decade, but within the space of two months at the end of 2008, a plan was announced and quickly accepted – that’s the power of crisis. This crisis provides a rare opportunity to push forward reforms, because its impact has been massive and broad-based – no one has been able to escape it. Under normal circumstances, even the most conscientious officials pay no more than lip-service to demands to delegate power and yield profit to the people, while those who have everything to gain from a system that grants them unfettered power have no reason to want anything to change.

From what leaders such as Hu Jintao, Wen Jiabao and Xi Jinping have been saying in their speeches, it looks like they’ve long been determined to carry out reform, but it has been extremely hard to push forward. I feel that a surging undercurrent exists that could make this possible with the full backing of the people, who have long been hoping for substantive political reform.

I feel we first of all need to courageously face up to a deteriorating economic environment and not wait for our luck to change. Second, we shouldn’t count on current economic activity to rapidly alleviate the crisis; resolving the crisis will require a long period of preparation. Third, don’t count on the government to create economic miracles and bring about a bull market
overnight. The problems of unemployment and falling income won’t be solved in an instant, but
the crisis doesn’t have to be a threat to society. When the economy has played all its cards, it’s
time to play the political card. Only deep-seated political reforms that create a fair social system
will have instant results.

It must be understood that politics is not a hollow concept or a simple question of human rights;
politics is fundamentally in service to economics. Ramping up the pace of substantial political
reform will win over public opinion, including among the unemployed and those living in
hardship, and muster the strength that comes from unity. Although people may experience
hardship for a time, as long as they have hope, they can deal with their problems with a positive
attitude and surmounted the crisis through an attitude of mutual understanding with the
government. That’s why I say the crisis doesn’t stop at the economic level; economics can’t be
separated from politics or from culture or popular sentiment. With the support of the people, no
hardships is insurmountable, and society will be stable. Proceeding from economic reform to the
deeper level of all-inclusive reforms in politics, society, the economy, the environment and
globalization will enable the creation of a genuine “China Model” with universal values,
sustainable development and centered on the people. That’s when China can hope to enter a
genuine “flourishing age.”
Chapter 2: An Analysis of the “Global Financial Tsunami”

The Ongoing Crisis

The dark clouds were gathering for the massive crisis brewing in the global economy in early autumn 2008. Some saw a worldwide depression looming like a hurricane, but I feel this is an inappropriate metaphor, because a typhoon comes and goes quickly. This economic crisis was actually a long time coming, as indicated by inflated costs in the means of production, a gradual softening in consumption and the growth of bad debt. That’s why the 2008 crisis was so prolonged, profound and far-reaching.

The crisis was first and foremost one demand, which was an indicator of the crisis along with production surpluses, financial bubbles and overdrafts. It happened the capacity for demand and growth under the existing economic development model, cultural values and lifestyles had reached its limit. In developed countries, the desire to continue growing after reaching this limit led to the use of financial leverage, debt and overdrafts to stimulate demand. This was in fact an abnormal and forcibly sustained growth.

For China, flourishing demand in the international markets had led it into an “investment-driven model.” So there was “consumption-driven growth” on one side and “investment-driven growth” on the other. Excessive consumption propped up by financial leverage was unsustainable, and when it collapsed, the focus of the global crisis shifted to inadequate demand and its flip side, production surplus. In attempting to resolve the crisis, the US and Europe stimulated their economies through government investment to cover debt, while China likewise used investment to stimulate demand; in fact, neither was effective, because the US was using the same old ways to solve an old problem, which was to use overdrafts to cover overdrafts, while China also used the timeworn method of investment to solve the problems caused by investment.
In essence, before this crisis erupted, the world’s social development had already entered the twilight of industrial civilization, and it is at twilight that all kinds of anomalous phenomena occur. These anomalous phenomena included a shift from the real economy to the financial capital markets, which originally serviced the real economy to satisfy people’s demands but then began creating and guiding demand. In short, it had to make people want things they’d never wanted in order to achieve capital gains and growth, i.e., “consumerism in service to growth.” Growth was originally a result and a natural economic phenomenon, but then it became an objective. There’s nothing inherently wrong with doing everything possible to create demand and satisfy demand and give people the capacity to generate demand, but this method has its limits. Within the capacity of a social development model, stimulating the consumption of bogus demand is a positive thing, but once it surpasses what the model or system of social development can accommodate, it gives rise to alienation. At that point it becomes necessary to change the social development model, or what we call transformation of the economic model. People need to embark on a new economic path and then create and discover demand within a new system. Changing the economic model means first of all changing the demand model, because the economic model is bound up with demand: Demand comes first, followed by scientific inventions and production to satisfy this demand.

Allowing a new economic model and new economy to break out of their cocoon requires a fairly comprehensive negation of the old model and a correction to some of the old demands, not only economically but also culturally. If we regard the economic crisis as society falling ill, rescuing it means restoring it to health, i.e., to its condition before the illness. But if the “rescue” is ineffectual, we have to consider the possibility that it can’t be saved and that it will have to be renounced in order to make new life possible. This may require even greater strength, courage and rethinking.

Demand is the core of this crisis, but the conclusion we reach from careful and detailed analysis is that revitalizing old demand will not get us anywhere; we must create new demand, and it must be sustainable. If we rationally examine the problems created by this crisis rather than just trying to restore the old situation, we need to talk about “renunciation,” and this requires a
change in culture and values, and also a systemic plan; we need to form new values, a new guiding ideology, a new world view and new system.

If we say that under the old cultural model, everyone’s so-called better tomorrow referred to the individual being able to possess even more material wealth, under the new economic and cultural system, social morality, ethics and culture may dictate that a better tomorrow is predicated on, to a certain extent, correcting, limiting and guiding people’s personal desires so that they can play a positive role. We need to abandon the idea of saving the current economic situation and reviving the former so-called “good times.” We need to recognize that today’s problems are the result of the good times of the past, and that humanity must steel itself to renounce the past and move into the future.

In spite of worldwide rescue efforts, all of the world’s markets plunged after October 20, 2008, and media reported a shift in focus from bad debt in the financial institutions as symptoms of problems in the real economy became increasingly evident.

Originally people thought that the bursting of the real estate bubble triggered the bursting of the excessively leveraged financial derivatives bubble and caused excessive liquidity to suddenly evaporate, but in fact this was just the tip of the iceberg. Investors who became panic-stricken or lost confidence in the financial tsunami now began to return to reason, and one important manifestation of this was that market rescue efforts aimed at resolving bad debt in financial institutions and increasing liquidity and restoring people’s confidence in the banking system became ineffective. The worldwide effort to save the stock markets and financial markets succeeded in preventing major bank runs and bankruptcy, but the results in terms of stimulating the economy were very limited, and people were as pessimistic as ever about economic prospects. The stage of treating the stock market as a barometer of economic confidence had passed.

The method best suited to the current times is to make people fully aware of the truth. In early 2009, what had been spent added to what had been promised to save the markets totaled an estimated US$5 trillion. That’s one-eighth of the worldwide annual GDP of US$40 trillion. With
the world’s stock markets continuing their downward slide, continuing this rescue method was clearly a futile effort. The world’s elite, especially political leaders, need to face the truth. Then they need to think about how this crisis and the previous Internet bubble crisis are different from the US depression in the 1970s and the Great Depression of the 1930s, so people can understand the reasons behind the current crisis.

We need to tell people the truth and the possible worst-case scenario, because when the elite issue statements saying we’re seeing bottom, and the public doesn’t see that bottom, this causes a loss of confidence in the elite and an even greater fear of a bottomless crisis. Telling people where the real bottom is and how many holes have yet to be filled is the first step in stabilizing confidence; it’s a matter of telling people how to cross this abyss and what will come after that. This instills confidence by letting people know that the difficulty can be surmounted, and that things will get better afterwards. Facing reality, working out the worst-case scenario and then pointing to the way out helps people hold their ground, restores their hope and rebuilds confidence.

Soon after the crisis there were all kinds of conferences, like the Asia-Europe Meeting, but I didn’t see any of those meetings taking even the first of the above three steps. There was no mention of how the crisis would end or how society would be rebuilt. Whenever there was talk of a major market rescue and good news emerging, it was a sure bet that stock market indexes would rise for at most two days but then crash on the third day. This crisis wasn’t like those occurring in the past, and it was impossible to restore confidence without facing that fact head-on.

In late 2008, I was convinced that the assault on the real economy had just begun, and that the crisis in the financial sphere would expand and deepen in the first half of 2009, but that the US economy might well start taking a turn for the better. The annihilation of the US financial derivatives market, and especially of the investment banks, was not necessarily a bad thing. The world has no everlasting civilization or social system. For instance, the golden era in Silicon Valley was in the 1990s, when housing prices in the Silicon Valley were reasonable and most
people could live well there. Real estate is a good thing when it allows people to live and work in peace and security, but when it becomes something like a chip in a casino, it become a blight on society, driving people out and resulting in ghost towns. When people can’t afford to live where they work, it’s impossible to enjoy a life of peace and security.

That’s why I feel the bursting of the real estate bubble and the annihilation of the US financial derivatives market, especially the investment banks, wasn’t necessarily a bad thing, even for America. The US has a large population, steady immigration and a vast land area. In the past, some people deluded themselves that a colossus like America could prop itself up with its financial center like Hong Kong, but of course this was unrealistic. For a period of time, graduates of America’s top universities, regardless of their major, made investment banks their first choice of employment. The virtual economy absorbed the top talent, depriving the real economy of the country’s best minds. In the 2008 presidential election, politicians were always saying China stole American’s rice bowls, but the truth is that America’s economic and industrial structure and its incentives mechanism destroyed its own rice bowl. America made the choice of going to China to buy things and to invest in production, so why blame China for stealing your rice bowls? The bursting of the real estate bubble and the annihilation of excessively virtual economic sectors like the investment banks will help rejuvenate a robust real economy, especially the technological and innovative sectors.

The elite should now have a pretty good idea of what is fundamental and what is incidental in terms of society’s political and economic structures, including the planning of the industrial structure, and should provide the appropriate incentive mechanisms. The previous structure cannot be said to be completely wrong; it was an inevitable pattern of historical development as industrial civilization went from boom to bust.

The Factors Contributing to the Financial Tsunami

The economic crisis was like a row of dominos. It started out with the crisis in the American subprime debt market and then extended step-by-step throughout America and Europe. So-called
subprime debt refers to low credit requirements predicated on the assumption that real estate prices were a rising sun that would never set. This idiotic delusion is just one manifestation of the deep-seated contradictions within the globalization that began in the 1970s and 1980s, and which established an economic division of labor under which developed countries sent their low-value-added manufacturing and service industries to developing countries, especially with the opening up of the former Soviet Union and Eastern Bloc after the Cold War.

Rapid globalization allowed Europe and America to enjoy strong economies, symbolized by strong currencies that enable them to buy things all over the world. Then-US Federal Reserve Chairman Alan Greenspan was regarded as an “American hero,” but in fact all he did was issue currency, which along with lowering interest rates allowed the US to wield its political, military and economic strength to become the world’s central bank and making the US dollar the most important currency in the world. This is not to deny America’s contribution in terms of genuine creative capacity and technological innovation, but America’s decades-long high growth and low inflation cannot be separated from what French Finance Minister Valéry Giscard d’Estaing termed the “exorbitant privilege” enjoyed by the US dollar. If not for a globalization that far exceeded the traditional colonial era, it’s hard for us to imagine that Europe and America could have sustained they quality of life they enjoy today.

The shift of low-value-added industries and the constant issuing of currency combined to transfer a wealth to the West far more rapidly than economies grew, inevitably resulting in the decline of domestic manufacturing industries and of the perceived status of the real economy. The focus shifted toward capital and investment markets like the stock market, real estate market and increasingly excessive financial derivatives markets. On the other hand, sustaining growth on the basis of unrenewable resources and extreme reliance on creating and stimulating consumption inevitably resulted in shortages in resources.

Real estate is a relatively scarce resource, so people developed the misapprehension that real estate was a “sun that would never set.” But the real estate bubble was bound to burst, and the

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8 TN: A term coined in the 1960s by Valéry Giscard d'Estaing, then the French Minister of Finance.
problems that first emerged in the subprime market crisis triggered a domino effect. This is because, first of all, while globalization produced a win-win situation for developed countries and developing countries, the developed countries won more, while the developing countries contributed a great deal for lesser gains. Secondly, the even this asymmetrical win-win situation was limited. A boom cannot be sustained forever unless natural resources are inexhaustible. After being consumed for a certain period of time, the natural resources of developing countries and regions inevitably became more expensive, and the cost of labor and other means of production likewise rose. This trend of rising resource prices in developing countries was seized on by speculative capital and reflected in the speculative market, which only added fuel to the flames. Rising resource prices became a threat to developed countries like the US and Europe that had gained the most from globalization, and that’s when real estate became a sun that could set after all, and the subprime debt crisis emerged. The subprime debt crisis was really just a warning shot indicating that the economic growth model under the existing globalized order could no longer continue.

The predicament of the economic crisis was in fact a long-term crisis of a model and basic values arising from two long-standing and mounting conflicts that were factors in humanity’s flourishing development but also of its turn toward decline.

The first factor is scientific viewpoint: empirical science in the natural sciences and social Darwinism in the social sciences. The two manifested themselves economically in market economics and the veneration of trade and free competition on the one hand, and politically in democracy by universal suffrage plus competitive political parties. This value system linking science and democracy became popular hundreds of years ago and has now become a universal value. In economic terms, this value system puts humanity at its center and implies that the relationship between man and nature is one of knowing, conquering and endlessly utilizing nature. Although human beings were originally reliant on Nature and venerated Nature, their imaginative capacity created desires that exceeded the demands of instinct. Once modern science allowed human beings to conquer nature, their values, social system, lifestyle and production methods began to reflect the unleashing of their intrinsic greed. For thousands of years, during
humanity’s agricultural civilization and hunter-fisher civilization, the word “luxury” carried the pejorative connotation of extravagance and excess, but today it has become laudatory. We’ve forgotten the fundamental point that human beings are the children of Nature and we will ultimately suffer retribution for conquering our great Mother Earth. I believe that the current crisis is part of this retribution.

The second factor is globalization. The positive side of globalization is that it has led to an unprecedented world-wide shaking off of ignorance and move toward progress. But any kind of globalization has its order, and the current order is dominance by the strong. Globalization after WWII was undeniably led by the United States, and therefore brought it the greatest benefit, but at the same time weakened it. Genuine strength comes from within rather than relying on the distribution of wealth, and the emphasis on getting more causes weakness. Western society has come to fetishize luxury culture, but human civilization developed through the challenges of an environment of hardship; without hardship, there is no challenge that forces a country, a civilization or a person to think or create or form new values. That’s why the saying goes, “Wealth doesn’t go beyond three generations.” This reasoning applies to all nationalities, countries and regional economies. For example, the US abandoned and outsourced a large amount of its manufacturing industry, which people shunned for its meager returns and hard and tiring labor. People began taking longer and longer vacations and aspired to a life of enjoyment without the need to work. Once a crisis arrived, it was impossible to hope that they could quickly become diligent once again.

That’s why I believe that the crisis was caused by the unsustainability of a value system, social system and lifestyle of conquering nature coupled with globalization that gave more to the strongest, even though these factors pushed forward humanity’s great progress. This crisis is not only one of production surplus and excessive issuing of currency; humanity needs to fundamentally come up with new values and a new globalized system.

Two major crisis with extremely profound ramifications occurred in the 1930s and the 1970s, and comparing them helps us perceive the features of our twenty-first century crisis. When
people think of the 1930s crisis, the phrase that immediately comes to mind is “the Great Depression.” But I don’t believe the current crisis will develop into a “Great Depression.” The globalization of the 1930s rose out of the Industrial Revolution that made Europe and American dominant civilizations and put them on the road of colonial expansionism in the seventeenth and eighteenth centuries. By the 1930s, these colonial powers had formed a world economic division of labor and a world economic order under colonialism that allowed Western countries to buy resources at low prices and then dump goods on their colonies at a hefty profit. Fighting over colonies triggered the First World War, but when that didn’t solve the problems of the world order required by colonial globalization, World War II broke out a short time later. In between the two world wars was the global crisis of the 1930s, which essentially indicated that the division of labor and economic system formed under colonial globalization was unsustainable. An internal logical connected the two world wars and the economic crisis between them, requiring a readjustment of the world order of that time. Treating this economic crisis as a watershed, before the 1930s, the world economic order was referred to by some as Pax Britannica, while after WWII, the world economy moved toward a new order that some refer to as Pax Americana. The main method of economic growth after WWII relied on a technical revolution that gave rise to a large amount of scientific technology and new industries. That’s why these two crisis have both similarities and differences.

Conversely, the crisis in the 1970s is not comparable to the current crisis. At that time, the economic crisis arose mainly from the petroleum crisis, and once Western economies made some adjustments to digest the rising cost of petroleum products, the problem was basically solved.

In facing today’s crisis, adjustment of the two models requires changes to the relationship between man and nature and to the relationship between the peoples and nations of the world. I projected that this adjustment would require at least five years due to deep-seated patterns of society, culture, systems and globalization that require people to “hit the wall” before they recognize the need for a new and innovative economic order.
The Great Depression lasted seven or eight years or so, but I think the depression resulting from this crisis will be very long, especially because the speculative virtual and bubble economy climbed too high. We need to rethink the financial markets. First, I feel that humanity needs to take the initiative to curb speculative behavior. There are some who have called for permanently banning some short-selling behavior. Short-selling was designed to deter risk, but it has become little more than gambling by winning with one hand and losing with the other, and has a very destructive effect on the functioning of the overall economic system and on the real economy.

Would this kind of adjustment imply a retreat of the financial markets? This first of all touches on the question of “why do we have financial markets.” The purpose of the financial markets is to service the real economy and to make the real economy develop better and faster; all financial products are for the purpose of allowing capital or the essential factors of production to flow faster, better and at the lowest cost toward the industries society most needs to develop. However, as financial derivative proliferated, they became merely tools for making money, divorced from their original objective of servicing the real economy. When the real economy created wealth, the financial system could also indirectly participate in the process of wealth creation, but once separated from the real economy, the financial system didn’t create wealth but only bubbles.

A book that has become especially popular in China in recent years is *The Great Game: The Emergence of Wall Street as a World Power*, by John Steele Gordon. One of the book’s stated views is that the US has been able to develop as it has because of its extremely developed capital market. The market value of the US capital market may be 100 times the value of its real economy, while in the typical developing country, the value of the capital market is at most double that of its real economy. The author therefore concludes that the divergence between the values of the capital market and the real economy reflects the level of development of that country. But I don’t think the relationship between finance and economic development can be applied so simply to China. While the US financial market’s apparent market value is 100 times that of its real economy, there is a less striking discrepancy between the value of the US financial market and the world’s real economy. The US dollar is an international currency, the US Central
Bank is objectively the world’s central bank, and Wall Street is the financial market center of the world, so America’s financial figures should be compared with the entire world’s real economy. There is no other country like the United States that enjoys this status.

The second point is that if many other countries took the same road of financial development, such as the US, it would be the end of the world. America’s rampant consumption is fueled by globalization and America’s superiority in the global financial market. The possibility of the whole world being like that is a logical absurdity.

The financial market should revert to its original role of servicing the real economy. But the financial market has always encouraged innovation, and even when servicing the real economy it will use innovative methods, so humanity will have to engage in long-term remolding to avoid another crisis like the present one. If innovation and the development of the real economy play off of each other’s strengths, that’s good, but the greater tendency if for to be aimed at making money as quickly as possible and avoiding loss. The process of rethinking and restraining the financial market is to a certain extent a process of shrinking its function. All policies or activities have side-effects, but when faced with two undesirable options, it’s best to go for the less damaging one. Actual practice clearly bears out that financial products and innovations that facilitate the development of the real economy deserve support. Conversely, products and innovations with flexible functions and an uncertain effect on the real economy should be prohibited. The focus should be on protecting the real economy and controlling the virtual economy so that the financial markets service the real economy in spite of themselves.

The Nature of the Financial Crisis and the Crisis of Industrial Civilization

While attributing the economic crisis to excessive spending in developed countries like the United States, I feel that especially the past 20 years, the West has had no choice but to take the road of excessive spending, because back in the late 1990s we embarked on an era of global production surplus. Under conditions of production surplus, globalization brought a new worldwide division of labor that resulted in unprecedentedly rapid progress for humanity,
including technology transfer, new ideas, the dissemination of new culture, etc., but at the same time, it also led our societies toward a shift from renewable agricultural resources toward non-renewable energy resources. Likewise, there was a shift from natural economics to market economics and commodity economy, and from circular economic forms to linear growth economic forms – what I refer to as the civilization form of modern industrial market economy.

The civilization form I refer to should be viewed from a more intrinsic level. The difference between men and animals is that human beings have creative ability, and use tools to expand and strengthen their physical abilities in order to increase and transform their resources for survival. In agricultural society, the tools created were basically extensions of the human body and formed a circular relationship with nature. With the dawn of industrial civilization, the forms of production changed and were used to understand, transform and subjugate nature for man’s use. Industrial society is manifested in either production surplus or production shortage; production surplus occurs in a market economy under private ownership, while production shortage occurs in a planned industrial economy. Marx, one of the most prescient thinkers in the early stage of industrial society, understood production surplus under capitalism but didn’t perceive production shortage as a crisis of industrial planned economy, or that these two conditions complement each other.

Marx deduced the periodic emergence of production surplus in industrial market economy. Over the past 150 years or so, industrial civilization has passed through one crisis after another, and each time, society has adjusted and developed. The resolution of most of these crises and society’s development has been due to technological advancement, which gave people access to new living lifestyles, new living space, new tools, new consumer goods and new demand. This ushered in a new era of new employment, bringing about industrial rejuvenation and survival of the fittest. In this respect, I feel Marx was too absolute in concluding that production surplus as a bad thing. He also thought that periodic crisis would ultimately lead to the destruction of capitalism, socialized production and distribution according to need under communism. In fact, socialism and capitalism are two parallel social forms under industrial civilization rather than two forms of civilization. Crisis typically results from production surplus, and production surplus
has its inevitable aspect; on the surface it looks like a waste of social production, but it’s restricted by the invisible hand of the market, which will always seek new ways out and development.

At present, the economies of emerging nations and developing countries have become globalized, so surplus manifests itself globally. Globalization lengthens the production surplus period because it has a larger space to absorb it, and in that larger space it develops more, broader and deeper divisions of labor. By the end of the twentieth century and beginning of the twenty-first century, people believed that Internet technology and applications would lead to a new era. For example, the Amazon online bookstore, although initially suffering huge losses, still had extraordinarily high share prices. But the reason why such high hopes were placed in the new technology of the Internet is because many of the industries and services preceding it had entered a stage of serious surplus.

With the economy in a state of serious surplus, the rise of the Internet at that time was like a straw people clutched at for survival. With the Internet regarded as a “new world,” the US adjusted its financial policies with lower interest rates and easy money, and encouraged financial derivatives and other such innovations that shifted the US from “real economy America” to “science and technology America” and then toward “highly developed virtual economy America.” When the Internet failed to live up to hopes for a “new world,” the Internet bubble burst. By then, the US was the locomotive of the world, and it continued to use large amounts of financial derivatives to mint an enormous virtual economy, which enriched Americans through the transfer of wealth and also provided a huge market for emerging nations and developed their manufacturing sectors. The rapid development of the emerging nations and rise of the virtual economy papered over the outbreak of production surplus after the Internet bubble burst.

But by 2007, the virtual economy had become a heavy burden; the demand and consumption it created had reached its limit due to the real economy’s reliance on nonrenewable natural resources to meet the demand for products and services. This excessive production and demand was manifested in petroleum prices, which reached their highest levels in more than a decade
around the time that the financial crisis broke out. In other words, although the virtual economy could still create so much demand, the real economy and the natural resources it depended on couldn’t bear the burden. When the virtual economy was no longer sustained by the real economy, the crisis erupted, but as before, its emergence in the virtual economy covered up the fact that it was essentially a crisis of production surplus.

This production surplus came under pressure from two fronts: upstream resources and stress on the environment on the one hand, and the pressure of the virtual economy’s high degree of leverage on the other hand. It therefore took the shape of a grave financial and credit crisis that rapidly assaulted the real economy. Lacking a major technological revolution to resolve the production surplus, the situation has transformed into global national credit risk, which in turn has given rise to a global lack of demand. Uncertainty over the future and the loss of credit has produced a global production surplus exacerbated by the worldwide depletion of the environment and resources, plunging the global economy chain into an all-out crisis.

In resolving the global production surplus, we can’t treat the present crisis like a pure financial or credit crisis, or resolve it through methods like Roosevelt’s “New Deal” during the Great Depression in 1929. Most countries rescued their economies through increased government investment and injection of capital into financial institutions (or SOEs in China’s case). I feel that if we don’t clearly recognize the causes of the crisis and differentiate among the companies and institutions benefiting from these rescues, these measures won’t be very effective in resolving this crisis and could even produce harmful side-effects. A careful analysis of the crisis indicates that this is the final eruption of critical production surplus under the market economy model of industrial civilization. So we need to engage in a long view of macro-history and adopt a perspective that bridges civilization forms to gain new development.

Attempting to understand the origins of the 2008 economic crisis and how it could lead to such disastrous results requires being aware at an abstract level that this is a crisis of industrial civilization going from boom to bust. Specifically, as industrial civilization moved into boom mode, all kinds of relations (or structures) were relatively smooth, but when the boom reached its
peak and began heading into decline, various internal relations increasingly became less smooth and more distorted and abnormal.

For example, industrial civilization is established on the basis of increasing consumption of nonrenewable resources. It’s common knowledge that as nonrenewable resources become increasingly scarce, their value and therefore also their prices should rise. At present, however, the relative prices of nonrenewable resources are dropping. In terms of absolute value, petroleum prices rose to more than US$140 in 2008, but taken in the context of people’s incomes, the relative price of petroleum has actually dropped compared with back when its absolute value was much lower.

The fact is that the vast majority of nonrenewable resources and the industrial products made from them have become steadily cheaper over the past 100 years, and in particular the majority of manufactured products are cheaper not only in relative but also in absolute terms. A cotton shirt is now more expensive than man-made fiber, even though cotton is a renewable resource while chemical fibers are made of nonrenewable petroleum. The original higher price of manmade fibers incorporated a large amount of high-grade and primary-grade labor, which has become increasingly cheap, and we saw this phenomenon as social progress. But in fact it was a process of devaluing nonrenewable resources and labor, which created problems because it was contradictory: Industrial civilization engaged in constant and large-scale production of products manufactured from nonrenewable resources, and the items consumed became ever cheaper and elimination through competition became increasingly rapid, shortening and shrinking the space for society’s sustainable development. This distortion is what sent industrial civilization into a tailspin.

Viewed from the mutual relationship between man and nature, nonrenewable resources should be more expensive, because only in that way will some of them be left behind for subsequent generations; if they’re cheaper, they’ll certainly be used up faster. This touches on the question of how we understand human instinct, and understanding human instinct is a question of cultural values; correlating with that is how the social system should be designed. This is related to how
we regard the relationship between man and nature, and also how we regard humanity itself and how society can continue indefinitely. We should allow various interests and demands to form a relatively fair and just system. Nonrenewable resources can be made more expensive, and renewable resources cheaper, through taxation, for example with an energy tax or natural resource tax collected when resources are obtained or at the point of product consumption, like a fuel oil tax. The main question is who sets these taxes, and who takes the lead. The popular mindset is too focused on the present, but elite politics too easily becomes autocratic. So today’s global society faces the problem of systemic innovation.

Industrial civilization has gone from boom to bust because of a series of internal inverted relations and distorted pricing. For example, services are definitely the most renewable; people work for a day, sleep at night, then are full of energy again the next day. But people treat the services industry as a high value-added profession as opposed to the manufacturing industry because of the current pricing concepts and social system. It’s hard for us to say which industry should be cheaper or more expensive even if we take into account products that humanity can’t do without. We can’t go without rice, but no one wants to be a farmer because they earn so little, and they earn so little because agricultural products are cheap, and these products are cheap because of our value system.

Here’s another example: Nowadays we advocate mergers, which make sense from the standpoint of productivity. But mergers invariably result in reduced employment and increased monopoly, which means labor creates greater value but is paid less in return, which in turn reduces demand. So in terms of productivity, a merger is good, but in terms of society’s sustainable development, it’s bad. That’s why the crisis of industrial civilization going from boom to bust cannot be solved by what American and Chinese government officials call “transforming growth patterns.” We need a full rethinking, not only of these overt problems, but also of the values we’ve come to regard as fair and justified; the crisis can’t be solved through the old framework. The dawning of a new civilization may allow us to escape the current crisis, albeit with many readjustments to fundamental relationships.
First of all we can view the economic crisis from a historical perspective. There is a symbiotic relationship between the economic crisis and industrial civilization (or what we call modern civilization). More precisely, the economic crisis is the inevitable product of industrial civilization.

Prior to industrial civilization, humanity’s economic activity was still carried out in accordance with the laws of nature. As long as there was no war or an excessively plundering ruler, economic life was in balance with nature. That is, there were no economic crisis, only natural and man-made disasters. Industrial civilization empowered people to transcend natural laws to maintain their survival, development, enjoyment and consumption. Furthermore, industrial civilization formed modern society’s division of labor, formed the social structures appropriate to this division of labor, and began to pursue highly efficient models of organization, division of labor, production and consumption. This was planned economy, but it ultimately failed due to shortage crises.

Another kind was market economy, which through market regulation used the relationship between supply and demand to deploy resources and organize production. Although we can’t say it failed, production surplus regularly occurred among some goods and services. Social development is a process of dynamic equilibrium, and after a period of time, a relatively intense pattern of surplus will emerge. Economic crisis tells people that they need to adjust and that society’s division of labor and provision of goods and services cannot remain unchanged, but given the time gap in recognizing surplus, it often has to reach a critical point before the problem is apparent. Economic crisis is a phenomenon that is certain to emerge periodically in industrial civilization, and we should face it without terror because it doesn’t involve a natural circular economy but rather a human-dominated division of labor that needs constant adjustment. A crisis signals the need for this adjustment. Since the emergence of industrial civilization, one crisis after another has led humanity to repeatedly revise industrial structures, economic structures, laws and regulations and even people’s values. So in this respect, crisis is a normal phenomenon, and we should respect the periodic pattern of crisis just as we respect the laws of nature and historical patterns.
In the process of saving the markets, the world’s elites and rulers should collectively engage in a calm rethinking of where they actually want to lead humanity, in particular revising our social system and values and their related distribution models in order to benefit humanity. The main worry is of humanity returning to outmoded conventions, forgetting the pain after the scars have healed.

The car is the symbol of industrial civilization, and America’s automotive industry can be considered the weathervane of industrial civilization’s boom and bust. For this reason I agree with economist Paul Krugman’s conclusion that America can’t save its automotive industry. As industrial civilization gradually recedes from the historical stage, the automotive industry will gradually fade from people’s lives in the new civilization that develops. First we need to look at people’s conflicted attitude toward cars: On the one hand, everyone wants a good car, but everyone loathes traffic jams. Sitting inside a car is very comfortable, but if you were standing alongside the road at the time, you would find the environment abysmal. Everyone wants clean air and a quiet environment, but everyone is releasing exhaust fumes and making noise. This conflicted mentality is a product of industrial civilization, in which every person is both a beneficiary and a victim, and everyone creates and suffers from disaster.

In the news media we see China’s automotive consumer associations and other such organizations proposing that people be allowed to apply their housing provident funds to car purchases, even though roads are already congested beyond capacity, and car exhaust is a major contributor to China’s already toxin-filled air. The fact that someone wants to develop the automotive industry at just this time illustrates the inextricable contradictions of industrial civilization. The logic behind this suggestion is that making automotive sales a consumer focus would stimulate economic growth and pull China out of its predicament. People seem to have already forgotten that this crisis was triggered by the rapid increase in the price of natural resources such as petroleum, which in turn resulted from steadily increasing demand for nonrenewable resources. Inflation brought on by the rising prices of natural resource-type products made people’s incomes shrink in comparison, which brought a downturn to housing consumption, which then triggered the subprime credit crisis in the US. In this respect, we’re
lucky that the Chinese government began taking measures to force down property prices in 2006, which whether out of wisdom or luck saved China from a real estate-based financial crisis.

In terms of globalization, the automotive industry as a vehicle of industrial civilization will certainly undergo fundamental change. For example, if everyone in the world had a car, as in the US, would that be workable? No matter how you view the numbers, it’s unworkable. But the goal of China’s industrial policy to develop the automotive industry and of the US rescuing its automotive industry is for everyone in the world to have a car or even more than one. Human society is increasingly using up good land to construct roads, the amount of exhaust emitted by motor vehicles is increasing, and global warming is becoming increasingly serious, while petroleum supplies are shrinking; it’s impossible to sustain the development of this kind of automotive industry. Anyone who thinks about it rationally will know that this is a dead-end road.

Although I also like cars, I feel the future mainstream will be public transport rather than new energy sources for private cares, because the earth doesn’t have room for so many roads. The private car industry will undergo fundamental change, but most people will still use public transport; it’s not a matter of preference but of what circumstances allow. This isn’t just a question of public transport but also of whether it’s better for cities to be larger. Now that the crisis has exposed its decline, we need to consider discarding the model of industrial civilization and moving toward a new model.

We have to be mentally prepared for adjustments that will exact a painful price. I believe that one of these painful matters will be the eventual extinction of America’s three big automakers, the price of which will be the loss of jobs in the US and China. The automotive industry fueled by petroleum and other nonrenewable resources must die out, and even with the invention of cars using new energy, there’s not enough space or enough time to spend in cars where there is enough space. My conclusion is that it’s a waste of time for America to rescue its automotive industry, and an error for any country to develop its economy through the automotive industry.
The current crisis that erupted first in Wall Street should be called a bond crisis, as it occurred at the level of financial derivatives products, and this crisis is far from over. The bond crisis is a credit crisis. Looking at it now, the number of bonds issued on the market is vast. The figures I’ve seen show global GDP in 2008 as around US$40 trillion, but the total of bonds issued at the time had reached more than US$516 trillion, i.e., more than 12 times the world’s total GDP. In any case, the total value of bonds relies on regular repayment through saving. But under the current production methods, savings may mean a major decline in the world economy, because we exist in an age of consumerism – economic and social development relies on consumption, and social progress to a certain degree can be considered progress in consumption.

The world’s governments responded to the crisis by rescuing their markets, but what they were actually rescuing was the speculative market in bonds and other financial derivatives. I don’t deny the role of speculation or rule out the coexistence of speculation and investment. In a market economy, opening a financial market is certain to involve speculative behavior, which is an innate and instinctual tendency in human beings. But a main focus of the rescue efforts was US real estate bonds, even though the crisis originated with subprime loans, an offshoot of the consumption-driven economic development model in which real estate could be purchased with no down payment based on the assumption of property prices rising and not falling. In the increasingly overheated property market over the past decade, Americans with no cash, no credit and no jobs have been able to buy homes, as long as they could pay the first two years of interest. When property prices were rising, you could buy a home at almost no cost, live in it for two years and then sell it off at a profit. Under these circumstances, who wouldn’t buy a house? But it meant that America’s flourishing home sales were actually a fake boom, because homes often became investment products separated from their actual use value. The situation in the US turned real estate into a major engine of social consumption, and creating demand and consumption became society’s unstoppable development model.

Where did these easy pickings come from? I’ve said that global reallocation of resources and wealth resulting from accelerated globalization following the enormous changes in the Soviet
Union and Eastern Europe was highly beneficial to developed countries like the US, bringing them 20 years of low inflation, high benefits and comparatively good growth. However, the growth wasn’t enough to satisfy consumer demand, and a large amount of this material wealth was imported at very cheap prices from countries developing under globalization, including China. One look at an American supermarket or retail store shows that things are really cheap. But one product that didn’t come through globalization was real estate, because real estate is fixed in place, and Chinese land can’t be moved to the US. Property requires having people willing to buy it, and also requires building roads and water and electrical supply and landscaping, and also requires commercial facilities, all on land. This is localized consumption and production with intensely localized boundaries.

Because real estate is on a country’s own land, it overwhelmingly involves local resources and local labor. The only way to make the property market profitable under the globalization process like other commodities was through the development of financial derivatives. In order for people to be able to buy a house with no money while still allowing builders and sellers to be paid, financial institutions provided mortgages, but rather than come up with all this money by themselves, they turned their mortgage businesses, i.e. their creditor’s rights, into bonds or debentures, which they then resold to investment banks and funds, which took on part of the risk as well as some of the benefit. These bonds, called CDOs – collateralized debt obligations – were packaged into various grades, and depending on their circumstances, the bonds were used to generate more money to buy insurance.

Through this cycle, risk changed radically. All of the direct participants found their risk minimized, but for society as a whole, the risk steadily increased, because the amplification factor continued to grow, and behavior in the front-end property market and among mortgage originators became increasingly bizarre, as passing off so much of their risk to the big investment banks and major funds only entailed a slight decrease in profit. The major financial institutions likewise shared their risk with the rest of the world through various investment methods and financial engineering. For example, China bought a large amount of debentures from the government-sponsored mortgage funders Fannie Mae and Freddie Mac. The collapse of these
mortgage funders took Lehman Brothers and Merrill Lynch down with them because investment banks not only provided capital to and purchased debentures from home mortgage loan companies, but also peddled these derivatives to the rest of the world and took a share of the spoils. Through these financial institutions, the real estate sector’s risk became globalized. The American people started enjoying better times than ever before thanks to the securitization and support provided by the whole world, but this was a chain, and once property prices stopped climbing, this chain was broken. And the basic reason property prices stopped rising was that the environment humanity depends on for its survival couldn’t forever sustain its greed. Although globalization allowed this development model to bring unprecedented prosperity, it ultimately needed correction and reform. According to this logic, the focus of market rescue efforts was for the most part speculative bonds, real estate debentures, debentures of real estate debentures and various real estate bond derivatives.

It was inevitable for countries to provide capital support to financial institutions at risk in order to avoid an even more devastation economic crisis, but it treated the symptoms rather than the disease. Getting to the root of the problem requires a profound rethinking of humanity’s social system, i.e., human behavioral norms. Without this rethinking, capital market liberalism will head into decline. This can be considered the sounding of an alarm; if the market economy makes some adjustments and improvements, it can avoid the reemergence of similar problems in the future.

As of early 2009, the US government had taken out US$ 9 trillion to rescue financial institutions in the form of credit for speculative financial products. But it’s impossible for the government to buy up all of the bonds. An economic slump affects the ability to repay credit card debt, which could set off a new wave of crisis in which financial institutions head toward the other extreme of repeatedly tightening up credit, inflicting a heavy blow on America’s credit consumerism and consumer markets and result in a genuine depression. Measures that only delay rather than resolve the crisis have an even more severe effect on the commercial banks, manufacturers, marketing conduits, retailers and servicing companies that form the foundation of society.
It would be reasonable to expect the companies that made bad decisions to bear the consequences, so why did the American government and the Republican Party, both such strong proponents of a free economy, seem compelled to set aside objections to government intervention and call for a US$7 trillion market rescue plan, which in spite of some opposition in Congress was generally supported by politicians in both political parties? One obvious conclusion is that not rescuing the markets is dangerous, and that it was necessary to do something instead of just talking about it, but the deeper reason is that people are aware, however vaguely, that this crisis cannot be simply attributed to a few companies making the wrong call. There is a recognition that the crisis resulted from the development of human civilization.

We can refer to the US market rescue measures as a trilogy: At the outset, the US bought bad assets, then switched to injecting capital into the banks, and then proposed using investment to stimulate an economic recovery. What factors drove these changes? I think it was public opinion and the will of the people. A mechanism that can accept public opinion will gradually find the correct road when facing the challenges of a crisis. How did public opinion play its role in this instance? The first step, picking up the tab for the mistakes of financial institutions, triggered a chorus of opposition. It could be that at this point, US Treasury Secretary Henry Paulson may have been representing the interests of Big Capital due to his former role as CEO of Goldman Sachs, a case of “the brain being directed by where the rump is seated.” So what changed Paulson’s mind? It was because in all of the public opinion surveys carried out by the US media, up to 70-80% of the people resolutely opposed doing this, and since Congress is elected by the American people, the Senate and House of Representatives didn’t dare vote in favor of it.

The objective of the American government’s US$7 billion market rescue plan was simply to use taxpayer dollars or newly minted money to pocket the bad debt of financial institutions. But then what’s to be done with them? If the government packs rotten apples into its own basket, does that turn them into good apples? It’s merely using government credit to replace the credit of financial institutions, because people have lost trust in the bonds issued by financial institutions. From this perspective, it’s an emergency measure, and not necessarily a very effective one, but at least it
can temporarily reassure people. What remains uncertain is who will benefit and what effect it will have on market economy concepts.

After that, the US$7 trillion plan set some conditions that turned the purchase of bad assets into capital injection. The conditions placed on financial institutions were extremely harsh, requiring both debentures and shareholder rights, and the original top managers were told to get lost. But the immediate response of public opinion was that the financial institutions were using the money to pay out bonuses, so the government made new demands that the top managers of those financial institutions should give up their bonuses and salaries. Then an increasing number of people became aware that the problem was not only with the financial institutions, but also in the real economy, and that, as Nobel economist Paul Krugman said, the three major automakers were doomed for extinction because they didn’t conform to sustainable development. From then on, the US economic stimulus and rescue plan became increasingly orienting toward the future, and the aid extended to the automotive industry was conditional on lowering costs and developing new energy resources and greater fuel efficiency. Only sustainable industry that brings man into harmony with nature will result in healthy growth and a sustainable market stimulus through long-term demand.

The self-correcting function of the policy relied on the system established by America’s founders. In the month from when the US$7 billion market rescue plan was proposed to when Congress approved it, there was constant public criticism and opposition in the Senate and House of Representatives resulting in constant revision, and it took some time for agreement to be reached on a plan to save the automotive industry. The gradual shift of the market rescue policy into an appropriate direction shows American society enormous capacity for rectification and regeneration. America’s decisive technological, economic and military advantages are derivatives of this systemic superiority, which gives America an inner strength and health that reveals itself on a daily basis. So even though the crisis erupted in the US and hit it hard, this is unlikely to give developing countries like China an opportunity for rapid development, because unless China experiences a miracle in terms of systemic innovation and self-improvement, the US will be the first country in the world to emerge from the crisis and will remain the engine and
nucleus of the world’s economic development for some time to come. Based on the same judgment, the entire Western world will likewise become the actual beneficiaries of the economic crisis.

The reason that developed countries like the US will be the biggest beneficiaries of this crisis is that their cultures and systems embrace different voices, interests and demands, giving them a major advantage when encountering crisis in peacetime. I specify peacetime because if a country faces a sudden natural disaster or outbreak of war, we cannot deny the superior social mobilization power of an autocratic system. In facing a profound crisis in peacetime, however, democratic societies have a great advantage, especially in economic life when there’s a need to transform lifestyles, production and development.

This is because, such changes require consensus and involve the selection of national behavior. Democratic societies, while rather inefficient, are better than autocratic societies in terms of discovering and correcting errors through the function of public opinion and representative government, and this allows their transformation to be more thorough and in-depth. For example, prior to the crisis, the US selfishly refused to sign the Kyoto Protocol and didn’t take part in international accords on carbon emissions, but now the US has become very active on emissions. This 180-degree turnaround reflects the superiority of the US system in allowing it to recognize error and then change in a way that is endorsed by the citizenry’s values.

Secondly, it’s because in a highly democratic society with free media, all kinds of views can be freely expressed and debated, which facilitates reaching a social consensus on the fundamental direction, objectives and methods of social development. The US quickly made the economics of sustainable development its main national policy and strategy, and its highly developed education system, technological and capital resources and attractiveness to talented people of every race and nation allowed the US to sprint into the lead. Likewise, public pressure made the US move fast on restricting CEO salaries, even though Wall Street is the fortress of free market capitalism, and the American savings rate, originally negative, rose to 6% in the space of a few months, the highest since 1995.
We can see that in the year or so following the subprime credit crisis, the US went from not being aware of how serious the crisis was, to panicking for a period for time, to basically understanding some essential reasons for the crisis. In a speech at Georgetown University in April 2009, President Obama said, “We cannot rebuild this economy on the same pile of sand. We must build our house upon a rock. We must lay a new foundation for growth and prosperity.” This foundation requires deep-seated changes in culture, values and the system.

The US and Europe have now made new energy a national policy for economic revitalization and rebuilding their economic foundations. I recently read a report that Sweden plans to completely end its reliance on petroleum by 2020 in favor of a green and circular economy. The upside this economic crisis was forcing humanity to change its lifestyles, production methods and development models before it destroys the world it relies on for its survival, and to shift toward rational economic conditions that allow humanity to live symbiotically with nature.

We can expect American society to undergo even more profound changes as the economic crisis compels developed countries to engage their cultural, systemic, technological, educational and capital superiority in a leap toward a higher phase of social development. Just as industrial civilization’s move from boom to bust occurred in developed nations, a new and improved civilization will also emerge in developed nations.

Although US has an enormous systemic superiority, importing it wholesale to China would cause major problems. We need to acknowledge America’s systemic superiority and then integrate it with our own historical and cultural heritage and development advantages to create a new system. Civilization’s transformation has given China the latecomer’s advantage as transformation of the growth model detonates a transformation of civilization. China faces even greater challenges in this crisis than the US did, but it may also have an even more profound opportunity in terms of deep political and economic reform. But there’s no time to waste,


10 TN: This objective was set even before the crisis. See “Sweden plans to be world's first oil-free economy,” The Guardian, February 8, 2006, http://www.theguardian.com/environment/2006/feb/08/frontpagelines.oilandpetrol.
because America’s cultural and historical baggage is much lighter than China’s, allowing it to more easily make the leap to a sustainable development growth model.

China needs its Central Economic Work Conference to propose combining growth with restructuring, and to combine preserving growth with transformation. As a rising nation, China’s latecomer’s advantage can be expressed through innovation and reform at both the economic and political level as well as transformation at the deeper cultural level. China has a harder task and longer road ahead than the US. Although for a period of time after the crisis erupted there was an attitude in China of self-congratulation and disregard for other countries, what’s needed now is a recognition that China will benefit as the situation improves in the rest of the world.

Going forward, I feel we should rescue the real economy, which is the real source of wealth. Then we should engage in a deeper consideration of what development model we should choose, and reflect on the fact that humanity can no longer treat material pursuits as the be-all and end-all. The current mainstream values of consumerism and an intensely competitive market economy have made each person a contributor to the crisis as well as its victim.

The crisis is already changing some phenomena that had long been regarded as a matter of course. For example, the fetishized capital markets and widely admired Wall Street elite have lost their luster, and the great investment banks like Morgan Stanley, Merrill Lynch and Lehman Brothers that previously attracted the most talented college graduates are now either bankrupt or have taken on new management and more traditional banking practices.

The disappearance of Wall Street’s investment banks has eliminated one of the tectonic plates of the social structure and of modern market capitalism. The loss of these controllers, extractors and leveragers of global capital is a sign of the even greater transition we face in the future as we move toward a new form of civilization and values. In particular, the elite need to think about how humanity can find a balance between material and spiritual satisfaction. There have been times when humanity has put excessive emphasis on spiritual needs, which often led to poverty and suffering, as in Europe’s Middle Ages or China’s Cultural Revolution. On the other hand, in recent decades, there has been too great an emphasis worldwide on material needs, and this leads
to a different form of tragedy. The possibility of more years of decline ahead is the price we must pay for our previous decades of material excess.

In any case, Wall Street needs to transform. Since the Wall Street investment banks and other financial institutions are the main perpetrators of the crisis and Wall Street greed created the bubble, rescuing them without recourse to principle would be using taxpayer money to nourishing these cancers in society.

Finally, traditional, unsustainable industries must shift into a more sustainable direction. Rather than save unsustainable industries for the sake of jobs, it would be better to invest the same amount of money in unemployment benefits, retraining and job creation for workers. In short, we should rescue people rather than industries that we know have no future.

**The New Prospects after the Financial Tsunami**

Treating this crisis as no more than a challenge to the financial system prevents us from understanding its deeper implications. Everyone has laid the blame on the American government and financial speculators, but the fact that this crisis manifested itself so fiercely and universally indicates that we need to recognize the crisis from the higher perspective of civilization. The global financial crisis is the inevitable product of human society developing to a certain stage, and it will transform humanity’s current economic growth model.

Once humanity entered industrial society and developed methods for conquering nature, the relationship was no longer circular and sustainable, and mankind’s intensely material pursuits created a linear growth type of economy. Maintaining this growth required inexhaustible resources and the continuous creation of new demand that could be turned into consumption.

But natural resources couldn’t endlessly satisfy the demands of this model, which is why commodity prices rose, resulting in the world’s largest, richest and most extravagant consumer, the US, developing per capita debt that nearly outstripping per capita income. At the same time, there was no major scientific or technological revolution creating new consumption space. In the
1970s, information technology like computers led to discussion of a future society with people able to work from home and communicate with each other even remote locations, and all of this has come true today. If not for the development of the now ubiquitous cell phones and new consumption created by the Internet, it’s possible that this crisis would have occurred even sooner.

Real estate is a basic requirement of life, but it has become a focus of consumption under a growth model that has to constantly find new sectors and economic mechanisms for consumption. If Wall Street’s financial whizzes hadn’t discovered all those financial derivatives, could the real estate bubble have grown so large? The former senior vice-president and chief economist of the World Bank, Justin Yifu Lin, once said that after the previous Internet bubble burst, the economy develop by steadily lowering interest rates and turning home ownership into the engine that drove economic development. The reason that demand is now driven by the culture of luxury and extravagance that was once considered disgraceful is that scientific and technological development has not been able to keep up with the express train of growth, and has not been able to provide a better form of demand and consumption in time.

With the environment and natural resources unable to sustain it, and science unable to create new demand and consumption space, people delayed the crisis through a growth model that involved debt consumption and spending on luxuries rather than necessities. As the express of industrial civilization hurtled forward at ever greater speed and its cargo became larger and heavier, one bump in the road was enough to create a crisis. That’s why I say that this crisis of industrial civilization moving from boom to bust looks on the surface like a credit crisis and financial crisis extending to the real economy and manufacturing economy, but at a deeper level it’s a crisis of industrial civilization and of the linear growth model.

At this stage, we need to build on the foundation of industrial civilization to create a civilization under a “scientific circular economy.” The difference between that and the earlier stage of natural circular economy is in the word “scientific.” The science part means that while the economy
operates according to natural characteristics and patterns, man is an active principal rather than completely submissive to nature.

Scientific circular economy respects man’s unrestrainable material and spiritual desires, and as in the past constantly creates new consumption space and demand. It still has enormous space for innovation and growth, but under a more harmonious living environment. Civilization under a scientific circular economy civilization doesn’t involve a prohibition-type controlled consumption, or like the Club of Rome’s calls for “global zero growth” or other schools of thought that want humanity to reduce its consumption as much as possible. These are good and noble aspirations, but I don’t think they’re workable, because they go against human nature, which always wants more. We can only achieve this through hard work and following the model of scientific circular economy. That’s why I believe that the express train of industrial civilization reaching its terminus is the starting point for a new civilization of scientific circular economy.

If we discover new consumer demand that allows this growth model to continue, we’ll use up even more nonrenewable resources and even more destroy our living environment, giving us even less space to correct our course and change our growth model. So I say that the economic crisis is a blessing arising from misfortune, because it exposed the problem of unsustainable development and is forcing people to think things through at a deeper level and look at circular economy growth as the way toward a new phase of existence.

In his book *Hot, Flat, and Crowded: Why We Need a Green Revolution – And How it Can Renew America*, Thomas Friedman says that the world’s future superpowers will be those that can firmly grasp and develop green industry, i.e., the circular economy model. That’s where we’ll see the major breakthroughs in science and technology that will give us space for growth.

At present the key problem we face is a lack of confidence, and that won’t come by rescuing the markets with increased liquidity and lower interest rates. If institutions lose confidence, they’re unwilling to provide loans or credit, no matter how much money there is. When people suddenly encounter a rain storm on a clear day, you can tell them to take shelter, but sooner or later you’ll also have to tell them when the storm will end and why it happened in the first place. Likewise,
while it’s necessary to save the markets, it’s even more important to rescue the real economy markets to prevent a full-blown depression. Then, we need a plan for solving the economic crisis and projecting the engines of future growth and consumer demand. We need a plausible big picture sketched out to give people hope and restore confidence.

I see the blueprint for the future as demand based on green industry, which includes not only tangible industry but also restoring people’s values, lifestyles and even concepts of beauty and ugliness. Transformation of our civilization will allow us to embark on a new road of healthy growth. It may need five to ten years to see preliminary results, but in terms of a historical trajectory, that’s not a long time.

**Seeking Solutions in Cultural and Philosophical Roots**

As a sign of industrial civilization turning from boom to bust, this economic crisis shows us the relationship formed between civilization, culture and economy. Max Weber once said that one of the great benefits of studying the history of economics is that culture makes the economic situation completely different. Culture in itself includes economics, our choice of the material means of satisfying our fundamental needs has cultural characteristics. Culture includes habits and customs, as well as value orientation as expressed in what we appreciate or denigrate, which is what constitutes people’s demands. Culture determines demand, and demand determines the industrial structure. Continuing along that train of logic, we can see that culture develops in stages, and that as humanity develops, enriches and transforms its culture, it also constantly changes its social, and economic and industrial structures. Culture starts out by generating consumption demand, consumption demand gives rise to an industrial structure, and the industrial structure finally produces an economic model.

Nowadays, consciously or not, the whole world is constructing its demands according to the guidance of Western culture, which is why the global economic crisis had a common causality in all countries. Referring to it as a global economic crisis requires us to rethink what problems have developed in the whole world’s cultures rather than in the culture of a specific country.
The culture of extravagance is in fact a degeneration of humanity, and the flaunting and waste behind it is a reflection of culture. For thousands of years, humanity considered thrift a virtue, and Western culture’s vigorous development and vitality is what Max Weber referred to as the “Protestant ethic” of capitalism, which also advocated thrift. The reversal of values toward extravagance occurred because of human greed, but greed was released to such an excessive extent because of the need for growth – a growth that didn’t ask about objectives. Growth for growth’s sake was also the result of industrial civilization, which engendered superior and advanced cultural conditions, but also the “linear growth model” at the root of today’s situation. At its initial stage, this could form the nucleus of social progress, but at its later stage it became a destructive force. Industrial civilization originated in the awakening of people’s individual consciousness, the liberation of the individual character and the expansion of individual power, which changed the relationship between man and nature from reverence to subjugation and pillage. Subsequently, the establishment of social systems that ensured and expanded human rights also changed the capitalistic spirit of gaining wealth through hard work and thrift to unnatural demands that made the pursuit of luxury fashionable, and glorified the trampling of Mother Earth.

This value system became society’s mainstream, but it couldn’t last for long, first of all because the earth’s resources that we rely on for survival are limited, and second because the highest state of human demand is self-realization, which gains social acknowledgement and a feeling of accomplishment through altruism. That’s why it’s a waste of time for the various governments to meet the challenges of the present crisis through traditional thinking and policy. The situation that has emerged today requires us to seek its causes and a way out in our culture. We must recognize our past culture and seek the path for reviving human culture in order to find the method for economic revitalization.

Gaining a new understanding of our cultural roots also requires us to critically understand the philosophical basis of industrial civilization, which can be summarized as follows: the objectification of nature, the pursuit of material wealth and the symbolization of consumption.
The first step, objectifying nature, allowed the emergence of modern science but also planted the roots of our present misfortunes by causing man to treat nature as something to be subjugated and overlook the fact that destroying nature would lead to his own destruction. China’s traditional lexicon lacked the term “kexue” for science; at most we referred to it as “studying the nature of things,” and the term kexue was a loanword. As a specific term accompanying the industrial revolution after the Renaissance, “science” treated man as the subject in analyzing and dissecting nature as the object, and thereby understanding the development patterns of the object and employing the knowledge gained to use, change and subjugate the object. Chinese culture didn’t have a clear-cut subject and object, but only a concept of man as an integral part of nature. Lacking a concept of science, China couldn’t engender an industrial society that understood, used, changed and subjugated nature to satisfy the hopes and desires of human beings. Instead, China was forced onto the road of industrial society by the gunboats of Western civilization.

The limitations of the scientific development perspective of industrial civilization are demonstrated by unsustainable development and a one-sided understanding of natural systems that puts undue emphasis on the subjectivity of human beings. At the same time, industrial society’s scientific perspective inevitably had a democratic perspective with human rights at its core, i.e., the right of human beings to pursue happiness. The imbalance occurred at the outset, when mankind wasn’t regarded as part of nature. As we propose a new scientific development perspective, we need one that compensates for the bias in the old perspective. I feel that Chinese traditional civilization’s concept of man as an integral part of nature, although somewhat primitive, can serve as the core value of our future scientific development perspective.

An age of scientific development might be characterized by the slogan of a certain CCP General Secretary calling for a “harmonious society.” Recognizing man as part of nature means that people-centered official policies must have nature as the root or foundation. Humanity must be in harmony with nature rather than destroying it. That doesn’t mean denying the individual to promote the collective; without the individual there is no collective. So how should the individual be expanded, and does this expansion need limits? In mainstream Western civilization,
the expansion of individual interests and rights cannot infringe on the rights of others, but there’s no mention of the rights of nature, so these inalienable human rights are missing a piece.

Prior to industrial civilization, society’s thinking, doctrines and religions used theological language to express the standards society imposed on human beings. Christianity spoke of redemption, which was doing something good for society or others to atone for one’s wrongdoing. This concept has become diluted and even destroyed by centuries of scientific development and the confidence and power human beings have gained from it, but some former religious concepts had a rational core that reflected the integral relationship between man and nature and restrained humanity in relation to nature. In order to keep human beings from destroying nature and themselves, the future comprehensive new age of science requires the formation of ethical and social systems involving a more rational and accurate grasp of the relationship between man and nature, individual human beings, and man and society.

This looks like going off on a tangent, but in fact new culture and new values will determine how we create a genuinely effective new demand that will result in the creation of new industries and a new economy with new and healthy growth points. Culture becomes the foundation from which economic form and social demand are derived. That’s why in facing this economic crisis, we cannot merely speak of economics, but have to start thinking at a deeper level through culture: What kind of economy do we want? What kind of demand do we want? That’s how we’ll find the best way to rescue the markets.

I’ve reached this conclusion because I find that many values have become alienated by spiritual pursuits turning excessively materialistic. The second philosophical basis of industrial civilization occurred when the lack of new and more vital demand necessitated finding new growth points in existing demand. That’s why extravagance became the fashion, even though throughout history extravagance was disapproved of because it destroyed the balanced relationship between man and nature and harmonious relationships in human society.

The third philosophical basis, symbolic consumption, emerged when a name brand or a limited edition object became a symbol of success and wealth. Displaying wealth when there is spiritual
lack makes this “symbolic life” burdensome and painful. During the Renaissance, there was a saying: Human nature is indulgent, rationality is restraining. But the symbolic life expressed in the extreme desire for luxury makes people feel even more ill at ease and unnatural.

At this point I feel we should explore where this burdensome symbolic life came from. Isn’t it ridiculous that instead of worshiping the sun, moon, stars or ocean, we worship a brand-named handbag with some kind of symbol on it? This leads to the key role the media play in industrial civilization. From a historic perspective, today’s media developed in tandem with society. The core values of the Renaissance and Industrial Revolution that occurred in Europe 500 years ago were democracy and science, i.e., a democracy that was mainly an extension of human rights, and a science that subjugated nature. This human-centric thinking clashed with European theocracy and China’s imperial power, and moving from a suppression of human rights to an expansion of human rights was a process in which the media played a very positive historical role, in the vast majority of cases embodying the function of social accountability.

But when industrial civilization moved from boom to bust, the media became the slaves of capital. In systems with no press freedom, the media are the mouthpieces of power, but in social systems with freedom of the press, the media have become the mouthpieces of capital; this is the inevitable phenomenon of the last stage of industrial civilization. When industrial civilization was on the rise, all sectors of society placed much greater emphasis on shared and long-term interests, so the media naturally took on the role of representing these shared and long-term interests in the competition and balancing of society’s various interests. In the last stage of industrial civilization, when individual interests and privileges expanded to an extreme, the media became the slaves of capital.

Let’s think about who reversed the verdict on luxury and extravagance. Behind the media’s promotion of luxury and wasteful lifestyles lies the incentive of advertisements for luxury products, which in turn are pushed by capital. The media go wherever there’s a buzz in hopes of attracting eyeballs because of the need to gain even more advertisements. Under these circumstances, it’s very difficult for human society to achieve a transformation toward
sustainable development, because transformation of the economic and social systems and the creation and alteration of people’s demands must be guided by information, i.e., it needs the engendering of a new culture, and the media who bear the responsibility of transmitting information and culture have become the mouthpieces of an industrial society heading toward decline. If the media represent a voice that is in decline, it’s very difficult to have a revival of society and culture. The pressure of media and public opinion has been a very important factor in the difficulties various governments have faced in rescuing the markets. This reflects a deeper problem, which is that the media need a new value system and a new concept.

The voice of innovation constantly issues from the universities, but I find this voice isn’t strong in the media. I think of the universities as media in the broad sense, because they take on the burden of disseminating knowledge and information. Yet in Western countries, universities have academic freedom and independent operation, and their development process has protected them from submitting to capital or political power in order to survive. In Western society, universities are generally registered as private non-profit institutions, i.e., they don’t have the objective of making money. The money that universities earn is not treated as profit or dividend but is used for their educational development. This allows universities, in the process of disseminating knowledge and culture, to be more representative of public interest and of the future and to embody an elitist spirit that can offer society independent and farsighted judgments, and it saves universities becoming mouthpieces or slaves of capital.

But some popular mass media, in the process of development, have become commercial entities, i.e., profit-making entities, and this has to some extent led them astray. In general, today’s material wealth is much greater, and people live much better than before, but the media are always frantically dashing about cap in hand, trying to make money. I don’t think this suggests that media workers have all degenerated. The truth is that today’s journalist face hard choices between media ethics and conscience and the pressure to pursue capital, and many are unfortunately obliged to choose capital in order to survive. The point I’m trying to make is that in facing this crisis of the century, opening the door to the future requires us to restore the
media’s original spirit of being independent, fair, public-spirited, elite and forward-looking so it can shoulder its social role of disseminating knowledge, culture and information.

Society needs to develop in a balanced way, so we need checks and balances on capital, on power and on the media, as well as on various industries. I feel we should start out by letting the media, especially the mainstream media, cast off their capitalistic attributes and reference or even emulate the arrangements of educational institutions. That will allow the media to play an extremely important role when society urgently needs cultural revitalization in order to drive forward economic revitalization. Otherwise there will be no vehicle for new culture and new thinking. It all gets back to this crisis requiring all of humanity to remove itself from the clamor of materialism and sit in a quiet place to calmly and soberly contemplate our past, our present and our future.

**Social and Political Introspection: Beware of the New Social Class**

We must be clear on one key point: the present economic crisis has exposed the problems that have emerged in human civilization. Viewed it at the microscopic level, what role did the professional managers of major financial institutions play in this crisis, and what systems and values contributed to it? In the past decades, “professional manager” has become a catchword and fashionable title all over the world as well as a reflection of social progress, yet everyone knows that the originators of the global financial crisis were high-level professional managers in Wall Street. Even so, passing judgment on their ethics won’t help much now; more valuable is an exploration of problems that emerged in the system behind them.

Marx divided the Western European society of his time into the proletariat and bourgeoisie, but the so-called professional management class is a new class in today’s society. Professional managers rely on labor, but the top management teams and executive officers of major companies and funds earn most of their profits through capital gains. They can’t be appropriately designated as either proletarians or bourgeoisie. These professional managers have enormous incomes and also enormous power to take the initiative and make decisions on the use of capital
and gaining of profit. This system, initially designed to provide top executives with incentives, changed professional managers from a salaried class into dual beneficiaries of labor income and capital gains.

This has produced a phenomenon of alienation. As companies grow, most major companies become listed companies, and since individual shareholders don’t control a large proportion of the shares, they have little influence over the business’s operation, policies and management. This has caused a separation between ownership rights and management rights. Based on the Internet bubble that occurred at the end of the 1990s and beginning of the 2000s, it would seem that this separation may have had a largely negative effect.

On the plus side, it can be said that professional managers are more enthusiastic about their work. On the minus side, short-term material gain has taken priority over fundamental development of the company. Because the professional managers don’t see themselves as owners, even if they’ve been working for a company for a long time, they don’t form an owner’s sense of love and responsibility for the company, but rather focus on maximizing their personal gain while they’re in control of the assets. Furthermore, they face much less risk than owners, so they worry less about the possibility of bankruptcy while devoting their full effort to pursuing profit.

For example, the chief executives of many financial institutions that filed for bankruptcy protection or were nationalized lost future gains but basically none of their past benefits. How could these people walk away with so much money when the financial institutions fell into bankruptcy while under their control? Professional managers are able to increase their own profits through various legal and sometimes illegal methods while in office, even if the company goes under after they leave.

This has given me a new understanding of the system of separating ownership from management that in recent decades has been promoted as representing advanced relations of production. Over the last century or so, ownership in the corporate system has evolved along the lines of social democracy, which traces back to the foundations of socialism laid by Marx and Engels.
Over the past century, in regimes where Marxism became religious doctrine, public ownership led to inefficiency, productive stagnation, scientific backwardness and waste, and the citizenry fell into poverty. This was the opposite of what Marx anticipated and hoped, which was that the negation of private ownership and liberation of social productive force would bring humanity greater material and spiritual satisfaction. Reform in countries with state ownership, whether in the former Soviet Union and Eastern Europe or in China, has been essentially the same: First assigning responsibility through contracts in order to bind a portion of the means of production to individual productivity, and then gradually altering public ownership by turning a portion of companies into shareholdings. This was done because state-owned or publicly-owned companies were criticized for so-called “absentee ownership”: The people who controlled the company’s assets were managers who used extravagant expenditure and other means to maximize their direct and indirect income and benefits, which gave rise to problems in the SOEs and necessitated reform in the ownership system.

Now we find that under the Western system of inviolable private ownership rights, many big companies and publicly listed companies have manifested the same maladies of absentee ownership. Capital isn’t allowed to speak. Rather, Western senior executives and the senior managers of China’s SOEs all have the same objective of directly or indirectly maximizing their open or covert benefits. Whether in the capitalistic system of America, Europe and Japan or the socialist system of China, there has emerged an enormous management class that enjoys de facto control over assets under an absentee ownership that is unable to exercise control and restraint over the management class.

In his 1950s book *The New Class: Analysis of the Communist System*, the Yugoslavian thinker Milovan Djilas wrote that the Eastern Bloc and Soviet Union established the socialist system to overturn the rulers who represented the bourgeois or exploiting class, but it only produced a new class that claimed to represent the interests of the great masses or proletariat but was actually just a new privileged ruling class. I feel that senior managers under absentee ownership likewise

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constitute a privileged new class. The position this new class occupies and the various constraints it faces inevitably means that it exercises the authority of owners in term of using and managing assets but withoutshouldering responsibility of owners toward these assets or their associated business organizations, or having a long-term benefit relationship of winning or losing along with the company while using the salaried class to make money. That’s a major reason why the world has turned against these senior managers in the financial sector as a vested interest class.

Methods aimed at short-term profit have resulted in establishing brick-and-mortar companies with the objective of monetizing them through the capital markets. This method has become a free-for-all in China in recent years as people establish companies and write up excellent business plans to lure venture capital and then private funds and ultimately list on the stock market. The company is designed from the outset for ultimate listing on the stock market and to wield the capital markets in order to bring returns thousands of times greater than the original investment.

This crisis has shown us that this speculative behavior doesn’t bring benefit through innovation or hard effort in the real economy, but rather through arbitrage and monetization on the capital markets, and the people who end up paying for it are ordinary members of the public and taxpayers when companies become “too big to fail” and have to be rescued by the government. This crisis should provoke a profound and rational rethinking of the relationship between corporate ownership and managerial authority. It should also make us more aware of the New Class between the owners and wage-earners that has become a privileged class and even a ruling class in a revolving-door relationship with the top tiers of government, where their short-term behavior is brought to bear in the political sphere.

It has become increasingly clear that government leaders all over the world have adopted the behavior and values of capitalist speculators as many politicians are members of this New Class, or they may have served as high officials in the government for a period of time and then become members of this New Class. In the US, for example, Henry Paulson went from being CEO of
Goldman Sachs to US Treasury Secretary, while former Chairman of the Joint Chiefs of Staff and Secretary of State Colin Powell has more recently moved into the private sector. Theoreticians and scholars need to recognize how the world has changed and not keep repeating the century-old mantra of bourgeoisie and proletariat originating with the Industrial Revolution at the early state of modern industrial civilization. In the last few decades, it has been this New Class that has effectively controlled assets rather than the nominal asset owners. The role that this vested interest class or New Class plays in social life, whether constructive or destructive, requires us to reconsider the construction of social systems and social values.

Facing this problem compels us to find a way to solve it. First, we should reaffirm an ownership model that merges ownership and management. For example, Bill Gates, as the founder of Microsoft, is both owner and manager and is extremely responsible for his company. Second, we need to form an effective environment and system that guarantees the administrative power of owners even when companies require the participation of numerous investors in order to develop. Third, we need to take into account the fact that merging ownership with management has its own problems.

Before I went into business, i.e., before I became an owner, whenever I went out on official business, I always submitted the maximum allowed on my expense account and never considered saving money. Later when I became an owner, I became a slave to capital and was always thinking how to spend as little money as possible. Behind that change was the issue of ownership, what I call “Collective ownership bringing private benefit, and private ownership bringing collective benefit.” When you have no ownership relationship, you make assets serve your personal interests, but when the assets belong to you, you constantly think of ways to save and add as much value as possible. This ends up producing more benefit for society – at the very least, more employment.

An individual’s instinct is first of all to benefit himself and second to benefit others, and the basic objective of benefiting others is also to benefit himself. A similar contradiction exists between public and private ownership, and between the masses and the individual. Before this crisis
erupted, professional managers were almost universally admired, but now everyone’s saying, “Off with their heads!” Neither appraisal is correct, however, because human nature is such that when flaws emerge in a system, culture or values, it will mine these flaws to its maximum benefit. Solving this problem requires improving and developing society rather than judging the morals of any group. That’s why we have to look beyond the surface of the crisis to understand it at a deeper level, addressing not only macroscopic growth patterns and civilization forms but also more granular corporate and ownership systems so we can pull humanity out of this crisis and move toward the future.

The Current Relevance of *Das Kapital*

The growth and development of my thinking is inseparable from Marxism. Before 1978-79, I was a devout Marxist, and I participated in the April 5th Movement and other such protests because I felt that what Mao had engaged in wasn’t Marxism, and that what China was actually pursuing at that time was also not Marxism. But from 1979 onward, I began to develop doubts about Marxism, and finally I lost my faith in it, not because I started reading a lot of non-Marxist theory, but rather because during my third reading of *Das Kapital*, I became aware of the problems in it.

I began reading *Das Kapital* at an early age because of a chest of books my father left behind. My father went to the Soviet Union when I was less than a year old, and the last time he visited me was in 1959, when I was four. He never came back again. Originally we lived in Shanghai, but my mother moved all his things back to her hometown of Wuhu, and I grew up there. I was always curious about two large wooden chests in the parlor, but my grandparents wouldn’t let me open them. When my grandparents were denounced as capitalists in 1968, I had to start taking care of things at home. As the new master of the house, I pried open the chests, and the first thing I saw was Bo Gu’s translation of *The Fundamental Problems of Dialectical Materialism and Historical Materialism*. It was the first political book I read, and from then on I ceaselessly read

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12 TN: Bo Gu, born Qin Bangxian (1907-1946), was a senior leader of the Chinese Communist Party. Educated in the Soviet Union, he translated many Marxist classics into Chinese.
through numerous works in the humanities, history, politics and economics. At the bottom of the chest was a 1950s three-volume Chinese edition of *Das Kapital*, which I read for the first time. From then on, I systematically read through all of the Marxist classics, often reading a single work more than once. At that time, we had little access to writings by authors other than Marx, Engels, Lenin, Stalin and Mao Zedong, although we also had works by Hegel, Feuerbach and some thinkers of the French Revolution era, as well as ancient works by Aristotle and Plato. I read whatever I could get my hands on, and as I read the books over and over again, I was constantly thinking. In 1978, I gradually came to understand that I no longer believed in Marxism. I still have that copy of *Das Kapital*, on which I wrote after my third reading: “It turns out that Marx is also a negation of negation.”

I find Marx’s overall arguments very good: Under the most basic impetus of human social development, the economic foundation is the relations of production and productive force, and productive force is the most revolutionary and pushes forward social development. This productive force is rooted in man’s ever-growing material and cultural demands, which can be traced back to man’s eternally insatiable desire and the imagination and creative power that satisfies these desires, which is the motivating force. Afterwards I kept reading this again and thought, why does Marx want to eliminate motivating force? Specifically, Marx felt that the objective and impetus of human social development was satisfying human beings’ constantly growing and insatiable material and spiritual desire, which is one of the essential differences between men and animals. The source of this essential difference is the imagination and creativity of human beings, which gives rise to various cultures. Marx wanted to create a society in which distribution was carried out according to need and he wanted to eliminate differences, because only through distribution according to need and eliminating differences was it possible to eliminate class and human desire. But the fact that human desires cannot be satisfied is what leads to social progress, so eliminating this desire also eliminates impetus and leads to self-negation.

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13 TN: The negation of negation is one of the basic laws of materialist dialectics, which characterizes the direction of development, the unity of progress and continuity in development, the emergence of the new, and the relative recurrence of some elements of the old.
Because people have imagination, they will not be content with merely having enough to eat and wear and will constantly produce new desires, which in turn will constantly create demand and lead to the development of scientific technology and the production of new employment positions and new commodities to trade. That is to say, insatiable human desire and the constant creation of human demand are the motivating force of social progress and human civilization. From this inference we naturally arrive at the conclusion that it is in fact impossible for society to satisfy human desires, no matter how immense and rich the material production. Since insatiable desire and creativity are the motivating force of human social development, wouldn’t a society that satisfied everything lack motivating force and stop developing? From this angle I embarked on a new understanding and critique of Marxism and reread the main Marxist works one more time with this critique in mind.

When I read *Das Kapital* for the last time, I began to have doubts about orthodox Marxism and its conclusions and some of the directions it took in solving problems. Of course, these doubts were not a wholesale negation. At that time, I accepted the fundamental Marxist notion that private ownership was wrong, and that the conflict between private ownership and socialized big production gave rise to economic crisis, so resolving the conflict meant eliminating one side of the conflict, in this case private ownership. But in purely conceptual terms, the public was established relative to the private, so when the private was eliminated, there was no public. We know that whether in the natural world or in human society, there is a unity of opposites, and that if you eliminate one side, the other is also unable to exist. So I began to develop doubts toward this solution due to logical inference from a philosophical angle.

Up to now, I feel that the descriptions in *Das Kapital* are 80 to 90 percent correct. In the past, *Das Kapital* and Marxism were rightfully praised for bringing descriptions of history and the impetus of social development from theological explanations back to the human realm. The close logic that Marx expressed in his works, his artful and convincing argument, his profound mastery of history and philosophy completely subjugated me for a time. It was from this rather blind belief in Marxism that I developed doubts and saw the conflicts within it and began to move toward rationality.
Following the lashings of the financial tsunami and the crisis of capitalism, there were reports that English editions of *Das Kapital* were selling out in some places in Europe and the US.\(^\text{14}\) When the financial crisis detonated the real economy and threatened to turn into an economic crisis, it was hardly surprising that people turned to Marx’s penetrating and profound descriptions and systematic analysis and critique of capitalistic society.

In terms of discussing and understanding capitalism, the quality of *Das Kapital*’s systematic critique is irrefutable. Marx describes why human society develops in a particular way, how industrial society works and why it repeatedly produces what is referred to as economic crisis. Marx was right to see the basic contradiction of capitalism as that between the capitalist private possession of the means of production and the socialization of production. In more abstract terms, we can say that it’s the contradiction between individual possession and the social nature of behavior, and that it has existed since the formation of human society. I don’t see *Das Kapital* as the prescription that will save the illness of the market today. If it were the cure, capitalism would have been eliminated long ago, and the Communist movement wouldn’t have taken so many twists and turns over the past 150 years, or caused so many serious historical incidents and hardships.

I’m not negating the incisiveness of *Das Kapital*’s description of how private possession of the means of production will constantly expand production until certain trades, products and service sectors experience serious production surpluses that ultimately lead to economic crisis and rampant waste, and cause society to go from crisis to decline and depression, after which it will seek new production and new growth points and embark on a new round of growth. Marx’s description of this was correct: growth, surplus, decline, crisis, decline and depression comprising a great destruction and then rebuilding. But then Marxists follow this description and analysis by choosing to eliminate one side of the contradiction, private ownership, and engaging in planned economy, because they believe that the only way to avoid economic crisis and the human suffering and massive social waste accompanying it is to arrange for production and

development in accordance with people’s needs, which can only be achieved by eliminating
private ownership of the means of production, under which it’s every man for himself. This has
its internal logic, which is why Marxism still has so many adherents after 150 years.

So why do I challenge it? First of all, as I’ve already said, public and private ownership are
concepts under the unity of opposites, so if the private is eliminated, there is no public; second,
since we say that the impetus of human social development is people’s constantly growing
material and cultural demand, the people devising a planned economy need to understand
everyone’s demands, and this level of omnipotence can only be claimed by God. Since there are
no gods among men, the bankruptcy of planned economy is inevitable.

Furthermore, since human desire is insatiable, the balance of supply and demand is also
temporary, and the inability of supply to meet demand is the only absolute, and that’s why
society develops. Since the inability of supply to meet demand is absolute, it’s impossible for
everyone to get what they want at the same time, and this gives rise to differences, and with
differences comes the concept of private ownership, so private possession is unavoidable.

Furthermore, human beings are also animals and are genetically imprinted with selfishness, and
only through selfishness can they exist as a living entity. But the reason why human beings have
spent millennia wavering and battling and clashing between private versus public is because they
are also communal animals. The more socialized people become, the more impossible it is to
exist on their own, and the more survival depends on looking after the survival of others. So
when Marx speaks of the contradiction between private possession and socialist big production,
this is also the most fundamental contradiction in human society between selfishness and
altruism, and the conflict between man’s animal and social natures in which selfishness cannot
be separated from altruism. So from this perspective, private ownership cannot be eliminated,
and since there are no gods among men, the system of public ownership and planned economy
has never succeeded in its 150 years of practice.

Through considering the relationship between selfishness and altruism and between private
possession and social attributes, I reached the conclusion that planned economy was not tenable.
The point I’m trying to make is that *Das Kapital*’s description of the process of market economics is correct, comprehensive, incisive and profound, but its conclusion is not, and I don’t feel that the prescription Marx proposes will cure the contradictions in human society.

*Das Kapital* can help us rethink the crisis in the social system and development model by making us soberly recognize its roots in human selfishness. Did the Wall Street elite really believe that assets could be leveraged to that extent? They kept doing it anyway, because the measure always tilted toward their personal benefit, and they were selfish today in spite of the disaster that would come tomorrow. Human imagination differs from the cleverness and skill of animals in man’s ability to repeatedly hurt himself through what is called “cleverness overreaching itself.” This is a universal law of society, like the contradiction between public and private ownership. Selfishness gives rise to the creation of inexhaustible demand and to countless scientific discoveries and glories of culture but also constantly leads people into the realm of ignorance and folly.

I agree with Marx when he says that economic crisis has inevitability and a periodic quality and is likely to become increasingly severe, as illustrated by the current crisis. Periodic crisis is certain to occur, and both planned economy and market economy must find a way to adjust. Market economy and private possession have repeatedly driven human society toward crisis, and then humanity crawls out of the crisis and forges ahead once again; this is an inevitable and very normal phenomenon, like people getting sick, and doesn’t require us to negate market economy and private possession. From the time that there has been human society, there has been a contradiction between public and private ownership, and religion, morality and ethics have all suppressed the private and extolled the public, but none of them has ever thoroughly negated and vanquished selfishness.

In historical eras in which private ownership has been largely eliminated, society has been nearly suffocated to death. During China’s Cultural Revolution, the principle of “all for the collective and none for the self” was emphasized to an extreme, but did standard-bearers of the revolution like Jiang Qing following this principle? Ordinary people weren’t allowed to watch Western
movies, but China’s leaders had their own private theaters where they watched films from overseas. That’s why I say we must never negate selfishness, because that would be negating human nature.

Although many countries dealt with the economic crisis by nationalizing banks, that doesn’t mean that public ownership is staging a comeback. There’s a fundamental difference between nationalization and public ownership. The state only represents the public interest, and humanity has already tried public ownership with planned economy and has paid a terrible price for it. Private possession and market economy definitely leads to production surpluses, but why don’t the new proponents of Das Kapital think about the shortage economy that results from planned economy and public ownership? Surplus is better than lack, and it’s better to have a production crisis than not enough to eat or having people starve to death – that’s basic common sense. The “new Leftists” of today should not forget the immense hardship that the actual practice of Leftist ideology has brought to humanity over the past century, and should not forget how many people starved to death, or how the shortage economy required using ration coupons for everything. How can we be so forgetful of those times?

That’s not to say that market economy and private ownership don’t need to change. Human society is eternally and constantly revising its social systems and development models in the course of moving forward. But while Marx’s description and analysis of society under market economics in Das Kapital is correct and his critique is profound, and he was brilliant for having devised this analysis 150 years ago, even the most brilliant of people is not a god.

It’s good for people to familiarize themselves with Das Kapital now, because while globalization and greater access to information have lengthened the periods between economic crises and have made people better at dealing with them, that doesn’t mean we’ve completely resolved the basic contradiction in human society. Just as we cannot attempt to eliminate greed and selfishness, we also cannot negate public ownership just because the actual practice of the Communist movement has gone overboard and has led to shortage economy and extremist totalitarianism.
Public and private ownership are two sides of human need, just as people need selfishness and altruism. Altruism is for personal benefit, so it’s a matter of better or more dynamically handling the changing relationship between private and public ownership at different stages of history and at different economic development levels. Sometimes excessive selfishness and satiation of demand creates a bubble that keeps growing until it finally bursts, and then people’s values swing in the opposite direction, toward an emphasis on the public. It’s good and fitting that people should be bringing up *Das Kapital* now, because Marx’s exposure of the ugly side of market economics and capitalism prevents us from being mesmerized by pleasant-sounding innovative words and forget what human nature is really like. But extremes should be avoided, and excessive emphasis on public ownership is an extreme, just as excessive emphasis on private ownership is.

We should stress the value of *Das Kapital* at the economic level, because Marx didn’t address human nature in terms of relationship between human selfishness and altruism and the relationship between private and public ownership that derives from it. In the process of development, humanity must courageously engage in a deeper understanding of the laws of human society. Simply attempting to eliminate this contradiction would mean eliminating human beings, because people are selfish, and trying to be otherwise violates the biological and zoological definition of what it is to be human.

More specifically, up to now, no better form of ownership than personal possession has been discovered, nor has any more effective economic development method than market economics been found. Market economics is the one method that can satisfy human needs. Just as no gold is completely pure, there are only relatively good or bad systems for a specific place and time. So with the arrival of this crisis, I think we need to remain on the path of market economics and to continue respecting and protecting private property rights, but the aim is for us to all develop even better. Likewise, public interest must be defended so that private interests can be protected even longer and better. This is the unity of the opposites of public and private ownership.
I’ve always found the concept of laissez-faire capitalism too vague and prefer the term free market economy. We must insist on market economy, and people shouldn’t waver from this fundamental conviction. Secondly, the system of private property rights must also be maintained. These two points are fundamental and primary to human nature. But it’s also necessary to have things that are planned and publicly-owned and that involve intervention by the state government. That is also fundamental as one side of the unity of opposites, but it’s secondary; if it becomes primary, then altruism for selfish motives becomes secondary, and we have to know what is primary and what is secondary. Even if selfishness has always been negated in our morality, ethics, idealism and hymns, it is eternal and reasonable – that is a mature understanding.

Globalization and Global Cooperation in the Financial Crisis

However we appraise globalization, for better or for worse, it’s an inevitable trend and a pattern of historical development. Globalization is rooted in the basic human right of freedom of movement, which removes restrictions on where people go. No one now will accept someone saying, “You have to stay here, you can only produce things here, you can only eat grain or wear clothing produced here.” At an extreme, making someone live like that is like putting them in prison. Because the essence of globalization is human rights, its positive result is to push forward the development of all humanity and to lead to cultural assimilation, economic exchange and life development. In general, globalization only brings benefits to people; its negative aspects are partial and temporary. In any case, like it or not, globalization is happening, and countries that don’t participate in globalization can’t expect a rich, paradisiacal life. North Korea hasn’t participated in globalization or been drawn into this economic crisis, but is it a Utopia?

Experiencing this economic crisis lets us see whether globalization has had a positive or negative effect on civilization’s transformation. I think that from the overall perspective of development, the pros are greater than the cons. Developed countries such as the US have suffered losses, such as unemployment in traditionally labor-intensive production that has shifted to emerging
countries such as China, but Americans have also gained a lot from globalization, for example in the wider variety and lower prices of products. Globalization has brought meager profits for Chinese processing plants, but that’s still better than nothing and is still development. Based on quantitative figures, distribution under the globalization structure is unfair, but in terms of development stage, this distribution is fair. In ancient times, China made a lot of money selling silk to Europe and by baking clay into porcelain.

We cannot deny that the anti-globalization voice has become more strident as blame for the global financial crisis has been placed with the US and the globalization it’s been promoting. But if we consider it calmly, not just the US but all of the major economic entities are the ringleaders, including Southeast Asia and China. Not that long ago, any country, region or company was more than happy to take purchase orders from the US, and no one thought about how Americans were spending their money. Goods were sold cheaply to the Americans, who used debt-based consumption to purchase these cheap things with US dollars, which were then used to buy American debt so Americans could buy more things. In effect, everyone was working for the Americans, but at the same time, it was America’s excessive consumption and debt that enabled the rise of emerging nations like Asia’s Four Little Dragons. The enormous success of the economic reforms China embarked on in 1978 relied on what Deng Xiaoping called seizing the opportunity, and this opportunity was America’s excessive spending. Maybe you think it’s unfair that you worked so hard to buy national debt so other people could overspend, but development is still better than no development, and with human society constantly creating demand and consumption to drive development, it’s inevitable that in the worldwide division of labor, some people will enjoy a consumption banquet while others will work hard to produce goods. The two ends of the chain complement each other, and you can’t have one without the other. So I say that the choice emerging nations made over the past 30 years was not a stupid one, and denouncing the US today isn’t smart. Today’s crisis is the joint responsibility of the whole world. Although in these few years Americans have lived the best and earned the most, emerging emotions have also benefited, and neither can do without the other. Acknowledging that everyone contributed to the crisis doesn’t mean that each country doesn’t have its own interest standpoint, but
acknowledging everyone’s role in the crisis rather than indulging in a victim mentality will help humanity surmounting this crisis and moving forward.

If America has made some adjustments after facing the crisis, Asia’s emerging nations should likewise adjust their development route. Following the crisis, America will find it very hard to return to its past model, and emerging countries like China cannot possibly continue to count on export-driven non-stop growth. Everyone has to recognize the need to return to an income-based consumption model, i.e., living within our means.

Meanwhile, the US can adopt some financial leverage methods in order to surmount the crisis. Although the crisis occurred because America’s financial leverage was too great, it cannot go without using this leverage now. America can shift from driving growth through excessive consumption and debt consumption to forming new demand and hastening economic transformation through advance investment and overdraft-type investment. I think this would be a proactive fiscal policy, even though it would enlarge America’s already prodigious financial deficit. There’s an old Chinese saying, “Once a debt is large enough, people stop worrying about it.” Rather than think too much about how much debt there is, the US should follow Deng Xiaoping’s dictum and make development the top priority. Only with development can problems be solved. In the absence of consumer confidence and enthusiasm, we need to fire up the engine of advance investment and debt-based investment to create new demand and push growth.

The shift from consumption-driven to investment-driven growth requires first of all determining where to invest. We should invest in the new scientific circular economy, which is the sector where the greatest hope lies. America’s research and development, manufacturing capacity and incomparable technological lead give it the fundamental conditions to shift toward scientific circular economy. What’s lacking now is money, and this will require debt.

In this process, emerging nations and regions should also be broad-minded and not think that buying American national debt is throwing good money after bad. They should consider it an investment in the world’s new economic order, because new industries will ultimately require a global distribution of labor. While debt-based consumption is no longer workable, debt-based
investment in a burgeoning circular economic sector is a wide and sunlit road where problems can be solved and debt can be fully repaid. The world can buy American debt for its own sake, because investing in American bonds to create new growth and employment will create export demand for the world’s emerging nations.

I feel the world has faced this crisis with too much alarm and bewilderment and too little calm reflection. Furthermore, there has too much analysis on the technical level and too little from a deeper perspective of human civilization. Resolving the current predicament, whether in China, the US or Europe, requires viewing it from the high point of history. Furthermore, since it’s a worldwide crisis, everyone wins and loses together, and no one should focus only on their own welfare. The political elites of the world’s major countries need to pull back on their personal interests and authority in order to facilitate a worldwide advancement toward a new prosperity under sustainable development.

One simple example illustrates the benefits of globalization: World War I and II broke out because Germany wanted new manufacturing space and globalization was inadequate at that time. Some sensationalists say that the present crisis could lead to a new world war, but I believe that’s impossible, because globalization has made the major nations of the world so dependent on each other that they’re largely inseparable. Furthermore, if not for the opportunities provided by globalization, it’s possible that this crisis would have occurred even earlier; advanced capitalist civilization might have over-ripened much earlier, and China might have remained trapped in a crisis of demand exceeding supply. Globalization gave humanity at least several decades of development space.

The present global crisis may compel some countries to reject globalization, but it may also hasten the birth of an assimilated global civilization; there may be trade protectionism in the short term, but in the long term globalization will accelerate. Short-term trade protectionism may occur if countries like China continue to carry out economic rescues according to the patterns, structures, objectives, direction and values of the past industrial civilization era. But backtracking never works, and there’s no turning back the clock.
A major fusion into a global civilization won’t occur overnight, but there’s no point in non-Western countries rejecting it, now that Western civilization has penetrated every corner of the globe. Globalization brings about the loss of factors of backwardness, and people always regret the loss of things from a past culture and try to protect them, but that’s just protecting and retaining humanity’s memories. Human beings are always creating tomorrow and will use and accept whatever benefits them; that’s what drives progress. Conservatism is a waste of effort, and transformation is inevitable. I believe that conservatism would first cause a regression of phased globalization that would be ineffective and exact a painful price and lead to an even more thorough and more determined thrust toward globalization. This globalization will clash with even more ideologies and collide with the domains constructed by various regimes. Assimilation will give birth to a new global civilization that will lead human society into a new age.

The Role of “Confidence” in Economics

At the end of 2008, an international survey of nearly 30,000 people in 52 countries found that nearly half of the respondents believed their country would enter a recession in the next 12 months, indicating that confidence was very inadequate, even after so many rescue measures. Most market rescue measures addressed the problem of liquidity, i.e., rescuing banks and financial institutions. Around the time that the crisis erupted, I said that this liquidity would be like throwing money into a black hole, and I was proved right when consumer confidence indexes started hitting record lows.

People were increasingly reluctant to spend, and with consumers tightening their belts, company owners and managers were cutting costs as much as possible. Everyone felt it was safest to keep their cash in hand. The amount of cash put into circulation worldwide probably reached around US$2-3 trillion, and more than US$10 trillion was promised to save the markets. That’s an awful lot of money, but the proportion devoted to reducing interest and taxes and providing small companies with revolving funds was very little, with most of the money spent on saving the markets given to financial institutions. While some American banks promised to grant as many
loans as possible, when people foresee a bleak future, releasing money is of limited effectiveness while remaining risky, so banks are unlikely to loan much money.

That’s why the vast majority of the early measures failed to reactivate the economy or restore confidence. Any sensible person had to ask where governments would find enough money to save the markets. Since any money the government spent came from debt, taxpayers would have to pay it back in the future. The so-called elite might have been even more shortsighted in viewing the problem than ordinary people are. These elites – not only Chinese but also American and European – are too removed from the lives of ordinary people, and for too many of them, the health of the economy is predicated on stock prices.

After the US proposed its US$700 billion market rescue in October 2008, I found myself drawing some inferences I was not very willing to face. Any Chinese born after 1949 loathes class struggle and class analysis, because emphasis on class and class struggle destroyed our people and our society and created immense harm. But sometimes I couldn’t help but wonder if these governments had actually become spokesmen for financial capital. Otherwise, why would they keep abandoning fundamentals and pursuing nonessentials when they knew perfectly well that it wouldn’t stimulate confidence in the economy? Who are the elite representing when they formulate these policies? They themselves may not even realize that they’re representing financial capital when their rumps guide their brains. People criticized Henry Paulson for refusing to save Lehman Brothers but saving Goldman Sachs because he was once a senior manager there. Furthermore, Paulson bought bad assets and made taxpayers pay for the errors of speculators in the financial sector. So some concluded that Paulson represented the interests of the investment banks, and that the Republican administration represented the interests of the big consortiums and big capital. Conversely, the UK’s Labor government believes in socialist democratic values, so the Labor Party rescued its markets by making the government controlling shareholder in financial institutions and diluting the original major shareholdings. This use of taxpayer money to rescue the market can be explained more rationally, but in either case, the emphasis was on the stock, debt and capital markets, and I feel that was abandoning the fundamentals in favor of the nonessentials.
The fundamental is employment; if employment is guaranteed, ordinary people will dare to spend money, and increasing consumer confidence and prosperity will bring better business for banks and financial institutions. Saving the stock, debt and capital markets doesn’t do much for the real economy, which actually affects millions of households and individuals. People’s confidence isn’t going to be restored just because bank capitalization is adequate and deposits are guaranteed. After mortgaging their property to engage in consumption beyond their means, now that the real estate bubble has burst, people fear they’ll have no money to spend in the future. When lack confidence in facing the future, what use is it to make bank capitalization more ample or make people worry less about their savings accounts?

The linear development model was predicated on eternally unceasing growth and required creating growth, in the negative sense of insisting on the creation of demand through bubbles. The US, the financial center of the world and of the global economy, concocted a lot of myths that were combined with financial derivatives and the stock market bubbles to form this demand and consumption and stimulate continuous rapid growth. The financial crisis resulted from the development model of demand driving consumption and consumption driving growth reaching its end point, and people are increasingly refusing to believe the myths, in particular those about financial instruments. That’s why addressing the problem of inadequate capitalization wasn’t enough to immediately restore confidence, even if it prevented financial institutions from going bankrupt.

With people lacking confidence in the future economy, we cannot make market rescue behavior into a panacea that pulls the economy out of recession and toward renewed growth. When a person is injured, you can stop the bleeding, but you have to see the body actually begin to heal before you have confidence. What is needed is increased opportunities for employment, which result from the generation of genuine demand, which in turn requires rescuing the real economy. The first thing is to meet people’s basic demands for food, clothing, housing and transportation, and including education, healthcare, etc. People will be relatively willing to spend money on top of that if their incomes are secure and if income growth is guaranteed, which means minimizing the number of manufacturing and service companies that go bankrupt as well as continued
growth in new and developing industries rather than in unsustainable energy-consuming and polluting industries. When new and sustainable industries spring up like mushrooms after rain, people have confidence and produce genuine demand.

Sustainable industries are mainly in the following sectors:

1) Industries consistent with the basic needs of human development and therefore never waning, such as agriculture. Of course, capital pursues profits, and when people don’t make money in agriculture they turn to the Internet because it’s monetized by the stock market bubble. Rather than curse capital for doing what comes naturally, we should amend accounting standards and requirements for companies listing on the stock market to make bubbles harder to create, and we should deploy social resources and distribute wealth to guide the effective use of capital. A good social system can make the most constructive use of capital’s pursuit of profit.

2) The environment. The environment is deteriorating, but everyone hopes for a good environment. Building and protecting the environment is hard because it’s public goods. This requires us to provide an appropriate social system through public financing, public investment and public goods.

3) Recyclable and reusable materials. Social development plans (and their accompanying laws and policies) should put capital and investment into research and development in this sector. It is entirely possible to develop this industry through fiscal policies, loan guarantees, discounts on interest on bills of exchange, etc., and to adjust it through tax leverage.

Developing sustainable industries will let people see a future full of promise and give them confidence to surmount their present difficulties, and that in turn will benefit the banks. On the other hand, market rescue measures that fail to give people confidence in the economy will make recession and depression inevitable unless all governments, including China’s, put a major effort into supporting and developing a circular real economy.

Returning to the topic of bubbles, it’s both rational and emotional to call for all bubbles to be deflated. If we didn’t already have those bubbles, I wouldn’t advocate creating them, but since a
large bubble already exists, popping it would create a catastrophic reduction in the world’s economic scale. We need a transition period, which is not to stay that we keep using real estate to create a bubble. A consumer debt bubble cannot be completely eliminated at present and probably has to be sustained for a period of time. Besides that, some new and sustainable industries also need the support of financing, policies and other measures to sustain them, even if it means somewhat excessive debt-driven development. This is a relatively benign bubble. The difference between a benign bubble and a malignant bubble is that a benign bubble involves substantial demand that humanity urgently needs to develop, and the use of these industries to stimulate consumption. A malignant bubble is like the real estate bubble. Borrowing from Deng Xiaoping, I would say that sustainable development is the top priority. We must use development as the top priority to resolve this crisis and move toward revitalization of the economy and social development. The prerequisites for both are developing industries with the potential for sustainable development, including those that constitute the basic requirements of human life, and industries that allow for recycling.

The Secret to Resolving the Economic Crisis

In the past, China regularly described the relationship between the rulers and the ruled as that of a boat and water: Water can buoy up but also overturn a boat. Likewise, consumption is like a big river that became a rushing torrent through the financial leverage of financial institutions, resulting in a lot of spray and bubbles on the surface and making the boat float high and fast. Now the river level has dropped significantly, but water is pouring into the boat and threatening to sink it – that’s what happens when the incidental is treated like a fundamental. It’s in everyone’s interest to rescue the livelihoods of ordinary people and allow the river to rise again, even if a small number of people in the financial sector benefit from it. This means using all available means to promote employment and increase incomes among ordinary people, and employment and income growth relies on the survival and development of individual companies, i.e., the real economy.
There’s only so far that tax and interest reductions can go. In the US, for example, repeated interest reductions have brought interest rates to zero, and there’s also not much latitude for tax reductions, because the government is already operating on a huge deficit. So American brains have fastened on emerging nations like China in hopes that everyone will buy US national debt. Another objective factor is that companies don’t feel the prospects are good; their old markets are shrinking, and new markets haven’t emerged, so even if there’s a desire to rescue the real economy, there’s not much latitude to do so. What’s needed is for the government, as representative of the public interest, to stimulated demand and create consumption by investing in public goods. Furthermore, some industries and products consistent with a circular economy also require more government input, because their development prospects are too hazy to attract corporate investment.

The market rescue method of governments incurring debt just creates more bubbles, and taxpayers end up paying for it. If taxpayers don’t benefit from future income growth, they won’t be able to cover the cost, and people will end up paying for it through inflation. For that reason, overdrafts are still necessary, but in which direction? If the overdraft is used to carry out an economic transformation in which the real economy undergoes renewed development and provides a substantial increase in employment and income growth, then today’s overdraft can be paid for through future growth. This is a virtuous circle. But if today’s overdraft is unable to promote future sustainable growth, it will be disastrous.

I feel that we’re presented with two possibilities in the future: The better one is of recession accompanied by inflation and then heading toward growth, also accompanied by inflation, and finally sustainable growth accompanied by low inflation, over a period of at least ten years. The second, which is horrifying to contemplate, is of recession accompanied by inflation, and then high inflation accompanied by recession and finally high inflation accompanied by depression. This horrifying scenario is described in the introduction to William Manchester’s *The Glory and the Dream*, about the Great Depression in the US in the 1930s. Both possibilities involve inflation to absorb the overdraft, but there’s benign absorption and malign absorption. Benign absorption will bring about humanity’s growth and transformation, or put more broadly,
civilization’s transformation from linear growth under industrial civilization toward scientific circular economic growth. If we can bring about this transformation, the expenditure of US$10 trillion will be worth it, but if all we end up with is inflation, that will be a terrible situation.

Most government resorted to two main methods to deal with the financial crisis: capital injection and investment. I feel both were merely emergency measures that could reassure people in the short term but would lead to even greater hardship if continued over the long term with no new consumption to address production surplus and no technological revolution emerging. Although capital injections to the banks were necessary, I feel such emergency measures should be accompanied by getting to the root of the problem, which means distinguishing between which industries are actually in surplus mode, which should be upgraded and updated, and which should be supported and developed. Sustainable development is the shared objective of all humanity, so I feel that the whole world should allocate the vast majority of available resources to moving towards a new sustainable and circular development economy in which man and the natural environment can interact in a cyclical manner.

In China the emphasis has been on infrastructure like railways, highways and airports (the so-called “iron roosters”), resulting in massive new development of industries with surplus production capacity such as iron, steel and cement. We should be very cautious about investing in traditional industries and should instead invest in the future. The US led the world in this respect by changing its original debt purchase rescue plan to injecting cash into financial institutions to control and transform them, and then making a priority of addressing unemployment.

General Motors Corp. serves as a good example. If GM had declared bankruptcy, it would have affect 2.5 million jobs. Instead, US policy-makers required GM, Chrysler and Ford to come up with plans to reform themselves, including transforming high-energy consumption into the production of energy-saving, environmental and clean transportation geared toward the future. The US government was willing to risk enormous unemployment rather than engage in a futile effort to save a hopeless industry that needed to change. Likewise, in using capital to save the
markets, the US increasingly took the direction of investing in new energy and proposing new energy objectives. Both Europe and America embarked on this trajectory, and this makes me anxious as a Chinese. Normally in a time of crisis it’s the underdeveloped countries and regions that enjoy the latecomer’s advantage, but after the crisis, emerging market nations, including what people refer to as BRIC (Brazil, Russia, India and China) as well as Korea and Taiwan, had a delayed response. During the US Internet bubble crisis at the end of the 1990s, China retrenched and proactive fiscal policies to expand capital construction allowed China to emerge from deflation. But we mustn’t forget the inherent relationship between China’s emergence from deflation and the US surviving the Internet bubble crisis and then creating a real estate bubble through the excessive development of financial derivatives. The resulting enormous American market led China’s proactive fiscal policies to seek out exports, so our increased production capacity could be quickly sold to the US to earn foreign exchange.

Back then, the US and China were in lockstep, and they still are today, but we’ve lagged in our understanding, so China’s production surplus crisis has been especially serious. Before the US crisis erupted, our surplus production crisis was reflected in increasingly narrow profit margins. The truth is that the crisis existed early on, but it wasn’t as obvious. Now the situation is one of serious production surplus combined with blocked exports and depressed domestic demand. Relying only on Great Leap Forward-type investment speeds us toward disaster by stimulating further surplus production capacity.

That’s why humanity needs to transform its living and development model. Of course, this crisis won’t destroy humanity, and its outbreak in this way reflects humanity’s capacity for self-adjustment. But we need to “wear new shoes and take a new road”: We need to develop “green industry” and move toward the circular economy of sustainable development, or what could be called harmonious economy. Europe and America have started taking this road as their market rescue plans changed, but emerging nations have lagged behind. China needs to quickly grasp its latecomer’s advantage by developing sustainable green industries and taking the new road of circular harmonious economy, rather than rashly spending trillions of RMB on increasing its already surplus production capacity. The political elite has to recognize that its own interests, as
well as humanity’s are best served by giving the livelihood economy priority over the stock markets, debt markets and financial institutions in its rescue measures. And rescuing the livelihood economy should involve actively developing sustainable industries rather than focusing on the rise and fall in stock prices.

Systemic transformation to resolve the crisis of industrial civilization

The Industrial Revolution gave rise to industrial civilization, which places man and man’s short-sighted interests at its center and has the basic characteristics of depleting unsustainable resources and ceaselessly taking possession of things. Added to this is the competitiveness of market economy, in which making money became a goal in itself. This situation won’t change until we remove ourselves from the survival and value systems of industrial civilization. In other words, just as we emerged from agricultural civilization, and agricultural civilization emerged from hunter civilization, we must emerge from our old form of civilization in order to be saved.

A system is in fact the materialization of values and civilization, while also influencing people’s behavior and even culture and the economy. A system is interrelated with people’s values and stage of economic development. Looking back, at the early development stage of industrial society, systems were designed to stimulate the development of industrial society, for instance, in terms of which industries were taxed more heavily or exempted from taxation. In the 1970s, the black smoke belching from China’s chimneys was extolled as “black gold” in works of art, and was regarded as symbolizing power and development. Likewise, the rapid development of industrial society was promoted by credit cards and consumer debt packaged into securities and then leveraged to provide people with more buying power.

Now we know that has to change. We need a new understanding of the relationship between man and nature, and greater adherence to the scientific view of man as an integral part of nature. Our protection of nature needs to expand from the cultural level to the systemic level and acquire a mandatory quality to compensate for human greed. The taxation system should be brought to
bear on the use of nonrenewable resources in order to bring about a new relationship between man and nature.

Taking water resources as an example, fresh water resources are scarce in some regions but are still being used in a destructive manner. On the other hand, desalination technology has matured but its utilization is inhibited by cost. If we impose taxes on the use of fresh water resources, desalinated seawater won’t seem so expensive. Many new energy resources such as solar power are facing the same problem. People may say they can’t bear the cost, but I feel a choice has to be made between the various manifestations of greed and more sustainable and harmonious survival and development. This selection should be guided by culture as well as systemic arrangements. We should emphasize systemic design geared toward the future and toward transformation by establishing a new balance apparatus that makes some things expensive and others cheap, and by reducing the cost of recycled goods through tax exemptions or even subsidies. People always say that the market should be allowed to decide prices, but there’s never been a time in the history of mankind when the market has been allowed to decide everything. Sometimes long-standing conceptual errors have led to human behavior being more emotional than rational. The political elite needs to represent rationality and the public interest by producing a systemic design to address these problems, and this systemic design needs to recognize greed as part of human nature. We must always hope for society in which money alone doesn’t represent strength. We now know that beyond money, we also need knowledge, culture, a sense of social responsibility and a sense of conscience – the things known as soft power.

Cultural rejuvenation, innovation and systemic design are mutually complementary. Systems sometimes force people to do something, so we should emphasize designing a new system that will help us emerge from the present crisis and take us toward the future we want, using the system to guide people toward a new civilization and new economy that rewards spiritual pursuits and contributions to society. As representatives of the public interest and implementers of future direction, governments need to emphasize systemic design in emerging from economic crisis toward a new economy.
Rather than rescuing markets, we should seize the opportunity to sift through cultural concepts and arrange for innovation and systemic design that will get rid of what is suboptimal and takes us into a new economy and new culture. This sifting process should take precedence over saving markets, because attempting to return to past prosperity will only revert to the conditions that gave rise to the crisis in the first place.

In order to bravely face the crisis in a mature and rational way, we can’t keep denying there’s a crisis or optimistically think that if we just tough it out for a while it will pass. That’s the most pernicious approach, because it not only leaves ordinary people ill prepared for future challenges, but also causes public figures to lose their credibility. A society without credibility is a terrible thing.

The saying goes: “The moon has phases of darkness and brightness, and man’s fate is as uncertain as the weather.” Society is the same. Society cannot remain forever in a state of prosperity and growth, so we need to take a historical viewpoint when dealing with economic crisis. Humanity has always eventually emerged from crisis into a gradual thriving and prosperity, and we need to avoid panic in dealing with our most recent crisis. If we recognize that social development is sometimes smooth and sometimes rough, that it has its high and low points, and that this crisis is an inevitable process in historical development, we’ll see there’s nothing to be afraid of. We’ll need to get through some hard times and maybe spend some of our savings and perhaps reduce government expenditures, but governments can get through this. This calm approach will help us mine the opportunities in the crisis. As the saying goes, “Sometimes a loss is a blessing in disguise.” In fact, blessings and disasters are mutually entwined.

When we look back on this 20, 30 or 50 years later, I believe we’ll reach the conclusion that this crisis was a blessing because it made human beings recognize the need to change their past production methods. One misfortune is exchanged for a blessing that will last for the next 100 years. But first of all we need a historical attitude. When everyone admits that economic crisis is like a phase of the moon that we inevitably have to go through, people will start thinking in terms of seizing opportunities instead of rescuing markets.
From a historical standpoint, and in terms of respecting normal patterns, rescuing the markets is untenable. Market rescues that insist on restoring markets to the state they were in before the crisis are absurd. History cannot be turned back any more than a person can walk into the same stream twice. Today’s crisis is the result of people’s past behavior and even of their past prosperity. If we define the objective of market rescue as returning to what people considered the good life before the crisis, this is absurd and untenable.

Instead, we need to analyze whether a crisis is a production surplus crisis in the ordinary sense, or a structural production surplus crisis, or a full-blown economic crisis. There are important distinctions between the three. A typical economic crisis refers to certain industries experiencing production surpluses; a structural economic crisis refers to an key sector experiencing structural imbalance – for example, the Asian Financial Crisis was both financial and structural; a full-blown economic crisis is pervasive or fundamental, like this economic crisis. A full-blown economic crisis is hard to resolve within the existing framework, and addressing it through the original growth methods, consumption models, social organization forms, value concepts, etc. will not resolve the problems that have emerged in the system. In other words, solving this crisis requires leaping out of this system, because a crisis in which industrial civilization is moving from boom to bust cannot be resolved within the scope of industrial civilization. Instead, we need a new civilization and a new growth model to replace the linear growth model of industrial civilization.

Economic crisis occurs through the patterns and phases of industrial civilization, and gives rise to bankruptcy, closures, unemployment, depression and other phenomena that make social life uncomfortable, but these phenomena can make us restrain ourselves and change and adjust ourselves, and if the illness is more severe, it tells us we need to engage in fundamental change. But instead of regarding this as a scourge and becoming panic-stricken, we should conform ourselves to the internal causes and patterns of the economic crisis and rationally seize the opportunities it presents.
People always have great expectations for the Davos Forum, but the January 2009 Davos Forum didn’t engage in an in-depth of the causes giving rise to this crisis, and the speeches basically revolved around the US subprime crisis and excessive financial leverage and Wall Street greed. The elites repeatedly analyzed the economic crisis in terms of the experience that made them successful in the past, but in fact the environment has changed. Using the knowledge and experience of their past success in regarding this crisis prevents in-depth exploration of the causes of the crisis, so how can they reestablish a new order? Ultimately, the Davos Forum descended into quarreling and blame and didn’t produce a single effective measure to rescue the markets. It will probably fade from the stage of human history along with the global economic crisis.

Overall, these phenomena indicate that our society has reached a watershed. The past roads and models can no longer be used. This is the end of an era. Using the values and modes of thought that took shape in the past era will not allow us to recognize and decipher the crisis or find ways to resolve it.
Chapter 3: On “China’s Choice”

China and the Global Financial Tsunami

Many people wonder how much China’s economy has been impacted by the economic crisis triggered by the US sub-prime debt crisis. First of all, I must point out that this crisis should not be simplistically attributed to the US alone. While the US was blamed for China’s stock market plunging from 6,000 in 2008 to 2,000 the next year, it would be more accurate to say that the stock index needed to drop. Not long after the crisis broke out, China continued to experience excess liquidity, which inevitably fuels speculation. At the same time, the grand banquet of globalization was already winding down. The sharp drop in the Chinese stock market could be considered a result of developments in the global economy, but it was also the inevitable direction for the Chinese economy to take.

Some portents of crisis were evident well in advance. Due to the downslide in the export market, China’s economy began to feel the crisis quite clearly in the last quarter of 2008, mainly in export-related industries in the real economy. Coastal export processing companies employing some 100 million rural migrant workers were the most dynamic and vital in the Chinese economy, and a rapid downslide in this area was bound to have serious consequences.

Constantly increasing exports and the steady increase in their share of GNP were among the conditions of success for economic reform over the past 30 years. In fact, the productivity of China’s economy wasn’t that high, whether in terms of the input-output ratio for capital and for raw and semi-finished materials or the energy consumption rate, not to mention the vast discrepancy between per capita GDP and China’s overall GDP ranking. Increases in productivity fell far short of increases in GDP and foreign exchange reserves. In the past we spoke of the success of the gradually advancing reforms, but without noting that this success relied on sustained growth in the international market as well as continued advances in international property transactions and the accompanying influx of international capital. The global financial
crisis caused shrinkage in international market demand, and given that the real economy takes up a major share of China’s national economic structure, and the export-oriented economy takes up a major share of the real economy, the economic crisis was bound to hit China harder than the US.

As an objective observer of developments, I feel sure that this crisis will be protracted and it will be much more painful for China because we are the processing plant for the world; because we haven’t yet completed economic and political reform; and because our ancient Chinese civilization has not yet experienced a genuine rejuvenation and rise. This is an objective reality that doesn’t allow for optimism.

China’s economic crisis is a component of the global economic crisis; this is a spatial concept. China may experience it differently from the US or Europe, but in some respects it is the same. The crisis manifested itself most severely in the US financial sector because the US is a world financial center, and the US Federal Reserve is the world’s central bank. But that doesn’t mean that China’s financial sector could emerge unscathed. Our financial sector hasn’t been directly harmed by financial leverage instruments, but the collateral effect on the real economy has been substantial in terms of bad debt in the real estate market and in the corporate sector. That’s why China’s economic crisis is a component of the global financial crisis, with features that are different from but also similar to other places. This is manifested most clearly in China’s unemployment problem. Because of our immense population, the national social security apparatus remains incomplete, and this exacerbates the unemployment problem. The vast majority of the working class consists of rural migrant laborers who make their livings in factories with no real safety net. Once these people lose their jobs, they fall through the cracks. China’s crisis therefore strikes most painfully at a different point than the global economic crisis, because the external market demand we rely on isn’t going to get any bigger, and investment in capital construction won’t produce effective demand.

From a positive standpoint, our modern industrial civilization should be less burdened than that of Western developed countries, not only in terms of industrial structure but also in its value
system and political system. We haven’t passed all the hurdles of political reform, but because we remain under a situation of authoritarianism or centralized state power, once China’s leaders perceive a problem, they can fully utilize centralized state power to facilitate withdrawal from industrial civilization and its crisis. This is part of our latecomer’s advantage, including the advantage of our political backwardness.

I feel that the 2008 crisis didn’t affected China’s financial markets as harshly as those of the US, and that the crisis in Chinese real estate has been much less deep and broad than in the US, because China relies mainly on the real economy at present. Even so, the US economic crisis created difficulties for Chinese exports, and that’s where rescue efforts should be focused.

After the crisis broke out, I went to Zhejiang Province and found that many private companies that had been doing very well in the real economy are now putting their money into speculating on the stock and real estate markets. People have a hard time resisting the stimulation of profits from speculation. Chinese cities are striving to become financial centers, but I find this ridiculous. Where is their real industry? They only see the money generated by bubbles in the financial centers and don’t see their alienated aspect. We need to seriously consider how financial centers went from servicing the real economy to destroying the real economy so we can calmly and even-handedly establish our economic and political systems and our social order under a model of sustainable development.

One aspect we need to address is a more rational and open approach toward the crisis, including helping the US surmount the financial crisis and help transform the US economy to show the downslide in China’s exports. The other is to stimulate domestic market demand as soon as possible, which requires reforms at a deeper level to break through the obstructions by vested interests in developing the national economy. In particular, some of those carrying the banner of national economy and people’s livelihood are in fact state-owned monopolies controlled by vested interests, and these should have the participation of all of China’s people. What I mean is that China’s reforms should have the objective of equal opportunity and ensure that participation in the market is fair from the outset. Since vested interests are unwilling to abandon their
monopolistic power and interests, the reforms need to be democratic and geared toward equal opportunity and a fairer distribution of wealth. Only in this way can we push monopolized national resources to yield immense profit and growth.

Facing Up to the Financial Crisis and China's Options

The financial crisis first broke out in Europe and America, and was felt less intensely in Asia mainly due to the global division of labor. Since Wall Street is the world’s financial center and the crisis struck there first, the impact was naturally more intense there. In the case of Asia, it wasn’t that the risk was much less or that there was some kind of “firewall,” but rather that the manifestations and the levels involved were different due to this division of labor.

The division of labor took shape over the last one or two centuries. Apart from the historical factor of centuries of global colonization making Europe and America the overlords of the world, Asia focused on the real economy, and there were also cultural factors. A major cultural component of Asian culture is Chinese culture, established on the foundation of peasant agrarian civilization that as recently as a century ago considered nothing but farming to be a proper occupation, and that rejected industry and commerce, not to mention the financial industry and financial derivatives. Over the past century, more attention has been paid to industry and commerce but with more emphasis on industry than commerce, and with little interest in financial derivatives and hedge funds, which are considered the next thing to gambling. It was only natural, then, that the Asia-Pacific Region would focus on the real economy in the context of the global division of labor.

Even so, Asia felt the crisis, as evidenced by the plunging Chinese stock market. On the face of it, China didn’t have financial institutions facing bankruptcy and needing to be taken over by the state or to have the state guarantee their credit, but that’s because China’s main financial institutions are already state-owned, and their credit is the state’s credit. China’s banking industry operates under the protection of political power rather than with everyone being equal before the authorities. Back when the 1997 Asian Financial Crisis broke out, when investors worried about
what would happen to China’s banks, I said they should stop worrying; if Chinese banks were to
go bankrupt, that would be the barrel of the gun going bankrupt. The barrel of the gun props up
the power to issue bank notes, and bankruptcy hasn’t been a real option since the time of the
Nationalist government in 1948 and early 1949. I’m amazed that no one has pointed out this fact.
The financial institutions of America and Europe are private and are not supported by the state’s
credit. China’s banks are state-owned, so there is simply no comparison.

The financial and service industries take a proportionately greater role in the industrial structure
of Europe and America (especially the US) than in other regions. The economic structures of
Asian countries, whether China, Japan, Korea or Taiwan, are all dominated by the manufacturing
industry. This is not to say that Asian countries weren’t affected by the financial crisis; once it
moved from the financial institutions to the real economy, Asia also felt it intensely. Korea
employs the development model of foreign debt, so when the financial crisis broke out in Wall
Street and caused a global shift from excess liquidity to a serious insufficiency of liquidity,
European and American financial institutions began withdrawing their capital from overseas, and
Korea’s financial sector felt the effect more than other East Asian countries. Japan also entered a
recession, and quite a few of China’s coastal processing companies faced bankruptcy.

Given the weight of the real economy, problems occurring in the financial sector were felt less
intensely, and initially Chinese felt complacent, as if only they were safe while the world
devolved into chaos. But subsequent events showed that in fact conflicts between rich and poor,
between the urban and rural populations and on property issues were intensifying as the real
economy faced serious production surpluses and inadequate demand both domestically and in the
foreign market. When the export market is affected in a major way, the income of workers and
managers in China’s coastal processing factories is also affected, and that reduces domestic
demand. Furthermore, the electricity, coal, water and land used by these enterprises also
constitute domestic demand.

Downplaying the downslide by insisting that China still has enormous domestic demand shows
lack of understanding of the system. Domestic demand and exports are a single and interrelated
system; when exports are good, domestic demand is also better, and when exports are poor, domestic demand suffers. For example, local government financial administration has long been heavily dependent on land finance, and rapid growth in the export market attracts large numbers of rural residents to the coastal areas, freeing up land that the local government can requisition and repurpose for industrial, commercial, residential or entertainment purposes. Furthermore, much of the money earned by rural migrants is remitted back to their home villages, contributing to domestic demand there. So it’s not merely a matter of exports making up 30-odd percent of GDP; China’s domestic market, including the real estate market, has been flourishing all this time largely due to the international economy. The property market is hottest in regions and cities with the closest ties to the international economy.

It is estimated that nearly 20 million people were laid off in the textile industry in the east. So I feel that while the real economies of Europe and America took a pounding, they has probably suffered less than ours because the share of their economies taken up by the real economy is smaller than in Asia and especially China. The proportion of people employed in the real economy is also lower, and furthermore, their resources are more plentiful than ours. Much of the metals, petroleum and chemicals we need rely on imports, we don’t have America’s status as a world central bank that can issue currency to buy these things, and rely on the foreign exchange earned through exports to buy them. So early on in the crisis, I felt that Asia, and especially China, had to be psychologically prepared for the worst in order to come up with practical arrangements for our work, livelihoods, policies and strategies.

A lot of analysis looked toward domestic demand to mitigate export losses, but as just noted, shrinking exports actually reduce domestic demand. Furthermore, when companies can’t unload their goods on the international market, they start trying to sell them on the domestic market, and given the slump in domestic demand, production goes into surplus mode, leading to even greater unemployment and further shrinkage of domestic demand. Any attempt to compensate through investment and capital construction requires a lot of foreign exchange. For example, the Chinese government decided to invest RMB 2 trillion on railway construction, but how much of that
expenditure was on imported materials, equipment and technology? What scale of exports is needed to balance out so many imports?

This is why we need to look at problems systematically and recognize that the orientations towards exports and internal demand are not absolute and cannot be clearly distinguished. Likewise, we need to balance our international income and outflow, or in other words, we need growth in order to increase domestic demand.

In dealing with the reduction in exports brought about by the global recession, the government’s instinctive response is to expand consumer demand through fiscal or investment policies. But where does this money come from? Issuing currency leads to inflation. Over the past 30 years of Reform and Opening, exports sustained substantial growth and money could be obtained from the international market, but with export growth slowing and domestic costs rising, profit margins are close to zero, and sometimes companies even take losses in order to keep going. Under these circumstances, where is the increment for investment to expand domestic demand? How much accumulation has there actually been over the years? Government expenditure has been enormous and is unlikely to have recorded substantial surpluses. If we need to dip into the coffers to develop the economy, how much is actually available?

Speaking of these coffers, people always talk about China’s foreign-exchange reserves. But how much use are they, really? First of all, a portion of these foreign reserves can’t be easily called in. For example, China owns a great deal of US debt, but selling it off would cause a major chain reaction in the international market and lead to substantial losses, not only on the account books but also in reality. Also, the US dollar has been steadily devalued while the RMB has risen, which means that China’s massive foreign-exchange reserves have lost a great deal of value. Finally foreign-exchange reserves are not a surplus in the treasury, but result from compulsory settlement.

While some scholars propose using investment to expand domestic demand, I feel this is of limited use. Others have proposed reducing taxes, and I feel taxes should definitely be reduced; financial revenue has grown much faster than GDP for many years in succession, and without
some reduction in taxes, companies will die off even faster and consumer spending power will be even worse. But how much latitude is there for tax reduction? Has anyone even done the calculations? So now I’ve raised two questions: how much government surplus is available for investment, and how much latitude is there for tax reductions? I feel that neither is enough to reduce the pain of recession in China, or to help solve its problems in the midst of global recession.

Local governments like to stimulate their economies by, for example, building a local airport, but then low occupancy obliges government officials to fly on official business. They get away with this because government budgets are largely unmonitored, but the fact is that the stimulus on the local economy is short-lived, and flying everywhere costs money. These costs are borne by taxpayers without increasing social wealth.

The government needs to start thinking about not only increasing social wealth, but also more fairly distributing it. The key point is equal opportunity. The government should renounce its monopoly power, which it shouldn’t possess in the first place, and transfer it to the people. When people have more opportunities, social wealth increases, after which property developers can sell their housing, which increases government revenues and make society more stable... This is the most effective course, while the other type can even be dangerous.

For instance, there were calls to resist the financial crisis by increasing investment in capital construction required for production. The global financial crisis is a crisis of production surplus, of inadequate effective demand, and of a growth model requiring resources that can no longer be sustainably supplied. The old road can no longer be followed in this crisis. Seeking to create demand by investing or re-investing in sectors that are already in surplus creates a dangerous snowball effect. Now for the first time the entire world has experienced a decline in the sale of cell phones, and that is because the resource of effective demand has nearly reached its end. Apart from the crisis of production surplus in the traditional sense, the economic crisis was comprised of the exhaustion of unsustainable environmental resources and of effective demand. The only way to bring new growth is to change the means of growth and develop new spheres of
effective demand. That’s why I keep returning to the need to rescue the economy through a new road of reform. For China, this involves carrying a heavy load on a long road, because there’s so much that needs to be reformed.

Developing the economy is the only way out. Given the shrinking international market, this means developing the domestic demand, and this requires reforms to activate stock and in that way boost domestic demand. All other measures violate economic laws and the basic principle of commodity economy. Marx said that one principle of commodity economy is that both buying and selling must be voluntary. Violating this basic criterion means infringing on human rights and is also a futile and dangerous effort. At a deeper level, China needs transformation. So, what moves does China urgently need to make now?

China’s reforms are characterized in part by being incremental reform, which means that the bulk of stock cannot be touched. The increment has come from the private economy, first through assigning production contracts to rural households, then through individual entrepreneurs, then through township and village enterprises, then through contracting to state-owned enterprises, then through privately-run business, and then through investment by foreign enterprises, in a closely-linked succession of things that didn’t exist before. Stock is the part that has been monopolized along, while the increment comes through competitive industries in the non-government-owned economy. Put in balder terms, private business has dealt with the hard part, while government monopolies handle the easy part. I’ve said that in the US, wealth doesn’t continue beyond three generations, and likewise the stock portion becomes increasingly uncompetitive and unproductive, because only market competition produces productivity and benefit.

Keeping stock out of bounds creates a problem: The productivity of stock is certain to be low. Investment yields per 100 yuan is low, and production yields in terms of energy consumption and raw and semi-finished materials are also low. Productivity is low is because we’re still dependent

15 TN: The stock referred to here is cunliang, the assets of state-owned enterprises (SOEs), rather than referring to the stock market as elsewhere in this book. Discussion of the reform of China’s SOEs centers on whether to engage in stock reform or incremental reform. See, for example, Justin Yifu Lin, Fang Cai, Zhou Li, State-owned Enterprise Reform in China, Hong Kong, Chinese University Press, 2002.
on a model is incremental and doesn’t touch stock. If we decide to start using stock, what are good things to do with it? What deep-level changes should we engage in, and what systemic changes?

The first point is that natural resources sectors such as petroleum and nonferrous metals and monopolized sectors such as telecommunications and railways have enormous wealth hidden under low productivity. If this portion is released, it can become a new increment in China’s economy. Changing stock into high-efficiency increments has an amplifying effect that can generate continuous development. I’m not saying that all sectors should become completely marketized, but slogans emphasizing a “strategy of national economy and people’s livelihood” are really all about monopoly for the sake of benefit. China Telecom and Sinopec claim to represent the country’s and the people’s interests, and even to involve issues of petroleum security, etc., but state ownership cannot be regarded as the equivalent of national economy and people’s livelihood. Laws should stipulate which state-owned enterprises are dedicated to this end.

The second point is, what are the responsibilities of state-owned enterprises? Apart from making money, SOEs should make social responsibility a prerequisite of their exclusivity. It can be said that SOEs provide commodities as well as goods and services of a social and public nature. For example, the monopoly on petroleum is acceptable, but there should be stipulations that limit profits and ensure that earnings are shared among more people. Making a monopoly into an interest group through high benefits and wages is unacceptable.

The third point is the relationship between the government and SOEs. To whom are SOEs accountable? If they’re accountable to all of China’s people, how is this reflected? The enormous expenditure by the government and state-run institutions must be shrunk. Economizing means retrenchment, but not the counterproductive mechanical retrenchment of the past 30 years; the only hope is in systemic reform. In most sectors, SOEs should compete in the market on a completely equal footing with non-SOEs and not enjoy special privileges by virtue of their ownership attributes. The government and the ruling party need to genuinely separate themselves
from SOEs in terms of both organizational and personal relationships. When the ruling party’s organization department appoints officials to the SOEs, how can they compete on an equal footing in the market?

It may seem like a good thing for the ruling party to maintain power over the SOEs, including the power of appointment, but in fact it’s a bad thing. The ruling party is not the revolutionary party of the past; if it hopes to remain in power forever and to have the endorsement of the entire country’s people forever, it needs to represent the interests of all the people, not just some of them, and representing all the people’s interests needs to be guaranteed through the social structure, organizational structure and systemic design.

The fourth point is that the government needs to reduce in size and shrink its expenditure. The construction of massive government office buildings should be prohibited. Why is it necessary for local government office buildings, even in small towns and counties, to be even more lavish than those of national organs in developed countries? Only by frugal practices can the government increase the people’s revenue; only by reducing unnecessary expenditure can the government share its profits with the people. Only when a clear line is drawn between the government and SOEs, and SOEs become providers of publicly-owned products to society, can they fulfil their social responsibility rather than engage in the monopolistic pursuit of profit, and can transform their unproductive stock into a new productive force. All of this depends on political reform, with an emphasis on fair, equal and impartial opportunity for all Chinese citizens.

Stimulating China’s domestic demand requires deeper-level reform in terms of putting everyone on a level playing field. Equal opportunity results in the most effective, most economical use of our resources. This is what is urgently needed in an economic crisis, and is what must be done in order for China to have sustainable development and for the relationship between man and nature to develop sustainably in the future. Surmounting obstructions to this road will pull China out of economic recession. Systemic reform is the key.
The Third Plenum of 17th Central Committee raised some new thinking on rural reform and issued new stipulations on rural land transfers that leveled the playing field through fair distribution. Making land contracts perpetual and transferable stimulates agriculture’s development toward scale and allows rural residents to enjoy some profits from property. By benefiting rural residents, this reform helps stimulate domestic demand.

During the 30 years of reform and opening, some deep-seated reforms were not carried out. Solving this problem would surmount the predicament that the global economic recession has created for China, and might allow China, through its own transformation, to engage in leapfrog development. In this process, China may enjoy its latecomer’s advantage by rethinking the relative importance of the virtual versus the real economy in its economic and industrial structures and correct the inadequacies of market economy; or in other words, carry out revisionism in the market economy. For example, China could reconsider what function the financial derivatives of investment banks serve in economic development. Another example: People are still not very willing to address the function and status of real estate in society.

A sense of crisis is needed as a motivation for reform, especially deep-level reform, so I see the global economic crisis as a good thing for China, and as presenting a challenge that may turn into an opportunity for us. The Chinese are a pragmatic race; when times are good, everyone scrambles for profit; when times are bad, compromise and balance is needed in order to embark on a better road, and I’m optimistic on this point. For example, the global recession may enable China to engage in leapfrog development that becomes a new factor in changing our situation in a way that 30 years of reform has scarcely begun to do.

Soberly, rationally and resolutely taking political and economic reform to a deeper level with fairness as the objective will not only help China respond appropriately to this crisis, but will also result in development for decades to come. At the same time, we need to continue opening up and at deeper level. In the past, opening meant linking up with the world and absorbing the

16TN: A theory of development in which developing countries may accelerate development by skipping inferior, less efficient, more expensive or more polluting technologies and industries and move directly to more advanced ones.
good things from Western civilization. Opening up at a deeper level requires understanding the relationship between ourselves and the world and sometimes taking the initiative to help others. Ultimately it’s those familiar words: reform and opening.

Rescuing the Stock Market, Rescuing Industry, Rescuing People

By the end of 2008, the Chinese stock market had the highest stock prices in the world in terms of price-to-earnings ratio. In 2007 the Shanghai Stock Exchange Index hit 6,100, which was insane. In November 2008 the index plummeted to 1,700. A very important function of the stock market is to fund enterprises, and this kind of stock index and stock prices make it hard for enterprises to obtain funding. Starting off from this perspective, some may ask, why not rescue the stock market and get it back on its feet? The essence of the question is, whoever thinks the market should be rescued should go and buy stock himself.

The existence of the stock market and the fundamental judgment of good and bad is the profitability of companies; when the economic substance of a company takes a pounding, how can stock prices rescue it? If the real economy is given a more relaxed environment and more reasonable, lenient conditions to develop, the stock market will naturally be better. After the speculation frenzy, people are more inclined toward rationality and have begun to understand that the fundamental factor in the rise and fall of stock prices is the health of a company.

Stocks represent the profitability of a company, and the benefit holders of those stocks enjoy is dividends. The price-earnings ratio is the ratio between the stock price and the profit of the company, which shows that stock prices have very little relationship to capital assets. A mine can have huge net assets (or equity), but if the market is poor, they may not be good assets. It’s like owning a hen: If the hen produces eggs that can be sold for more than it costs to raise the hen, that hen is a good asset. But if the sale price of the eggs doesn’t cover the upkeep of the hen, or if the hen is sick or doesn’t lay eggs, then it’s a negative asset and has to be slaughtered. Assets are evaluated from the perspective of capital and from the perspective of production and circulation.
links; assets that produce increased value are good assets, and those that don’t are negative assets.

When low stock prices prevent some companies from freeing up enough capital on the market, is that harmful to the real economy? We first have to ask: Why do investors want to invest in the stock market? The objective is to make a profit through dividends and from the rise in stock prices. Stock prices rise if a company is healthy and making money. If the company’s business experiences difficulties and capital becomes tight, how can it have investment value? Of course, a newly-established company with good prospects may not be profitable at first, and should be left to venture capitalists to invest in, or for banks to provide it with credit – the company shouldn’t try to raise funds on the stock market.

Under China’s current stock market management apparatus, apart from the Growth Enterprise Market (GEM), companies have to meet certain conditions in order to issue stock, and these conditions include recording a certain amount of profits for several years in succession. In this way, the stock market serves as just one means by which a profitable company can fund expansion of its production. If the company is truly profitable and has good prospects, banks will also be willing to provide it with revolving credit, even if it has no collateral, and underwriting companies will also be willing to provide guarantees for them. This shows that there is not much relationship between low stock prices and a company’s funding difficulties; basically this depends on whether the real economy environment is conducive to the development and profitability of the company.

Many companies in the Jiangsu-Zhejiang region have experienced breaks in their capital chains. How will these companies manage their capital if the stock market isn’t rescued? The problem is, these companies can’t go public. No matter how good the stock market is, they don’t qualify for listing, because broken capital chains mean they’re operating on a loss. Furthermore, rescuing the stock market means the government using taxpayer money to support the market by buying stock. Some people have suggested establishing a stock market equalization fund, with the government buying in at a low level and then selling at a profit when stock prices rise. If it’s
possible to make money for taxpayers by buying stock in at low prices, that’s also good, but the risk is very great. We’ve seen many public companies, especially in China, run into problems after being hollowed out by their major shareholders and covering it up with false accounting. So how can we guarantee that the government’s equalization fund can buy in at a reasonable level and eventually sell at a profit? Doing this would send the wrong message to small investors, making them overconfident about investing in the market and possibly causing them to lose even more money. Besides, individual investors and institutional investors who lose money have to pay the price themselves, but who bears the responsibility if the government loses money?

That’s why it’s better to rescue companies than the stock market. For example, some good companies experience problems because of a sudden change in the situation, or because of investment errors that make their cash flow extremely tight. Such companies can file for bankruptcy protection, which means the company has to reorganize, and its proprietors will have to bear the loss, but the company is protected, and that’s called corporate rescue. In China’s current environment, we should actively employ bankruptcy protection to rescue companies, and even more importantly, we should establish a fair and tolerant financial environment for companies, including reducing their tax burden, reducing the multitude of fees they have to pay, and subject them to fewer whimsical policy changes and decrees by various government departments.

In concrete terms, the seriously affected real economy is pushing many companies toward bankruptcy and giving rise to unemployment. Most of the unemployed are migrant workers, who are victims of the bifurcated class system between the urban and rural areas and are the people most affected by inequality. If these problems aren’t solved, instability will result. It was quite right to devote the vast majority of the RMB 4 trillion stimulus package\(^\text{17}\) to infrastructure, and another portion to social safeguards such as healthcare, education and low-cost housing, but if

\(^{17}\)TN: On November 9, 2008, China’s State Council announced a RMB 4 trillion (US$ 586 billion) stimulus package to minimize the impact of the global financial crisis. The package was to be invested in housing, rural infrastructure, transportation, health and education, environment, industry, disaster rebuilding, income-building, tax cuts and finance by the end of 2010.
infrastructure is understood to refer only to public highways, railways, bridges, wharfs and airports, I feel that’s too narrow.

Rescuing the market requires rescuing companies, and in order to rescue companies, we have to put people first. China’s ruling party officials are all Marxists, and the classic works of Marxism repeatedly point out that the most dynamic, active and energetic essential factor of productive force is people. That means that the key to infrastructural construction is the construction of people. But basic education doesn’t include the many working people in industries that need to change direction and upgrade. Why not treat these people as a huge infrastructural project that requires investment? When people are respected and their potential is given free rein, material wealth is created. People are both the largest consumers and the most important factor of productive force. Highways, bridges, wharfs, airports and harbors constitutes some of the infrastructure of productive force, but the even deeper infrastructure is people.

Putting an emphasis on training people returns to the Marxist principle that people are the first, foremost and most dynamic essential factor of production. Rescuing the economy, resisting the economic crisis, stimulating domestic demand, transforming companies, achieving technological advancement and arriving at the fairness and productivity we’ve been pursuing for more than a century requires placing the emphasis on people – not only the elite, but also the migrant peasant workers who are so often looked down upon by others. Only by enhancing the quality of all of China’s people can we respond to the challenges of the crisis with Chinese characteristics, bring into play our latecomer’s advantage and grasp the opportunity this crisis presents for humanity to transform itself.

First of all, enhancing the most active and dynamic essential factor of production, people, is more important than engineering projects we can see and touch; enhancing people will allow improvement of everything else as a matter of course. Second, facing the shrinking international market and enhancing China’s domestic market is a process, and even before the crisis, some key leaders in the central and local governments were calling for companies to transform and upgrade. If people who lose their jobs because of the transformation and even bankruptcy of
these companies aren’t treated as an important infrastructure to be built up, and are just allowed to remain unemployed, this will become a social problem as well as being unfair and inhumane. Third, upgrading the rural migrant workforce that faces unemployment will partially resolve the unfairness of the bifurcated rural-urban class structure and allow these workers to enjoy the social safeguards of urban residents, killing two birds with one stone.

How specifically is this labor force to be trained and upgraded? In many service and labor exporting provinces, including Sichuan, Chongqing, Jiangxi, etc., local governments have taken measures to provide technical training for rural migrant workers. It now appears that the training should be changed to focus on industries that can be transformed and upgraded rather than on energy-consuming, polluting and labor-intensive industries, and that conceptual transformation should be added to the present emphasis on practical skills such as the operation of machine-tools.

The combination of reforming the bifurcated urban-rural system, training rural migrant workers and helping companies transform and upgrade would be far more useful than investing in a few highways and wharfs. Proactive fiscal policies are simply the state shouldering some credit risk, but the credit risk is conditional, and the money should be used for transformative development and on companies and social organizations that can take on this kind of transformation.

Rescuing people is the key to rescuing the market, but undertaking government reform is a matter of even greater urgency than rescuing companies and people. Rather than depending on a handful of officials, providing companies with a rule of law environment will give them the confidence to surmount difficulties and continue developing. As early as the 1980s, Deng Xiaoping emphasized the need to give companies and society a stable “policy environment,” which really meant reliance on the traditional concept of clean officials and wise monarchs, but what we should talk about now is a rule of law environment. This means establishing a clear and impartial legislative and amendment process so people can anticipate a stable rule of law environment and companies won’t be fighting on two fronts – that is, both market competition and a changeable environment. Giving companies the backing of a solid and stable government
and rule of law environment as they meet the challenges of the market would go much further
than any so-called market rescue measures.

We should understand that rescuing the stock market doesn’t rescue companies or the economy,
much less people. But on December 1, 2008, Securities Times published a “Proposal by Ten
Professors,” signed by Liu Jipeng of China University of Political Science and Lau and other
prominent university professors, with a very eye-catching headline: “Bolstering the Stock Market
Should be the Entry Point of Expanding Domestic Demand,” which expressed the core point of
the article.18 The proposal followed the logic that when share prices are high, people are in the
mood to spend money, but when stock prices suffer a major drop, paper wealth disappears and
people cut back on their expenditure.

But I can’t see any inevitable or pressing connection at present between bolstering the stock
market and stimulating domestic demand. Based on companies’ economic situation, investment
returns, profit margin, etc., stock market prices aren’t really that low. Stock prices are low
compared with the past year or so of frenzied buying, but does that mean that stock prices driven
higher by speculation signify that companies are enjoying an improved market or increased
demand? When stock prices go up, does that mean people’s buying power has strengthened? The
stock market cannot be separated from its economic fundamentals. If the fundamentals are not
good, even if the stock market is good, it won’t be for long. Investors aren’t idiots, and who
would want to buy when the current fundamentals are clearly not good?

The “Proposal by Ten Professors” in fact mentioned that an equalization fund could be set up as
a tool to resolve pressure on the stock market. But where is the necessity? The capital market
serves the real economy, and the reason for the capital market’s existence and the foundation of
its development is the real economy, but higher stock prices don’t mean companies are
necessarily doing better. When the stock market improves, people are more inclined to spend
money, but the most fundamental impetus for spending is full employment and incomes that

18 TN: The Chinese article can be accessed at http://blog.sina.com.cn/s/blog_4ab528460100c4sf.html (as of October
7, 2015).
increase each year, along with investors enjoying returns on their investments and increased earnings by businesspeople. Wage growth among salary earners is the deciding factor in determining whether people dare to spend money, along with a good social safety net. Good employment prospects and income growth and not too many worries of disturbances in the rear or home front provide the most stable foundation for confidence.

The paper wealth brought by a good stock market is just the frosting on the cake. If the stock market is too good, it creates a bubble that destroys the real economy. When all is said and done, the basic demands in life, including some need for pleasures, are built on the real economy. So I don’t see the necessity of bolstering the stock market to stimulate domestic demand. If exports are down, factories are shutting down and people are being laid off, will people have the confidence to invest just because stock prices are buoyed up? Why do stock prices have to be so high? In today’s China, what is most urgently needed is domestic demand and employment. Employment is the source of domestic demand and the safeguard of a stable society. Lack of employment leads to lower domestic demand and social turmoil. The stock index level has no effect on employment.

Pushing for the investment of social capital to prop up the stock market, whether it's the capital of private citizens or companies or social security funds or the taxpayer funds controlled by the government, is irresponsible and only harms the real economy even more. The real economy needs money to first of all ensure that the unemployed have enough to eat and to cover their basic living needs. Besides that, companies need revolving capital to maintain production and enhance the competitiveness of their products. Society needs money to turn into consumer capital as quickly as possible. A more direct way to stimulate domestic demand would be for the government to hand out money or consumer certificates, but of course I don't advocate that.

In fact, the fundamentals of the real economy and the virtual economy of the current stock market have become almost irrelevant to each other, so I really don’t understand the motivation for using social capital to speculate on stocks and bolster the stock market. Speculators hold public opinion for ransom. It’s like a while back when some property developers said, “If you let
us die, the banks will die with us.” Under these circumstances, the government should allow property prices to return to a level that matches society’s economic conditions; that is what will stimulate property transactions. The stock market is the same; when people see that economic prospects are good, their expectations will turn positive again, and the stock market will revive.

The “Proposal by Ten Professors” particularly mentioned Hong Kong and how the equalization fund there has served a very useful purpose, and asked whether it would be possible for the government to use this method to bring about a win-win situation for investors and the stock market when the stock market is at a low point. During the 1997 Asian Financial Crisis, speculative capital invested in currency took a pounding, and Hong Kong’s equalization fund was a means of resisting the power of speculators rather than a means of countering the entire economic crisis. The more recent situation in China, however, was not created by speculation but rather by the bursting of a bubble and the need for a steep decline, so how could an equalization fund be used? Even in the world financial center of Wall Street, people haven’t bolstered the stock market to stimulate domestic demand, and I haven’t heard of anyone even suggesting it.

In fact, the cause and effect is exactly the reverse – ensuring employment stimulates domestic demand, which in turn bolsters the stock market. The greatest danger today is unemployment, because that causes social instability, and when society is unstable, nothing can be done. The result of 30 years of Reform and Opening will go to waste or be greatly counteracted. The pace of social progress will come to a dead stop and even regress to a certain extent. Employment is the foundation of stability, so we should pay any price necessary to ensure it.

Using taxpayer money to boost the market or establishing an equalization fund not only violates the principles of market economy, but is also unnecessary. Restoring people’s recognition of the value of the real economy will put it back on the road to health. The bubble in the virtual economy harmed China, but the “great discovery” those Chinese scholars came up with was using a bubble to rescue a bubble and using surplus to rescue surplus. Instead, society should exhaust all possible means to promote employment and help companies survive.
Rescuing the Property Market

As the urgency of rescuing the markets was emphasized more and more, the main talk was of rescuing the stock and property markets, and the property developers were yelling the loudest. At the end of 2008, property developers in some cities established “price-holding cartels” to prop up property prices, as if the real estate market would experience a resurgence as a result. Of course it’s too much to hope that people will always be rational, but a more recent policy by one local government to award 5 million yuan in bonuses for developers to tear down and build housing shows how much our government needs reform. Policies like these show the need for real reform. The government could spend 500 million RMB and it still wouldn’t change the property market, so why the sense of urgency? It’s all about government revenues.

Nanjing’s Commodities Bureau investigated and prosecuted the sale of property at low prices, holding that this violated fair trade. But wouldn’t it be more appropriate for the Commodities Bureau to investigate more than 20 real estate companies banding together to form a price consortium to keep prices higher? As an entrepreneur, I would flinch from investing in an environment that shows so little respect for the basic rules of commodity economy.

Most people believe this problem arose from a simple cause-and-effect relationship: In October 2007, the mortgage rate for second homes was raised and interest rates increased, leading to a decline in home sales. Restrictions like these on the purchase of second homes would definitely affect property sales, but not to the extent we’ve seen. In any sector, if there’s a profit to be made, even negative government policies won’t have such a major effect. In fact, the government started taking measures to regulate the property market back in 2006 and even in 2005, but both property prices and sales volume continued to rise sharply until late 2008. The downslide in sales volume and prices can’t be blamed on macroeconomic regulation policies that began in 2005.

The real reason is that the economy went into a downturn and toward recession. Before 2005, foreign capital funds and investment institutions seldom established property funds in China, and this were even rarer among Chinese companies. But beginning in 2005, even as the government and public opinion repeatedly called for controlling skyrocketing real estate prices, obscene profits and rampant collusion between officials and business, the foreign capital that has always been so sensitive to Chinese policies didn’t shrink back but became even more aggressive, even breaking the rules to advance into the Chinese real estate market. People target markets based on market demand; when a market is on the rise and demand is on the rise, people will think of every way they can to evade policy restrictions. As long as there’s money to be made, these policies will exist in name only and have scant effect. Starting in 2007, however, many industrialists became apprehensive over property prices. It wasn’t that they couldn’t afford them, but that people no longer felt they were getting value for money. When property speculation pushed prices to an unrealistic and unsustainable level at which China’s average wage-earners couldn’t afford property, the property market went from boom to bust.

So the first reason for the drop in property prices was the economic situation, and the second was that property prices were too high. As prices hit their peak, many foreign property investment funds began to pull out in late 2007 and early 2008. In Beijing, for example, if the price of prime residential properties (such as newly constructed apartment dwellings) dropped below 10,000 yuan per square meter to, say, 7,000 to 9,000 yuan, would there be a market for them? I think this figure shows that real estate prices are too high, and market decline shouldn’t be blamed. The sharp rise in real estate costs occurred in 2007, and I believe the vast majority of land obtained before 2007 could be sold at relatively reasonable prices. Most of the “top priced land” that appeared in 2007 hasn’t been built on as of today.

There’s not much we can really do to rescue the property market. Macroscopic measures to rescue the market are of limited use to groups that actually need homes to live in. Home-buyers have been feeling the recession to a greater or lesser extent, and this inevitably makes them cautious. Many local governments have come forward to rescue the market by buying market-priced housing to ensure housing supply, but I don’t see this rescuing the market. Looking first of
all at the type of housing stock, property developers haven’t been interested in housing for low and medium wage-earners or cheap rental properties and have focused on developing luxury apartments, villas, offices and commercial buildings. Is the government going to spend its money on this kind of property, and if so, how much should it pay? The government would be hard put to justify paying the current high prices using taxpayer money, but if it only pays prices appropriate for average wage earners, will real estate companies be willing to sell?

The main objective of the government rescuing the property market would be to make the property market heat up again, because local governments, especially over the past ten years, have dug themselves deep into the property market and are having a hard time extricating themselves. Local officials always hope for instant results and outstanding achievements during their terms of office, and under the present term limits, land has become an easy answer. Real estate transactions provide a win-win situation for local officials, property developers and banks, and given the tax benefit structure between the central government and local governments, this model has become nearly the only choice for local governments in recent years. There’s a lot of criticism about how land finance has become too large a part of local government revenue, how local governments and the property sector have become too mutually dependent and government-business collusion too extreme, but in an objectively sense, the situation exists and has its historical rationality. With land finance serving as a major source of local government revenue, local governments have seized land from peasants by brute force, and this is a deep-seated problem of China’s development model, but also a systemic problem. In fact, our system and our development model are bound together in an overdraft model of growth, and conflict is going to become increasingly intense unless the government undergoes reform. Land-fueled government finance and the diversion of the people’s wealth is a road that will become increasingly narrow and dead-ended. A historical and rational critique makes clear that unrestrained power in a system inevitably results in corruption. Capital instinctively pursues material gain, and without systemic constraints, government-business collusion and exchange of benefit will inevitably occur.
Real estate is an industry with an especially long supply chain, and once a problem arises, all parts of the chain are affected, so people place great importance on it. There’s a saying that everything can be allowed to drop except property prices, because the national economy is equivalent to real estate and to the people’s livelihood. Some experts have come right out and said that buying property is patriotic. But real estate is also a very important social commodity for ensuring a peaceful and contented life; otherwise, what use is it to talk of a supply chain, or to claim that buying property is patriotic?

There was pervasive criticism of the US government for inadequately supervising Wall Street and letting things get out of hand, but what people should be concerned about is the property market. The subprime market was real estate debt. How could real estate mortgage loans generate such an enormous crisis unless things had also been allowed to slide in the real estate market? The restrictions on the second home market that the Chinese government imposed a few years ago have proven be more beneficial than harmful, because real estate is a commodity that doesn’t share the qualities of most commodities subject to free competition.

First of all, real estate values aren’t determined solely by the cost of material and labor. For example, the same apartment would have a different price depending on if it was located on Hong Kong Island or in Kowloon, even if the material and labor costs were identical. As people in the real estate industry are always saying: The iron-clad truth of real estate is location, location, location. The location, in particular the neighborhood, decides the value. Location is society’s joint creation, and since location determines value, how can real estate be treated the same as commodities that are fully subject to free competition?

The second point is that this crisis was triggered by real estate, and while rethinking our development model, we also need to rethink how we can better supervise this black sheep – that is, the real estate sector – and what distinctions should be made from the average competitive sector in the policies and laws that apply to it. All industries need supervision, just as the food and beverages and electronics industries need their safety supervised. Since property values are determined by location, and location is the joint creation of people in a specific historical period
and specific community, society needs to consider how to supervise people involved in the real estate industry, and what kind of policies to take regarding the financial administration, taxation, etc. of real estate.

There are reasons behind the absurd calls to rescue the property market. People involved in the real estate industry are probably vocal supporters of free market economy and secret endorsers of power economics. The people calling for a rescue of the property market probably include many who have profited from communally-created location values and who deflect criticism of their immense profits by referring to the principles of market economy, but now that they’re losing money they’re calling for the property market to be rescued because it’s bound up with the national economy, and that’s unfair.

Furthermore, the real estate industry is bound to make up a relatively large proportion of the national economy at some point, but this is just a phase. The real estate industry cannot ceaselessly develop on a grand scale, and eventually it will return to routine growth. When cities grow at an unusual rate, real estate does in fact serve the purpose of driving the economy, but once cities reach a certain scale, can we expect this same kind of stimulus from real estate? Buildings are for people to live and work in, and for spending money and entertaining themselves. People select a city because they can find employment there, in accordance with the old expression: living and working in peace and contentment. The real estate industry is characterized by serving a flourishing economic situation, but without adequate restrictions on the pursuit of material gain, real estate will go from serving a flourishing economy to destroying economic development. That’s because business people always want to sell property for as high a price as possible, and at a given place and time, ordinary people are at a disadvantage to real estate sellers, because location creates value, and if you want to work in this location, you’ll tend to want to buy or rent a home in the same district, and the real estate developers who occupy that district will have a strong ability to negotiate the price. The price-setting initiative is in fact in the hands of the property developers, and it’s hard for this choice to be fair.
I read that Hong Kong’s economic difficulties were worse than those of the US and mainland China because apart from the two major branches of finance and real estate, as well as the industrial services sector, it basically has no other industries. Because it lacks a real economy, Hong Kong gives people the impression of being hollowed out. Hong Kong’s high property prices drove its toy, garment, timepiece and jewelry industries to the mainland, but at least 4 or 5 million people were engaged in these industries, and have they all moved to the mainland? So property is an essential factor of livelihood and production, and a fundamental factor of social development. Other essential factors of production require price controls, and real estate, as one such factor, should also be protected against inflation, even more than agricultural products, because there’s less choice in real estate, and its price increases are even more destructive. If rice becomes too expensive, it can be imported from other regions or countries, but if real estate is expensive, there’s no resort except to leave the place altogether. The ability of the middle and lower classes to live in peace and security is the prerequisite for stable and positive social development. Some scholars with a sense of conscience have called for allowing China’s property prices to drop back down to a reasonable level. China’s current real estate prices do not in fact match its current stage of economic development, or even the level of development of many of its cities.

Some of the policies that the government came up with were aimed at lightening the burden of Chinese companies and property-buyers, including tenants, landlords and those transferring property ownership. Some of the original measures are excessive: The high deed tax puts too great of a burden on both buyer and seller, and I feel that restrictions on mortgages for second homes and restrictions on purchase of property by non-mainland residents are also unreasonable. In fact, they suppress demand, and with local governments all over China relying on property and land sales for 30-50 percent of their revenue, is it surprising that they’ve become land scalpers?

Government revenues rely mainly on taxes, and taxes are taken from the people to use on the people. The government’s expenses use up one portion, as a sort of management fee. I feel that the starting point of the policies the government has come up with to depress housing prices is
correct; the high property prices driven by speculation are a disaster for the country, preventing people from having any kind of housing security even if they’re employed and certainly making it hard for them to be happy in their work. The beginning of the twenty-first century has seen increases to the proportion of China’s national economy taken up by real estate, the proportion of the government’s financial revenues it comprises and the proportion of China’s wealthy who have become rich through it. But a country’s real wealth isn’t in real estate, but rather in the wealth created through creative ability. The possibility of making money off of land means there’s no need for creative effort; it’s nothing but a transfer of wealth, or in balder terms, a pillage. The government requisitions land from peasants at low prices and then, through its power to mint and issue currency, creates a bubble of high land prices and home prices while turning people’s bank savings into actual income for today’s vested interests and elite. The combination has transferred wealth from the villages to the cities, from peasants to property developers and on to officials and the government, and from the future to the present. If Russia has fallen captive to its natural resources, China has fallen captive to real estate. China has turned the real estate chain into nearly half of the national economy, while Russia’s natural resources industries take up at least half of its national economy, forming a road to dependency in both cases and making the future of both countries an open question.

Even in a time of economic crisis and recession, I feel it’s right for the government’s supervisory departments to resolutely strike out at high property prices that deviate from our stage of social development and that benefit only a small minority of people. Ensuring that society benefits from this resource is the most fundamental way to preserve stability. Now the government is taking measures that appear aimed at stabilizing property prices and reactivating the market, and I feel the government shouldn’t think of stabilizing property prices; in any case, it cannot stabilize property prices just by willing it. The recent imposition of fines for lowering property prices shows the lingering influence of administrative planned economy and patriarchal authoritarian economy even after 30 years of reform, and is an example of what Mao referred to as using a mantis leg to stop a cart.
An active property market depends on the overall economic situation. When exports plunge, and when electrical companies that couldn’t meet demand last year can’t sell all they generate this year, should we expect a hot property market? If electricity isn’t being used, that means companies aren’t working to full capacity, which implies increased unemployment and reduction in wage-based income, and if you want to keep selling homes under these circumstances, prices will have to drop. Buying a home is a major investment that takes up a large share of a person’s salary or the taking on of major debt. When the economy is good, people may become excited enough to even buy an extra unit or two, but now that the economy is poor, tax exemptions are unlikely to reduce the burden of transactions enough to make people buy property.

Going back to my earlier point, the feeling of urgency to rescue the property market is the result of local governments’ dependence on a flourishing property market, but in an economic crisis, they have to learn to deal with lower prices. It’s naïve to think we can return to the conditions before the crisis, or that rescuing the property market will rescue the economy. Rather than say that buying property is patriotic, it would be better to call for Chinese to buy only Chinese-made products and not imports – wouldn’t that be even more patriotic, and even more of a stimulus to the Chinese economy? But even buying only China-made products would require importing raw materials, and in a global era, is it even possible for the state to insist that people not buy products from other countries? That would be trade protectionism and a retreat from globalization, and taking that kind of thinking too far will result in war. It’s not managing things according to the law of economics or respecting objective law or reality.

It’s easy to understand why the government wants to rescue the property market, but really rescuing the market means allowing prices to drop to a level appropriate to current economic development and people’s current income forecasts rather than allowing interference in pricing or attempting to do what can’t be done. The proper approach now is: employment, employment, employment. And once unemployment occurs, the approach should be: social security, social security, social security. With growth, the property market will once again take a turn for the better. Since we’ve chosen market economy and commodity economy, we need to follow their
rules. The most basic human right is the right to a choice. Whether or not to buy property is related to economic projections and judgment and cannot be forced on anyone at any time.

**Rescuing the Market: Balancing Fairness and Market Principles**

If we rescue the property market, are we rescuing buyers, developers, or the banks who loaned money to the developers?

Some local governments have given subsidies to people to buy homes, or provide low-interest or no-interest loans, but the real beneficiaries of these subsidies are real estate developers, because it helps them sell off their merchandise at above-market rates.

China is nominally a socialist country, but calls to rescue the property market are worse than the market rescue behavior of the capitalist United States, which has looked after ordinary people for the sake of social stability. Since rescuing the market is a public policy, it should be given a public hearing, and if there’s a hearing, public opinion should be respected, which means that the average price per square foot, the average construction cost and the average sales price should be announced, and the average profit should also naturally come out. Then it can be seen whether we should be rescuing property developers or the real economy.

Let’s see the figures that show how rescuing the property market could rescue the economy, for instance by providing employment opportunities and saving related industries. The real estate industry is not the banking industry, which holds everyone’s savings and would create chaos if not rescued. In any case, it’s impossible to rescue a property market that’s out of reach to the average wage-earner when the economy is in decline. Reducing the size of the down payment for second homes wouldn’t rescue the market but only reduce the burden, and these two concepts shouldn’t be confused. The current property market should be allowed to cool off and return to normal conditions, but of course this would require local government to become less dependent on land finance and take a longer view toward industries that can be sustainably developed, which is hard to expect of officials under our current term limits. The fundamental point has to
be living and working in peace and security, whether in times of economic crisis or of economic
growth. If property prices are allowed to keep rising to the point where people forsake the
market, how can people live and work in peace and security? So I say that real estate is a double-
 edged sword: appropriately supervised, it allows people to live and work in peace and prosperity,
but when supervision fails, people abandon the market and ghost towns are created.

In a society with healthy development, the share of living expenses taken up by property should
be limited. If prices become too high for disadvantaged groups to sustain a basic existence, it’s
like undermining the foundation of a building. I can accept a relatively large gap between rich
and poor, but society’s stable development requires the living standard of people at the lowest
end of society to gradually increase rather than decrease. The current management of highly
competitive commodities like real estate is creating lower living standards for the majority of
people. This is a worldwide phenomenon. With the world changing from a traditionally regulated
society to modern market economy society, we must constantly reconsider how to enhance our
understanding of social management. The truth is that if the central and local governments and
property companies are too short-sighted and neglect social consequences, they hurt themselves
as well.

Under these circumstances, property prices should be allowed to return to reasonable levels. Real
estate has to be recognized as a special industry that differs from other highly competitive
industries due to its public implications. First of all, its value is determined by location, and
location value is jointly created; secondly, property structures are a basic living material and
factor of production and can’t be left to the control of monopolistic forces. Viewed from this
perspective, a rational retreat is not a disaster, and although prices are badly inflated, at least they
haven’t reached the levels of the US subprime crisis.

Society’s fundamental policies and market rescue efforts should be resolutely aimed at providing
peace and security in life and work, and the government needs to remove itself from the real
estate benefit structure and take a longer view, even if that means seeking a wider range of
revenue sources. Relying on the property market is short-sighted and will cut off future means of gaining wealth.

Some measures to rescue the property market are good because they reduce some of the burden on consumers. The purchase burden for property buyers should be reduced further by lowering the tax on real estate transactions and raising the loan threshold on property purchases. Furthermore, second-hand homes (as opposed to second homes) should be treated the same as new property rather than encouraging people to buy and sell only new homes. Second homes, on the other hand, should be appropriately controlled, because they’re typically for investment purposes. What should be controlled is excessive speculation that pushes up property prices.

For example, there should be rules on the length of time a unit must be owned before it can be resold, with a higher tax on short-term ownership. That would control speculation. On the other hand, if the unit is rented out, the government’s tax should be low, because society should encourage a degree of population mobility, and the rental market shouldn’t be made up entirely of government low-rental housing; it needs investors and institutional investors for that purpose.

Given real estate’s long supply chain, efforts to rescue the market should change existing policies that raise thresholds at time of purchase to raising thresholds at the point of sale in order to reduce speculative behavior. Buying property is economic behavior and should be regulated through economic methods, and people should be allowed the freedom to purchase second or third properties – both second-hand and second properties. This isn’t rescuing the market but rather returning the market to its true features of supply and demand between buyer and seller.

If property prices can’t be maintained at their present level, many assets using real estate as collateral will also substantially drop in value, and this will result in a substantial increase in the rate of bad debt in banks and cause problems in the overall financial system. Some people say that deep adjustment to real estate prices will kill the banks before the real estate companies, but I believe that the first to die will definitely be the real estate companies. The government is the controlling shareholder of China’s banks, so they won’t be allowed to die. The banks sowed the seeds of bad debt by accepting high-priced property as collateral, and the entire financial system
being forced to absorb a substantial increase in junk debt is the price of adjustment and
development. During the past period of rapid economic growth, local governments needed to
rapidly change the appearance of cities, develop infrastructure and attract investment, and the
banks, seeing a chance for profit and regarding property as secure collateral, gave out a large
amounts of loans that fueled the real estate industry and rapid economic growth for ten years.
But development always has its price, and today that price is local governments suddenly losing
a large portion of their revenue sources, broken capital chains for real estate companies and a lot
of bad assets for banks, just as corruption, the transfer of benefit and the extravagant
consumption of real estate entrepreneurs have been accepted as the price of development in the
past.

I feel that a relatively higher proportion of bad debt in banks is a benign cost, because without
this model, real estate wouldn’t have become a pillar industry of the national economy, and
without the draw of high profits, there wouldn’t have been such a massive influx of private
capital, including foreign capital. Of course, the malign cost that accompanied it was corruption,
which corroded society’s morals, conscience and order.

The multiple functions served by real estate in the past few decades was inevitable. At the time
of China’s rapid economic growth, real estate was the outcome of development as well as a key
sector for improving the living, working and investment environment. The roles entrusted to real
estate in the past weren’t wrong, but it shouldn’t be entrusted with so many roles in the future.
Real estate’s relatively high status in the national economy is a phase that won’t last forever. The
government and companies need to shake off inertia and dependency on behavior that was
rewarded in the past and make sober and rational judgments and policies geared toward the
future.

The entire real estate industry chain is under attack today, but this is not the result of
macroeconomic regulation but of market choice, and we have to respect market choice. Policies
need to make real estate more conducive to people living and working in peace and security.
Local governments need to actively develop urban construction and the investment environment
in a way that draws people to cities to work and to live, not to speculate in property. Market economy methods should be utilized to limit speculation and dominance in the property market that harms people’s basic space for survival.

The focus should be on reforms that reduce the future non-benign costs of development, such as official and business collusion, transfer of benefit, market dominance, obscene profits, etc. Rescuing the market is futile, because development ultimately has its price, in this case the possibility that banks will have bad debts, that the government’s land revenues will decrease, that some real estate companies will fail and that some previously outstanding officials will end up in prison for corruption. Rather than rescue the market, it would be better to design a new development road that brings fewer such costs by imposing constraints on power.

**The Market Rescue Schemes**

In an effort to withstand the brutal lashing of the global financial crisis and ensure growth, in November 2008 Wen Jiabao presided over a meeting of the Standing Committee of the State Council that came out with a 4 trillion RMB stimulus package to rescue the market by expanding domestic demand in 10 areas. Local governments at all levels then responded with corresponding stimulus measures that formed an enormous 18 trillion RMB investment scheme.

Everyone was trying to work out where this 4 trillion RMB would come from. But my first question was whether we actually needed 18 trillion RMB in new investment. Were there any alternatives? Although under a lot of pressure, the government should have calmly figured out the root of the crisis and then weighed whether to use investment or other means to counteract the financial crisis and bring about economic and social transformation. The use of investment to stimulate the economy targeted ten sectors, including housing, village and cultural undertakings, ecology, etc. Among them, accelerating the construction of secure housing and rural infrastructure were timely and useful for rapidly stimulating domestic demand. In most case, the construction of railways, highways, airports and other such major infrastructural projects, health care facilities, cultural and education and environment projects also properly addressed public
welfare and the people’s basic livelihood. These market rescue measures were much wiser than
the one Paulson took in the US during the first phase of the crisis, which was to buy up bad debt
and increasing liquidity.

Many people felt that the plan for the iron and steel industry could address the issues of
concentration and quality in the iron and steel industry. The greatest demand for iron and steel is
in infrastructure like expressways, railways and wharfs, as well as property development,
avtomotive and ship yards. Thirty years ago we had an economy of shortages, but now it’s
demand that’s insufficient, so what will we do with revitalized production? We need to stimulate
and create demand before we can revitalize industry. This plan wants to follow an investment
growth model, but 30 years of investment growth was only feasible because of vigorous demand
in the international market, and the international market is no longer vigorous.

Second is the automotive industry, about which not much needs to be said. How are we to
revitalize this industry? Can China achieve the automotive consumption levels of the US, where
everyone has a car, or even more than one car per capita? That’s simply not possible for China.
Right now China’s big cities have horrific traffic jams, and building more roads won’t help,
because the more roads there are, the more cars will travel on them. I feel we should be
revitalizing the public transportation industry instead, making it faster, more convenient and
more comfortable; that’s a genuinely sustainable development direction. Much as I personally
love traveling in private cars, I know it’s not a direction of development that society can sustain
in the long term. We should use market pricing and economic methods to push more people
toward public transportation.

The third is the textile industry. China’s textile industry is already highly developed with good
production technology and producing at huge surpluses, so revitalizing this industry means
creating demand. That means people need more money so they’re willing to buy more and better
clothing.

In terms of the equipment manufacturing industry, I feel this is the same as the iron and steel
industry, and behind it are the shipping, petrochemical, light industry, nonferrous metals,
electronics and communications industries. The ship-building industry is very bleak and may well become even more depressed in the coming years. What is the objective of revitalizing these industries? Where is the exit point? Do we revitalize them because demand exceeds supply, because productivity is poor, or because technological standards are poor? In the final analysis, I feel revitalizing demand is the crux of the matter.

Some experts feel that revitalizing industry will revitalize demand, because people will have work. But the prerequisite of retaining employment is that industries have a good market and decent profits. The current crisis is one of surplus production, and investing in the revitalization of industries where production is in surplus will bring more loss than benefit and make the sickness even worse, as well as depleting valuable resources of social transformation – it’s not worth the effort.

I feel the future lies in industries that are on the rise rather than in decline. Only rising industries will provide society with positive, effective employment demand, and only positive, effective employment demand will sustain growth and expansion and lead to growth in social consumption, and through consumption growth stimulate other industries to achieve true revitalization. True revitalization conforms to economic laws rather than being forcibly imposed by the government or through an influx of funding.

Revitalization should target only rising industries with a capacity for sustainable development. Revitalizing such industries then requires stimulating demand, which for China means that the crux of the matter is civilian demand. Stimulating civilian demand requires systemic reform to change the situation of a prosperous country full of poor people, changing the distribution relations between the state and the people, changing the relationship between the government and the people, and make the government into one that genuinely serves the people and is controlled by the people. In this way, the people enjoy most of the wealth they create, with only a small proportion of this wealth being used by the government to serve the people.

Although the government has been under pressure from stock market speculators, property developers and other interest groups, the ten-item revitalization plan indicates that China’s
leaders were acting rationally and in the interests of the vast majority of people. And in fact, that should be the departure point of any market rescue measures. From this standpoint, I resolutely endorsed the stimulus package.

Given the choice between executing a stimulus package in the form of investment or tax reductions, I feel tax reductions generally bring better results. Tax reductions increases people’s incomes, which in turn increases consumption capacity, while reducing the tax burden on companies helps them survive and create more employment, which further contributes to domestic demand. Under a shrinking international market, tax reductions increase the competitiveness of some exporting industries. In comparison, government investment would bring less benefit and raise concerns over redundant, ill-planned or badly executed construction.

Of course tax reductions have to discriminate, and in the case of companies should favor those with genuine development prospects. For example, in facing the problem of unemployment, should companies be given employment subsidies, or would tax reductions be better? Secondly, we need to encourage environmentally sustainable industries through substantial tax reductions, or even tax exemptions or subsidies. The stimulus resulting from this kind of tax reduction or exemption will be greater than from direct government investment in these industries.

Why is it absolutely necessary for the government to spend money, especially since direct investment can have negative side effects? Almost immediately there were reports of local governments scrambling for pieces of the stimulus package, and increased corruption was inevitable. That’s why the optimal market rescue minimizes government investment and instead uses the method of reducing taxes, allowing people a greater share of profits and allowing companies to contribute more to social development.

The domestic demand market depends on the people, and officials need to change their habit of doing everything themselves. Always emphasizing direct investment by the government means “the state advancing and the private sector retreating.” Most large-scale construction is carried out by SOEs, and the monopolistic status SOEs enjoy in these sectors, added to their greater resources, especially policy resources, only serves to further suppress non-SOEs and the private
sector. This not only reduces the productivity and benefit of stimulating domestic demand, but also pushes the economic structure backwards to the detriment of healthy development.

While visiting some places I’ve found that the private sector is shrinking, and many private-sector entrepreneurs have pulled out of industry, feeling it’s better to put their money in other investments. Being involved in industry is very difficult because the business environment is deteriorating, costs are increasing and market competition is more intense, especially in OEM industries. In the early 1980s, I spent two years carrying out comparative research into four models: the Zhejiang private-sector model of small workshops, the Southern Jiangsu rural collective economy model, the Shandong model of villages and township run like state-run economies, and the Guangdong model, which was basically foreign investment and trade economy. At that time, I felt the Zhejiang economic model was the most dynamic and had the most potential, but by 2009, the process of the state advancing and the private sector retreating had brought about increasing imbalance in the economic structure. Many people involved in industry in Zhejiang stopped engaging in brick-and-mortar businesses. Furthermore, most of those receiving direct benefit from the stimulation of external demand were foreign enterprises, while the proportion of genuine local enterprises was shrinking. I don’t run factories anymore because I saw Taiwanese companies (like Foxconn) and resigned myself to the fact that I couldn’t run that kind of military-style operation. One survey report from Zhejiang showed that reputable local and national companies were entering the property market and capital investment sector, and that income from their main business was gradually shrinking while investment income was rising with the tide. After accumulating a certain amount of capital, Zhejiang stopped investing in brick-and-mortar operations because that’s not where the money was. More than half of Zhejiang’s private capital is now invested in real estate development and the stock market. Private sector entrepreneurs I contacted, including heads of some very large companies, gave several reasons for their unwillingness to further invest in their own operations: First, they’re worried about future prospects, second, they’re discouraged by the unequal treatment of companies, and third, worries about the future are leading private enterprises to use any means available to obtain some kind of overseas identity and settle families overseas, and some
entrepreneurs have even relocated their capital-controlling headquarters outside of mainland China. This will only cause more shrinkage in the private sector.

The private entrepreneurs I’ve been in touch with have a very mature judgment of trends and future prospects. Perhaps due to self-protectiveness bred by a poor environment, they don’t dare to invest because they don’t see a market. The strongest indicator for them is the drop in the cost of labor they hire, because all products and services ultimately require consumers, and the market only trends upwards when employment improves and wages climb. Foreign companies, including Taiwanese companies, have been quietly pulling out of China, while most proprietors of successful mainland private companies have obtained some form of residency outside of China. When the 60th anniversary of the PRC was celebrated with the film *The Great Undertaking of Establishing the Nation*, some people began posting comments on the Internet calling for the film to be boycotted because 80 percent of the actors had foreign citizenship. Why do these actors feel a need for foreign citizenship? Why do the proprietors of private companies get overseas residency and move their capital overseas? These people have more than enough wealth to take care of their small families, and what they want most of all is a big family, i.e., to identify with a country. Why do they lack this identification?

Why did private companies feel an even greater sense of urgency in crisis? Why was their ability to resist the crisis so weak? To a certain extent it’s the result of the state’s advancement and the private sector’s retreat and the shabby treatment of the private-sector economy in recent years. In the early years of Reform and Opening, companies owned by the Chinese people as a whole, including so-called collectively-owned enterprises, occupied at least 90 percent of society and the economy, but by the 1980s and early 1990s, there was a consensus at every level of society that the ownership structure of SOEs had to change because their increasingly bureaucratic nature had made them inefficient and unaccountable. This consensus led what was referred to as “the state receding and private sector advancing,” or more properly “public ownership receding and private ownership advancing,” and this represented social progress and a modern society’s acknowledgement of basic rights, including the right to pursue happiness and development. The latter half of the 1990s brought a reversal in which the “public” became increasingly strong, and
SOEs consistently enjoyed advantages in terms of access to natural resources and financial resources and in going public on the stock market and accessing the capital market, allowing shareholder funds to plug up the holes in state enterprises. The situation continued to deteriorate for a very long time, giving rise to a trend that violated the reform consensus and could almost be called an undercurrent.

A survey of high-level corporate executives found that 72.73% felt that in recent years the trend had been toward “state advancing and private sector retreating,” and 50% felt that the RMB 4 trillion economic stimulus plan was the main cause of a new round in this trend. Furthermore, 86.36% of the interviewees felt that the revitalization plan for ten industries mainly benefited SOEs, and 76.19% felt that China’s financial environment was more beneficial to SOEs. If China had persisted with its policies in the 1980s of opening up to the private sector, the effect of the crisis on China today would have been much smaller, and domestic demand would have been much greater than it is today. Now that we’re pushing the expansion of domestic demand, how can it we improve the rescue rate in the private economic sector and make it develop faster? We should take this opportunity to push for the state to retreat and the private sector advance in some industries. This requires further opening up the private sector and making policies that favor private businesses or at least treat them equally. Since private companies have higher productivity, they deserve preferential treatment, and markets should be opened up further to non-SOEs.

As long as we consciously overcome a bureaucratic mindset, moves to rescue the market will naturally lead to greater efficiency and productivity, i.e., the non-SOE element. In the past it was “great society, small government,” but now it’s mainly government investment, which makes the government even more immense and causes productivity to decrease while putting pressure on the private sector economy. Going through the government to invest and to stimulate the economy also increases the government’s role in the overall national economy and works against establishing a smaller and more service-oriented government. That’s why half of a stimulus package should be implemented through tax reductions, and the other half through government investment.
From this perspective, a stimulus package to expand domestic demand will more effectively improve the people’s livelihood if it relies as much as possible on civil society. Having the government or officials dominate the rescue of the market, especially through direct economic activity, is less efficient and productive. Relying on the people to solve the crisis and head toward prosperity means supporting private-sector companies and making ordinary people the chief beneficiaries of tax reductions. Give people and private companies more money and more confidence to spend and invest and to develop and expand production, rather than pulling financial resources from private citizens and companies through taxation and handing it over to the government to be distributed through the various levels of bureaucracy.

These are two intrinsically different roads, and only one based on the people’s livelihood can benefit all of China’s people and even all of humanity. If we maintain the bureaucratic mindset of stretching the government’s hand into everything, we’ll always get half the results for twice the effort and generate even more corruption while making the government bureaucratic structure even more enormous and bloated. This is a violation of current development trends and social equality and justice that we don’t want to see.

On the foundation of the central government’s RMB 4 trillion stimulus plan, the RMB 18 trillion plan formed in 2009 combining investment by the various local governments could be called an investment fantasy. I use the term “fantasy,” because few people asked where this enormous sum was supposed to come from, or how it could be put to best use.

The money could come from the government’s direct investment, but where does the government’s direct investment come from? Either from the central government’s treasury surplus or from the local governments’ financial surpluses. Do these surpluses even exist? The answer is no. The rapid development of China’s economy in recent years has been accompanied by extravagant government expenditure on office buildings, squares and statues, salaries and various other costs. If we calculate increases in revenue versus expenditure, we know there’s no money left over for investment, and the various levels of government would have to issue bonds so they could use borrowed money for their investment.
Local governments could also issue bonds and borrow money from financial institutions as well as encourage outside and even foreign investment. The government can’t publicly issue as much as 1 trillion RMB in bonds because there’s a risk ratio, so the 18 trillion RMB scheme will have to be funded by money borrowed from banks and financial institutions, and would inevitably have the government’s directly-controlled SOEs as investment targets. The efficiency and productivity of the scheme would be low, and the risk very great.

I don’t completely believe the figures that have been reported. Under economic recession, banks and enterprises are certain to enter into a collaborative relationship that involves rolling debt through empty accounts. For that reason, the amount of flexible credit banks have on hand is an unknown quantity, and even if there’s a capacity for loans on this scale, there’s the question of what the loan terms would be. When all is said and done, financial institutions need to control risk, and China’s major banks are all publicly listed, except for the Agricultural Bank, which just completed its preliminary restructuring into a share-holding system. Although the state holds controlling shares, these banks can’t do as they did in the 1980s and 1990s, serving as coffers from which the government could arbitrarily draw funds through administrative orders. That’s why I wonder if there is really any financial source for the RMB 18 trillion in investment.

Secondly, is it really necessary to have government-led investment on such an enormous scale? If it can stimulate domestic demand and a return to the glory of rapid economic growth, then this action is necessary, but there are worries that such a large-scale government-led investment will be inefficient, cause corruption and reinforce a system that should actually be reformed. Taking this route will only put pressure on privately-run manufacturing companies that could actually solve unemployment problems, provide large amounts of tax revenue, create a future and enter the world arena.

A considerable share of the central government’s RMB 4 trillion investment plan involved the people’s livelihood, for example healthcare, education, etc. But the subsequent plans brought out by 22 provincial-level governments largely involved things like subway systems, local highways
and other such construction projects. What kind of problems could be expected from this modified investment direction?

First, the problem of the benefit of the investment and return on investment. Public welfare construction using local taxes to build public works and infrastructure is generally desirable when carried out step-by-step as conditions allow. But when pushed forward to claim official accomplishment or for reasons of face or other hidden motives, the results can be very bad. We need to view such project in a historical context and not in isolation. Furthermore, the direct objective of investment is to stimulate domestic demand, and how much will these projects actually stimulate domestic demand?

Behind the local governments is a habitual mindset that emphasizes GDP and especially showcase projects. The government in fact encourages large-scale public projects such as libraries and museums, but in the past there wasn’t as much money, and local government were given a free hand to borrow money for them. Some of these projects are worthwhile, but in some cases a city’s facilities are already satisfactory, but officials and even local residents want their city’s airport to be better and its highways wider, and people don’t stop to think about investment and production analysis, or whether the city’s financial resources can sustain it or whether its construction will bring more economic development. If a project is sustainable, it’s acceptable to incur debt for construction, but this should be determined through a third party contractor, and who will decide who this contractor is? The people should be given some of the power to decide on projects so that policy decisions will be fair, impartial and scientific. If an assessment finds a local government’s plan well-grounded, it should be a straightforward investment, but if it’s for the purpose of creating an impression or claiming professional accomplishment, such investment should be approached with caution.

The most urgent task of stimulating domestic demand is to increase employment, but employment isn’t subject to administrative decree. Some local governments have decreed that companies can’t reduce staffing, but what happens if the companies run out of money to pay their staff? Will the government give the companies money to pay wages? The crux of the matter
is economic growth leading to employment, and employment leading to market demand. That’s the only way to stimulate the economy faster and longer and take a road of positive economic development. It’s not a matter of whether a particular infrastructure project should be built, but rather that at a time of steadily worsening economic crisis, the emphasis should be placed first of all on rescuing the economy. And the top priority for rescuing the economy is reducing unemployment and increasing employment. If construction meets the objective of increasing employment, it can serve as a measure for rescuing the economy. In considering a project, the calculations should include how many employment positions it can create. The amount of money is the same, but the points of departure are different, and the results may also be different.

I’ve seen data showing that in terms of driving GDP, the output ratio of large-scale investment in fixed assets was 3.17 in 1997 but dropped steadily to 2.13 in 2007. Why did the effect of investment in fixed assets on stimulating economic development decline over those ten years? Basically it’s because so many manufacturing companies, especially privately-operated ones, have been experiencing declining profits, and the effects of investment in infrastructure tend to be indirect. For example, if a highway is built while incomes are shrinking and the cost of fuel is rising, people will use motor vehicles less, and the income and benefits from the highway will progressively decrease. With companies operating on production surpluses, a further worry is that further expanding investment might lead to redundant construction and from there to another production surplus. Construction should be carried out eventually, but the urgent priority is to rescue the market and revive demand, consumption and employment.

The first item on the central government’s RMB 4 trillion stimulus plan was to bolster the construction of low-priced rental housing, but this item wasn’t mentioned in the RMB 18 trillion plan. Why the shift in emphasis? It’s because land finance is too important to local governments, and low-cost rental housing contributes too little to land finance. The different considerations of the central and local governments are also very important: How to spend this money? Who is to spend it? Whom will it be spent on? Will the government do it directly or allow companies to join in on the construction? Is new money being spent in old or new ways? Going down the old road will only exacerbate the present production surplus. I’m worried that the present plans don’t
apply the resources where they’re needed most, and that the best of intentions may produce results that no one wants.

In the 1990s, Japan also used the method of government investment in public infrastructure projects to stimulate the economy, and the stimulus didn’t happen. When the US experienced stagflation in the 1970s, it was forced onto a new road of development, such as computer production. I feel that efforts related to consumption and employment will bring substantial results. Connecting employment with consumption and allowing companies to use new money to engage in new things means taking a new road of industry that can be sustainably developed, and that pursues a better living environment through inventing new technology and products. This money needs to be spent on projects that have hope, and on entities that can carry out these hopeful projects.

State-owned Enterprises, Privately Companies and Returning Wealth to the People

The massive stimulus packages caused apprehension because normally the first call should be to increase income and decrease expenditure, and the second to tap latent potential. Did the government stimulus packages imply that China didn’t have latent potential and had reached the point where debt was the only answer? And would debt even solve the problem? When a company is basically healthy but needs money, it can borrow money to further develop its good products and technology, but if it’s a failing company, borrowing money only makes it fail faster; it can’t bear that extra burden. As a country in transition, China has a lot of latent capacity that can be mined, and the mining process will gradually bring about systemic reform and result in a fairer society.

Latent capacity comes from what is referred to as publicly-owned assets. These assets currently have low productivity and are generally unavailable to the general public, but they could be converted into spending power. I don’t endorse converting all of these assets, but converting even part of them would have a phenomenal effect. Publicly-owned assets are currently worth
tens of trillions of dollars, and since they are owned by the people, why can’t the people enjoy their use by turning a portion of these assets into spending power?

The main objection is ideological, because this process would ostensibly privatize a portion of these publicly-owned assets. However, since state-owned assets are the property of the people, and “the people” is not an empty concept but refers to each individual, what constitutes privatization? This privatization would return the rights and benefits relating to these assets to all the people under the management of the national government. The actual possession of publicly-owned assets by all of the people could be brought about in a number of ways, either through direct ownership or through asset consumption. I suggest a method that is certain to raise objections in some quarters. It gets back to my question of what constitutes privatization. Assets belong to someone, and not acknowledging that they do is just a fairy tale and Utopianism. Private ownership or public ownership or ownership by all the people is still ownership, just with different management methods. A reasonable distribution of the rights and interests relating to assets owned by all the people could be carried out on a per capita basis, but would also require deciding whether to distribute them equally or according to contribution or employment seniority. It would also be a matter of direct distribution of “the right to share of dividends,” which would be the equivalent of shares, versus direct distribution of “eminent domain over assets.” I feel it should at the very least involve the right to a share of dividends.

These methods have many technical issues, but I feel they’re doable. If there are worries over the distribution of ownership rights, then shouldn’t at least the right to profits be distributed? If the right to profits isn’t distributed, how can this be referred to as assets owned by all the people? If right to profits is distributed, that would be equivalent to distributing stocks to all the people, and these stocks would be transferrable. Some people would be willing to hold onto their stocks for long-term gain, while others would like to buy more of these stocks and others would prefer to sell them. This method would liquidate an enormous amount of the assets belonging to the people. Furthermore, some publicly-owned assets could adopt a model of government conservatorship, for example products and services with a stronger public component, because
they might involve communal interests, and the government could maintain a controlling interest.

There’s been a lot of talk in recent years about how big and highly profitable SOEs like PetroChina, China Petrochemical, China Telecom and China Mobile should share their profits with all of China’s people either directly or indirectly. Direct sharing would involve distributing profits on a per capita basis. There are many possible indirect methods, such as constructing better social welfare safeguards, which would mean liquidating an enormous amount of assets. I believe this would immediately lead to China experiencing enormous domestic demand, not only through capital spending, but even more through wage-based and income-based consumption. In this way, assets owned by all the people could be returned to the people through a method that everyone can accept. Furthermore, it would reflect the advantages of socialism and solve the problem of absentee ownership over SOEs that we’ve been unable to resolve after all this time. If the people share rights and interests in these assets, they’ll care about the operations of SOEs, and this will help prevent inefficiency and corruption. The influx of this enormous spending capacity will also promote economic development and create enormous tax revenues for the government.

Marxism combined with a traditional Chinese Imperial mindset has tied together the concepts of asset ownership, state ownership and ownership by those in power, so there’s little likelihood of the profit-sharing idea being accepted at present. But the time will eventually come when the ties between those concepts will be broken, and for that reason, I feel it’s possible to adopt a middle road of negotiable securities executed through innovations in the capital market. This is no longer a theoretical issue or a technical issue but rather an emotional issue. Since power-holders can only serve for a few years before becoming ordinary citizens again and can’t take these public assets with them, they should have no objection to returning the wealth of public assets to the people. Putting these assets to use would benefit the people and the nation, as well as benefiting those currently in power, because when the economy develops, the government has more money to allocate as well as increased tax revenues. Conversely, state-owned assets that aren’t put to good use only become a burden.
The massive rescue package didn’t excite me at all, and I can’t help but feel there must be a better way. The increment piece can’t be taken any further, so we have to move stock\textsuperscript{20} by returning wealth to the people. The incremental reform worked for the previous 30 years, but this is the beginning of a new historical phase of addressing a crisis and carrying out reform at a deeper level. Stock reform\textsuperscript{21} is the deepest level of reform and involves making the social system fairer and more efficient. A Chinese-style socialist road should put greater emphasis on the harmony and development of all of society and not just the wealth and development of a minority. Returning wealth to the people could jump-start this Sinification process and turn shortcomings into advantages. The state-owned economy is too large to be exempt from reform. Economists have always said the first 30 years of reforms involved incremental reform without moving stock, and intentionally or unintentionally, we arrived at a prudent and farsighted strategy. China didn’t take the same road as the former Soviet Union and Eastern Europe of radical political reform and economic shock therapy, and the Chinese road has proven wiser, steadier and more far-reaching. After 30 years, the reforms have provided the conditions for stock to be moved in a controlled fashion without any significantly adverse effect on the international community or on China’s economy and society. Taking this road in facing this crisis after 30 years of reforms will achieve leapfrog development, not only in terms of economics, but also in the political system, social culture and form of civilization. Of course, actually carrying this out would involve many difficulties and a lot of work, but I feel it’s worth discussing.

The plan to fight the economic crisis by stimulating domestic demand relies heavily on government investment in infrastructure and public works, which are dominated and even monopolized by SOEs. Giving SOEs a leading role brings half the results with twice the effort. I don’t see SOEs serving a useful function in the economic crisis; we should focus instead on preventing a downslide in the privately-owned sector. Few of the most imperiled companies are SOEs, and most are private small or medium-sized companies, as well as some processing

\textsuperscript{20} TN: As earlier in the book, this refers to the stock of publicly-owned assets rather than the stock market.

\textsuperscript{21} TN: Stock reform emphasize delegating the system’s service center and service object downward with increasing autonomy at all levels for the purpose of maximizing the economic interests of the general populace.
factories set up with Hong Kong and Macau investment. Of course some SOEs are also in decline because the downslide in private companies also affects them. For example, PetroChina and China Petrochemical are highly monopolistic, but their consumer market experiences problems when China’s employment market is in difficulties.

Employment also mainly occurs through small and medium-sized companies and privately-owned companies; privately-owned companies cover more than 70 percent of the employed population. That’s why I’m very doubtful about the model of “state advancing and private sector retreating” and about the role SOEs can play in stimulating domestic demand to rescue the Chinese economy and withstand the assault of the global economic crisis. The focus should be on helping small and medium-sized companies and privately-owned companies withstand the economic crisis, and helping them transform and mature, which will cost a lot less money. Privately-owned small and medium-sized companies need a fair environment, which means delegating power to the people rather than strengthening the state-owned sector. As a private sector entrepreneur, I’m in touch with a lot of people and also involved in the media, so I’m well aware of a general feeling of despair regarding private sector investment and giving private companies room to develop. Emergency rescue plans haven’t addressed this point or even made the slightest allowance for it, but have only focused on strengthening the so-called state-owned sector. I use the phrase “so-called state-owned sector” because the concept is too vague – who does this sector actually belong to? We should say it’s a kind of public asset, and now public assets have evolved into assets that belong to vested interest groups.

Reforms carried out under the general principle of “state ownership and national interest” actually protect the vested interests of power cliques. Perhaps they actually think they’re reforming, but when power and economic interests are combined without constraints on individual power, the vast majority of people will intentionally or unintentionally combine power with interests. Some may even feel they have no choice. For example, right now you’re a scholar, but if tomorrow you become an official who manages assets, companies, people and property, it can cause unfairness to others, not only in terms of limiting personal freedom and not allowing others to speak, but also in terms of the power to control the allocation of resources,
opportunities and distribution of wealth. The government established in 1949 has unfairly combined power and privilege so that people with impure motivations who gain power immediately turn into villains, and even good people eventually go bad under the pressure of the pursuit of material gain all around them. SOEs are companies under the government’s direct control; their cadres are appointed and vetted by the Organization Department, and the various powers of the SOEs are all directly conferred by the government’s administrative power. These bureaucratic enterprises fuse economic interests, including the interests of ordinary employees, with the power and status of bureaucratic capital.

Several state-owned airlines asked the government to pump in further investment, and one gained approval. When individual SOEs in financial difficulty use taxpayer money to pay off their bills, this brings many negative consequences. First are the procedural deficiencies, with the entire operation done behind closed doors. Since SOEs belong to the people as a whole, rescuing them with additional investment should at least be discussed by the National People’s Congress. When times are good, SOEs absorb their profits, but then when they suffer losses, they ask the taxpayer to fill in the gaps, and the government pumps in more money without even go through the motions of consulting the public. Monopolistic SOEs are instruments for oppressing customers rather than service enterprises; anyone who regularly flies in China has long become inured to the poor quality of service on China’s airlines. After the crisis, the price of oil on the world market dropped to around US$60, but the price of petroleum end products in China didn’t drop, and the big petrochemical companies sat on the profits and allowed consumers to shoulder high living costs. Monopoly on power results in absolute corruption, and monopoly in the economic market harms consumer interests. That’s why breaking up the power and economic market monopolies is the most pressing task we face.

Every crisis is an opportunity for reform. Those in power should take the initiative to launch top-down reform rather than passively waiting for bottom-up reform. The capacity for top-down reform is a blessing to the country and the people, requiring courage as well as the conviction that this country is for everyone, because it involves sacrificing some of one’s own monopolistic power and benefit.
If we genuinely want our government to be able to effectively resist the assault of the economic crisis and stimulate domestic demand and achieve development in the midst of the crisis, then we need deeper political and economic reform. Economic reform means, first of all, shrinking the component of SOEs in economic life apart from those genuinely essential to the national economy and people’s livelihood. Secondly, make it clear that SOEs are enterprises owned by all the people, and clarify how to manage and dispose of the assets of these commonly-owned enterprises, and how to allow the people to genuinely exercise their supervision and management rights. Those in power should immediately take on this problem.

In the economic sphere, dealing with the status of SOEs and their relationship with the government also requires demarcation. How can we clarify which industries have genuine strategic status in relating to the national economy and people’s livelihood? We can first use other countries as references, and then go through some kind of legal process. I’m not saying there’s no benefit in having publicly-owned or state-owned companies; the crux is how to manage them, whether under government controlling bodies or effective public monitoring. We can’t allow arbitrary action under the false pretext of public interest, especially if it’s done for private benefit. So sometimes ownership is less important than the question of how to exercise management and supervision. It’s also important not to allow monopolies; all state-owned and privately-owned companies should be treated equally. The damage and unfairness caused by monopolies is the same whether they’re SOEs or private companies. Lack of fairness means lack of efficiency, and only a fair system and environment will result in a highly efficient society.

I’d like to see the development of more private ownership, with less participation of SOEs in competitive sectors or in sectors where they’re not needed. Social resentment is growing daily against monopolistic SOEs, but the SOEs continue to expand their monopolistic power. My sense is that the wages, benefits, bonuses and so on in SOEs are higher than in the private sector (apart from multinationals), especially among small and medium-sized companies. As a result, university graduates inevitably aspire first of all to the civil service, and second to SOEs. When power, interest options and monopoly are combined, reform becomes very difficult. These SOEs combine with the umbilically attached government administration to put pressure on non-state-
owned companies. Because monopoly and state-ownership are naturally linked, and some companies are directly subordinate to government departments or agencies, personal interests or even emotional ties easily turn society’s public power into private power over enterprises. Although these companies are called publicly-owned enterprises or limited liability companies, in essence they turn government authority into the private power of this group. Privately-owned companies also have the problem of monopoly and even more brazenly harm consumers.

In a time of economic crisis, fighting monopoly is even more important. How can we smash monopolies resulting from various types of ownership? First of all, government power must be used to break down monopolies and constrain companies as well as imposing checks and balances on power. Second, antitrust methods are needed to block the extension of SOEs as well as private companies into the government and government power. The healthy survival and development of privately-owned enterprises requires equality in political and economic rights. Political power, including both legal forms of authority and furtive abuse of power for personal gain, needs to withdraw from the various industrial sectors. We need reform in all of these areas – the grasping of benefit by those in power, the world’s costliest government outlay and monopolies held by SOEs; restraint on power has to be our response to the challenge of the economic crisis.

**Carry Out Market Rescue Policies under the Light of Day**

Using the government’s administrative power to rescue the market isn’t optimal, but we’re obliged to adopt it as an emergency measure because no company or non-governmental organization can shoulder the burden during a critical time. Government implementation isn’t the most efficient or the fairest method, but sometimes it’s our only option.

Effective oversight and utilization of a government rescue has been a tough subject all along. First there’s the inefficiency, implying a significant amount of waste, along with the absolute corruption resulting from absolute power and lubricated by this money. The suboptimal use of this money, combined with the suppression of healthy companies, brings a poor return on
investment. The central government early on prohibited the construction of luxurious office buildings, but the practice has only flourished, so why would the prohibition be effective this time? Even the crumbs of an 18 trillion RMB stimulus pie constitute a huge sum, and everyone worries that continuing the method of mainly state investment will lead to inefficiency and waste.

Internationally, many scholars oppose government rescue of the market because it violates the basic principle of market economy, which is that economic activity is spurred on by profit, and the market should restrain individual behavior. People have to take personal responsibility for their failures in the pursuit of material gain and declare bankruptcy. An imbalance between market risk and benefit can’t be allowed.

The US market rescue created a scandal when the government used taxpayer money to rescue the government-sponsored mortgage funders Fannie Mae and Freddie Mac and regulators ordered the CEOs to resign, but the CEOs left with multi-million dollar payouts. Shouldeing no personal risk, these people reflected a vacancy in the government’s supervision. Now people are worried about how to better monitor the use of funds to rescue the market. When China’s 4 trillion RMB market stimulus plan was announced at the end of 2008, 24 supervision and control teams were reportedly been sent all over the country. Now there’s an 18 trillion RMB plan, so how many supervision and control teams will have to be sent out? And who will oversee them? So I say the first urgent task of deeper reform is how to carry out supervision. Market entities are controlled and managed by the market, with the government serving as a referee in supervising the execution. But when the government engages in investment activity in a crisis, it can’t monitor itself. An independent monitor should be established to return this power to the people. The government’s authority comes from the people, and immediately organizing a new market rescue system is not realistic; the construction of public works, roads, railways and bridges need to be led by the government. Now is the time for CCP members to demonstrate the noble character history has ascribed to them and delegate some of their power so the people can monitor the government. I feel the quickest and most efficient method is to monitor the process through
public opinion and the media and for the government to operate as much as possible under broad daylight.

Regardless of how the government uses its dynamic fiscal policy and the funding it raises, it should be carried out under the glare of our annoying news media. The media and their content serve as a communications and information medium between society’s various interest groups as well as between power-holders and the public. In fact, the media are even more powerful than actual daylight, because there are places that the sun doesn’t reach, but when the media are allowed to do their job, they will leave no stone unturned.

There’s no need to fear press freedom or the freedom of public opinion losing control; the media can be managed through law and be held responsible for what they express. A moderate opening up of public opinion is the only way to provide a measure of supervision, given that procedural supervision would be too cumbersome. The media regularly express views that make people unhappy, but we have to accept this negative side-effect in order to allow the media to serve their positive function. Allowing them to become a platform for assembling and expressing diverse views makes them more effective monitors at the same time. In their effort to influence the public or gain mass viewership or readership, the media have a deep-seated drive to dig out information from every possible source and uncover all kinds of dark doings. Some may go overboard with sensationalism, but in the process consciously or unconsciously represent society in carrying out a monitoring function. The countless media workers have eyes at every peephole and can keep an eye on the officials and companies involved in the market rescue. The recent constant exposure of corrupt officials wouldn’t have been possible without the new media.

If monitoring can be carried out, we should focus on preventing people’s greed from overcoming their rationality and their selfish desires from vanquishing their conscience, and preventing people from engaging in favoritism and committing irregularities and embezzling public funds. If the rescue plan were a market operation, it would only require supervisory laws and measures to make it responsible for itself and let the market impose its penalties, as in the case of Lehman Brothers declaring bankruptcy. But the government-led market rescue actions, especially
investment actions, can’t be controlled by the market and require additional constraining measures.

Speaking of the hand of authority, according to World Bank calculations, China’s policy errors from 1975 to 1995 involved some 400 billion to 500 billion RMB in capital, an enormous sum. How will the 4 trillion RMB investment plan avoid this situation? We always hear that the government will learn from its policy errors and never repeat them, but in fact they keep happening, because the officials making those policy blunders and creating waste don’t bear the risk of their erroneous policies. The ruling party doesn’t want all this waste and policy error, but relying on the government to supervise its own actions only results in the administrative apparatus becoming increasingly huge and unwieldy.

We have to allow investment power and investment allocation power – that is, the power to spend all that money – and its policy-making process to be exposed to the light of day. That’s why we should immediately set about creating a news law and then reorganize the way the NPC and local people’s congresses manage budgets. Building this kind of constitutional government will further establish the people’s congresses as the most high-powered restraining and supervisory mechanism. Failure to do this may lead to results we don’t want to see. What we don’t want is a twenty-first century Great Leap Forward, which could do even more damage than the financial crisis. Utilizing unrestrained government power to carry out investment of this magnitude could create massive corruption, while embezzlement of rescue funds would make it even more impossible to help vulnerable groups, increase employment and stimulate domestic demand, instead giving rise to even more popular discontent and instability.

If the results of this massive expenditure aren’t obvious or work against stimulating domestic demand, the whole population will incur debt and suffer from currency inflation, another plundering of the assets of ordinary households that would have a devastating effect on social stability. Just looking at figures and coming up with a massive 18 trillion RMB investment scheme executed by unrestrained power entities to rescue the market and stimulate domestic demand creates a double-edged sword that has to be carefully used in order to prevent hurting
ourselves. This investment should follow on the heels of reform that would give supervisory power to the people.

Social Safeguards for the Blue-collar Class and the Labor Contract Law

Following the 2008 financial crisis, many companies in the Yangtze and Pear River deltas shut down or declared bankruptcy, creating unemployment for rural migrant workers. Not only exporting industries were affected, but also many companies serving domestic demand. Large numbers of blue-collar workers losing their jobs could be considered the most serious problem of our economic decline. The loss of a labor-intensive processing plant can easily lead to an unemployment in the thousands or more. Media reports always say how many people have been laid off at large multinationals or financial institutions, but they don’t pay much attention to unemployment among blue-collar workers in the manufacturing sector, because this group lacks a spokesperson.

Unemployment among blue-collar workers is not just a matter of scale. Unemployment presents a less serious problem for white-collar workers and technicians at multinationals and other big companies. First, their pay is good enough that loss of their jobs doesn’t so greatly affect their survival, and as part of the social elite, white-collar workers know how to protect themselves and look for new opportunities. For China’s blue-collar workers, unemployment signifies a genuine crisis, because these people are mostly migrant workers from the countryside. Before the new Labor Contract Law came into effect, many people, including myself, expressed criticism, but the law also has its very correct aspects. The vast majority of blue-collar workers have no social insurance and remain classified as peasants after coming to the cities to work. The historically-created unfairness and injustice of a social structure that bifurcates the urban and rural classes remains fixed in law and administration, and that’s why the largest group affected at present consists of rural migrant blue-collar workers.

Although companies have been required to provide a rather low-grade form of social security since July 2008, migrant rural laborers who lose their jobs often don’t know how to draw
unemployment relief or how to transfer their social insurance. In comparison, the US real economy was also affected, but the social security system there is well developed so that unemployment causes only financial hardship; for most of China’s rural migrant workers, losing a job means losing everything. If we don’t focus on this group and aim policies toward their needs, their individual crises will give rise to a social crisis, and move beyond a social justice issue to a matter of social stability. Apart from official organs, no other civil society organizations speak for this group, because they’re too dispersed to organize. But don’t think that means they don’t matter. When economic conditions are good and work is easy to find, this group doesn’t have problems, but when the economy is bad, these workers become a latent source of crisis, and signs of this have already surfaced. Constant and intense conflicts between migrant workers and factory owners, local governments and even the police over defaults on wages have made this a social problem that needs to be rapidly resolved. Furthermore, focusing on this issue will build a strong foundation for China’s future social development while also reflecting the basic principles of justice, fairness and harmony.

Some things we should do right away. Devoting a large piece of the government’s 4 trillion RMB economic stimulus plan to establish a social security fund would allow rural migrant workers to continue contributing to domestic demand, and feeling that they have a basic safety net would allow them to contribute to a more stable society. Second, when companies run into difficulties, is there no option but for migrant workers to return to their villages, becoming a burden on their locality and a source of instability? The villages no longer serve as an unemployment reservoir as they did in the past. It would be better to support promising companies so they can retain these workers, while at the same time providing workers with technical training to enhance their technical level and employment prospects. What’s more, if China wants to urbanize, it needs to resolve the unreasonable and unfair social structure that discriminates between the urban areas and the countryside.

These people have made such a huge contribution to China’s development over the years, it’s only right that we should devote a substantial portion of the government’s revenues to providing social security for this disadvantaged group, along with professional and technical training. This
would also suit China’s need to upgrade its industry after the crisis, and to develop these companies with a higher-quality workforce. The competitiveness of companies is the competitiveness of their people. Most blue-collar workers engage in simple operations and lack exceptional technical skills. Rescuing the economy should involve allocating financial resources to local governments and companies to create a secure and stable work force, and to provide opportunities for migrant workers to learn new skills. As long as companies have development potential, helping them also helps migrant workers while contributing to future development. Making migrant workers into skilled technical workers provides a force for China to take off again in the future, while letting them go to waste plants the seeds of social instability. From a moral standpoint, likewise, we should treat migrant workers the same as urban residents and should set this down in law.

The economic crisis arrived soon after the enactment of the Labor Contract Law on January 1, 2008. Much as I favor establishing a social security system for blue-collar workers, especially rural migrant laborers, I feel this law arrived at a bad time and became a double-edged sword during the crisis.

In the global division of labor, China’s economy hasn’t demonstrated technical or innovative superiority and has relied mainly on the advantages of a cheap and plentiful workforce. Although the Labor Contract Law was drafted before the US subprime crisis occurred, indications of problems in the economies of the US and other Western countries were already becoming apparent, suggesting that growth in the world economy would end or slow. Under the circumstances, wasn’t reducing the labor advantages of China’s economy just adding salt to the wound?

How can we amend the Labor Contract Law and put it to best use in protecting the interests of companies and workers under the present circumstances? The paradox is that calling for companies to upgrade implies moving from labor-intensive to technology-intensive forms of business and then to capital-intensive forms, which means reducing the number of workers. Returning to the iron rice bowl system will hinder companies from answering the government’s
call to innovate and technically upgrade. If the government forcibly prevents lay-offs, companies will use their own methods to reduce labor costs. Companies upgrade in order to remain competitive, and workers improve their skills and qualifications in order to obtain better jobs and income. The pressures are the same on both. People know why the cost of the cars US cars is so high, and US automotive companies go bankrupt even while claiming such a large share of the market. It’s because of the high cost of labor and benefits. The advancement of human civilization and each individual is due to the motivating power of challenges. That’s why an iron rice bowl welfare society only hinders advancement, leads to greater unemployment and damages the interests of even more people. The essential point is increasing employment to change the relationship between supply and demand, rather than shackling companies with even more administrative orders.

Rather than implement a minimum wage, the government should guarantee minimum unemployment. The government collects taxes from companies and individuals because it takes on responsibilities that companies and individuals can’t handle. Companies aren’t obliged to provide workers with safeguards but only need to pay taxes to the government, which provides the entire population with basic safeguards. Likewise, the payment of taxes by individuals is the first distribution, which helps the government construct a safety net that effectively carries out the second distribution of benefit. The government’s role should in fact be focused on this area. For example, when a large-scale return to the countryside occurs in times of high unemployment, what safeguards can the Labor Contract Law provide to migrant rural laborers? Companies have already fulfilled their responsibility by paying for various forms of social insurance, so the government has to take responsibility for providing these safeguards.

The legislative foundation of the Labor Contract Law should be more comprehensive, taking into account the relationship between labor recruitment and social and technical advancement, the relationship between employment policies and unemployment insurance, and the relationship between companies’ responsibilities and the government’s responsibilities. Since we need to support corporate innovation and upgrading, and companies are composed of people, benefits should include upgrading people; this would be a positive social welfare policy, as opposed to
impeding social development through a fossilized iron rice bowl method of rigidly ensuring a minimum wage. Why have Western Europe and Northern Europe headed toward stagnation? Why does the US lack competitiveness? Our society needs to absorb the pros and cons of the road to welfare that Europe, the US and Japan have followed in their economic development. Legislation must fully recognize human nature, which needs pressure and challenges in order to have motivation. A vital country and a people that have consistently created an outstanding civilization must never head toward a social system heavy on welfare benefits. There should be basic humanitarian safeguards for people who have lost their ability to take part in the labor force, but it should be a bare minimum so that people will still think of ways to look for work.

Taking human nature into consideration and at the same time possessing a view of history while carrying out positive and innovative welfare policies means adhering to Deng Xiaoping’s basic principle of “development as the top priority.” The Labor Contract Law will not serve a protective function in economic crisis and will even be counterproductive, but we need to push for amendment of this law, because its significance transcends its provisions. We want a positive social welfare policy and system that can safeguard the impetus of continued economic and social development. But a negative social welfare system will cause society to regress and will sabotage society’s basic safeguards and welfare. For now, as I told some industrialists in the Pearl River Delta, “This law is wrong, and everyone should be brave enough to step forward and point out where it’s wrong. But until it’s amended, you have to abide by it. That is a modern awareness of civic obligation.”

Creating Employment, Stimulating Civilian Demand and Spurring Consumption

When speaking of how the global capital fluidity glut and US debt levels created the financial tsunami, American scholars and Federal Reserve Bank chairman Ben Bernanke said that Americans are too fond of spending while Chinese are too fond of saving. This is a superficial description; the love of spending is not the essential or intrinsic to American culture. The US is a country established by Protestants, who are not fond of spending, and anyone familiar with US
history, or who has lived in the US, will have seen American wastefulness, but will also know
about American thrift. When eating at a restaurant, Chinese are much more wasteful than
Americans. Americans won’t order a lot of extra food, and they’re not ashamed to take home
what they didn’t eat. But Chinese tend to order a table full of food, as if afraid of losing face if
it’s not enough, and what’s left over they just leave behind. Who’s wasteful? So saying that
Americans love spending just describes the phenomenon and not the reason.

The reason is that in recent years, Americans have been strong-armed by demands for economic
growth, which demand excessive consumption. They’ve fallen captive to constantly dropping
interest rates, one of the main methods former US Federal Reserve Chairman Alan Greenspan
used to promote the American economy. People have come to believe that putting their money
into savings accounts is wasteful, and it’s better to turn it into assets like buying a home, or
spending it for some tangible benefit. With financial policies discouraging savings, the tech
bubble emerged, and after that bubble burst, financial leverage created a real estate bubble. As
interest rates kept dropping while the cost of buying assets also kept dropping, Americans were
pushed from one direction and pulled in another. How could they keep from spending?

Furthermore, leveraging their assets gave Americans the capacity for more spending, while
globalization made things in the American marketplace ever cheaper, and anything that was
bought could be unconditionally returned. Furthermore, the value system and cultural fads put a
premium on owning more stuff, and more fashionable, elegant stuff, brainwashing consumers.
Their culture, value system, financial policies and the socio-economic structure all pushed
Americans into overspending.

The whole reason for doing that was the demands of growth. Under this civilization form and
production model, lack of growth creates social problems. Without growth, people feel that
society is in decline. The Club of Rome proposed zero growth, but this is impossible in industrial
civilization, which is like a snowball that has to get larger as it goes along; if it stops rolling and
growing, it will melt. This is my explanation for why Americans love to spend.
My restaurant example shows that Chinese enjoy spending and are even very wasteful, so why do Chinese save money? The people who don’t like spending and like to save are generally in the lower income bracket, and lack asset cover and social safeguards. By asset cover I mean capital, or what is called the means of production, which the majority of China’s people don’t possess. Furthermore, many people save money for the purpose of buying a home, to support themselves in old age, to fend against illness and misfortune, and to educate the next generation. It’s not that Chinese love to save, but that they can’t go without saving. It’s possible that in the future all they’ll have to rely on are these savings.

Facing this economic crisis, the core issue is to get people to spend money now in order to create the domestic demand that can stimulate growth. But if people feel insecure about the future, how will they want to spend money now? I have to go back to real estate and property prices that are unaffordable to most of the people who need homes. The higher property prices go, the more anxious Chinese will be about saving enough to buy property, and the more they’ll hold back on daily consumption. That’s why the suggestion to rescue the property market in order to stimulate the Chinese economy is not only immoral and incorrect, but also stupid.

It’s immoral because housing is the foundation of living in peace and security, and artificially elevating property prices on the pretext of stimulating the economy should be criticized from a moral standpoint. The government treating land sales as a main source of revenue is immoral and harmful to the people’s fundamental interests. Of course, property developers are also encumbered by high land prices and financing costs, and apart from a few who collude with officials, most aren’t making all that much money. But in general, playing up real estate as the magic weapon to rescue the national economy is inappropriate.

Rescuing the economy depends on stimulating domestic demand. I actually prefer the concept of “civilian demand” – the demand of the masses. The Chinese government’s expenditure is already so immense that it actually stifles consumption by the masses. Genuine domestic demand is civilian demand, not official demand. Civilian demand is what actually stimulates the economy,
while official demand destroys the economy. So I suggest talking of stimulating the Chinese people’s civilian demand.

We have to distinguish exactly who is spending this money, and whether officials are seeking gain at the people’s expense, as well as where the wealth ends up. Over the past 30 years we’ve seen China’s ordinary people living better than before. At the same time, during the 30 years of reform and opening, the people’s spending has made up an ever smaller proportion of GDP, from 70% down to 30-plus%, while the government’s expenditure has grown from around 10% to more than 30%. This is in part because the people’s comparative spending power has weakened, but from a comparative perspective, especially since the 1990s, the state has become richer and the people poorer, officials have become richer and the people poorer, and the cities have become richer and the countryside poorer. What we should be aiming for is “rich people and strong country,” in which case civilian demand will flourish as a matter of course, and there will be no more talk of loving to save money. Now it’s impossible not to save money, and sometimes people will seek to earn a little more and lose it all in the stock market. Instead of making its financial revenues dependent on land sales and seeking profit from the basic survival of the masses, what the government should do is reduce its annual increases in spending.

If we want to change the spending habits of the Chinese, the core issue is to increase employment in order to stimulated domestic demand, which will then increase spending. Now countries evaluate whether they’ve emerged from the economic crisis on the basis of a single indicator, which is GDP. But I feel that emphasizing GDP in response to the crisis will give rise to policies that produce half the results with twice the effort.

China pushes for preserving the 8% GDP growth rate because of national circumstances. We have a lot of unemployment pressure due to new crops of urbanites seeking employment every year, and people migrating from the countryside to the city looking for work every year. The two combined cannot be digested without a certain amount of growth, and GDP growth of at least 8% is needed for basic stability. There are also systemic factors behind the need for such high growth. While state-owned assets comprise an excessive proportion of China’s assets, it’s the
non-state-owned portion that actually increases employment and wealth among the people. Small and medium-sized companies or non-state-owned companies account for more than 70% of employment, even though they hold only 20-plus% of the capital. SOEs only provide 20-plus% of employment while accounting for more than 70% of capital ownership. That’s why maintaining at least 8% growth is the price we pay for maintaining employment and keeping society stable.

In the long-term, it is necessary to use address the challenges of the economic crisis through systemic and not simply by maintaining 8% growth. Maintaining 8% growth actually makes resolving employment even harder by increasing the percentage of assets held by the state-owned sector and increasing inequality of opportunity among the people. When economic growth becomes the sole indicator, other indicators may be negatively affected because the easiest way to achieve the target of 8% growth is through investment, mainly government investment, with the banks providing credit and then SOEs spending the money. This easily provides a statistical growth rate of 8% or more, but unemployment isn’t mitigated and may even worsen because the increase is in assets with low productivity. Making 8% growth the objective orients China toward low productivity: low return on investment, low productivity in terms of accumulation of social wealth, low productivity in terms of employment.

Why can Western countries remain at 1% or 2% GDP growth and still have prosperity while China barely gets by with 8% growth? It’s because in China, the state has become richer and the people poorer, officials have become richer and the people poorer, and the cities have become richer and the countryside poorer. Changing this situation by pushing forward China’s mammoth bureaucracy and huge number of state-run institutions and SOEs requires more than talking reason; it requires quantifying certain indicators and making them tests of official accomplishment. It’s unrealistic to hope for China to become a market-dominated form of “small government, large society” overnight, given that many years of centralized state power has resulted in society lacking truly independent mass organizations that can bear the weight of their public mission. For the time being, we still need to respond to the challenges of the crisis through
a process of “big government, small society” and continue to do things through big government. That requires depending on official achievement indicators to measure progress.

If it’s not GDP, which indicators are more appropriate? I advocate using the indicator of employment, and along with that per capita income or per capital consumption. Since the power to distribute resources is in the government’s hands, the government needs to exert its power to ensure employment. Using administrative orders to prevent companies from laying people off or requiring them to hire more people may only lead to companies shutting down and creating even more unemployment. By supporting small and medium-sized companies, the government can absorb more employment, which will increase people’s incomes and create consumption capacity. And with local governments all over China creating employment as a means of preserving stability, the government’s function will also change.

The Chinese government has come out with measures to support employment, but with limited results. For example, college graduates tend to seek employment with small and medium-sized companies, but these companies are facing tough times, and some go to SOEs, but many SOEs seem to have stopped recruiting. The open market is the only real solution to creating employment, and that means getting back to development as the top priority.

The key to development is civilian demand, which gives small and medium-sized companies their vitality and creates new employment positions. The way to enhance civilian demand is by creating equal opportunity in all sectors except for a tiny minority of areas that can only be handled by SOEs or directly by the government. The transfer of opportunity brings the most long-term benefit. Conversely, direct provision of funding isn’t what development requires, but is more like charity relief and doesn’t address employment. Capital construction likewise cannot be referred to entirely as development. Development has vitality, and its vehicles are large and small companies marching toward the future. Activating these vehicles is what provides employment.

While small and medium-sized companies are the main vehicles of employment, it’s exactly these companies that are suffering the greatest losses at present because of their unequal access to society’s opportunities. The government should yield existing employment space to the private
sector. For example, the cultural services industry is currently highly monopolized by SOEs. Other industries monopolized by SOEs and having very low productivity, such as the financial industry and even some military industries, can also be opened up to the private sector, which would also improve the market by giving small and medium-sized companies better access to information and credit. There’s no need for the financial industry to be completely government-run. We should consider the private sector normal, and monopoly abnormal.

Apart from finance, healthcare in fact is also a huge market. Now it’s difficult and expensive to get medical treatment because of monopoly. Before reform and opening it was also hard to get see a doctor, but at least it wasn’t expensive. Everything back then required ration coupons because the planned economy was even more monopolistic. Now under market economy we don’t need ration coupons to buy cooking oil or grain or toilet paper, but monopoly makes medical treatment expensive and hard to get.

Of course people can argue that healthcare is a matter of life and death, and opening it up could have disastrous consequences, but I feel this is just a pretext given by people who don’t want to give up the benefits of monopoly. Ensuring the quality of healthcare and responsibility for human life doesn’t mean the government has to practice medicine itself; it just needs government health departments carrying out supervision and management. Healthcare services, if opened up, would constitute a very large employment opportunity.

There are many other areas, like education, where a more open market might result in better services. Now there are many thresholds to limit private-sector capital entering the education sector, so the education departments remain in control. I feel that education departments shouldn’t run schools. Public schools run with public funds should be under the supervision of education departments, but that doesn’t mean they should belong to education departments. Only by disconnecting the government from education can education departments fulfil the role of supervision and management. If they aren’t disconnected, education departments can always come up with all kinds of excuses to oppose opening up to the private sector. When these official
retire and return to the private sector, they dislike monopoly, but when they’re sitting in that position, their rumps direct their brains, and everything revolves around vested interests.

All that being said, we need to acknowledge the current pattern of “big government, small society” and find a way to meet the challenges of the crisis under these conditions while also changing the indicator system that drives the national economy so that official achievement is measured by growth in employment, per capita income and local consumption. Accelerating employment in order to accelerate growth in people’s income, market prosperity and consumption capacity means abandoning the monopolistic industrial space under government control.

What the government would seemingly lose in terms of state-owned capital it would gain in terms of official achievement. Switching from the indicator of maintaining 8% growth to promoting employment would yield twice the results with half the effort. This new measure of official achievement would certainly promote reform toward a smaller and more service-oriented government. That’s why I say the fundamental point is systemic reform, especially political reform. The core of political reform is a reconfiguration of power.

**The Chinese Economy: Recovering or Still Seeking Bottom?**

The stock market is a barometer – it’s the first to respond to developments in the economy. After the Lunar New Year in 2009, the stock market rose precipitously, which would be considered abnormal if the stock market is meant to deploy resources in conformance with development and to facilitate the provision of needed capital to industries. But if we understand the stock market as a speculative market, the current situation is normal, because there’s been an unprecedented amount of quantitative easing, and with so much money being thrown into the market, it would be strange if speculation didn’t go into overdrive. Viewed from another angle, however, it’s a bad thing, because when capital, or money, lacks a genuine investment direction, people are unwilling to invest capital in the real economy.
In any case, I’m even more apprehensive, because a healthy stock market is built on the actual performance of companies, and the truth is that China’s economic development has slowed and has even gone into steep decline. I feel it’s not good for the stock market to be so disconnected from economic fundamentals. When the export market contracts, how can China’s economic fundamentals improve? Can it be that domestic demand has sprung up overnight? The stocks leading the rise, like steel and automotive, were all related to the government’s industrial revitalization plan, so at least here there was a conceptual prop and some information to judge whether one should invest. The companies that really needed help were the survivors in the export-oriented economy, which had to shift their emphasis to the domestic market, and from OEM and ODM production toward innovation and developing their own brands. Doing this takes money.

Seeing the current stock market fluctuation as a sign of a good or bad turn in the economic terrain is unscientific, and this promising start to the stock market was not synonymous with economic recovery, nor could it serve as a factor of economic recovery. Only when the national economy is actually good can the stock market be genuinely good. The economic crisis occurred because the bubble was too big and the virtual economy too large. Now the emphasis should be on putting capital into the real economy, but money is actually flowing into the virtual economy.

Some financial institutions, i.e., investment institutions, gained access to a lot of easy money, because under the central government’s stimulus plan, bank credit substantially increased, while corporate credit dropped. New lending exceeded 4 billion RMB in November 2008, and 7 billion RMB in December, and continued to rise in January 2009. Some of this capital was obviously flowing into the stock market. Having money and being unwilling to invest it in the real economy means people don’t see a future in the real economy – i.e., they don’t see vigorous market demand – so they use their capital for speculation instead. I’m not saying speculation is bad; investment and speculation are sometimes hard to tell apart. But if capital doesn’t see a future in the real economy, that implies that an active stock market is a bubble, and this kind of situation is often harmful to the national economy.
There were also reports at the beginning of 2009 stating that China’s economy had quickly embarked on the road to recovery. Some held that the moderate quantitative easing policy was showing positive results and the economy was reviving, but I disagreed. We know that the direct reason causing China’s economic growth to decelerate and companies to face increasing hardship was the serious setback in exports, and the export market continued to shrink. With employment in Western countries still in crisis mode, it was impossible for consumption to grow significantly, and lifestyles were changing in Europe, the US and Japan. The US turned from debt-fueled consumption toward savings, and the era of massive debt spending was over.

Trade terms and trade prices were already viciously competitive, and prices were already being forced down five or six years earlier because supply exceeded demand. European, American and Japanese purchasing agents began imposing ever harsher terms and increasingly strict demands on products, including lower prices and harsher payment conditions, so companies were already operating under miniscule profit margins. There were already calls in recent years for innovation and own brands because the government and companies sensed that OEM and ODM production was unsustainable, and that’s a major reason why China’s economic growth began to slow and head downward. We still haven’t hit bottom in this regard, and until major external factors change for the better or hit bottom, we can’t talk of our economy recovering.

Then there’s domestic demand. I haven’t seen the fundamental conditions for exuberant growth in the domestic market, which would require flourishing employment and an excellent sales market for companies in the real economy. In the once promising electronics products market, companies like Suning and GOME were still in decline in the first quarter of 2009. Where has China seen rapid growth in the domestic market to compensate for losses in the export market?

If the export market hasn’t hit bottom and the domestic market hasn’t grown fast enough to compensate for losses in the export market, how can the economy recover? Originally direct reliance on exports made up 30% of GDP, and indirect reliance was 70%. How could domestic demand replace this huge piece overnight? Some data may show short-term improvement resulting from proactive fiscal policies and quantitative easing on investment in capital
construction, but as long as opportunities remain as unequal and distribution of wealth remains as unfair as ever, it will be impossible to increase people’s spending power and desire for consumption.

The only indicator that has been determined to be a meaningful precursor to macro-economic variables in China’s economic cycle is money and credit. But whether the rapid increase in money supply and RMB loans presage a turn for the better in the macro-economy depends on where the money and credit go. Money supply has increased, but the vast majority of small and medium-sized companies haven’t gotten that money, and even if they did, what would they do with it? Where is the market for their products? Anyone with a basic knowledge of economics who takes a look at the market will be hard pressed to find hot-selling merchandise or new technology creating new consumption. Investors invest for the sake of profit, and the objective of investing in society is to satisfy people’s ever-increasing demands. But with production in surplus and exports halted, everyone’s counting on new purchasing power in the domestic market. If the economic stimulus policy focused mainly on creating purchasing power, it would to be much more effective than today’s focus in investment. The conclusion that the Chinese economy has touched bottom and is in recovery depends largely on the government’s actions and on the government’s directly-controlled financial institutions relaxing credit, and I feel this doesn’t hold water. Only a good employment market and a good growth enterprise market will encourage people to spend money, and until conditions allow China to once again board the express train of growth, quantitative easing will only bring more problems than benefits.

The economic crisis that began in 2008 led to a global rethinking of the importance of returning to the real economy. Strangely, however, apart from government-led investment in some sectors, the vast majority of industries in the real economy remained in a slump. Stock market activity and growth worldwide, including in China, Hong Kong, Taiwan and the US, has become disconnected from the real economy. Unemployment continues to grow, purchasing power in the consumer market continues to drop, capital in the real economy is increasingly tight, and the markets of these companies continue to shrink on a daily basis. On the other hand, the unprecedented easing of funding is putting money into the hands of many entities whose needs
are not that urgent. But no admission is made in the media or public speeches that this money is being used for speculation in the stock market. Whether people want to admit it or not, the stock market closes trades of more than 2 billion RMB each day, and where is the money coming from? I don’t believe it’s all from investors’ own funds; some of the capital is definitely coming from the quantitative easing policy. Data show that new loans reached a record level of nearly 50 billion RMB in the first quarter of 2009. This allowed the capital market and stock market to deviate even further from the real economy, and under the illusion that “what’s good for the stock market is good for the economy,” the real economy experiences increasing hardship as even more capital flows out. With the real economy lacks capital and prospects, employment will come under increasing pressure, and when unemployment grows, people’s consumption capacity drops even further.

Many people became locked into the caved-in stock market in 2008 and hoped for an uptick that would allow them to cut their losses. The risk remains is that the vast majority of small investors aren’t able to get out. Manipulative speculation on the stock market is carried out by institutional investors, while small investors are ground up in the “bear market rebound meat grinder.” Many scholars cited the example of the Great Depression’s bear market rebound from 1929 to 1933 and warned that the downward trend had just begun. Under these circumstances, I feel that regulators, including finance departments, should closely follow this expansionist and extreme quantitative easing policy, otherwise there will be no end of trouble.

The “meat grinder” is a horrific analogy that should alert us to future trouble we may see, including further pressure on and marginalization of the factor that could actually bring social prosperity, the real economy. This could spur inflation, which becomes stagflation when companies decline and the real economy market deteriorates. Under these circumstances, the stock market develops into an enormous bubble that lacks the support of economic fundamentals. I haven’t heard or read anyone say how the economy has improved in any way, or which industries or products or services have shown any turn for the better, or where long-term and sustainably competitive or developing markets have emerged.
Stimulated by the buoyant stock market, most appraisals of China’s economic trends were optimistic. But looking at the data, I actually felt more apprehensive. Since this is a crisis of industrial civilization going from boom to bust, most of the shrinking industries are those that should be shrinking. Basing recovery on investment in areas where no effective demand can be anticipated is only wasting resources and exacerbating the crisis. Reports in early 2009 stated that steel product inventory decreased in February and March but then increased again, and prices were dropping. How is this kind of recovery indicator meaningful?

Market hot spots in May 2009 could also not be separated from the World Expo in 2010, as happened with the 2008 Olympics. But only a child would place all of the country’s hopes in an Olympics World Expo, and no sound person would believe the nonsense drummed up for speculation on the stock market. We can’t rely for long on a false prosperity dependent on easy capital supply converted into speculative investment on the stock market while capital for the real economy and real companies remains tight, employment remains a problem and markets are still in decline.

I believe two circumstances must emerge before there can be a genuine recovery. The first is a resurgence in the international market, and the second is major economic and political reform in China that will stimulate civilian demand so our companies can turn toward the domestic market and the masses can enjoy a greater share in growth. China has enormous potential domestic demand, but the source of that unmet demand is the group hardest hit by the crisis. The potential domestic demand requires systemic reform that brings about a reasonable distribution of wealth. Stimulating civilian demand means more than issuing shopping vouchers – it means transferring more government-monopolized opportunities to the people. Reducing the government’s enormous expenditures and turning that spending into capital that the people can use for consumption and investment is what will develop civilian demand. If recovery depends on government-led investment, any drop in exports will deepen the crisis. The Chinese government is most familiar with the investment-growth development model and finds it easiest to travel this old road, but it’s less adept at developing demand among the ordinary people, because it’s never tried that method.
China shouldn’t let a little bit of good data make it feel complacent about having passed through the economic crisis. What we need is sober and rational estimates regarding the future, and to seize this opportunity to carry out genuine political and economic reform. We need to advance toward the future economic revitalization, not recovery; we need to advance from industrial civilization toward a higher-level circular economy and a healthier way of life. Recovery means going back to the unsustainable old road. Reform of the cultural value system coupled with technological revolution are what will bring about new effective demand. If we really want to gear ourselves toward future revitalization, we first need to find ways to lessen the pain of the crisis. One way is what we’ve been doing in terms of increasing investment and credit. But if it’s a matter of giving people money to spend, we’d be better off skipping investment in favor of direct relief and subsidies to consumers, since this money is the citizens’ wealth. Implementing economic policies with excellent input and output ratios is inseparable from political reform. Reform no longer refers to a contracting system or market economy system, but to a fundamental reform of choice, distribution and power. Only in this way can China embark on the road to genuine economic recovery.

Why is there this cause and effect relationship? The objective of political reform is to serve the economic life of citizens, and a given system will have a certain vested interest mindset. The people hit hardest by the crisis were migrant rural laborers and new graduates, whose employment and development prospects are worthy of concern. How can we prioritize the country’s wealth to safeguarding those most in need and investing in what brings the most beneficial results? The first step is political reform that formulates laws and regulations to put restraints on power and allows the people to genuinely take on the role of masters that the Constitution grants them. Otherwise the interest options will always favor policy-makers or vested interests.

When there was vigorous international demand, internal imbalances could be corrected through globalization, but today’s world has changed; economic transformation depends on a new internal balance, so systemic reform is especially important. Economics alone cannot solve the problem. Political reform is in fact a distribution of power; power has to be restrained, and the
distribution of economic wealth must also be readjusted to allow the establishment of a new balance. Reform has become all the more urgent with no export bonus serving as a balance; depending on investment will only increase the imbalance. But substantive reform is also very difficult, given that people tend to submit to interests and habit and take the old road. Human nature inclines people against voluntarily yielding power or benefit, and this usually has to be forced. That’s the situation we face today. The people in a position to push forward reform must come to terms with the present situation and not be misled by optimistic data on the so-called recovery. Only when those in power engage in deep-seated political reform with a spirit of self-sacrifice will China be able to establish a new internal balance and stimulate civilian demand without the external conditions of balance. Failure to change the power structure will make this impossible and will be detrimental to everyone in China, both those in power and those without power.

Unfortunately, we are not yet able to sense the direction of reform, and we don’t yet see very optimistic signals. It’s inevitable that those in power value their authority even more in a time of crisis. But a sense of responsibility toward the Chinese people would allow all Chinese to respond to the challenges of crisis under reform, and use the challenge of crisis to reach a consensus and spirit of sacrifice on reform. The time has come.

The “Post-Asia Model”: Creating a Change for the Better in Crisis

What intrinsic relationship is there between the East Asia Model and the economic crisis? In the process of responding to the crisis and searching for a way out, how can we rethink and adjust the East Asia Model and create a new model? This development model has always had a good reputation, but only because it allowed the rise of Asia’s Four Little Dragons in a world order dominated by the West as mainstream culture. The developed countries of the West relegated relatively low-value-added or labor-intensive production to the Four Little Dragons, so it has been the export processing industry that has flourished among Asia’s Four Little Dragons, and China as well, up to the present day.
Their success is part of the global division of labor, or a development status, under the dominance of Western civilization; it is a supporting role. I feel that China should start taking a calm look at this state of affairs. A supporting role means producing something, doing something, not of our own devising or according to what we need or want to produce or how we want to live. All of that has been guided by the subtle influence of Western civilization. In crude terms, Asia’s Four Little Dragons, including today’s China, could be called “four developed limbs and a simple brain.” In the division of labor dominated by Western civilization, we have become much wealthier than before, but we no longer have a concept of how to live. Our elite look at what’s new in the West and how people live in the West, while the non-elite imitate them subconsciously and passively.

On the one hand I have to say this is not a bad thing, because under the law of historical development, when you’re backward, you’re either beaten or cheated, or you play a supporting role, and having a supporting role means following the commands of the lead actor. As a result you have only a simple brain and no creativity in terms of how to live. This is an analysis of the influence a production model has on a way of life. The decline of the US and European markets in the financial tsunami was disastrous for us, but the urgent need to quickly develop domestic demand has been no easy task, because the global division of labor stripped us of the ability to create our own lifestyle requirements. Up to now, the entire world, especially developing countries, still consciously or unconsciously look to the developed countries of the West on how to live and what to need and then mechanically copy the surface without capturing the spirit.

This economic crisis is more than a financial crisis or the result of production surplus; it’s a crisis resulting from the exhaustion of Western civilization’s, i.e., industrial civilization’s, effective demand. Although political reform could bring about a fairer and more reasonable distribution of wealth, we would still face the question of what we need and how to live. This poses an even more acute and profound question, which is how we should regard today’s world. Western civilization, i.e. industrial civilization, has veered from boom to bust, and while we are considering how to withstand the economic crisis and develop our needs, we need to dig deeper. This means recognizing the need to dig down to the levels of culture and way of life and taking
the initiative to innovate, not only in terms of hardware technologies, but also in terms of culture, lifestyle and values.

Looking back today, we can see that the Asian Model was a historical inevitability, and that at a certain stage it provided a very good supporting role for so-called developing countries. But we haven’t yet found demand that is genuinely specific to Asian culture. From this perspective, when we discuss economic problems and the economic crisis and political reform, we also need to explore historical genetics and future space. Giving the revival of Asian culture a key spot on the agenda involves more than just a few movies or novels or television series; it means creating a way of life and the new demands arising from that. Cultural revival, fair distribution of wealth and political reform returning power to the people could present a huge historical opportunity for the Chinese people.

Cultural revival will engender lifestyle and demand, but these are also a part of global culture. It’s no longer possible, as in the past, to draw clear distinctions between East and West, and between peoples and countries. Everything we do is as a country and a people, but also as part of the world. Innovation in the creative industry and technology is basically cultural revival, which is how a new world begins. Without the European Renaissance, there wouldn’t have been Europe’s Industrial Revolution or the Western civilization that has ruled the world for centuries.

Now history has entered a new era, and economic crisis was a sign of this new era. We can’t hope to surmount the crisis by stimulating domestic demand without cultural revival; even if we reform the political system and stimulate civilian demand, we still don’t know what civilian demand is, because from wider perspective, even Europe and America don’t know what they need, so we can’t use them as prototypes. While considering this revival, my first question was under what conditions it could occur, and then what kind of human culture would result from it. My conclusion was that China’s tradition of man as an integral part of nature will serve as an important cultural resource in the birth of a future new civilization, just as the polis of Ancient Greece and the philosophy of Aristotle and Plato did for the European Renaissance. Chinese civilization can serve as a gene of rejuvenation, because I can’t think of any other human
civilization that is more refined and has better values at this time. From an optimistic viewpoint, we’re on the verge of revival, but from a pessimistic viewpoint, it won’t be easy to immediately get it right. Humanity will have to slam its head against the wall before it’s willing to turn around; that’s human nature.

In my contacts with companies in China and elsewhere in Asia, I’ve discovered a lamentable phenomenon, which is that the production, manufacturing and research and development of products doesn’t start with the question of what’s needed. The factor dominating what to develop and produce is what the West has now and what Westerners are doing; there are no indigenous things and sometimes not even indigenous thinking. That’s not surprising, given how powerful Western civilization has been over the past 500 years. But when we can’t see any new demand in economic terms, we need to start looking at our own lives. By returning to domestic demand and through cultural revival, we can produce the new demands of the new world.

Asian countries, including China, need to make for a turn for the better in the course of their rescue efforts. The Chinese word for crisis combines the character wei, for danger, with the character ji, for opportunity, expressing the idea that danger and opportunity ago together, and that danger usually precedes opportunity; this is consistent with human nature and the laws of social development. Danger without the desire to change means looking only to the present and to vested interests.

In this case, the financial crisis came first, and now we recognize it as the decline of the economic structure. This crisis resulted from excessive speculation, reliance on debt-based consumption and serious production surpluses, plus what I’ve emphasized as the linear development model of industrial civilization going from boom to bust. If resources and the environment had been able to sustain the ceaseless growth model, the scale of this crisis wouldn’t have been so great or its influence so profound, and surmounting it would have only required adjustments to the social, industrial and investment structures, as in the past. But when Greenspan said this was the kind of crisis that comes only once in a century, it was because he realized that the problems in this crisis were too immense.
But I say this is a fortunate crisis, because the existing model hasn’t reached the point of destroying humanity, and we still have space to search out a new growth model or to turn a corner. By forcing humanity to take a new development path and move toward sustainable development and a renewable economy, the benefits of this crisis have already become apparent, for example, in the form of ramped-up investment in new energy. In the past this was only taken seriously by environmentalists, green parties and some intellectuals and idealists, but now investors and companies are starting to pay attention, and society at large is beginning to focus on it. It’s fair to say that this shift wouldn’t have occurred without the crisis.

The various views on this subject have led to the gradual development of standards to determine whether an industry or product conforms to sustainable development or is energy efficient or conducive to environmental protection. This is a hard-won consensus largely generated among members of the public rather than stopping with idealistic slogans as before. In the past, sustainability, energy-conservation and so on were spoken of as the social responsibility of companies and secondary to their innovation and profit, but now it may become a primary concept, because the crisis has provided an opportunity for the transformation of human civilization by destroying the old profit structure and establishing a new one. If we transition into a circular economy of sustainable development, the price will be well worth paying for the sake of humanity’s future generations.

Some people initially believed that this crisis demonstrated the need for change in the US and other Western countries, while the China Model had demonstrated its superiority. But in fact, systemic innovation and transformation is even more important for China, because in economic terms China has a lot fewer bullets than the US, even with more than RMB 19 billion in foreign reserves. As the de facto central bank of the world, the US still has a lot of ammunition at its disposal, because the world’s trade security depends on the US, and the world’s fundamental order still is defended by American supremacy.

That’s why we’re going to see major changes in both the US and China going forward, especially in terms of a transformation of civilization and values. In his masterwork *A Study of History*, one
of the world’s greatest historians, Albert Toynbee, expounded on the concept of challenge-and-response to explain how civilizations rise and fall. This economic crisis was in fact an enormous challenge to the old civilization that can only be resolved through the creation of a new civilization.

The automotive industry is a key feature of the past civilization, which can be called a petroleum civilization, and the automotive industry is inextricably bound to this petroleum civilization and to the energy structure of industrial civilization. There are already clear signs of moving toward new energy, and whether they realize it or not, members of US Congress who demanded reform of the automotive industry hastened the birth of a new civilization. Of course, new energy is not tantamount to a new civilization, but new energy is a major component of a new civilization. New energy is first of all established on maximizing renewable energy resources that don’t damage the environment. It involves a value system under which nature is no longer conquered or pillaged.

At present, China is part of global industrial civilization while also diverging from some of its mainstream social forms such as an electoral democratic system and market economy with private ownership. Because it still retains many of the values and social organizational forms of agricultural civilization, China is meeting the challenges of what is essentially a growth model crisis by following the rest of the world toward green and sustainable development while at the same time furthering its own reforms toward building a fair and productive society. It is hoped that in the course of its transformation under the global crisis, China will enjoy the latecomer’s advantage in systemic terms; that is, that while joining the rest of humanity on its new road, we can create a sustainable development society that is fairer and more productive than Western societies. The past 500 years of industrial civilization were ruinous to the natural world that we rely on for our survival, and industrial society’s production methods were a drawn-out suicide. This road was inevitable, but having experienced it, perhaps we can now explore a new road where there will always be boom and no bust.
Chapter 4: Setting the Foundation for Democracy

Government Dominance vs Delegating Power and Yielding Profit

Looking back at the characteristics and development model of China’s reforms, we might say that much of what is unfair and unreasonable in China today, including the economic crisis, has been self-generated rather than imported. At the same time, within the domestic context, the characteristics of China’s development can be considered a cause, while in the global context, they are also an effect. We need both perspectives, because China is not a stand-alone entity, and all of the gains of the past 30 years are inseparable from the world economy and political progress, especially globalization.

It has become common to criticize China’s growth strategy for neglecting, or placing insufficient emphasis on, building up the people’s livelihood and developing civilian demand, and blaming China’s present crisis on its growth strategy. People especially criticize the growth model for being investment-driven rather than consumption-driven, and for being focused outward rather than toward domestic demand. But from an international perspective, if China hadn’t adopted a strategy of investment-based growth during those 30 years, would it have been able to reap so many of the dividends of globalization? Could China have led the field in terms of foreign investment without its massive investment in capital construction? And could it have laid the foundations for products labeled “Made in China” being sold all over the world? Investment was essential to meet the constant demands over the past 30 years to improve the investment environment.

At the time China’s doors opened, it was very backward, and given its limited domestic market at the time, the only way it could gain desperately needed foreign investment and technology was to engage in import and export on a massive scale. It never occurred to anyone to criticize this policy at the time. The huge demand for foreign investment, technology and talent inevitably resulted in a largely export-oriented economy, which gave rise to a certain degree of dependence.
This reliance on an export-oriented economy allowed Chinese to rapidly cast off poverty, and even if it made China dependent, it was the right thing to do at the time.

As China responded to globalization by establishing special economic zones in the 1980s and opening up to the outside world, there was a mad dash by the international community to invest in China from the 1990s onward. Taking advantage of this opportunity for investment and technological transfer from developed countries and to gain access to the Western market required the Chinese government to enhance infrastructure to constantly improve the investment environment, along with policies that gave preference to foreign investment and that weren’t very fair to Chinese. Grasping the opportunities of the globalization era allowed China’s national economy to grow by leaps and bounds, but burgeoning government power and revenues were also an inevitable consequence; among Asia’s Four Little Dragons, South Korea and Taiwan were also strongly dominated by their governments.

Government dominance was the latecomer’s advantage that allowed these late-developing (what used to be called “Third World”) nations to take off economically. Strong government was what allowed developing countries to survive and grow in their economic, political, cultural and military relationships with Western developed countries, and to produce successful development models. If developing countries and regions had adopted the Western model of “small government, large society” and free and democratic political systems in which individuals and companies played the leading role, they would have been at a huge disadvantage in brutal market competition. So developing countries have typically adopted centralized or “strong government” political systems in which the government directs development and opening to the outside world. This is the inevitable and virtually only choice.

If we compare the road China took over the past 30 years, especially from the 1990s onward, with the road taken following the 1911 Xinhai Revolution, we see different approaches with the same result. In the massive chaos following the 1911 Revolution, China was carved up by warlords. With the Western great powers and Japan threatening each other with military force, China saved itself from extinction and collapse by putting all its resources into power. In the
1930s, reform and opening in the context of globalization also played a subtle role. Chinese abandoned their original hopes for small government in favor of an increasingly powerful government, and the increasing prosperity intended for ordinary people was instead commandeered by the government. All of this was decided by China’s historical stage and specific conditions at the time.

What I’m saying here is not in conflict with my criticism elsewhere of China becoming a rich country with poor people. I make my criticism according to the context of the times, and what is reasonable in history is not necessarily reasonable in the future. Both democracy and autocracy have their rational basis at different stages of the long river of history. I personally advocate a society with human rights, democracy, rule of law and diversity, but I acknowledge the necessity and historical rationale of a neo-authoritarian or “strongman” era and the role it played over the last 30 years. Developing countries like China have industrialized by taking an autocratic road and have used neo-authoritarian methods to embark on post-industrialization and information society. Of course, that leaves us to face the negative consequences today.

As industrial civilization moves from boom to bust, the entire Western world will also undergo enormous adjustments, including to its social organization form, cultural values and business models. China must also change, and the largely completed task of national self-improvement, independence and basic livelihood for its citizens must form a foundation for further development and transformation. If we say that in 1911 China made a shift midway from republicanism to powerful centralized government, China’s people will choose a different path as it once again faces this choice in the years to come. The specifics have yet to be determined, because there’s no reference point, and we’ll need to be creative.

What I sense is that that China’s people face even greater opportunities and challenges in leapfrogging into completion of China’s transition into a modern society, including democratic constitutional government, and then marching toward what I call “futuralization,” a concept that the economic crisis has placed before the people of the whole world. Willingly or not, we need to
explore an as-yet unknown future that involves not only new growth models and renewable economic development, but also a globalized political, social and cultural model.

While powerful government is a latecomer’s advantage that greatly facilitates economic development, government-led development doesn’t mean exuberant government demand. The proportion of China’s GNP comprised by government spending will soon be the highest in the world. While Asia’s Four Little Dragons (with the exception of Hong Kong) also experienced government-led development, government demand didn’t make up such a large share of their economies. Now everyone is thinking of ways to stimulate domestic demand, but I prefer the more specific term “civilian demand,” because for years now, civilian demand has been retreating and official demand advancing with strength. Under these circumstances, it is more precise to say that we should restrain official demand and stimulate civilian demand, because massive official demand harms the national economy with its low productivity and its smothering of the civilian demand that is of critical importance to the growth and health of the national economy. The need for a forceful push from the government doesn’t imply that the government itself has to spend as much as it can.

A Han dynasty work called Discourses on Salt and Iron debated whether the government should hold a monopoly on salt and iron. Of course, in an autocratic country, the inevitable result was a government monopoly. At that time China was fighting off the Hun invasion while also expanding its territory and strengthening its frontier defenses, so government management of salt and iron was obviously advantageous in supporting its immense military expenditure. It’s natural for people to try to control, possess and occupy as much wealth as possible with the least possible effort, but beginning with the Discourses on Salt and Iron, every flourishing business came under official management under the label of “nationalization.” In the Tang dynasty it was water transport, in the Song dynasty it was liquor, and by the late Qing and Republican era it was a question whether the railways and banks should be monopolized under national management.

People lost sight of one aspect of Chinese culture, which was that private ownership had never been firmly established, because the government’s power was always too great. In imperial
times, the government’s excessive power was related to Chinese culture, which valued cultivation of the self, management of the family and running the country in peace. Led by these values, little importance was attached to individual and rights and interests, and ultimately all of society became the property of the emperor.

This culture was appropriate to China’s traditional agrarian civilization, in which an individual couldn’t survive as an independent production unit. The family served as the foundation and land as the basis, and villages were held together by clans and families. Maintaining this traditional structure required an appropriate set of cultural notions and values, and the political system that suited these values was the centralized governance system that continued in China for more than 2,000 years. At the top there was an emperor, and below the emperor was an enormous bureaucracy that ruled all of the subjects living within China’s borders.

Returning to the *Discourses on Salt and Iron*, the reason why the great Han emperor Wudi (187-140 BC) endorsed the nationalization of salt and iron, apart from economic benefit, was in order to counter local power interests and unite the country. Centralized government and economic monopoly are closely related; centralized government is hard to establish and stabilize without economic monopoly, and even the current monopolies over telecommunications and petroleum products derive from the same origin as the *Discourses on Salt and Iron*. (If people had understood how the Internet would turn out, that would certainly have been monopolized right from the outset, because the Internet has become even more important than telecommunications.) This kind of monopoly gave China a relatively stable centralized government for 2,000 years, but it also fettered the development of new relations of production and productive force, resulting in repeated cycles of rise and fall, flourishing and decline.

If we look at the *Discourses on Salt and Iron* in the context of the most recent economic crisis and the need to stimulate domestic demand, we see that in the historical pattern of rise and fall, during times of decline the people lose their means of livelihood, and the land swarms with refugees, so that wealth actually decreases the more it is monopolized. This is because official monopoly results in diminished productivity and contribution to society, and as the people
become impoverished, the government also loses money. Wealth exists in time and space and increases only through movement. If a system allows people to create wealth and flourish, money pours into the government coffers. That’s why it takes a wealthy populace for a country to remain strong over the long term.

The tracks of history remain visible in the continued priority placed in monopoly today. In the early stage of reform and opening, from 1978 until the early 1990s, all of the talk was about the government “delegating power and yielding profit.” As people began to enjoy much better lives from the mid-1990s onward, the government began stretching out its hand to retake power and profit. This led to many markets being closed to civil society, which in turn led to inadequate civil consumption, and this has resulted in domestic demand being inadequate to stave off the economic crisis. So we shouldn’t underestimate the role of China’s 2,000-year tradition of centralized state power in the replication of the historical pattern of rapid growth of the government and of state ownership under various pretexts as economic conditions improve.

The reason why I’m taking a longer perspective of historical time and place is to “use history as a mirror” to answer the question why China took such a pounding when its exports declined. It’s because of shrinking civilian demand and because the government has been competing with the people for profit, perhaps without even realizing it. That means that superficially rescuing the markets may not achieve the objective of rescuing the overall economy, or at least that we’ll get miniscule results for the effort. I propose reining in government demand and yielding (or rather returning) more benefit to the people in order to stimulate civilian demand. Withstanding the economic crisis requires us to revert to the slogan from the first ten years of reform and opening: delegating power and yielding profit. However, I hope that this time it won’t be carried out as a favor the government is bestowing on the masses, but rather out of a genuine recognition that the government is not the emperor and that it exists to serve the people and has been entrusted by the people to manage the country. Power and profit should be returned to the people under the conditions of systemic reform. Historical factors are just one aspect, but they allow us to draw lessons for withstanding economic crisis today.
The Government’s Policy Errors and Political Accountability

China’s economy also suffered at the time of the 1997 Asian Financial Crisis, but the world economy was very strong, even though part of it was a bubble, and the government’s proactive fiscal policies were assisted by the international market and international environment. We also benefited from joining the WTO. But with the international environment also in crisis mode, and given the difficulty of finding a new break-through point outside, we can only look for an internal solution. This puts even higher demands on our government system and political culture.

As the crisis has evolved, it has given us the opportunity to rethink our macro-economic policies, in particular where the government has been making mistakes, and where it can make further improvements.

First of all, I feel the government has done some things right, including some corrections. Two years before the crisis erupted, every city in the Pearl River Delta underwent industrial upgrading. The leaders in some localities said that they didn’t want to maintain low-end industries, and coastal processing industries engaged in labor-intensive manufacturing were given incentives to leave. The situation over the past few years was quite good, but a lot of industries were operating on miniscule profit margins, and they should have been protected rather than pushed out. Half a year before the Beijing Olympics, everyone was very optimistic. Government officials were calling for industrial and technology upgrades, and labor-intensive industries that were losing out to competition were told to innovate and develop their own brands. But in the end none of this was done, because it didn’t take adequate account of actual conditions. As a general concept, everything they said was right, but the reality was that China needed to keep selling cheap labor for a while.

Given the huge role exports play in China’s economy, the government took measures like adjusting and enlarging export tax rebates and raising quotas. I feel increasing export rebates doesn’t help much when the Western consumer market has shrunk. The government was too quick to lower export rebates in the past, and such substantial fluctuation within a short period is
hard to defend. The government has never explained why it placed such an inappropriate burden on companies in the first place.

Apart from exports, the real estate market has also contributed significantly to China’s economic growth. Measures were tabled to stimulate the property market, but property prices could drop another 20-30% without the market reviving, because people anticipate lower incomes. How will the market revive with property prices so high? Furthermore, how much of the current housing stock satisfies basic demand for housing, and how much has become just an investment? Why are so many of the properties sold in recent years unoccupied? Can we rely on property development to stimulate the economy if there’s no basic demand? What will raise demand apart from a significant drop in property prices?

The Chinese government has taken measures on consumption, such as a plan to reform the medical system, and that is progress, but I feel the timing is wrong. Generally speaking, welfare measures that benefit the people and have wide coverage are better suited to times when the economy is good and the government’s revenues are comparatively ample. With China’s exports shrinking and the economy on the downswing, revenues are likely to decrease, and with tax reductions planned to stimulate the economy, there’s not much room for improvements to a healthcare system that relies on tax revenues.

Effectiveness is often very time-sensitive, requiring an opportune moment to solve a particular problem. A big push to shrink public expenditure should be one of the government’s first choices at this time. The eight-year Clinton administration was an excellent period for the American economy, but at the time Clinton took office, the government had a high deficit and low revenues. Clinton adopted important measures such as reducing public expenditure by nearly a third. China’s leaders have mentioned the need to shrink administrative costs, but they need to propose a firm proportion of one-third or one-quarter so there’s a quantitative concept.

Then there’s the new Labor Contract Law. This law goes beyond China’s current development stage, but it’s unclear how much input companies had in what is a very fundamental law that should take wide-ranging views into account. Many people feel that the law actually harms both
labor and management. During the National Day holiday period in 2008, I went to Shenzhen to visit companies that do processing for us, and they had orders they weren’t filling because the Labor Contract Law requires triple pay during holiday periods. These companies weren’t making enough profit to pay even double wages. Meanwhile, workers from remote areas were staying at the factory during the holiday and wanted to work overtime, but the boss wouldn’t let them because the factory would lose money. Christmas orders from the West plunged because of the financial crisis, but companies weren’t even filling the few orders they had, preferring to shut down. In the past, many companies had their workers go on vacation in the off season and then had them work overtime during the busy season, especially the two or three months before Christmas. But now that factories have to pay twice or three times normal wages, they have no way to absorb these costs, so ultimately no one benefits – workers’ income dropped, companies couldn’t keep going, the government lost revenue and exports declined, making the situation even worse. Although the Labor Contract Law has caused so many problems, no one is willing to say anything.

The Jiangsu government came out with a policy stipulating that staff salaries should increase annually by a minimum amount, whether the company was losing or making money. But this money was coming from companies’ pockets, not the government’s. We can’t say it’s wrong to care about human rights and give people more money to spend, but Chinese officials are used to grand and patronizing gestures, and issues like pay increases should be decided with the participation of civil society. Officials don’t really understand much about business and are prone to sitting in their offices and making all kinds of decisions without knowing what it will cost and without having to pay the cost themselves. If there are changes to the conditions that make China the “factory of the world,” such as low-value-added, cheap labor and low human rights safeguards, will an increasing number of companies simply relocate low-value-added manufacturing? And if they do, will there be other businesses coming in to replace them?

It seems that whenever we Chinese start enjoying the slightest improvement in our lives, we go off on a tangent – that’s our flaw. Furthermore, as soon as we have money, it burns a hole in our pocket; individuals need to show off, companies need to waste money, the government needs to
squander funds – it’s been our bad habit for thousands of years. We want the government to act rationally, but whenever things are going well, the government indulges in “vanity projects,” and labor-intensive industries become an embarrassment and have to be tossed out. From 2003 and 2004 onward, everyone in China felt money burning a hole in their pockets and went crazy creating bubbles, and unsightly factories and good farmland were converted to other uses. How are 1.5 billion people going to make a living without industry? Is everyone going to make money in real estate or on the stock market or in the cultural industry?

What we need now is support that allows companies to develop normally and make a profit. This means respecting non-state-owned enterprises and giving them an equal standing in formulating policies. Most of the companies forced to close because of the economic crisis were small or medium-sized companies, and almost all were private companies. History has shown that Chinese are amazingly resilient, and we have to believe that this crisis won’t bring an end to private companies. The problem is that officials down don’t seem to be taking any responsibility. It’s the same old patronizing bureaucratic culture that China has always had, and it weakens our ability to respond to this crisis with unity. That’s why I say this crisis has brought home the need for deep-seated systemic reform so that officials are held accountable for their policy errors and don’t repeat them in the future.

The government should makes policies in line with economic patterns, otherwise the rate of error rises. We’re in our present situation because the legal system has regressed, and rule by individual mandate results in flights of fancy and all kinds of folly in the political realm. These government officials have been cut off from the economy from the time they graduated from college, and they always have their eyes fixed upward rather than looking at what’s happening below them. Unlike the “second career” generation of the 1980s, which had some understanding of grassroots society, newer officials with a lack of real-world experience are now reaching the policy-making level, and the government’s error rate is increasing just at a time when society’s fault tolerance is steadily decreasing.
There’s been popular enthusiasm for the plan to invest 2 trillion RMB in the railways, which is expected to stimulate enormous demand. But how much employment will this generate, and how much will it enhance production? I don’t believe investment in infrastructure is a magic weapon that will rescue the economy. It’s an example of the kind of decisions made by officials who start working for the government as soon as they graduate from college and who are removed from society and especially from the actual practice of manufacturing.

Government officials need more communication and exchanges with people at all levels of society and all lines of work, and this requires systemic methods, specifically democratic reform. Democratization means removing barriers to public opinion, which means not just relying on the petitioning system, but having freedom of public opinion and relatively free media. Freedom of the press ensures that public opinion is unimpeded and that all levels of society and all interest groups are able to fully communicate their views, which is a prerequisite for better policy decisions.

That’s why deep-seated reform cannot be further delayed. Our society has become globalized and diversified, and a patronizing bureaucracy in the mold of traditional agrarian civilization will only cause problems. When the international economy was good and there was growth every year, a lot of ills were covered up, but the deterioration of the economy has brought all these problems to the surface.

The only way to save China’s economy is through systemic reform that returns power to the people, which in turn returns benefits, opportunities and resources to the people. Greater opportunities and rights to create wealth will naturally create enormous domestic demand and develop the economy throughout China. Returning power, profit, opportunities and resources to the people will resolve the long-standing inability to address enormous developmental differences such as the widening gap between rich and poor, coastal areas and the interior, and east and west. Deep-seated reform will change those base lines and red lines we haven’t dared or were unwilling to touch before. That’s how China will carry on the hard-won momentum of the
last 30 years and preserve the situation we’ve reached through the sacrifice of so many people and through so much hardship and suffering over the past hundred years.

Shrinking Government Expenditure and Returning Wealth to the People

The change in the relative amount of civil consumption versus government consumption from 1951 to the present indicates that government expenditure is increasing while its productivity is decreasing. An enormous, bloated bureaucracy is detrimental to a country, but also to its leaders.

Any leader hopes for a prosperous and peaceful nation, and the proportion of consumption taken up by the government in the national economy is a type of domestic demand. But while civil consumption is healthy and sustainable and functions in accordance with the market, the government’s immense consumption is unsustainable, as evidenced by the opulent government office buildings and immense plazas popping up all over the country.

Whenever power is not subject to control or constraint, it is certain to extend its hand, and lacking checks and balances, the government puts itself in an antagonistic position toward the people without even trying. We can’t blame officials for lacking consciousness or a sense of being public servants; this can’t be bred or trained into them, but is imposed on them by restraints. Only when unrestrained power becomes so great that it destroys the economy will it recede again and begin to share power and profit with the people. We see this culture of plunder all the time in nature documentaries, where it’s referred to as predation. Avarice, possession, the acquiring of power and control is a human instinct and a motivating force for the progress of human society. Every level of management, every level of local government, has an unquenchable desire and impulse to control and master and occupy. From the Republican era to the present, we’ve seen that unrestrained power leads to the state advancing and civil society retreating, and the government extending its grasp in spite of itself.

Even if the government is pursuing a just socialist China in which the people are prosperous and the country is strong, the ruling party cannot possibly control every one of the millions of
bureaucrats under it. Greed is a normal human quality, as is selfishness, and morality is a soft restraint rather than a hard one. A normal society always relies on hard restraints, which means restraints on power.

In Chinese history, the situation has repeatedly arisen in which the share of civil society’s wealth gradually diminishes while an immense official contingent takes up an ever increasing share. While absolute power corrupts absolutely, it also throws the entire country off balance, and I don’t believe that even those in power like to see that happen.

The global economic crisis led the governments of many countries to declare that they would reduce government spending. In China some local governments proposed zero growth in government expenditure, but what’s needed is negative growth. They need reduction targets, for example, reducing financial revenues from 28% to 18% of GDP within a certain number of years, and the people should be allowed to genuinely monitor and control government budgets. Our people’s congresses have turned into old folks’ homes and nurseries, so how can they approve budgets?

Not long ago, the central leadership liked to talk about “riding out the storm,” but economic depression makes everything cheap, and unemployment reduces consumption, so zero growth in government isn’t enough to ride out the storm. Reducing expenditure means shrinking the proportion that government expenditure takes up in the national economy.

There was a time, 60-odd years ago, when the government and the people rode out the storm together. This was during the great production campaign in the liberated areas, when friction between the KMT and CCP led to massive cuts in the Nationalist government’s financial support to the liberated areas at a time when the Japanese were launching an even more ruthless suppression. The great production campaign was for the sake of survival, and we now need China’s leaders to show the same kind of boldness, courage and resolve by imposing a major reduction on government spending and a production push geared toward effective demand.
A lot of projects were proposed as part of a proactive fiscal policy to stimulate domestic demand, including social insurance or even the distribution of funds to groups facing hardship. But none of them did the most important and fundamental thing, which is restraining government power and government spending. The government needs to sacrifice some of its own interests in exchange for the entire populace being able to ride out the storm. Reduction in government expenditure, returning wealth to the people and driving civilian demand are closely connected and all involve the possession of wealth.

Marx said that individual possession of the means of production conflicts with big production under socialism. Legal possession, or ownership protected by law, exists in time and space. Human life is limited, so possession will constantly change as a result. This especially applies to the means of production, which are closely tied to socio-economic activity and movement. Furthermore, possession and allocation of the means of production must conform to the purposefulness of the possessor and allocator. If private possession considers only its own interests so that the means of production fail to serve a social function, it may play a destructive role that leads to economic crisis. The proportion of publicly-owned assets is shrinking in many countries. In the US, state-owned industry accounts for only 1.2% of GDP, while in places like India and Italy the proportion is 12.5% and 14.5%. But if you want public ownership, what form should it take? A home, a workshop, a factory all eventually need someone to exercise eminent domain. In general we can see that private possession tends to be more frugal, while non-private possession, including publicly listed companies, seem to spend money much more extravagantly. The salaries of CEOs of public companies are always much higher than those of private companies, but it is possessors rather than controllers who take long-term considerations into account. Furthermore, can it be said that control is not possession? Since any kind of possession is a process of individual activity, timing is a factor in both possession and control. In terms of time-effectiveness, control is the worst kind of possession.

There’s a double meaning involved here. First, the inference that private possession and socialized big production are irreconcilable is untenable. Public ownership is also possession, and the “public” is ultimately implemented through people. The US government rescuing the
market and putting some financial institutions under government control, and the British government making direct capital injections into banks, were only emergency measures. Private ownership does not exclude a portion of industry being managed by public authority; in fact some industries require management by public authority, but that can be done without public ownership.

Secondly, private property rights can be organically and effectively combined with management under public authority. Public ownership is also called ownership by all the people, which means a nationalized system and nationalized economy in which the national government represents the people in managing the economy. Government authorities managing and controlling some industries is not the same as public ownership. We should return to the original features of ownership by all the people – the government exercises management on behalf of public interest through “state-run” rather than “state-owned” entities. Giving the people ownership and distribution rights over the immense state-run stock assets gives them an asset-based consumption capacity that can stimulate civilian demand enough to withstand a crisis.

Civilian demand is inadequate right now because China’s people only have income-based consumption capacity and no asset-based consumption capacity. Resolving long-term issues of daily living sometimes requires taking out a substantial portion of income for asset-based investment and savings, and in this situation, civilian demand and economic growth will always fall short. Society needs highly efficient growth, which means that we urgently need to return the people’s capacity for asset-based consumption. We can do this by reverting state-owned assets to being state-run with the people genuinely exercising the right of ownership and allocation. Delegating power and yielding profit is the best way to stimulate the economy and bring benefit to the people and to the country.

Creating Fairness: The Best Way to Survive the Crisis

We used to say, “Time is money, productivity is life, development is the first priority.” In fact, the emphasis was always on productivity. More recently, another word that has been discussed is
“fairness.” In the process of dealing with the economic crisis, there’s no conflict between fairness and productivity. True fairness means the best productivity, and a productive and efficient system is certain to be fair. Fairness means being both just and equal, and has both legal and moral implications. Fairness is not only a reflection of moral or personal feeling, but conforms to some of society’s most basic values and moral concepts and refers to equal opportunities for development.

The concept of equality was proposed by the French philosopher Rousseau, who said that all human beings are created equal; people aren’t created to be lowly or noble, but in social life there are in fact these differences. The International Covenant on Civil and Political Rights, to which China is a signatory, clearly states that all individuals have certain fundamental rights, including the right to life and the right to develop. After US President Abraham Lincoln signed the Emancipation Proclamation, African-American slaves who now enjoyed greater equality and respect unleashed an enormous productive force, and society’s labor productivity was enhanced to an unprecedented extent. Although African Americans didn’t enjoy full equality or the elimination of racial prejudice, it was still major progress in terms of legal stipulations, and that’s why productivity increased to such an extent.

Fairness is also the standard for establishing the most productive mechanism. People who have equal opportunities are like athletes racing from the same starting line. Only with this fairness will people put in the effort to race forward as quickly as possible. So there’s no contradiction between fairness and productivity; they’re symbiotic in that fairness brings productivity and high productivity is certain to involve fairness.

According to that logic, how can we reflect the relationship between fairness and productivity in rescuing the economy? First of all, although the concept that all human beings are created equal has become deeply impressed on people’s minds, inequality is too common and too widespread in today’s society in terms of control of the means of production, access to professions, corporate loans, etc., as well as in choice of occupation and place of residence. That’s why our current social productivity is sub-optimal. After 30 years of reform and opening, we cannot say that
China is a highly productive society in spite of high growth because there’s still serious unfairness in some sectors. The government’s monopoly on power has clearly expanded into a monopoly of economic power and economic resources. When power is not subject to the restraints of a democratic system with checks and balances, bureaucratic monopolistic capital under the banner of state-owned enterprises inevitably squeezes out civil society. In any monopolized sector, the government puts itself in a position of competing with the private sector for profit, and these sectors will be both unfair and unproductive. The unfairness of Chinese society is reflected in laws stipulating that ordinary citizens or the private sector cannot participate in certain areas.

As China strives to surmount the economic crisis, fairness and productivity are even more important, and this means first of all getting rid of SOEs’ monopoly on resources. Furthermore, unrestrained political power inevitably leads to corruption as well as a low productivity of resources that makes a change of direction more difficult. The cost of China’s rapid emergence from poverty over the past 30 years has been pervasive corruption and moral collapse, reflected in deals between those with money and those with power. Sharing the dreams of the general populace to become well-off, officials have become torn between serving the people and serving themselves. If during the reform process we had put more emphasis on pursuit of fairness, it could be that high growth would have been accompanied by a greater rate of productivity, and we’d find the crisis easier to withstand today.

Many coastal enterprises that contributed to 30 years of growth employ mainly rural migrant laborers. Making a distinction between the rights of urban and rural residents, and the inequality of obligations toward these two major social groups, can be considered the greatest unfairness of the century, and if these workers had been allowed to enjoy the same rights as urbanites, they would have suffered much less from the financial crisis. The majority of unemployed rural migrant laborers have no social insurance, but if they just go back to their villages and grow crops again, or run rural enterprises, it’s actually a waste of social productive force. Stimulating domestic demand is highly dependent on the consumption capacity of the villages, so we should be considering how we can help rural residents contribute significantly to economic demand.
How the people should or shouldn’t spend their money, and how productive this spending is, should be left to the people to decide. Implementing a mechanism for the people to have a say naturally means reforming the political system. Political reform doesn’t mean complete Westernization, but it calls for the exercising of power to be restrained by the people, and that requires establishing procedural justice in law. This can be carried out in the form of supervision of one power by another, usually in the form of parliamentary or legislative supervision, executive supervision and judicial supervision, or in the form of supervision of power by civil rights, including through democratic elections, freedom of expression and freedom of the press. The two forms are not sharply divided but rather interrelated. In his 1980 document “Reform to the Party and the State Leadership System,” Deng Xiaoping proposed, “There must be a system of supervision by the masses that allows the masses and Party members to supervise the cadres, especially leading cadres.” Surmounting the economic crisis requires emphasizing fairness in order to ensure that measures to rescue the economy are effective.

Deep Reform is Imperative

The economic crisis has focused attention on maintaining an 8% GDP growth rate. But is it really necessary to maintain 8% growth, and is there enough effective demand to support it? Lack of effective demand implies that massive investment would be not only ineffective but even detrimental. With industrial civilization moving from boom to bust, pursuing 8% growth only delays a transformation that’s bound to happen. Increased investment in infrastructure, for example, won’t address the urgent priorities of employment and civilian demand. Unemployment gives rise to social conflict, and addressing unemployment requires stimulating civilian demand, which in turn requires changing the distribution of opportunity and wealth.

China’s crisis is part of a global crisis of production surplus and inadequate demand and loss of confidence, which requires rebuilding the financial order, adjusting the production structure and changing the production model. Without deep-level reform, any attempts by the government to stimulate growth by government mandate or massive investment based on the distribution of
wealth and opportunity under the existing political system will only exacerbate existing economic trends.

China’s political system is seriously lagging behind in its failure to rationalize the ownership system and monopolies. The system of ownership is a question of property ownership, including the means of production and of daily living, and also refers to consumption capacity. In all these years, the boldness that was applied to pushing forward market economy and opening to the outside world has never been applied to resolving the question of ownership, because this involves vested interests. The non-publicly-owned sector was simply grafted onto what was originally a publicly-owned economy, and no attempt has been made to deal with the state-owned assets accumulating since 1949 or the publicly-owned assets that have been accruing since Reform and Opening. We need to clarify which assets are owned by all of China’s people and which are state-owned, and how to implement this determination in a way that allows all of China’s people to share the benefits of asset growth. Who today feels that this growth means anything to him personally, or that it has enhanced his quality of life or consumption capacity even slightly? This is what I mean by reform of the ownership system lagging behind.

The second question is whether the managers, supervisors and controllers of state-owned assets are trustees or if they actually enjoy the right of eminent domain and ownership. I can’t see how they’re trustees, because the actual owners, China’s citizens, have never had any power over state-owned assets. The people were helpless against the massive layoffs resulting from the shrinkage of state-owned assets in the 1990s, and now the immense expansion of state-owned assets in monopolized industries is crowding out privately-owned companies. So the people have not profited from state-owned assets but have actually been suppressed by them and have been helpless to do anything about it.

The government holds all the power, but officials are just flesh-and-blood human beings with all of the usual emotions and desires. When the owners aren’t on site and power is not restrained, how will de facto controllers maintain the attitude of trustees and carry out their responsibilities to the best of their ability? The result of monopoly, unclear ownership and blurred rights and
interests is that the people haven’t been able to keep pace with the benefits of growth, and this is turn has resulted in their steadily decreasing share in domestic demand as China achieved unprecedented growth over the past 30 years. All this came to the surface once the global economic crisis occurred, and could affect social stability as the situation worsens.

China’s leaders have always placed a heavy emphasis on stability because they know there are many unreasonable aspects to the system that give rise to instability. The economic crisis highlighted the inequality in the urban and rural structures as manifested in the real economy, where many industries hire rural migrant laborers with no social insurance. The rampant unemployment resulting from the crisis therefore became a threat to stability.

The global economic crisis has presented each country with its own thorny and pressing contradictions. In a globalized era, external factors correspond with internal factors, and in China the manifestation of the crisis was determined by objective internal factors like inadequate resources, population size, substandard skills and technology, but also by subjective factors like lagging systemic reform. In particular, there’s been significant change in the economic base but not in the superstructure, and the economy has become quite diversified while the political structure remains highly centralized, giving rise to contradictions that erupted in a concentrated fashion and with great severity when the global economic crisis occurred. In my view, this eruption was just a prelude.

The objective factors of China’s crisis could not be chosen, but the subjective factors involved vested interests in both the economic and political realms. Just as former Party General Secretary Hu Jintao referred to Reform and Opening as China’s “third revolution,” we need revolution’s courage, resolve and spirit of sacrifice to revolutionize vested interests and meet the challenges of the global economic crisis. China stands at a new crossroads that requires it to choose a new path toward the future.

In this respect, political reform will be what resolves China’s long-term socio-economic crisis. Political reform needs to resolve the core issue of social fairness and justice, including equal opportunity for subsistence and development and fair distribution of social wealth. That naturally
involves enacting various laws and regulations, but laws alone are not enough if they aren’t supported by due process and a reasonable social structure. China’s first constitution was enacted in 1954, but Mao was still able to launch the Cultural Revolution, unseat President Liu Shaoqi and persecute him to death in spite of what was written in the Constitution.

During the drafting of the Anti-Monopoly Law, which took effect in August 2008, many people pointed out that the biggest monopolies were the key state-owned enterprises, and that there was a special stipulation that these key state-owned enterprises would not come under the constraints of this law. Who actually owns the key state-owned enterprises, and what is the relationship between state-owned and ownership by the people? If someone were to carry out a public opinion survey, it’s certain that the vast majority of people would say there’s no relationship. SOE’s are both monopolistic and highly profitable, and their wealth cannot be distributed to the people. This is the unfairness of distribution of wealth: People create wealth but cannot access it. At the same time, privately-owned businesses are barred from certain sectors, while the general population is cut off from the wealth created by SOEs in these sectors. When these massive profits aren’t converted into consumption capacity for the people, civilian demand inevitably declines. Furthermore, there’s an inevitable transfer of benefit between SOEs and government officials, some legal and above-board and some under the table, and this results in a mutual protectionism among bureaucrats that allows them to benefit from infringing on the profit-making space of the private sector. SOEs are effectively state-run commercial units, and bureaucratic protectionism damages China’s economic, social and political health while giving rise to unfair distribution. Monopoly SOEs create an enormous vested interest class that suppresses civil society demand and takes possession of civil society’s wealth. Now that the world economy and history have turned a page, we discover that only domestic demand and the springing up of an exuberant consumer market can push forward China’s economic development. But unreasonable distribution of wealth and SOE monopolies in many economic sectors have affected domestic demand, and this phenomenon has become even more serious as the economy has grown. This makes political reform essential, because the crisis can only be resolved in a fair society. The specific form of the political reforms is unimportant, as long as they result in no one
person or organization being exempt from supervision and restraint, and in a system with a strong capacity for self-correction.

In terms if the “third revolution,” reform of the superstructure is the trend for the next stage of China’s history, and is essential for China surviving the crisis and continuing to develop. The difficulty is that today’s benefit structure is much larger than several decades ago, when interest groups were less prevalent. Reform is always easier during a time of rapid growth; when growth is stagnant or shrinking, it has to be directed even more toward vested interests. The “third revolution” means a redistribution of vested interests and a redistribution of the power structure. The difficulty of distributing existing stock means these reforms will require even more courage and resourcefulness, as well as political wisdom. Since the government has expressed a revolutionary resolve, China’s citizens should join with the government in getting through this hard time with patience, tolerance and rationality to carry out future reforms.

The Opportune Moment for Political Reform

China’s first 30 years of Reform and Opening went well because it was incremental reform that latched onto the persistent flourishing of the world economy. Now we need stock reform, i.e., strong action on the distribution of benefit, and this inevitably means political reform that some people will find painful. Former Party General Secretary Hu Jintao once said that Chinese politics has been successful largely due to China’s economic success. But I feel that with the economy in a serious downturn, China needs to speed up and expand political reform and march toward democracy. While this benefits all of China’s people on the macro level, it also benefits China’s leaders through genuine and sustained peace and order. Even so, some people will oppose democracy because it harms their personal interests.

What Deng Xiaoping and other revolutionary veterans who had suffered in the past proposed in the late 1970s was actually reform in the social and political spheres, although they called it economic reform. The desire to carry out reform in the 1980s arose from idealism and an anxiety over the country’s slow development, so the methods proposed at that time included the
economic, political and social spheres under a strong initiative to eradicate the boundaries between them. But the ideological boundaries at that time were like unscaleable prison walls, so the greatest impediment to political reform in the 1980s was ideology, especially among top Party leaders who’d been deeply branded with decades of Marxist dogma. Now it’s not ideological dogma that’s fettering political reform, but rather vested interests and traditional Chinese culture, which lacks a concept of all people being created equal and being equal before the law, and of personal freedom and rights. It’s regrettable that the political reforms proposed back during the Third Plenum of the 11th Central Committee were gradually whittled down to reform only in the economic sphere, and that there was increasingly less willingness to engage in political reform, but at least that generation of leaders, however imperfect, still didn’t recuse themselves from or negate the spirit of democracy and science.

The worst thing today is how some people are coming out to oppose democracy. No one dares negate the notion of the people being masters of their own affairs, but “democracy” is a taboo word, which is absolutely absurd. Then there’s freedom – the CCP rose to power under the banner of “fighting for freedom, fighting for the people’s freedom, fighting for the country’s freedom and independence,” so isn’t the current opposition to liberalization and liberalism a historic retreat?

Without new liberation of thought, there can be no deep-level political or economic reform. I foresee a new movement of liberation of thought that will be more profound than those in 1978 and 1992, because it will give power to the people. The fundamental point is that we’ve arrived at an era in which we have no choice but to return power to the people, not because it’s a beautiful concept but because that’s what’s needed for China to emerge from crisis and embark on a new round of development.

My view is that circumstances will push the entire world toward deep-seated systemic reform. As anxiety increases throughout the world, existing social systems, including culture, values, political, economic and legal systems, are all going to change in a big way. A generation of elites can for the most part only solve the problems of one era, but this crisis spans eras, and the elite
will prove unequal to the task. A totalitarian system needs to be liberated from its external restrictions in order to develop, while a free system needs to be liberated from fixed thinking and fixed values. Of course, it won’t be clear sailing, and only tumult will allow the world to emerge from the past and from long-standing habits. Society needs to engage in a profound rethinking of humanity’s 500 years of industrial civilization, and the emergence of new great thought and the germination of new values will be like the tenth month of gestation. Birth is always painful, and in this case it will be the pain of moving from economic crisis to social upheaval.

There’s a reason for the recent calls to strengthen political reform. The reforms launched in 1978 and 1979 came about because things couldn’t continue as they were; poverty made people want change, so things changed, but they lost their incentive from the latter half of the 1990s onward as they started living comfortably. The enormous zeal for producing and building in the 1980s and early 1990s was the result of power and benefit being delegated to the people, which made people feel they could use their rights to benefit themselves as well as the country. Change in terms of redistribution of power and benefits has become even more pressing since the crisis as we attempt to protect the hard-won results of 30 years of reform and development and preserve the momentum of the rise of Chinese civilization that China’s people have been fighting for over the past century.

The main thing political reform needs to address is fairness, which I understand as equality and justice. Equality doesn’t mean an even distribution of wealth, but rather equal opportunity. Justice is what I like to refer to with the phrase, “When someone desires wealth, he’ll find a way to get it.” The past fundamentalist socialism understood justice in wealth as merely being paid according to work done, but this is too simplistic. Economic activity is complex, and income obtained from investment, loans and rental should also be regarded as legitimate.

In short, equality is equality between individuals in terms of both political and economic rights. The former equality includes the right to elections, the right to express opinions, etc., and the latter refers to no one having an advantage over others in terms of opportunities for development, use of resources, etc. The right of fair competition and equal opportunity is very important.
Justice means being rewarded for what a person has contributed, while wealth obtained by means other than one’s own effort, for example through official-business collusion or monopoly, is unjust. So I feel the present reforms can be called both political reform and a continuation of economic reform.

Democracy, i.e., the people being masters of their own affairs, is the one way toward equality and fairness. We should feel free to draw on the US, British or French democratic systems, but there’s no need to copy them wholesale. China has always been under autocracy, enlightened or not, and there’s never been a democratic era in Chinese history. The closest thing to it was the Spring and Autumn Warring States period, when a hundred schools of thought contended, and that’s because a multitude of small kingdoms were vying for supremacy and therefore needed to forge ahead with reforms. Reform requires allowing a hundred schools of thought to contend; that’s the only way for new thinking to emerge. But the political systems at that time were all autocratic monarchies, and the Qin dynasty unified the country under an autocratic imperial bureaucracy that reached all the way down to the grassroots level. So China has no real history of democracy.

On the other hand, Europe, or the West, developed its political systems over the course of 3,000 years, from the Ancient Greek polis to an aristocratic republican system under Ancient Rome, and from aristocratic republicanism toward empire, and after the fall of empire it entered the Middle Ages. During the Middle Ages, society gained the spiritual power of religion and the secular power of the king. The king’s secular power was tied to large and small fiefdoms, which both supported and restrained him by surrounding the paramount leader with many small leaders under a relationship of mutual responsibility and contractual obligation. So the West in the Middle Ages was a genuine feudal society, and then feudal society transitioned into constitutional democratic society. Feudal society lacked individual rights, but in spiritual life, Christianity taught that all people were equal as the children of God. These elements of equality, democracy and scientific thinking from the Ancient Greek city state revived under the Renaissance, and the feudalistic mutual restraint of power from the Middle Ages (we can also call it an element of constitutional government) combined to enable the West to shift into a
modern democratic constitutional society. Using Marxist language to explain this process is all but impossible, because Marxism talks of bourgeois constitutional government. The Middle Ages couldn’t be considered bourgeois, but rather was a chess game between the king and the nobility who represented the feudal lords, and under the feudal lords were the masses of peasants. This gave rise to urbanized citizens who battled for centuries within parliaments and among kings, the chess game continuing for centuries and eventually resulting in democratic constitutional government. This long, slow process shows that Europe in fact has a tradition of democratic constitutional government.

Getting back to China, prior to the first emperor, Qin Shihuang, it could be said that there was a feudal society like Europe’s with greater and lesser feudal lords. But from the Qin dynasty onward it was an imperial system, and “rule by family” just turned into another form of autocracy under the state or under a party. Before 1911, this was the Qing dynasty, which wasn’t a country as we think of it today, and therefore had subjects rather than citizens. The Xinhai Revolution in 1911 represented the Chinese people’s need to shift from traditionalism to modernism, and also to address the issue of going from not having a country to having a country. Decades of revolution from 1911 to 1949 overthrew empire but didn’t solve the problem of autocracy; it addressed the issue of having a state system, but not of the form of government. This state system was empire under family rule, and the political system was still autocratic, even though there was no longer an emperor. When the country was established, it qualified as a country with citizens (whether under the Republic of China or the People’s Republic), but the mentality of citizenship, and the rights and responsibilities of citizens as well as a political system established by citizens (i.e., democratic constitutional government) were never achieved. From this perspective, China truly had no tradition of democratic constitutional government, and even in terms of modernity, China is still in the stage of Enlightenment.

I feel we’ve reached the opportune moment for engaging in this reform. We should acknowledged that Chinese civilization was defeated by Western civilization more than 100 years ago because of the failure of our system and our culture. The intellectuals of the May Fourth Movement were right: The West’s defeat of China was in fact the victory of democracy
and science over Confucian autocracy and ignorance. China established Asia’s first democratic constitutional government in the Xinhai Revolution but ultimately returned to autocracy due to lack of a democratic tradition. We still don’t have a democratic tradition, but we’ve been practicing science for more than 100 years, and democracy and science are bound together. Furthermore, Reform and Opening opened China’s doors, and in the past 30 years, especially the last 20 years, people have enjoyed greater tolerance for freedom of thought and speech, which provides a foundation for political reform and even cultural remolding. Finally, Chinese people’s sense of being browbeaten by the West over the past century made them feel deeply conflicted about learning from and introducing a political system and legal system from the West. But since the 2008 Beijing Olympics, Chinese people’s mentality has been transformed. They feel that Chinese are equal to the West, and this confidence leads to tolerance, rationality and blending.

We’ve also gained a new understanding of human rights in the Western system. We realize that human rights cannot impinge on the environment we rely on for survival and development, just as an individual cannot infringe on the rights of others. I constantly refer to the concept of fairness rather than human rights, because fairness encompasses both human rights and democracy. But I feel that only political reform and democracy in the broad sense will bring continued prosperity and growth, because in a fundamental sense, democracy results in fairness because it gives power to the people and is constantly self-correcting. We should neither worship democracy nor avoid it as taboo, but must make it our goal.

**Family Rule and Party Rule**

Western civilization, which is undeniably now mankind’s mainstream civilization, was shaped by Ancient Greek culture, including its rudimentary definitions of what is a citizen, what is man, what are rights, etc., and its various elements developed along with it. That’s why the Renaissance was a revival of Ancient Greece, i.e., the universal values established when Western culture took shape. When we look at Chinese culture, we see no universal values. The classics from the Warring States period onward contain no definition of the natural person and no values;
all they contain are the relations between father and son and husband and wife, between brothers, and between sovereign and subject. Democratic society is based on the equal and inalienable rights of the natural person. Lacking that genetic foundation, China needs a process for reestablishing order, and also for creating the foundation and conditions for a future new order. Universal values are the definition, needs and emotions of the natural person. The most basic universal values originate in the rights, aspirations and pursuits of the natural person. Rousseau’s *Social Contract* of the French Revolutionary period, which talks of inalienable rights and all persons being created equal, is the most basic definition of rights in modern civilization.

How is it that Chinese culture has no relationship with universal values? If you don’t believe me, ask anyone around you: “Who are you?” I’ve asked all kinds of Chinese, “Who are you? What kind of person are you?” They usually say, “I’m a Chinese.” If I go on to ask, “What China?”, and keep on like that, they have nothing to say.

I’ve found that in our culture, a person is spoken of in terms of his identity and role according to an existing division of labor in society, whether in the home, among ethnicities or in society under imperial authority or under party rule. Our Chinese culture has never explained how this division of labor came about, and has never defined what people were prior to this division of labor. After pondering this question for many years, I finally understood that there is no natural person in Chinese culture. I don’t say “China,” which didn’t actually exist until after the 1911 Xinhai Revolution and is only 100 years old; prior to this there was no China, but only dynastic family rule. All of the classics and works of the sages state that a person’s identity and role are defined from day of his birth, and there’s no definition of a natural person. If the definition of a social identity is a division of labor within an organization, how can there be equality between these roles? China is a society and culture that speaks of privilege and has never achieved equality between persons. Once the roles of father and children, husbands and wives, sovereigns and subjects were assigned, how could there be talk of equality? Equality means equality at the outset, what is called natural or inalienable rights, and Chinese society is the most unequal of social cultures, with no definition of a natural person or of human rights. Why is it that the human rights Rousseau spoke of are natural rights, and the equality that Montesquieu speaks of...
is not only equality before the law, but being created equal? Their cardinal point is the natural person. This involves the question of law. The West has had a tradition of natural law since Ancient Rome, but China has only had the law of the land; without the concept of a natural person, how can we have natural law? Without a natural person, how can we have the rights of a natural person, and how can there be equality? Our culture has been congenitally deprived of human rights and equality.

Life has been hard for the Chinese people, and they haven’t yet passed through the stage of saving the nation from extinction in terms of the developmental history of human civilization. The political system remains entrenched in autocracy and has obliterated the rights of the natural person to maintain its culture of roles. Western culture has always had both religious and secular authorities. Chinese culture has no checks and balances in the form of religion, and the sovereign has absolute power. Mao Zedong acted in accordance with the imperial value system and readily described himself as a combination of Marx and Qin Shihuang. His demand for selflessness and doing everything for others is what the emperor demanded of his subjects, combined with the Marxist ideology of eliminating selfish desires. And he felt not the slightest compunction regarding his own wrongdoing, just as China’s emperors felt no guilt toward what they regarded as their subjects; this was the value system that guided Mao.

I’m not endorsing what Mao did; from a moral standpoint, he deserves criticism, otherwise it’s impossible to establish social normalcy. But why is it that we overthrew monarchs without striding into democracy? The internal factor, apart from 2,000 years of autocratic monarchy, was Chinese culture as a culture of the family and of subjects. The external factor was that the dominant Western civilization brought both educational enlightenment and colonial culture, resulting in Chinese developing an intensely conflicted psychology of aversion toward Western colonial culture. This led them to seek power from history and to need a powerful person to replace the emperor and give coercive force to saving the nation from extinction. Under these conditions, it was inevitable that an uncrowned emperor would emerge in China. It wasn’t Mao alone; almost all of the people who have played a major role in modern China have differed only in degree.
What these people had in common was that they all headed toward autocracy in a process that never insisted on democratic republican values. In fact, they would never have attained power without an emperor’s mentality. If Mao had taken leadership of the Chinese Communist Party with the new values of a democratic republican, he never would have defeated Chiang Kai-shek. Furthermore, he would have been incapable of commanding the Party and military ranks, because all of those people consciously or unconsciously had the value system of subjects from the imperial era, including Zhou Enlai, who until he died continued to exhibit the classical behavior of an imperial prime minister. We talk of this as a major transformation in Chinese history, but I feel we were destined to choose party rule and an uncrowned emperor. The Cultural Revolution can be explained as an alienation of idealism, or as Mao controlled by notions of empire behind the logic of idealism. There was nothing truly Leftist about the Cultural Revolution; the further along it went, the more clearly its imperial quality came out in terms of “Obey me and prosper, resist me and perish.” Idealism was just packaging; Mao was very clear about his own mentality from the late 1950s onward. His tragedy was that Chinese history wouldn’t allow a restoration of autocratic monarchy. If he’d really been talking about communism, at the very least he wouldn’t have built luxurious residences for himself all over China when there was so much poverty everywhere.

In modern China, the creator of bad precedent for party rule was Sun Yat-sen. Early on, Sun Yat-sen was a steadfast advocate of democracy, but later on he proposed “military government, political tutelage and constitutional government,” as well as “one party, one doctrine and one leader,” including pledging loyalty to the leader, transforming democracy’s modern political parties into traditional secret society-type political parties. Chiang Kai-shek’s Kuomintang also wanted the country to be ruled by a single party. While Chiang Kai-shek was still in mainland China, the KMT was an autocratic party that took the road of neo-authoritarianism or neo-autocracy. In its early stage, the Communist Party sought truth from the West and called for democracy and republicanism, but what it eventually engaged in was rule of the entire country by one party, with the desire for rule by one family. Because our culture lacks the concept of the natural person, I understand why Sun Yat-sen, Chiang Kai-shek and Mao Zedong imposed
single-party rule and why China continues to be ruled by a single party. I acknowledge that it’s unrealistic to expect the historical transition from an old order to a new order to occur in one step. It is because traditional culture has no consciousness of rights and equality based on the natural person that China has to go through the stage of single party rule.

I recommend that we willingly acknowledge a “party rule era,” which has its benefits in terms of a political program and beliefs that can constrain human failings. Party politics is a way of controlling the regime and organizing the government. Since a political party is a designation for a social organization, when we acknowledge and represent the diversity of society’s class interests, and at the same time acknowledge that everyone has equal human rights, this is democratic pluralistic politics. A party is a civic organization, an organization of citizens; it doesn’t rule by overriding society or the state, and it isn’t a form of sovereign rule. Party administration doesn’t mean party ownership – these are two different things. Party ownership is wrong and cannot be allowed.

Party rule is different from family rule. Family rule is reasonable; its logic is tenable and is established on the foundation of human nature rather than distorting it. If we start with Ancient Egypt, humanity’s political system has a history of 8,000 years, and during the majority of this time, family rule has been the mainstream. The system of family rule has its historical merits, for example in clearly demarcating ownership rights and responsibilities. Just as the elderly master of a household will think of his future generations of descendants, a monarch thinks of his subsequent generations and treasures his territory. He needs to set an ancestral code or rules to ensure that his family’s territory will continue for generations, and that their power, environment and resources will be sustainable. Family rule suited human civilization for a long time; it just no longer suits the new human civilization. Family rule was perpetuated through blood ties, and benefits and ownership under family rule were also inherited through blood ties within the family. A political party, conversely, is comprised of people with no legal blood relations to determine succession. Since the rights and responsibilities of family rule are clear, I prefer that option if we can’t have rule by the people. That’s because under party rule, vested interests will do all in their power to defend group interests or personal interests, and will become increasingly
unreasonable and short-sighted, and will increasingly suppress proactive, rational reformist thinking that has a sense of historical mission. That’s what has given rise to the current era dominated by interest-based thinking and in which no one can be found to take responsibility. Everyone is part of the situation, especially in the vested interest and power stratum; every person is very clear when discussing problems as an individual, but as soon as that person takes an official position, all that changes, and dual personality takes over in spite of himself. Under 2,000 years of family rule under emperors, China’s civil officials were selected through the imperial civil-service exam system. Now the process involves a party membership card with the monarch missing on top.

Since family rule is natural, rulers will desire it just as people will always want a bigger house, no matter how large their home is to start with. It’s natural to want to increase one’s power and even to aspire to the power of an emperor. That’s why humanity needs democratic constitutional government. Family rule has been abandoned all over the world because the history of humanity’s social development is the history of people becoming conscious of their natural rights, establishing them and expanding them to become the primary rights. Constitutional government is necessary because the desire for family rule is natural, but it’s impossible for everyone to have this kind of power, and the best way to avoid the damage it can cause is for everyone to agree to give up their right to family rule and have everyone agree to rule by the people. Democratic constitutional government requires everyone to abide by the charter and conduct themselves according to the laws.

Party rule conforms to the interests of some people during a phase in time, because its lacks succession and cannot continue. Those in power can’t pass this power down to subsequent generations, and power is mobile. Under these circumstances, the country at any given moment it belongs to a certain group of people, but in principle, it has to be considered to belong to the people. Its management is suboptimal because responsibility, power and benefit are unclear. Those in power say they’re public servants, but if so, why can’t they accept supervision, and why doesn’t their master, the people, have the power to dismiss and replace them? Some people say that family rule and party rule are the same, but I disagree. Family rule involves a normal and
sustainable process of handover of power, and that’s why it was a relatively stable form of social organization for an extensive portion of human history. But party rule is a transitional phase in the evolution of family rule into rule by the people. The KMT and CCP have both contributed to party rule as a negation of family rule and to a differentiation between the two systems. Our entire past value system acknowledged family rule, and it’s normal and reasonable for party rule to be part of the process leading to rule by the people. It’s also normal for there to be clashes between public awareness, individual will and group interests along the way. Party rule in itself isn’t effective or legitimate as a stable model for a development stage of humanity; as a transitional stage during a change in direction, it’s bound to be unstable. At this stage, every person is schizophrenic, and morality and ethics become uncertain, so distortion occurs among both citizens and officials. Any major transformation of a social organization form involves a process. Those in power say they aren’t engaged in party rule but are representing the people, but where does this representative power come from? If everyone remains rational and constructive, it should be possible to move from party rule to returning power to the people.

In terms of values and choices in traditional society, we should recognize that China established a planned economy from 1949 onward, and that people’s choices have expanded since Reform and Opening. It used to be that the value system was centered on the status of officials, but especially from the 1980s until 2003-2004, Chinese people’s values underwent major changes, and having money became the main source of status. Even so, the political system remained the core of the social system, and from 2004 the focus on official status reemerged, but with a difference: The present official status incorporates benefit and riches rather than the office per se. Being an official implies having power, and having power means acquiring more benefit, so the whole social system has become a collusion between power and benefit, forming a vested interest class and giving rise to position-based status under a party-dominated government. In effect, the political system has created distortion, suppression and the creation of bubbles in the development of our current society. The basis of this distortion is in the unreasonable benefits, the unfair distribution and allocation of resources and the unfair consumption of wealth that create a wealthy bureaucracy and impoverished citizenry. It means becoming rich through
business rather than through innovation, and an even greater tendency toward collusion with power. The essence of the problem is that our political system is still an autocracy where status is attached to official position, but this autocracy isn’t a traditional monarchal autocracy but rather an autocracy under party rule without a head. This form of government operates even more in accordance with short-term interests, which become a kind of incentive mechanism for officials.

Now the first choice of university graduates is to become a civil servant, which strictly speaking is social regression and should be considered an inauspicious omen. When asked why they want to join the government or SOEs as public servants or officials, people say it’s because of the benefits. This involves a person’s free choice in terms of occupation and values, but the basis of this freedom should be equality between persons and with the rights of a natural person protected. This was eliminated from China’s cultural genetics in the course of its thousands of years of development, with the result that Chinese society has never acknowledged a person’s rights, freedom of choice or freedom to pursue happiness, but only the duty and responsibility to find a role in life. Once China came under the CCP’s rule, this situation intensified in combination with Marxism. Marx’s vision of utopia required negating private property, and when this elimination of the economic person was combined with China’s lack of the natural person, China experienced a very bleak era for nearly 20 years starting in the 1950s. Even now, discussion of China’s social issues fails to locate their point of origin in the basic question of what a natural person is, and what rights human beings have. The rights and equality of the natural person, other people’s rights and freedoms and the democratic system built on them, are the social foundations of the natural person. The quandary of today’s Chinese is that they want to merge into international society but also resist it. I feel the root of the matter is that China lacks a culture of the natural person, and that is a very basic contributing factor to our society’s multitude of abuses and contradictions.

Without a natural person, it’s impossible to speak of equality or human rights. This is the unfortunate fact that made Chinese culture so backward, and turned Chinese into the “sick men of Asia.” I’d like to add that the era of the “sick man of Asia” is far from over, and this will become clear in ten years or so, or maybe even sooner. Either we’ll die out like American Indian
civilization, or we’ll become Westernized – there’s no other choice. There’s nothing wrong with Westernization – can an emphasis on the human rights of the natural person be wrong? Can it be wrong to emphasize that all people are created equal and create an order based on that? If we don’t acknowledge universal values, how can we explain why I can’t hit you? My health is better than yours, I’m stronger than you, so I can hit you; that’s the law of violence. Only when all people are recognized as created equal under natural human rights can we abolish the law of violence.

I don’t want our Chinese culture to die, but if China looks prosperous today, it’s only as part of the long cycle of rise and fall. We haven’t truly solved the problem of everyone having enough to eat, and hunger could become a problem again in the near future. Don’t think that once we start eating well, everything will be fine. During the Opium Wars, the Qing dynasty’s GDP was 30% of the world’s, a much higher percentage than that of the British Empire or Japan. By the time the 1894 Sino-Japanese War broke out, the Qing GDP was still 30% of the world’s, and Japan’s was just 6%, but what was the result? From China’s nineteenth century Westernization movement to the 1898 Hundred Days Reform, right up until the Manchus fell from power, China’s annual GDP growth was very high, above 15%. In the past, this was part of the rise and fall cycle under agrarian society, and now we’ve entered the rise and fall cycle of industrial society. Back in Yan’an, Mao was asked how he would avoid China’s cycle of rise and fall cycle that had lasted for thousands of years, and he said “We have a good method, and that’s democracy.” But once Mao reached Beijing, he rushed over to Zhongnanhai, the emperor’s garden. So much for democracy. This is human nature: The system didn’t restrain him, and he forgot where he came from.

The last 20 or 30 years of the twentieth century, and the first years of the twenty-first century, were a time of rare comfort and ease in the international environment. Deng Xiaoping recognized the need for China to grasp the opportunity of foreign investment and OEM production, but he missed the opportunity for social reform. (I’m deliberately avoiding the term political reform here, because political reform is basically social reform.) Now China faces a much worse environment as the whole world engages in a major adjustment of benefit. The
present cooperation between the world is unlikely to last, after which the situation will deteriorate for China and the whole world. After passing through countless disasters, the international community managed to establish norms of international relations in the twentieth century, not because people had become that much wiser, but because the twentieth century became economically prosperous, and with prosperity came tolerance. But this time must pass, and I think of it as “the last supper.”

During the last two or three decades of the twentieth century, China went from an impoverished strong-man dominated environment into a much more comfortable international environment. But a society that wants to remain peaceful and stable in the long term needs to establish, consolidate and preserve a good social system. Economic miracles don’t represent any kind of success; rapid economic growth in the last years of the Qing dynasty didn’t keep the Qing from dying out. Now is the time for the political elite to actively and rationally investigate and analyze the advantages and disadvantages of democratic politics all over the world, and take the road of an improved and optimized democracy, even if it takes a little longer and progresses step by step. If everyone at all levels can form a social consensus, this will be a blessing to the Chinese. But my worry is that when times are good, people are unwilling to change, and when there’s a crisis, they don’t dare to.

Vested Interest Groups and Obstructions to Reform

The reforms that began in China in 1979 thoroughly abandoned traditional socialism at the economic level and pushed China in front of other socialist countries. But the Soviet Union and Eastern Europe underwent a swift and peaceful transformation on the political level, while China’s political reforms became stranded 20 years ago. I believe the difference can be summed up in four factors: 1) Compared with the Soviet Union and Eastern Europe at that time, the first ten years of China’s reforms were so effective in pulling Chinese people out of poverty and material deprivation that it already seemed like paradise, and people didn’t feel the fundamental importance of political reform as intensely as in the Soviet Union and Eastern Europe. 2) In the
Soviet Union in particular, the generation that had established the Soviet regime had passed away, while in China, the government’s top officials consisted largely of people who had fought and risen to power with Mao. 3) The lack of a powerful tide for political reform in China 20 years ago is related to the lack of a social stratum it could rely on. 4) It’s related to China’s traditional culture never having a concept of human rights based on the natural person. I raise this last point because we can’t attribute all of the reasons and responsibility to the CCP, but have to recognize the more profound factor of Chinese culture. Chinese culture’s reversion to family rule was extremely rapid, and progressing toward either democracy or republic has been difficult. The reason why China was able to engage in economic reform without even basic reform to the political system is rooted in the practicality and pragmatism of Chinese culture and China’s secular historical culture, which makes it very flexible and unconcerned with ultimate truth. Deng Xiaoping’s dictum, “It doesn’t matter if it’s a black cat or a white cat, as long as it catches mice,” is something that would gain no currency in Western culture.

Reform to the social system is a matter of vital urgency, but I’m not optimistic about the ability to launch political reform. In the late 1970s and early 1980s there was a consensus on the need to push for democracy, including freedom of the press, the electoral system and the question of one-party dictatorship. Furthermore, people were less focused on individual interests at that time, and there were still strongly idealistic tendencies demanding reform for the sake of the people, the country, the public good and society. That idealism disappeared in the late 1990s and especially now. The loss of idealism as a driving force, combined with the formation of an interest structure, makes reform very difficult now.

Viewing this question from a dialectical angle, the speeches of China’s main leaders that we can access through the media indicate that their starting point and motivation is still the welfare of the people and the country. Their leadership roles mean they’ll bear the praise or blame for ages to come, and the content of their public remarks indicates that their knowledge, thinking and understanding is not at all outdated. This generation of top leaders matured during the highly liberalized thinking of the later 1970s and 1980s, and while that liberalization was relatively hazy and abstract and lacked an understanding of modern society, the value system formed in
that era is firmly established in this generation of leaders. Their subjective mentality and aspiration is for the welfare of the country and the people and toward reform. I believe that the top leaders are troubled at how difficult it is to establish a system of checks and balances. The push towards democracy needs the power stratum, but once this stratum has vested interests, this push becomes impossible; they rationally recognize the need to push, but emotionally and in terms of personal interest, they don’t want to push. I’m not passing a value judgment on this; we can’t expect our power-holders to be gods.

Although the top leaders say they want to create checks and balances, most of the people in the immense apparatus feel no such pressure or motivation, much less responsibility toward society, and they’re not going to push forward checks and balances that would harm their vested interests. The impetus decreases the further down the bureaucratic ladder it goes. If you’re in the Party General Secretary’s spot, you think about what an outbreak of riots would be like; if you’re at the level of provincial Party secretary, you want to make sure nothing happens in your province; but if you’re in a functional department, will you think about these things? The upper levels of the bureaucracy are very anxious about economic rescue measures and really want the economy to improve. But I suspect that as the rescue funding has flowed through the immense bureaucratic apparatus, it has been siphoned off into individual fields, and even the country’s top leaders can only sit there and grumble to themselves.

I believe there’s a sense of urgency at both ends, i.e., among the top authorities and among the ordinary people, but the immense middle layer, including the bureaucracy and the moneyed class that controls the largest amount of society’s resources, feels no sense of urgency. The current situation is like constipation, obstructing large amounts of resources in the middle. The immense inertia in the current system means that even with the best of intentions, any measure will bring half the results for twice the effort or even have negative side-effects. Improving this situation will require understanding and cooperation inside and outside of the government, but I feel it will be very hard to get a top-down push toward improvement.
I believe that the top leaders feel incapable of doing what they want to do for two main reasons. The first is the information field in which they exist, which erects a protective screen. Most of us can listen to whatever we want to or even to things we don’t want to hear, and decide what is nonsense and what is valuable advice. But when someone is in a top position, the secretaries, guards, doctors and all the other people around him are always trying to feel out what he wants to hear, because their political lives, economic interests and honor or disgrace are predicated on his approval. This inevitably gives rise to a tendency to say what those in power want to hear. When all those around a leader talk like that, he loses his ability to discriminate.

The top leaders manage an immense machinery, in which each level of officials caters to those above rather than serving the people below. More precisely, some Party secretaries, mayors, provincial heads, etc., in various localities may feel pressure from the masses, but the many functional departments have an immense and unrestrained power over society, and they only answer to those above and not to those below or to the people. The less officials in this stratum are restrained by civil society, the more they benefit personally. The large share of information that the top leaders receive comes from these functional departments, so the policy decisions and actions of the top leadership ranks are effectively controlled by the surrounding information field. Even the wisest, cleverest and most rational person has no way of stepping outside of the information field in which he’s positioned. Some people in the Internet information field can give a thousand reasons and arguments why China can’t have democracy or free media, and say it will be harmful to the country and the Party and stability preservation, but they say this because that’s where the interests of that middle stratum lie. I think the media need to regard themselves as the capable assistants of the top leaders so that what’s restrained isn’t the behavior of the top level, but rather of the bureaucratic apparatus. Once that starts, we can begin slowly moving forward.

The second factor is that many of the people at the side of those in power want to use that power for personal gain or to solve problems for themselves or their families. It isn’t until a leader retires that he begins to slowly realize that he’s been used by those he thought he was using. That’s why I say that restraint on power is in the best interests of the country and the people, but
also to a certain extent in the interests of those in power. I have friends who have risen to power only to ultimately become prisoners. Unrestrained power draws countless people around the holder of power to conspire with and finally destroy him. I’ve seen many officials who were originally good people and really wanted to do good things, but once they joined officialdom, it was hard for them to escape that fate. When friends become officials, I tell them to be careful, because the people around them will start saying only what they want to hear and pander to them and satisfy their personal predilections or tempt them into bad habits in order to make use of them. I’m not trying to defend officials, but I feel that people in this position are quite pitiful. A person’s ability to distinguish right from wrong depends on his grasp of information, and as an increasingly thick protective screen is built around an official in terms of the information provided by those around him, he loses the ability to access the information he needs to fulfil his responsibility. By the time he becomes aware of this, he’s lost the opportunity.

History has now given the PRC an opportunity to enact reform to meet the challenges of the economic crisis. The US wants to stimulate domestic demand but doesn’t have the space unless it can develop new industries. China happens to have enormous space for internal demand, but it’s been suppressed by unequal opportunities and unjust distribution of wealth. Civilian demand can be become the latecomer’s advantage as long as no problems arise with mortgages and loans. Banks are now in a strange situation in which businesses that aren’t property companies resort to real estate loans to develop their business. The banks are always suspicious of whether there’s a market in other industries, but never seem to worry about problems in the real estate market, even though property prices have become disconnected from income, and the people who need housing don’t have purchasing power. At the same time, the stock market has formed a bubble and has driven speculation. Very few people still think about long-term investment in the stock market; it’s become a big casino. I feel the reason why industrial civilization is in a stage of decline is that the political and economic elite have become gamblers at a roulette table, and gambling is the route to disaster.

Every policy has costs; it’s just a matter of whether they’re outweighed by the benefits. In the case of addressing the economic crisis by propping up the property and stock markets, which the
government came up with under the influence of vested interests, the drawbacks of this policy outweigh the benefits. I’m not saying that we shouldn’t relax credit or engage in financial stimulus, but we need to understand the system any credit or investment policy will be carried out in. Before the crisis, unequal opportunities gave rise to inequality between the circumstances of private companies and those under government control. Then there’s the continued distortion in the distribution of wealth, with the government taking up much too large a share of GDP; at more than 30% (and that’s only what’s publicly acknowledged, without adding in exorbitant taxes and fees in various localities) it’s the highest in the world, and in a population of 1.4 billion this proportion is nothing short of outrageous. Under these conditions a flood of credit will only consolidate vested interests and harm social progress.

I feel the current situation of a wealthy country and impoverished populace will become even more serious in the coming years. This system continued to flourish for 30 years because income from the outside world increasing every year, but now that equilibrium has reached a crisis point. If the European, American and Japanese markets can be restored to the situation before the crisis and China can resume its role as factory of the world, then the current cardiac injections may be effective in spite of their hidden dangers.

But if the big cake outside isn’t restored to its original size, the way of cutting the cake will have to change. In terms of the opportunity cake, a lot of service industries and other sectors need to be opened up to the private sector. We can’t hope for the opportunity cake to be cut up equally within the next few years, but at least it should be fairer than it is now. That implies yielding some space to the private sector, but the ruling class will come out and say that enlarging the vested interests is in the best interests of the country. There’s always a multitude of ties between national interests and the interests of those in power, but living a life of privilege requires giving the little guy some breathing room. What I’m talking about now is political craft, not justice or strategy. Can the other cake, the wealth cake, be sliced in a way that doesn’t involve the percentage taken up by taxes and financial revenues being the same as for wage income? Can we reduce the government’s more than 30% to around 20%, and increase the wage percentile to more than 40%, which is the average international standard? It doesn’t have to be done in one
step, but it requires the government to reduce its expenditure. In short, if we don’t establish rules and a system for distributing these two cakes, I believe China will lose the hard-won prosperity resulting from 30 years of reform and opening.

What I’m talking about is the interests of the bureaucratic class and SOEs, or more precisely, the bureaucratic capital interest class. Relying on this system to break itself down goes against common sense; we can’t hope that the immense bureaucratic class will dismantle its own power or tear down its own temple.

Some criticize the unrestrained expansion of the power and interests of the government bureaucratic system, for example, its ability to arbitrarily change agricultural land into development zones. But don’t forget, back in the 1980s we welcomed and encouraged development zones, me included, and everyone in the country was buoyed up by them. In a democratic system, productivity and policy would have to be combined. For example, some landowners would be willing to negotiate reasonable prices, while others wouldn’t sell at any price because generations of their families had lived there. I’ve seen this in Hong Kong, Taiwan and in the West. But in China, even someone as low on the ladder as a village head or village Party secretary will take a map over to a developer and say, “Do you want this? Then we’ll sell it to you.” With the snap of a finger, a development zone is produced, and that’s why capitalists from all over the world swarmed to China. But there are two sides to everything, and I’ve seen a government meant to serve the people joining with a collective to form a vested interest. This can’t be evaluated in terms of simple ethics.

Social development and economic values can no longer be as abstemious and selfless as 30 years ago, nor can we expect some people to be abstemious while others are self-indulgent, or have a system in which people are allowed to get rich, but officials are expected to offer their services and ask nothing for themselves. Power and benefit have become bound together in an immense and unrestrained vested interest class that has thrown the economic structure, social distribution, and the distribution and consumption structures out of balance. Everything is predicated on
money, so if this society’s overseers and rulers don’t share that tendency, how can they push society forward?

In the 1980s I threw myself into researching reform. At that time, many old cadres felt it wasn’t even right to wear a Western-style suit and tie; for all their faults, many had a genuine spirit of offering their service to their country, but for all their virtues, they hindered reform in their leadership capacities. Removing obstruction to development requires first of all changing the views of officials and others in power, especially veteran cadres. Expecting others to be creative and to make money and pursue happiness while expecting an ascetic lifestyle for oneself is utopian and impractical. Officials have pushed forward reforms over these 30 years, so they’re bound to pursue happiness. In the 1980s, Beijing’s government organs and enterprises and offices were always furnished with crude and simple desks and wooden chairs, with very few even having a sofa, right up until the mid-1990s. Then all that foreign investment came in, and you could tell at a glance which buildings were built with foreign money: beautiful guesthouses and office buildings with lovely furnishing and air conditioning. But in the latter half of the 1990s, the formerly shabby SOEs all became the most sumptuously appointed, whether in the cities or the villages. In every locality, you could identify the particular organ according to the luxuriousness of its office building and the size of the plaza in front of it by this ranking: public security, procuratorial and judicial organs; industry, commerce and taxation organs; government monopolies; and only after that private sector companies, and last of all foreign companies. Startling photos have been posted on the Internet comparing China’s government office buildings with those of the US government. It’s not entirely surprising and is part of a historical process, but the problem now is that the government apparatus and immense vested interests are strangling the vitality of the market economy.

It’s impossible to return wealth to the people without returning power to the people, but the resistance is strong, and the past 30 years of rapid economic growth have papered over the inequality of opportunities and the unfairness of distribution. With rapid growth, political reforms don’t have to impinge upon monopoly interests, and incremental reform that doesn’t greatly affect vested interests always faces the least resistance. But the present reforms need to
carve out a slice of vested interests. This crisis will be long-term, and pushing forward reform during crisis means there has to be change. A redistribution of national wealth will require some people to lose both power and benefits, and while it once would have been possible to use buyouts in exchange for yielding power, there’s no latitude for that now. But how can government bureaucrats, who directly make up 47% of China’s consumption, be expected to hand over their wealth without a fight?

That’s why reforms can’t proceed without the power to dismiss officials from office. During the early stage of reform, the government was quite poor, but there was a sense of honor in being an official. Now being an official means extravagant consumption, and government power and the monopolistic interests of SOEs have become one and the same. In the 60-year history of the PRC, we can see that ordinary people were given space when survival was on the line, but once life started improving, the government began competing with the people for benefit. When the interest structure unites power and monopoly, where will there be impetus for reform?

Although the ruling party is aware that change is essential, universal values and common sense are seldom brought to bear. Thousands of years of human civilization have produced two kinds of power: rule by family versus elected power, or monarchy versus democracy. Since the number of people who can become a king or emperor is so limited, democracy has become common sense. Likewise, it is common sense that unrestrained power will destroy itself, and that even the greatest person or greatest political organization is like the most brilliant doctor: It can’t cure its own illnesses. In China, this common sense was obstructed 20 years ago by fundamentalist ideology, and now it’s obscured by money.

The immense vested interest class has become a special interest class tied to fixed positions subject to transfer. These positions are not subject to restraints outside of the system, and most have direct or indirect ties to economic interests or authority. There’s a very low probability that even a good person placed in this position will continue to be good. Because the position is fluid, each person in the vested interests class develops a short-term mentality that becomes an immense obstruction to social reform.
There was a watershed around the year 2000. Before 2000, someone employed as a civil servant or at an SOE would be motivated to leave the system, but after 2000, the transfer of power became a transfer of vested interests, and that’s one reason why reform has become so difficult. Another reason is that the families of the new elite participate directly in society and the economy, and these family interests, along with the enormous special interest class tied to official positions, form two groups who are unwilling to even consider reform.

I like to say that China is now a democratic republican society, but at a very preliminary stage. It’s democratic first of all because it has had no sovereign since Mao died in 1979, and no one expresses an aspiration to be king or to revert to hereditary rule, and secondly because no one questions the idea that the people or citizens are the masters of their country. If the regime is unable to conform to the logic of democracy and keeps talking about maintaining stability, this is a portent of instability and violence. If those in power refuse to abandon their personal interests and courageously take the initiative to reform, all the bloodshed in China over the past century will have been in vain. The biggest problem now is the refusal to talk sense and act in accordance with conscience. It’s obvious that saying the people are masters of their own affairs is the same as democracy, and refusing to let people talk about this produces a schizophrenic belief that two different things are true when in fact both are false. Under an autocratic system, the constipation in the mid-section can only be purged by a very strong political strongman.

What was glorious in the historical past is the dregs in present space and time. Discarding the old and establishing the new is the unchangeable pattern of history. Only people or cultures on the verge of death are afraid of negation; those that are vital and strong-willed should dare to rebuild and be reborn on the foundation of negation. More precisely, it’s a form of genetic modification (GMO). Taiwan is proof that Chinese people can succeed at genetic modification and can engage in democracy. Some people criticize the fist-fights in Taiwan’s Legislative Yuan, but I say, “Long live petty wrangling!” What is democracy? It’s petty wrangling. Petty wrangling is the only way to bring about fairness and justice and to achieve a balance of interests; it’s the only way to bring about harmony between people, as well as harmony between man and nature. What people should be criticizing is why there’s no petty wrangling in mainland China! Petty
wrangling is how social polarization can be gradually reduced and divergent views can be expressed and diverging interests negotiated and protected. Petty wrangling is the only way we can transition from industrial civilization into ecological civilization and allow the human species to survive longer. So I say, long live petty wrangling! Taiwan’s democracy gives me confidence, because we can see that even without the genetic culture of the natural person and human rights, it’s possible for Chinese to modify our genes.

Facing an accumulation of problems and an uncertain future, more than a billion Chinese fled overseas. Now money, gained legitimately or otherwise, is flowing out of the country, along with people who want access to knowledge. The vast majority of the Chinese elite, including the governing elite, are voting with their feet, and their children, the extension of their lives, are also choosing to study and continue their lives in the West. Before the situation gets even worse, it’s estimated that there will be nearly 100 million Chinese living outside of China’s borders. We sometimes see overseas Chinese responding to the commands of China’s leaders by waving flags and shouting slogans, but ultimately they’ve already voted with their feet, and if they really want to castigate the West, why do they stay there?

I’ve come across some people, including some entrepreneurs, who’ve come running back to the mainland saying that now this system is good. I don’t argue with them, I just say, “Please take out your passport and tear it up. If you can tear it up, I’ll immediately agree with you.” We’ve voted with our feet, so don’t say one thing and do another. I’m confident that the 100 million Chinese overseas will someday share Taiwan’s success and prove that Chinese can undergo genetic modification. Over the past century, hope has always come from the outside – the Westernization Movement, the 1911 Xinhai Revolution, the hope of the CCP coming from the October Revolution in Russia – it’s all Westernization. Which company isn’t Westernized? The people who still oppose Westernization today had Westernized ancestors. All of this goes to prove that our culture needs genetic modification. This makes me both pessimistic and optimistic, and I just pity myself for living in this historical period.
Freedom of the Press: The Break-through Point for Reform

Regarding the importance of using reform to emerge from the economic crisis, I feel the best way is through reforms that achieve their objectives with minimal resistance. Strictly speaking, what I advocate is a kind of improvement; revolution strips away interests, while improvement targets vested interests and leads to increasing equality, justice and wellbeing for everyone. But we have to be prepared for how tough even improvement will be, whether it involves power monopolies, social justice, ownership issues, private enterprises versus SOEs or macroeconomic regulation. Over the last 100 years, we’ve interrupted a lot of gradual advancement and have created chaos in culture, theory and morality, so the historical juncture of transformation we face today is a more complex situation than we’ve ever encountered before.

I suggest both “minimizing resistance” and “leapfrogging,” since methods accommodating both will kill two birds with one stone in resolving pressing issues of reform. Minimizing resistance to reform means affecting vested interests as little as possible. The reforms that began in 1978 accomplished so much because they made full use of the pragmatic quality of Chinese culture and took a path of least resistance. Moving from a village contract system that linked remuneration to output to privately-owned small businesses and then to attracting foreign investment, and proceeding from processing factories for exports to joint ventures, all of this was incremental, and I feel we should carry on this way. The current social inequality and unfair distribution is the result of excessive political power leading to corruption and economic monopoly. Corruption requires democratic reform, but people are much more sensitive to economics than to politics. Furthermore, turning investment into social insurance, or investment in people, accomplishes two things at the same time and is also incremental. This is a continuation of incremental reform and a path of least resistance that is likely to produce the greatest results.

On the economic front, we have the conditions for incremental reform. Taking the natural resources sector as an example, coal, metals and petroleum are already monopolies, but new renewable resources engage citizens on an equal basis, and national wealth should be concentrated in investing in these sectors rather than in sustaining monopolies. Communications
are also highly monopolized, but new communications technologies shouldn’t be left to vested interests. For example, the Internet is new and it’s already too late for anyone to gain a monopoly over it. We urgently need to rapidly develop green and sustainable industries, and since these industries don’t present instant gains for vested interests, we can take this opportunity to establish in law a fair and unmonopolized environment for them that provides a safeguard mechanism for incremental reform in the economic sphere.

Furthermore, while Western developed countries like the US have advantages that allow them to race toward a higher stage of social development while dealing with the crisis of industrial civilization’s transition from boom to bust, that doesn’t mean that developing countries have to be resigned to lagging behind. After discovering and acknowledging differences and patterns, we can find ways to engage in leapfrog development. Some of the characteristics of the existing system that have been criticized may provide compelling conditions for leapfrog-style change and development. For example, the government’s mobilizing power in a whole-nation system like China’s is stronger than in societies like the US with democratic general elections and privately-owned market economies. Any transformation process requires an emphasis on common interests over individual interests, and a powerful public authority can make personal interests subordinate to the interests of the whole. That’s one aspect of China’s latecomer’s advantage.

The reversal of the reforms that occurred around the year 2000 changed the relationship between the rulers and the ruled by creating a situation in which entering the system implied obtaining profit. This system’s fatal problem is that it’s hard to see who is responsible for the long-term peace and order of the ruling clique. That’s why some leaders want change but are afraid of the social turmoil that would result, and they don’t know how to get started. Taking the road of democratic republican constitutional government is the only way forward, but under the current setup, it’s really hard to know where to start. Many suggest that China’s political reform should begin with democratic elections. I feel this will be difficult because it involves some officials and perhaps even the entire party losing power. So I feel the first breakthrough point is freedom of the press. The premise of abandoning revolution is that bureaucratic capital, government and
executive powers need to compromise. If we want to take the path of improvement, freedom of the press is essential because it allows all kinds of information to flow unobstructed. It’s also the most effective tool for reconciling intense social conflict, and the prerequisite for allowing all social classes, including the top leadership, to know the real situation. Without freedom of the press, I find it hard to believe that China can engage in a smooth process of improvement.

Since the dawn of modern society, freedom of the press has been regarded as the must justified of all civil rights by all progressive individuals, persons of conscience and progressive parties, including Marxist parties, and I don’t understand how the current restrictions on free press evolved. A free press shouldn’t be regarded as intending to subvert the government, but as a tool for communication between officials and ordinary citizens. In matters where there’s more will than power, a free press can help the top leadership. The neo-authoritarian elite is moving step-by-step toward democracy, whether on its own initiative or under duress, and there’s an increasing trend toward democracy within the Party in the promotion of cadres. With the world undergoing globalization, localism is under assault and has difficulty becoming established or entrenched, and the news media, especially Internet media, are playing an important role. It’s important for China’s rulers to grasp the opportune moment to open up China’s freedom of the press, not only to safeguard and foster civil rights and interests and social transformation, but even more so that the neo-authoritarian elite won’t lose their ears, eyes and sense of smell and pay an even greater price. Under a centralized government, freedom of the press is practically the only means available to the executive authorities to govern in a way that benefits the country, the people and the officials themselves.

Opening up freedom of the press would genuinely implement the Constitution. On the other hand, the government can establish a relatively strict system of press censorship. The media are not necessarily responsible because they’re free, and sometimes they engage in sensationalism and engage in fabrication in pursuit of profit. I agree with establishing freedom of the press with a system of press censorship that can examine and penalize after the fact. Penalizing fabricated news and sensationalism will make the news media self-disciplined.
In *The Discourses of the States*, the Duke of Zhou says: “Blocking up the mouths of the people is worse than blocking the flow of a river. When a river’s blockage is breached, it harms many people, and for that reason, those who administer the rivers will remove blockages and let the water run unimpeded. Likewise, those who govern the people must let them speak.” In the Western Zhou era, King Li of Zhou was brutal and tyrannical, and in order to control public opinion, he called in a wizard to use magic to find out what people were saying in private and then kill those who opposed him, creating an atmosphere of terror. King Li gleefully told his senior official, the Duke of Zhou, “I can stop people from talking about me; they don’t dare to speak.” That’s when the Duke of Zhou made this famous quote. He also said, “Their words indicate what is good and bad in government affairs. When the people can say what is in their hearts, they’ll act after thinking things over. If you stop up their mouths, how long can this continue? You need to change the way you do things.”

People will always want to criticize, whether the Propaganda Department allows them to say it or not, and stopping up people’s mouths is like trying to block a river. If we want improvements without social extremism, we need freedom of the press. It looks like the government’s desire to preserve stability is diametrically opposed to the people’s defense of their rights, but if the authorities can follow the Duke of Zhou’s logic, they’ll put all their effort into protecting rights by spending the stimulus funds on the people and launching political reform. Then they won’t have to live in fear, and social injustice will decrease dramatically. As long as people are full of resentment and consider the Constitution worth less than the paper it’s written on, Chinese society is sure to experience upheaval.

When Taiwan’s Chiang Ching-kuo reached his 70s, he daringly took a new path, and in March 1986 he ordered the establishment of a “political reform group” to look into the question of political reform. In September that year, he announced his intention to lift the martial law that had been in place for 38 years, and to remove the bans on alternative political parties and on publications. As soon as he said this, the Democratic Progressive Party was established on September 28. The intelligence departments immediately reported a name list of “reactionaries,” but Chiang rejected it and said, “Using power is easy; what’s difficult is knowing when not to
use it.” In a sense, by lifting the ban on opposition parties Chiang Ching-kuo’s saved the declining Kuomintang from demise. By abandoning the authoritarian rule of one-party dictatorship and turned relying on popular sentiment, he allowed his party to survive in a healthier way. This is something Chinese people need to think about.

The path to reform begins with freedom of the press, while at the same time enacting a set of news legislation to ensure that this freedom is also controlled. The Hong Kong and Taiwan media could use a little more control; they’re somewhat over-the-top, and vulgarize and debase society, sometimes playing edge-ball with the law. They’re rationale is that they do it for profit, and that upholding justice has never been the main function of the media. That’s why I emphasize that the media should be first of all free, and second of all managed. Society needs a mechanism for mutual restraint, because society is a relationship of mutual dependence for survival.

Control requires checks and balances on power. All these years, the CCP has pursued a policy of “checks and balances on itself.” That’s like carrying out a physical examination on yourself – common sense dictates that this is impossible, but the elite get away with it because power and interests are bound together. Back in the day, Mao emphasized criticism and self-criticism, with criticism coming before self-criticism. Now all that’s allowed is self-criticism, and the government doesn’t allow others to criticize it. The government has turned all of society’s voices into the mouthpiece of the Party, and the Propaganda Department is always itching to stipulate what is too sensitive, what can’t be said and what requires stabilizing. If only self-criticism is allowed, how can there be checks and balances?

Society’s main political organizing power right now is the CCP, so reform should start with the Party. The CCP should nominate its candidates for the People’s Congress or legislature, or perhaps every CCP member can say he or she is a candidate, and if we want to insist that the CCP is currently indispensable to China, we can stipulate the proportion of CCP members versus non-CCP members in the legislature. At least that would reflect some sort of democracy within the Party by empowering every Party member to take part in elections. The whole purpose of this party is to take on political responsibility for our country, nation and people, so it should start by
implementing democracy within the Party. Adjusting the proportion of Party members versus non-Party members in the legislature is just a phase, and further adjustment can reflect the connection between democracy inside and outside of the Party. The long-term possession of absolute power makes a Party lose its combat readiness and governing ability, and democracy will help the ruling party preserve its vitality.

The most basic problem is that we’ve been moving toward political reform for decades, with attempts at various fine-tunings and micro-reforms, but sometimes they haven’t gone through. Stability preservation ultimately causes greater instability and results in an extremely unfair society, so China’s basic problem is still the need to change its family rule-type system into rule by the people.

Power can make people foolish and self-destructive. China’s stability protection expenditure is higher than its defense budget. On March 5, 2012, the NPC issued the new annual financial report, which showed that what was referred to as stability preservation expenditure in the public security budget reached 700 billion RMB, an increase of 12.3% over 2011, and even higher than the defense budget of 670.2 billion RMB, which had increased 11.5%. A society needs to abolish violence among its people before it can move towards equality, but the process of land expropriation involves violence by gangsters and also by the military and police in the name of stability preservation. If China actually has a market economy with equal and voluntary trading, why is force necessary? Implementing market economy society means allowing the market to choose, and bringing violence to bear is the height of unfairness.

Conflicts have become so hard to handle nowadays because the biggest violator of the law, I venture to say, is the government itself. These conflicts can be managed if the government speaks and faces the truth instead of using grandiose lies to conceal the essence of things. The key is allowing fair dispute over interests. By relying on blockades, secrecy, lies or violence, the government digs its own grave. Democratic societies are imposing increasing constraints on the use of violence in disputes over interests and human rights. Abandoning violence in internal public affairs is the first step toward a perfect society. If we say that every individual’s rights are
sacrosanct and inviolable, the right to greed is also a human right. Establishing this right can only be done under peaceful reform and not by exchanging one tyranny for another or fighting violence with violence.

Some Taiwanese political and business figures complain about their political system and express envy of mainland China, saying the government there can get roads and high-speed railways built without delay, while in Taiwan everything takes forever, and roads have to curve all over the place, unlike the straight, level roads in mainland China. I ask them why it’s so difficult for city planners to build straight, wide roadways, and they say it’s an ownership issue; the government can’t just use private land when it wants to. In a democratic society, the government doesn’t have as much power, and once the media disclose an issue and someone opposes it, a long period of negotiation and coordination is required. When I heard this, I felt it was Taiwan’s good fortune. What they envy as the mainland’s efficiency is short-sighted and self-destructive. I tell them, what we need now is this kind of petty wrangling – not the kind that involves officials taking taxpayer money and not doing anything with it, but rather the people wrangling among themselves. Taiwanese always say their society is inefficient, but I find that their society is very humane.

I also feel their officials are rather pitiful. When I’ve gone to visit local officials in Taiwan, I’ve found that a mayor’s office is more austere than my own CEO office. Is it possible that both the KMT and DPP have such a high level of party consciousness? I later learned that it’s because officials are restrained. I was there looking into investment, and I learned that in land transactions, you have the right to sell private land but not the power to decide what’s done with it afterwards. This requires petty wrangling so no one does anything extreme. That’s why I say, “Long live petty wrangling!”

One of the reasons for saying that mainland China can’t be democratic is that democracy involves a lot of petty wrangling. These kinds of arguments could lead to a more thorough understanding of our values and help us start reversing environmental destruction. All of us are
selfish, but when I can’t force you and you can’t force me, a little wrangling is necessary. Ultimately, we need to start by defending our own rights.

The truth is that human beings and nature are also engaged in a kind of wrangling. Once the balance was tilted against human beings, but now that we’ve cast off the restraints of the laws of nature, we now the disadvantages. In the same way, argumentative democratic systems not only restrain those in power, but also at a deeper level restrain selfish and greedy mankind from destroying the environment we rely on for our survival. This is the deeper significance of a political system. Lacking a respect for gods and demons or Nature, and also lacking a disputatious democracy, our selfishness and greed has metastasized with disastrous results. For example, in an argumentative democratic system, the Three Gorges Dam would never have come to completion. People praised the China Model and the Beijing Consensus for their efficiency, regarding them as official achievements that benefited humanity and the Chinese people. But in fact they’ve created a lot of self-destructive behavior as well as being detrimental to posterity. Disputes and arguments are the only way to save ourselves; there’s nothing wrong with arguments, fist fights in the Legislative Yuan or winding roads that cause traffic jams. All of these are checks and balances on human greed, and use the power of dispute and argument to protect the natural environment.

In a system that maximizes individual human rights and equal human rights, the democratic apparatus becomes an arrangement under which no one can force anyone else or dump pollutants in whatever stream or lake they want to, and officials can’t indulge in all sorts of mischief while ordinary citizens are punished for the slightest misstep. Disputatious systems that advocate for the national interests don’t enjoy unbridled development, but what they get in return is an environment they rely on for their survival. Argumentative democracy may look on the surface like I’m forcing you and you’re forcing me, but in fact we’re curbing each other, and more generally curbing humanity’s devastation and plundering of the natural environment it relies on. When disaster is unavoidable, rather than counting on the system to produce, we should rely on ourselves. That means we keep arguing within and outside of the system, and we keep putting pressure on the system to speed up reform.
Establishing Constitutional Democracy

The success of the 1949 Revolution was founded on two ideologies: The first was Marxism and the dictatorship of the proletariat, and the second was universal values. All of the leaders at that time, including Mao, and all of the manifestos, essays and speeches of the CCP prior to 1949 spoke of universal values, but anyone who dares to talk about them now is criticized for opposing the Party.

The ideology of universal values helped the CCP mobilize society to overthrow the “autocratic and traitorous” Chiang Kai-shek regime in the struggle for democracy, freedom and human rights and to oppose single-party dictatorship. The CCP’s guiding principles impressed on people’s minds that since we’re all equal, we should manage our shared affairs through a republican government.

The ideology of Marxism called for overturning the old order in the name of the people. Marxism uncritically accepted the division of society into two different classes, but in fact, people’s positions in society are much more complex. People have class membership, but also different characteristics in terms of economics and income, and this decides their values to some extent. People can’t be clearly divided up into classes, just as we can’t claim that all officials are bad just because there’s rampant official corruption. The individual has to be distinguished from the organizational system, and furthermore, official corruption is closely connected with the degeneration of civil society: The system determines what people will be like, and the people determine what kind of system will be sustained. People are both rational and irrational, and while humans are the most intelligent of all creatures, greed makes them the stupidest of all creatures. If all choices were made rationally, we wouldn’t be in the situation we are in today. People in the government and in the ruling party criticize universal values from their vantage point as holders of authority, but as natural persons, if you asked them, “Are you human? As a human being, do you want human rights? Do you want equality and not to be considered lower than others?”, their answer would certainly be, “I’m a human being, I want human rights, I want
to be equal to others.” To a certain extent, this makes me optimistic; the new elite objects to separation of powers because they’re conscious of their personal interests. Even under the best conditions of the late 1970s, no one could talk about human rights, and it was all about being unselfish for the common good, but today people have begun to feel justified in fighting for their own economic and political rights; this gives me hope.

Western civilization is founded on the freedom and power of the individual, but Chinese culture emphasizes the collective and the state, so the vast majority of people consider individual interests subordinate to national interests. This has been the mainstream over the past 100 years, because our culture is one of “family rule,” and China’s reforms have been coerced and passive, engendering a reactive force that produces a powerful state. Most people have responded to gunboat culture with a parochial nationalism that has made them unable to recognize the function of Western constitutional government. Why has China been unable to establish the authority of the Constitution over the past 100 years? Of course there are cultural factors; traditional Chinese culture lacks a concept of individual rights and equality. The Manchus only decided to establish a constitution because felt they were about to die. Around 1979, there was a lot of talk about the Constitution, because the lawlessness of the Cultural Revolution and the period before it made people realize that the Constitution could protect them, but this impulse passed very quickly. Chinese regard the Constitution and constitutional government with a kind of pragmatism or short-term utilitarianism that is vastly different from the status and role that a constitution plays in a modern social system.

This historical background explains why when Deng Xiaoping proposed political reform and spoke of democracy, elections and rights in the late 1970s, there were no deep-seated, essential or fundamental reforms. There was a brief rethinking of totalitarianism in 1979 and 1980 because a large number of veteran cadres who had been unseated and then liberated were filled with a sense of justice and responsibility. But the overall situation changed quickly, and just as pain is forgotten by the time a wound is healed, people forgot the abuses of the political system. This has profound historical and cultural factors, and was not Deng Xiaoping’s individual problem. The specific reasons included the profound influence the USSR and the Leninist party and social
system had on that generation of leaders, as well as their being steeped in the culture of traditional Chinese autocracy, while lacking a cultural foundation based on individual human rights and democratic constitutionalism. The values and sensibilities of even the most open-minded and popular leaders of that generation, Party General Secretary Hu Yaobang and Premier and Party General Secretary Zhao Ziyang, were much more heavily influenced by these autocratic traditions than by the culture of individual democracy and constitutional government. This generation was unlikely to actively and self-consciously move toward constitutional democracy unless circumstances forced them to do so.

At the same time, in the 1980s to 1990s, the process of globalization facilitated rapid economic development under a post-totalitarian society, which made people question the need to take the risk of political reform. If China had been a free and democratic country at that time, would it have been able to gain such a large share of the burgeoning international market? Added to the bonus of its wellspring of skilled and disciplined young workers produced during the decades of sacrifice following the PRC’s founding, the political culture ensured that China’s development under globalization would take a “post-totalitarian” path. The greatest accomplishment was China’s economic takeoff, but the aftereffects were also very obvious – excessive income disparity and a shocking loss of basic morality, whether in the political or daily living sphere.

China now has neither monarchy nor democracy. There’s no equality between people, the economy and social structure are out of balance, corruption is flourishing, and people live in a spiritual vacuum. Over the past 30 years, China has progressed from poverty and ignorance to a land of skyscrapers and highways; from a past in which people routinely lacked adequate food and shelter to a present in which people have become extravagant and wasteful. Our generation has benefited from the contradictions and distortions we’ve created, but posterity will suffer if we continue our insatiable exploitation of nature and society. Rather than fighting for the welfare of future generations, we’ve been fighting to satisfy our material needs and our vanity.

Human life consists of spiritual and material aspects. In material terms, as recently as a few decades ago we still had abundant resources, but now we have scarce resources and pollution
thanks to the excessive consumption of the past 30 years. Usable land and resources were already had pressed to support more than a billion people, but our reliance on external demand and increasing exports led us to use these limited resources and land to support the whole world. Now the factors of our short-term prosperity, the population bonus, resource bonus, environmental bonus and globalization bonus, have all come to an end, and we’re left with a vast and badly polluted land stripped of resources and in moral decline. We base our existence on the material, and rely on the spiritual in getting along with our neighbors, but both of these things have been destroyed.

Sincerity is in a deplorable state in China today. It’s not just a matter of telling lies or selling counterfeit foodstuffs; human society relies on relationships of trust between people, and the loss of sincerity puts society in crisis. Part of the problem is Chinese culture, which since ancient times has had a dual character that Lu Xun described as both sanctimonious and shameless. The other reason is that for years our ruling party has required people to say what they know is untrue. There’s been some progress in freedom of speech recently, but only because the government hasn’t been able to shut people up. When speaking the truth requires great courage and extracts an enormous price, common knowledge becomes full of falsehood, and dishonest practices become the fashion. Exaggeration is a normal human tendency, and once it’s detected, an apology usually suffices. But in Chinese society today, admitting to boasting is costly, while adamantly refusing to acknowledge it costs little or nothing.

It’s not just a matter of culture; more precisely, it’s related to our current system and the attitude of the ruling party, which silences people at the slightest provocation. Preventing people from speaking the truth, encouraging and rewarding people to lie, and relying on lies to rule the country inevitably results in a society bereft of sincerity. Official corruption and the degeneration of civil society form a vicious circle. When society lacks sincerity and honesty, every individual becomes a victim, and those in power become the biggest victims, because they don’t know who’s telling them the truth and who is lying. When they have no faith in the information they use to run the country, and in the feedback they’re given on their actions, those in power have no sense of security.
We shouldn’t take our cues from the government; civil society has to maintain its own bottom line. In fact, some organizations in the US that safeguard social integrity are non-governmental organizations. We shouldn’t wait for the government to determine what’s right and wrong, because the government is already entangled in interests and has no credibility. Civil society should take on the responsibility of exposing falsehood and promoting truth, goodness and beauty.

China faces the same problems as the rest of the world, but more intensely because it’s a transformed traditional society and an autocracy without a ruler. China has been moving toward becoming a republic for a century but still hasn’t gotten there even as it has matured as an industrial civilization. This has caused the imbalances in China’s social structure and has put stress on the relationship between man and nature.

That’s why the only way to survive the economic crisis and to prevent China’s decline is through political reform and returning power and wealth to the people. Now that family rule has been renounced, constitutional democracy is the only choice, because it provides an undistorted social organization. Neither family rule nor rule by the people is distortive, but party rule is transitional, a distortion of the past and of the future. Democracy is a value and also a system, and this system is constitutional government. Democracy and constitutional government put people in a relationship of equality with an emphasis on human rights, and provide a mechanism and rules for balancing economic interests through market economics and voluntary exchange. East and West may take different roads, but the fundamentals are the same: human rights, republicanism, constitutional government and democracy.

On March 14, 2012, State Council Premier Wen Jiabao attended his last press conference in office, and he started off by expressing his regret at leaving so much of his work unfinished, and acknowledged that the reason he hadn’t been able to do it, apart from individual ability, was because of systemic issues. He said that the residual toxins of the Cultural Revolution had not yet been flushed away, and called for pressing ahead with “reforms in the party and state leadership system”: “Reform has reached a critical stage, and if political reform doesn’t succeed, economic
reform cannot be carried to completion, and we may lose the gains we’ve made. It will be impossible to get to the root of the problems that have cropped up in society, and a historical tragedy like the Cultural Revolution could occur once again. Every Party member and leading cadre with a sense of responsibility should regard this with a sense of urgency.”

The CCP’s top leaders haven’t referred to a recurrence of the Cultural Revolution since Deng Xiaoping’s Southern Tour 20 years ago. Wen Jiabao’s remarks gave the sense that everything is at stake, and that conflicts at the deepest levels of society are rising to the surface. Zhou Tianyong, author of Where Is China Heading?, likewise displays a profound understanding of China’s unbalanced economic and political development, pointing to income disparity, structural imbalance and moral collapse. Now we’re faced with the choice of choosing our way forward. The wrong path will lead to social and political turmoil, economic slowdown and lack of national competitiveness.

China’s current system isn’t the invention of the CCP, but is the somewhat modified successor to a traditional system thousands of years old, which has always involved a cycle of order and upheaval. Throughout China’s 2,000-year history, as soon as there’s been peace and prosperity, something changes and the good times come to an end. Little by little, the government takes more until the people can’t sustain their livelihood, while the rulers promise that if they remain in power, they’ll correct their errors and return power and benefit to the people and allow them to recuperate and rebuild... The centralized administrative bureaucratic system has never been able to escape this cycle. The basic reason is that the vast majority of people will always put their own interests first, and the official class gradually forms laws and rules that increasingly serve their personal interests, even if they’re not fully conscious of the fact. When things start becoming unmanageable, they adopt the policy of yielding power and benefit, but that also serves their own interests along with the people’s interests. If there’s no pressure in this regard, they’ll keep the


part that serves their interests while not benefiting the people. Mao Zedong frankly described himself as a mixture of Marx and Qin Shihuang, and he was right, even if he didn’t realize that it did him no credit.

The current system has consisted of 30 years of prohibitions followed by 30 years of free will, and today China is at a historical turning point. The greatest progress has been the smashing of a religious and fundamentalist ideology, which makes the conditions for rebuilding China’s basic values system much more mature than 100 years ago, or even 30 years ago. The next necessary breakthrough is to discard the values of the 2,000-year-old Confucian status system and to establish the concept of all people being created equal. This foundation of equal human rights will allow us to have a constitutional government.

Whether it’s called democratic socialism or social democracy or libertarian conservatism, all share several prerequisites: First, that the country belongs to the people, its citizens; second, that all people are created equal and have inalienable human rights; third, that since the country belongs to the people, and all are equal, the administration of the country is entrusted to the government, which gains its authority from election by the people. Since everyone enjoys the same political and economic rights, society has multiple types of power divided among the people, and the different powers restrain each other.

Democracy as it is actually practiced in various countries shows that citizen’s sovereign rights and the balance of powers are major prerequisites for a society to be productive and to provide equality and welfare for its people. “Everything that we do is to allow the people to live better and with greater dignity.” Premier Wen Jiabao created a great stir when he said this at a Spring Festival Ceremony for the CCP Central Committee and State Council on February 12, 2010. Just a month later, on March 15, the day after the NPC and CPPCC closed their sessions, Beijing property auctions created three new “property giants,” all created by state-owned key enterprises. This obvious violation of the theme of the two congresses to stabilize housing prices challenged Wen Jiabao’s promise to “make the greatest possible effort to implement fairness and justice.” On March 18, 2010, the State Council’s State-owned Assets Supervision and Administration
Commission held a press conference to announce that apart from 16 state-owned key enterprises primarily engaged in property development, another 78 such enterprises not primarily engaged in real estate would withdraw from the real estate sector. According to statistics, this decree affected assets totaling 99.1 billion RMB and 227 enterprises, and once again made the issue of the property rights of state-owned key enterprises a hot topic. Quite a few scholars had already pointed out that the assets of state-owned key enterprises should belong to the people and that all of the people should enjoy the benefits of these assets, yet these key enterprises have consistently used monopolistic business practices to amass wealth and invest in the property market, enlarging the property market bubble and emptying the pockets of ordinary people. All this occurred in a “socialist” country under a government that claimed to be “people-centered.”

People’s suspicions that China is becoming increasingly unfair is evidenced by increasing income disparity and unbridled plundering of land. Before Reform and Opening, the private economy was not allowed to exist in China, and it was common for people who had previously engaged in private business to be denounced during the Cultural Revolution. When Deng Xiaoping proposed socialism with Chinese characteristics, market economics entered people’s lives. Even so, it was hard to halt the pace of “allowing some people to get rich first,” and it soon became a vain hope that people would get rich together. Statistics show that 0.4% of China’s households possess 70% of its wealth. The concentration of wealth in China is increasing at double the worldwide average.

Land Reform was one of the magic weapons the CCP used to gain control of China, and now its dependence on a model of obtaining wealth through land has become the greatest crisis the CCP faces. This problem cannot be solved without political reform, specifically democratic reform. Without democratic reform, the rights of the CCP itself, as well as the propertied class, cannot be safeguarded. In the past few decades, China’s investment-based growth model relying on land levies and development benefited from increasing marginal utility for natural resources, land and the steeply rising export market. But in 2007-2008, marginal utility began decreasing as

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24 TN: In economics, the marginal utility of a good or service is the gain from an increase, or loss from a decrease, in the consumption of that good or service.
economic development entered a bubble phase. Under these circumstances, the system’s reliance on issuing currency and selective credit, i.e., credit being withheld from farmers but given to SOEs, the elite, property developers, etc., became a process of transferring social wealth and overdrawing on the future and gradually reduced the wealth effect. Now China’s economy has reached a turning point, and an impasse is fast approaching.

In the past 30 years, all levels of society benefited to a greater or lesser degree from rapid economic growth. If incomes hadn’t increased substantially during that time, people would have actually lost income due to rampant inflation and increasing property prices. Statistics show that in some places property prices are increasing at double-digit rates, and the increase in currency issued each year exceeds GDP growth. For workers, farmers and other ordinary people, this means their income is declining, and especially as prices of material goods have increased sharply in recent years, social polarization has also accelerated. This has to be considered a reason for the upsurge in mass incidents in mainland China in recent years.

I believe that land and taxes will become the symbolic sources of conflict in China in the future. When society loses its creativity and only knows how to redistribute existing assets, it’s inevitable that the elite will plunder the poor. If we insist on maintaining single-party dictatorship instead of implementing democracy, the ultimate result will be either an exhaustion of wealth or intense and violent conflicts over land and taxation. In the past China didn’t have an independent judiciary, but it still had upright magistrates, and now we don’t even have those; the Party commands the judiciary through its political and legal committees. Those in power can prevent China’s media from speaking out and can make the content of all of China’s newspapers and television programs identical, but it has no way of making social wealth increase. I feel that if civil society’s power grows, those in power won’t have enough money to maintain stability. I’ve told some rights defenders, “Don’t keep throwing eggs against rocks – they’re sure to break, and things won’t continue this way for long.” Wealth can’t eternally rely on police standing sentry, and mints can’t keep printing money. We don’t need to oppose the government now, because it can’t last, and history will call it to account.
Social tension has already formed in China, and small local matters easily escalate into national issues. The Internet plays a role, but it’s not the sole factor and is only a basic condition. Tensions have developed because people’s emotions are inclined that way. But I also want to emphasize that political reform needs to rely on the individual’s subjective awakening rather than placing our hopes in what a leader is doing. There are no longer either inveterate reformers or inveterate defenders of the old order. I’m optimistic because the foundations of liberalism fostered over the last 30 years mean that appeals for people to fight for democracy will meet with a completely different response and scale of response than before. Sun Yat-sen called for democracy and freedom, but there was no response, and ultimately China took the road of reestablishing a new autocracy. The CCP likewise called for democracy and freedom, but people didn’t respond appropriately, so naturally it went toward autocracy. Today there’s political autocracy, but in the economy there’s been established individual wealth, individual economic interests, individual rights... Emotionally, I feel this is the worst of all systems; a combination of autocracy and naked individual interests is sure to result in horrendous corruption. But if judged in terms of historical phases, it looks more like the basis for social progress. While traditional values continue to obstruct China’s transition toward modernity, consciousness of individual rights is at a historic high, and there’s likewise an unprecedented decline in dependence on and superstitious faith in authority, as well as an unprecedented defeat of morality and ethics, including some common sense. Two of these are positive factors and one is negative, but in fact all establish the foundation for transformation.

**Beyond Sovereignty and the State Governance System**

During the 1997 Asian Financial Crisis, China’s economy not only avoided disaster, but even made an important contribution to the Asian and global economies emerging from the crisis. The 1997 crisis was a financial crisis, which is smaller in scope than an economic crisis. At that time, the effective strategy was proactive fiscal policies and massive investment in infrastructure. Eleven years later, another global crisis erupted; will China’s economy once more emerge unscathed? Can proactive fiscal policies and enlarged investment play the same role this time? I
feel that the economic environment now is very different from that in 1997. In 1997 there were signs of deflation in mainland China. The investment in capital construction brought beneficial results from export growth. With improved infrastructural hardware, combined with the transfer of industry from developed countries, and the Internet bubble in places like the US turning into a real estate bubble that inflated market demand, China’s plentiful cheap labor could play a significant role in its sustained and rapid economic growth. In the proactive fiscal policies adopted at that time, investment created the conditions to satisfy external demand.

In the ten years from 1997 to 2007, proactive fiscal policies, the transfer of manufacturing from developed countries to China, and flourishing market demand from developed countries combined to form a virtuous circle. But in 2007 and early 2008, this model began to go into decline, and shrinkage in the markets of developed countries like the US has led to insufficient external demand for China. With external demand in decline, what use is there for continued investment in capital construction? If investment in capital construction isn’t part of a virtuous circle, it becomes wasteful and produces negative consequences, including the very real possibility of stagflation – a combination of recession and inflation. The current economic crisis, that of industrial civilization going from boom to bust, is causing the whole world to change, and for that reason, cooperation between the economic and cultural entities of Hong Kong, Taiwan, Macau and mainland China is especially important in meeting existing challenges.

These four territories are a cultural community, all using Chinese script and acknowledging a common ancestral culture. Hong Kong, Macau, Taiwan and mainland China have already become a mutually dependent economic entity, just with different jurisdictional conditions and political systems. They’re part of a “Greater China Economic Circle” developed and enlarged through the Asia Model in the form of China’s Reform and Opening. The current economic crisis has deeply affected all four territories, and any measures to address it need to consider the four economies as a single entity.

What measures can facilitate this integration? I suggest that on the issue of employment and division of labor and trade policies and finance policies, the Greater China Economic Circle
would benefit from reference to the European Union. This would greatly strengthen the capacity to resist economic crisis, and it would trigger a push to revive Chinese culture. We could start off by dealing with the economic crisis by establishing a permanent liaison mechanism and permanent coordinating mechanism for economic affairs, and from there proceed to the development of standards in the economic sphere. Learning from the European Union would help everyone better survive the economic crisis. Hong Kong and Taiwan have both looked to mainland China for economic benefit, but what we need now is four-sided rather than bilateral interaction, and multi-directional rather than one-way. As the crisis threatens further assaults, these four territories need to sing in harmony in terms of economy, even while they sing their own tune in terms of politics. It’s like people drawing together to keep each other warm in the depths of winter.

That’s why I strongly advocate the establishment of a Greater China Economic Circle economic alliance organization with representatives from the government, financial and business sectors of all four places. At present there’s an economics and trade forum for the CCP and KMT, and mainland China and Hong Kong constantly have regular and irregular conferences like the Closer Economic Partner Arrangement (CEPA), but I’d like to see new concepts and perspectives to find new models. A Chinese Economic Cooperation Organization similar to the existing Shanghai Cooperation Organization could serve as a standing organ where Chinese communities could help each other out, and where Taiwan’s democracy, Hong Kong’s freedom and rule of law and Macau’s openness could add impetus to mainland China’s political reforms. Following the European Union model might transform the Greater China Economic Circle into a Greater China Community, and a democratized China in a fully democratized Asia Region could ultimately result in an Asian Union. The rise of Asia coupled with the revival of Asian culture could join with Western civilization to serve as the driving force for a new world civilization.

Discussing a single country’s affairs is no longer enough to solve its problems, much less to deal with global challenges. It’s unrealistic to expect developing countries to bypass the road developed countries have taken and discover a completely new wheel. The whole world has become integrated, but the current excessive emphasis on essential differences between
backward and developed countries makes it impossible to shake off the constraints of the Western-dominated international macro-environment. Whatever road the stronger countries have taken, with all its positive and negative experiences and lessons, will be followed by those that are weaker or lagging behind. Unless the whole world joins hands to solve the problems everyone’s facing, a single country fighting on its own is unlikely to have a chance.

In human history the most radical values have always conformed to humanism, and these values are the easiest to promote and establish, because they benefit the individual. That’s why since the Renaissance, and especially following the Industrial Revolution, the West’s secular values have basically taken over the world. Today’s various value systems, including socialism and capitalism, don’t actually differ that much in terms of their fundamental values. But if we’re going to change the world’s current suicidal march toward destruction, we need to change those values and adopt a new outlook on the global level. For example, the principle of equality shouldn’t apply to a specific country or be limited to a country’s political or economic spheres, but should be applied to all of humanity. The inalienable human rights and equality of all people under industrial civilization and its accompanying political and social civilization are all well and good, but have manifested themselves in a malign and unstoppable expansionism. What’s needed now is solving problems through a gradual unification that applies rules and laws universally, as in the European Union, the first example of unification that hasn’t involved a war.

Rather than insist on sacrosanct and inviolable sovereign rights, we should emphasize the human rights of every individual on earth and the combined human rights of everyone together. Human rights are genuine sovereign rights. Most of the modern concepts of the state are extensions or continuations of traditional monarchies and the products of a transitional era. Every state, especially the political and economic elite of that state, has its own interests as the point of departure and tends toward reinforcing and sanctifying this concept of the state. For example, climate politics has become an extremely important issue affecting whether human beings can continue to survive and develop. The only way to accomplish this is through a transformation of civilization, including doing away with the myth of supreme state sovereignty and replacing it with the right of all humanity to exist and develop. Under this paramount right, state sovereignty
becomes relative, and prohibiting interference in internal affairs is largely untenable. The fact is that signing any international convention or treaty is an interference in internal affairs; the precedence of human rights over sovereignty is becoming a global consensus.

Global integration is increasingly becoming the shared mission of all the world’s people. Solving problems like protecting environmental resources requires all the people of the world entrusting an organization with resolving the problems and demands that everyone is facing, and which can’t be resolved by just a portion of the people or any one country. I predict that unification of the world in a global republic will bring a new form of human civilization, which is ecological civilization. I don’t think unification is a sensationalist concept; 8,000 years of civilization have gradually expanded our human community. The European Union is a pioneering undertaking in history, peacefully creating a unified body that transcends national borders. The eradication of nationalism must be followed by the remolding of a global democracy, which is a difficult process. The present social and civilization systems have accelerated and magnified humanity’s destruction and pillage of nature, and we’re now in a race against time. There’s a real danger that by the time people recognize the need to renounce nationalism, the environment will have already reached its end.

**The Road to Democracy: Reform or Revolution**

Former US President George H. W. Bush once said that humanity’s greatest discovery wasn’t scientific or the publication of any monumental work, but rather the caging of the ruling class. This cage is the democratic system. But the quote falls short. Compared with monarchies and other “family rule” totalitarian systems, the ruling class or leaders are in fact shut in a cage by modern democratic systems. But because it’s such a major change from human thousands of years of human history, it can’t possibly attain ideal conditions of stability and perfection in just a few hundred years. Since the emergence of democratic society, there have been constant attempts to restore the old order of autocracy, totalitarianism and monopoly, consciously or unconsciously, whether by the elite or by ordinary citizens. So today’s democratic systems are
still in a preliminary stage and have a long way to go, and their development is conditional. A crucial basic condition is the equal and symmetrical dissemination and exchange of information. It is only in the twenty-first century that the comprehensive spread of Internet information technology has established a basis for a democratic system that genuinely acknowledges that “all people are created equal.”

In the latter half of the twentieth century, the caged ruling class, or capitalist elite, came out with another great discovery: abolishing the gold standard and preventing the existing democratic system from effectively controlling the “right to print money.” This “great discovery” allowed the ruling capitalist elite to cast off their fetters in the currency and financial space and gain an essentially monopolistic autocratic power that benefited their own interests and was even more effective at attaining their objectives. This seriously skewed the balance of people starting out from a position of equality and having equal opportunities, but the technological advancement and economic globalization of the last 30 years of the twentieth century enlarged the “economic pie” rapidly enough to covered up or numb the pain of the restoration of monopolized power, inequality and the widening gap between rich and poor. Since the 2008 worldwide financial crisis, the entire world’s power elite have engaged in a frenzied printing of money as the miracle cure for rescuing and developing the economy. This counterintuitive phenomenon is as preposterous as the Emperor’s new clothes, but there’s a logic to this absurdity.

In the mainstream civilizations and societies that currently pursue universal values, i.e., the industrialized democratic and capitalistic world represented by the US, the EU and Japan, this rational logic was the unsustainable industrial civilization and primary stage democratic capitalistic social system, both of which reached the historical stage of dwindling “marginal utility” by the end of the twentieth century. Most components of economic growth and prosperity at the end of the twentieth century and in the early twenty-first century consisted of the excessive issue of currency and a bubble inflated by multi-layered financial derivatives products. The capitalist elite engaged in a covert process of killing the poor to aid the rich and harming the multitude to benefit themselves. For more than 20 years, wealth rapidly shifted from the 99% to
the 1%. The gap between rich and poor reached unprecedented levels, and absolute poverty burgeoned.

As the ranks of those living in misery increased while the extravagance of the more fortunate became increasing flagrant, the world descended into moral degradation. As the last days predicted by the Mayan calendar approached, people increasingly took on the mentality of the last days, and the vested interests and power elite engaged in behavior that violated all common sense and that hurt the majority to benefit themselves. There’s no point in making a moral judgment about this; most decent, ordinary people put in that position would have done the same. But when ignoring common sense became the consensus of the global elite, the world entered a space-time passage of enormous historical change.

As for Communist China, the second decade of the twenty-first century will be one of enormous historical change. Although the CCP will continue to “put stability preservation above all at any cost,” the price for it will continue to rise, while the funds available to pay for it will continue to shrink. Meanwhile, popular discontent will seethe under increasing corruption and income disparity gap. The former chairman of the NPC standing committee, Wu Bangguo, spoke of “five don’ts,” prohibiting a multiparty system, pluralistic guiding ideology, balance of powers and bicameral system, federal system and privatization, and well as “two don’t gos” – on the “old road” or the “wrong road.” But the “five don’ts” have become the “five must dos,” and the “two don’t gos” have become the “roads that must be taken,” because democracy is the right road, and republicanism (as when the Chinese overthrew Manchu rule) is the old road! This is the only way for the Chinese race to enjoy the enormous dividend of a democratic system.

Hundreds of millions of lives were sacrificed in the 1911 Xinhai Revolution more than 100 years ago, only to have the republic become a party state and democracy become party rule. The party state has no actual ruler, and its top leadership consists of officials who could flee overseas at the drop of a hat, making them even worse than a monarch, emperor, cabinet or even ordinary bureaucrats. What makes the most sense is fully utilizing the latecomer’s advantage in both political democracy and the transformation and construction of an innovative economic
Democratic system, as well as turning the misfortune of industrial civilization’s exhaustion of natural resources and environmental destruction into the benefits of transformation into ecological civilization.

**Democratic Reform is a Win-Win Option**

In December 2012, Chinese President Xi Jinping and his wife, Peng Liyuan, and their daughter, Xi Mingze, toured Guangdong’s coastal area, including Shenzhen, Zhuhai, Shende, Huizhou and Guangzhou, largely replicating the itinerary of Deng Xiaoping’s Southern Tour 30 years earlier. Since the Deng era, the term “Southern Tour” has become closely associated with reform and opening, and Xi Jinping’s five-day trip was commonly interpreted as launching a new round of reform as a tribute to Deng and to Xi’s father, Xi Zhongxun. This was in strong contrast to former President Hu Jintao’s unwise return to the “red base area” of Zunyi ten years earlier.

As political symbols, Zunyi and Shenzhen are diametrically opposite but equally distinctive. By choosing Shenzhen as the first stop on his inspection tour, Xi Jinping was signaling an explicit choice to the Chinese public and to the world, but his Southern Tour shouldn’t be seen merely as a symbolic response to Hu Jintao’s trip to Zunyi or as a simple imitation of Deng Xiaoping’s Southern Tour. It was revolving history’s wheel to make its direction clear and prevent the country from falling into turmoil and destabilizing the rest of the world at the same time.

After being “confirmed as the highest authority” at the 18th Party Congress, Xi himself understood clearly that he faced enormous historical challenges left to him by Jiang Zemin and in particular Hu Jintao. If Mao’s ten-year Cultural Revolution was a major catastrophe, posterity will eventually understand that Hu Jintao’s ten-year “scientific development” was likewise calamitous. While the Cultural Revolution used absurd methods to summon all that is evil in human beings, Hu Jintao’s policies opened the Pandora’s Box of human greed and official corruption. The combined result has been massive social disorder, the trampling of basic ethical standards and humanistic dignity, and the entire government, from the grassroots to the highest levels, being packed with upstarts selling their consciences for the sake of power and/or riches. All frames of reference for public discourse and individual behavior have descended into chaos.
Facing this situation, if Xi Jinping is unable to bring order out of chaos and restore popular sentiment, he will be taking the path to doom. In this respect, the political situation Xi faced after the 18th Party Congress was similar to that of Hua Guofeng after the death of Mao. Of course, today’s China can’t be mentioned in the same breath as the China immediately after Mao’s death. In the China of the Mao era, apart from Mao himself and the tiny number of people on whom he bestowed his favor, who lived the extravagant lifestyles of an imperial court, the rest of China’s people lived in abject poverty. The rapid transformation from an imperialistic society that treated asceticism as an honor into the current unequal and brazenly wasteful one is nothing short of a miracle. The explosive peril embodied in this grim truth is also very evident.

Making China emerge from this dangerous situation and shift onto a trajectory of steady transformation is the tough challenge history has handed to Xi Jinping and all others concerned about the fate of our country. Hu Jintao ruled China with empty talk and lies for ten years, and the most serious consequence has been the complete destruction of mutual trust and discernment of right and wrong in society. Lacking these qualities, a country cannot possibly carry out reforms, either in the form of improvements or revolution, and all that is possible is long-term social collapse.

In a China in which officials and ordinary citizens have become seriously antagonistic, the starting point for reestablishing mutual trust in society requires those in power to take the initiative to engage in rational communication with the rest of society. Since the first day he ascended to power, Xi Jinping has repeatedly done his best to communicate good faith, in stark contrast to Hu Jintao’s style. This point alone gives people hope. Recently, he stated that “empty talk jeopardizes national interests, and real action rejuvenates the country,” which was reminiscent of the aphoristic truths left behind by Deng Xiaoping but also triggered apprehensions of official suppression of expressive space. When everyone was poor, home truths like “poverty is not socialism” actually had miraculous effect in terms of “a timely warning averting national crisis.” But with today’s immense income disparity and unfair distribution imperiling social order, continuing to put our faith in the golden rule of “no argument” could make China slip into the deviant “mutual prosperity” model Bo Xilai carried out in Chongqing.
Actual practice in Chongqing proved the fraudulence of what looked like the people being their own masters under “mutual prosperity” with “no argument.” That’s why China needs to reestablish mutual trust in society and relaunch reform, but good faith is lacking. This not only applies to Xi Jinping and other CCP leaders, but even more to the various factions that want a part in social reform and rebuilding.

Civil society should take the opportunity of Xi Jinping’s Southern Tour to orient themselves toward playing the main role in enthusiastically backing and pushing reform. Intellectuals have the responsibility to encourage the free airing of views, rational dialogue, literary resistance and striving for consensus. And opening up freedom of expression and organization are the prerequisites for the CCP and its new leader, Xi Jinping, to discuss reform guided by the Constitution. It’s undeniable that “empty talk jeopardizes national interests,” but if we don’t have explicit and firm objectives for reform, “real action rejuvenates the country” will become just another hollow phrase. Wang Qishan repeatedly observed in 2012 and 2013 that de Tocqueville’s *The Old Regime and the Revolution* has become popular throughout officialdom, but rather than research the French Revolution of 250 years ago, it would be better to fix our sights on the present. Without Aung San Suu Kyi’s decades-long struggle, Myanmar wouldn’t refer to Thein Sein as the father of reform. Without the protracted effort of the Democratic Progressive Party, Chiang Ching-kuo wouldn’t have gone down in the history of democracy in China. Limited conflict facilitates a more lasting peace. Today’s China needs even more intense social pressure in order to promote the healthy progress of power inside and outside of government under multi-party democratic constitutional reform.

**Democratic Revolution is the Last Choice**

If those in power abandon reform initiatives while intensifying social conflicts increase the impetus for reform in civil society, we need to face the question of whether a new political revolution could occur in China. This isn’t a question to be taken lightly, and it’s a hot topic not

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only inside China but also overseas. The reason is in fact very simple: The rapid development of the crisis in the China Model has exceeded everyone’s expectations.

Borrowing a key concept from the book Why Nations Fail: The Origins of Power, Prosperity, and Poverty,26 the China Model is driven by an exploitative development model. As the authors of that book tell us, the economic development model driven by a minority elite exploiting the majority has been the mainstream in history, and only a minority of countries have been fortunate enough to break through the vicious circle of exploitative political and economic systems and take the road of lasting prosperity. This book tells us that exploitative systems inevitably result in the impoverishment of the majority of people and the stagnation of the country’s development. So how can we explain the economic miracle accompanying the China Model? The authors don’t in fact provide a good explanation.

The book’s authors point out some important factors known to everyone, like the dividends of centralized government, of catching up, of opening up and of population, but they ignore how the China Model differs from most exploitative growth models. The China Model is a very unique system of exploitative development involving party rule, which differentiates it from democratic models as well as from traditional monarchic and modern dictatorial models. The crucial point of the “party rule” model is that it in fact is an exploitative model with no ruler and therefore has doomed China to a self-destructive form of exploitative growth. When we understand this point, we also understand why China’s rapid growth has been accompanied by a regressive elimination through selection among the elite and killing the goose that lays the golden eggs in terms of resources, and why the bureaucracy continues to expand, and why it’s so hard to civilian consumption, and why China’s mountains and rivers are being exhausted and its air fouled, and why Chinese society is gradually losing the capacity for reproduction and is leaving endless disaster for its posterity.

The exploitative model of party rule without a ruler is the direct result of two key systems following the June 4th crackdown. One is the term limits placed on central government leaders,

and the other is forcing localities to turn over a portion of their revenues to the central government at a set and rapidly increasing rate. The former policy has discouraged policymakers from considering the interests of their successors or of posterity, while the latter has caused localities to compete with each other in stifling human rights, plundering resources and destroying the environment, as well as in inflating credit in the guise of issuing currency. Against this background, rapid economic growth has been accompanied by rapid corruption and degeneracy in society, which means that a political revolution is not only bound to occur, but will probably arrive much faster than anyone anticipates.

Clearly recognizing the possibility of a revolution, China’s new leaders are engaging in an unprecedented push against corruption. But they need to know that the CCP has already missed its strategic opportunity to avoid revolution through reform, so “attacking tigers along with flies” will only speed revolution. The key factor is the exploitative development under party rule that constantly drives people to commit evil, and with the number of evil-doers proliferating, the CCP’s new leaders need to abandon their illusion of saving the party rule model and heroically take on leadership of this unavoidable political revolution. This choice will not only benefit the country and the people, but also themselves and the party, because this exploitative party rule model has reached the point where even those who benefit most from it have lost all confidence in the future. Almost all of the vested interests have adopted the mentality of “making a little more profit and then running off.” That’s why vested interests under the party rule model are very different from those under exploitative models that actually have rulers, and are not as formidable as people imagine. The vulnerability of the vested interests is closely related to the effect of term limits on regressive elimination through selection among the elite. It’s easy to see that the quality of officials has steadily deteriorated over time, while they’ve also become more daring and ruthless, and less inclined to consider the consequences of their actions.

While this trend among the vested interests contributes to the unavoidability and more rapid arrival of revolution, it at the same time creates a historical opportunity for the CCP’s new leaders to transcend party interests and lead a new political revolution. The CCP’s new leaders need to face the reality that today’s party is poles about apart from the CCP right after it took
power in 1949, and is even very different from the CCP at the outset of Reform and Opening. Back then, the CCP still had a large number of people of integrity like Xi Zhongxun who had suffered long-term injustice, and who played an indispensably positive role in the smooth political and economic transformation. More than 20 years of growth under the exploitative model of party rule has turned today’s CCP into a shelter for evil people and practices, and it long ago became a host for swarms of parasites. The attempt to avoid revolution by purging the Party ranks not only comes too late, but is contrary to the major trend of political transformation.

So-called political revolution is not merely a change of hands and flags, but requires genuinely expanding political rights at every level of society, and fundamentally recreating a foundation for the state’s legitimacy. Since this process cannot be avoided, reducing its destructiveness and the risk of turmoil is in everyone’s interests. For that reason, the CCP’s new leaders would gain the broadest popular support through a top-down promotion of this political revolution. The reversion to a republic and achievement of democracy will serve the personal interests of the CCP’s new leaders and breathe new life into the Party. I feel this is the most meaningful lesson the CCP’s new leaders can glean from the fall of the former Soviet Union.

As the famous Tang poem puts it: “No matter how long and winding the road, there will always be one more village.” More than 60 years ago, the generation that fought their way to power used that quote to persuade KMT officials to abandon the party state and recreate a republic. Now it’s time for the CCP’s later generation to derive inspiration from it and turn a new page in history.
Conclusion: Entering a New Age of Hope

Charles Dickens started out his novel *A Tale of Two Cities* with this paragraph:

It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way – in short, the period was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only.

We live in the worst of times, and that makes me pessimistic. We also live in a time full of challenges and rapid change, and for that reason, it’s a time of hope that makes me optimistic.

The polarized quality of our age is inseparable from the two sides of our human nature. On the one hand, we pursue what we think of as satisfaction and happiness (riches, power and glory), while on the other hand, this satisfaction is constrained by relationships between individuals and the relationship between human beings and nature. Since human beings are both similar to and different from animals, the combination of man’s animal nature and his human imagination and creative ability can give rise to immense evil, but also enable him to cast off the fetters of natural selfishness. When human beings took the first step outside of the ecological chain, the inevitable result was today’s one-way road to self-destruction. Once human desires and satisfaction were no longer based on physiological needs alone, and took on greater social and cultural significance, the pursuit of material riches cast off the fetters of nature. When currency became a symbol of wealth, medium of exchange and means of savings, human beings broke through the time-space limits of accumulating wealth. Power and honor is an even scarcer resource unlimited by physical satisfaction. When all human beings began to pursue and maximize wealth, power and honor, human relationships became conflict-ridden. In pre-civilized societies, or what Thomas
Hobbes referred to as the “natural condition of mankind,” that kind of conflict was demarcated and regulated by the “law of the jungle,” in which the strong eat the weak and survival goes to the fittest. When people are unable to cast off their animal natures, the result is a barbaric world in which the strong rule and “Hell is other people.” Class-based society, the establishment of exploitative, violent countries and the preservation of “family rule” systemized the law of the jungle to a certain extent. Only after thousands of years of human progress and the emergence of the concepts of freedom, equality and human rights did humanity make the transition from basic survival to civilized society. Democracy became a new mechanism to regulate human relations. By departing from violence, killing, slavery, exploitation and low productivity, it liberated human beings and gave equal protection to their natural rights.

The democratic mechanism can regulate human relations in a way that protects each individual’s natural rights, but in terms of man’s relationship with nature, traditional agrarian natural circular economy and family rule based on consanguinity was more sustainable. Modern civilization, especially the progress driven by Europe, transformed agrarian natural circular economy into modern industrial economy while also establishing political freedom and democracy. But today we see the catastrophic environmental destruction caused by industrial civilization, and the democratic system has not been as effective in protecting natural resources as family rule; in fact, it may have produced the opposite result of destroying the balance between mankind and nature.

Before the Industrial Revolution and the Renaissance, religious authority was sacrosanct and above suspicion, as were many rights involving the natural world that were connected with religious authority, and many human personal rights and interests were suppressed. Once human rights were upheld, divine rights were abolished, reverence for nature disappeared, and people were able to violate nature without scruple. Plainly put, the Western Renaissance liberated human beings from inhibition and enslavement, but also liberated the so-called right of human greed. The Industrial Revolution further liberated human beings; or rather, people’s consciousness of their liberation gave rise to the Industrial Revolution, and the human rights originally suppressed under theocratic rule were upheld and expanded, including private property becoming sacrosanct and inviolable, but at the same time people were able to violate the rights of
the natural world on a massive scale. The result was that democracy was less effective in protecting humanity’s long-term interests by, for example, preserving the quality of the natural environment in which we live. The current form of election-based democracy encourages the vast majority of people to vote for current practical benefit; it’s very rare for people to vote for the interests of future generations. Five or six centuries after the Renaissance, whether we live in a capitalist or socialist society, or under parliamentary democracy or autocracy, we find ourselves in an industrial civilization characterized by the unquenchable and unsustainable utilization of unrenewable resources. In our arrogance, human beings believe they understand nature, and instead of revering it, we master, transform and plunder it. In the process, the culture of human rights and democracy has become one of consumerism as well. All over the world, growth has become a be-all-and-end-all, but as long as we have enough to eat and wear, why is growth necessary? The perceived need to create and stimulate consumption threatens human civilization with extinction. If we don’t shift our priorities from unbridled consumption and pursuit of wealth to protecting the rights of future generations to develop, pursue and enjoy happiness, our destruction of nature will eliminate the material basis of democracy, equality and freedom in human relations, and humanity will revert to a primordial era of violence and savagery.

Today’s China is a manifestation of the worst aspects of this historical stage. Compared with the beginning of the 1990s, consumer spending, wages and income all make up a lower percentage of GDP now, and the distribution of wealth between officials and ordinary citizens, and between rich and poor, is much less equitable. People with power and wealth are all trying to go overseas in China’s latest emigration wave. The Internet is coming under increasing control, and the government’s immoderate printing of currency is leading to the reemergence of hyperinflation. China has abandoned common sense, and our environment has become so compromised in terms of air, water and soil that more prolific and severe natural disasters are inevitable. In the early 1990s, China was still exporting coal, iron ore and copper, but we’ve exhausted these resources to such an extent that we’re obliged to import more than 70% of them now. Twenty years ago, China still had many clean rivers, but contamination of our water and soil has passed the point where we can restore them to their previous state. The greatest question the world faces now is
the relationship between man and nature and the transformation of civilization. Constantly delaying the solution only leads to further depletion of natural resources and makes domestic economic stimulus and social self-renewal that much harder.

In order to sustain the plundering and the regime’s GDP targets, we’ve raised housing and land prices without thinking of how our children will live. We pamper the little princesses and little emperors of our next generation, but everything we do harms them. The generation of the 1940s and 1950s may go down in infamy as one of the most selfish and shameless generations in Chinese history, but the generation born in the 1960s and 1970s is even worse. The people of the 1950s and 1960s were at least conflicted deep in their hearts, but those born in the 1970s don’t even have internal conflict. The people in this generation went through an initial stage during which beliefs and ideals disappeared, and then a second stage after the 1989 Tiananmen Massacre, in which all morals principles, beliefs and ideals were thoroughly destroyed. People who grew to adulthood during these two stages are bent on self-destruction. China’s so-called elite live with an extravagance that is unprecedented and possibly never to be seen again. There’s no motivation because there are no healthy cells, or the healthy cells are being surrounded and gobbled up by cancerous cells. I feel the situation is hopeless, even if the government resolves to carry out political reform. If we continue this way, there’s no way to escape disaster. I’m very pessimistic.

The global financial tempest originating in Western countries and the global economic crisis it triggered affected China as well and cast it into long-term turmoil and crisis. This historical incident revealed that our modern civilization comprised of industrial civilization and an imperfect democratic system (populism, excessive consumerism, avoidance of responsibility) had reached a stage of paradigm crisis. The crisis consisted not only of the rejection of democracy by many developing countries, and the perversion or defeat of weak versions of democracy (for example, through the emergence of oligarchy), but also the need for Western democracy to better incorporated economic democracy by extending electoral freedom to consumer dictatorship and better protecting the natural environment and safeguarding the survival and development rights of future generations.
As humanity entered the twenty-first century, the crisis of industrial civilization and modern democracy was demonstrated in the monopolization and abuse of three rights: the right to define, the right to fix prices and the right to mint money. The right to define things, incidents, values and standards touches on the basic meaning of life, the essence and objectives of civilization, culture and identity, the objectives and values pursued by production and living, and other such fundamental questions. The right to define is sometimes also referred to as the right to discourse; whoever has the right to discourse has the right to make the rules. After embarking on industrial civilization and the democratic system, people consciously or unconsciously established the rule of inequality. This rule of inequality was concealed by general elections, which on the surface gave each person a vote, but in reality allowed wealth to distort the exercising of political rights and thereby weakened the quality of democracy. This made distribution more unfair, which affected how prices are set. For example, setting the value of capital and labor affects profit, interest and wages. The price relationships between agricultural products and industrial products, the differentiation between urban and rural areas, the relationship between currency value, exchange rates and commodity prices in developed and developing countries, etc., are all processes of value and price-setting. When Adam Smith wrote *On the Wealth of Nations*, every participant in a traditional market economy was basically a “price recipient” rather than a “price setter,” which meant that the “invisible hand” played a role. But the emergence of big corporations, especially multinationals, monopolized production and extended globalization, and once international economic systems emerged (whether with colonial characteristics or under Anglo-American hegemony), the right to set prices could not possibly be shared equally among individuals, organizations or countries. Most crucially, the establishment of the Bretton Woods system of monetary management after World War II effectively replaced the gold standard with the US dollar standard, and the right to mint money, especially the right to issue US dollars, became very important. The right to issue currency allows a government to increase revenues without levying taxes. For example, it costs the US government five cents to print one US dollar, so the US government earns 95 cents to the dollar by minting currency. It’s the same with China’s renminbi. So excessive issue of currency and currency inflation has become a convenient means for the government to expropriate wealth; it’s just that the US government uses it to
plunder the world’s wealth, while the Chinese government uses it to plunder the wealth of its own people. After the US dollar was delinked from gold in the 1971 “Nixon Shock,” floating exchange rates replaced the original fixed exchange rates, and the US dollar became even more important in setting prices as the “legal tender” of the international currency market. During the 2008 economic crisis, US Federal Reserve Chairman Ben Bernanke used the issuance of currency (“quantitative easing”) to interfere with the market. Modern technology has given the governments of various countries the unprecedented ability to manipulate the issuance of currency to rescue bubbles with even bigger bubbles, and to rescue debt with even greater debt. The establishment of the International Monetary Fund’s “special drawing right” after WWII, the emergence of the euro after the Cold War and attempts by China to internationalize the RMB following the financial crisis all reflect the competition and conflict involved in the right to mint money.

What is a country? What is international order? How are the rights to define, to set prices and to mint money established and obtained? Does everyone actually have equal access to these rights? The fact is that all of them are overtly or covertly obtained with the support of violence, but it’s all wrapped up in such beautiful verbiage that people can’t see the simple truth. The problem of making rules and setting prices is shared by all humanity, and after the scrapping of the gold standard, who’s empowered to issue money and set prices? The first problem humanity needs to solve right now is to abandon all violence and formulate rules based on a democracy of universal suffrage. The second problem is to lock up the power to mint money, that tool of the devil and of greed, so the wealth of the people can no longer be expropriated through the issuing of currency.

Our present civilization started by liberating human beings, but now we need to ask if this was true liberation or just a road to even deeper enslavement. Our present civilization has reached the point of consumer totalitarianism, in which human nature has become enslaved to the goods man has created himself, and the strength and depth of this enslavement far exceeds that of traditional theocracies and monarchies. There’s an inevitability to human beings taking this road, given that human nature is selfish and greedy. The majority of traditional totalitarian or theocratic societies in human history were prohibitionist and demanded a reverence for heaven, earth, ancestors, the
monarch, etc., and the lifestyles of that era basically conformed to a natural circular economic model in which human beings relied on Heaven to live. This inhibited human nature, but doesn’t human nature require a certain degree of active or passive constraint? The value systems of the theocracies, empires and monarchies of the past few thousand years all limited and constrained human nature, and that’s why they were overturned by the irresistible liberation of human nature. But once human nature was liberated, people indulged in an unrestrained pursuit of their individuality and became alienated and bogged down in an insatiable consumer totalitarianism, and the result has been a negation of human feeling. People’s enslavement of each other is sometimes tangible and visible, and other times imposed through the medium of consumer merchandise, which destroys the direct connection between individuals and makes people live for the attributes of capital. Why do people, as the creators of merchandise, constantly need to create and stimulate consumption? Basically it’s because they need to earn money in order to engage in symbolic consumption, which ends up enslaving them.

Democratic values as a mainstream culture haven’t been reflected at the operational level as a process of mainstream social life because of the immaturity of democracy and its constant assault by greedy human nature. That’s why the whole world has a long road ahead to democratic republicanism. Every social system and social theory is about how to allow selfishness and greed to contribute to society, but also how to limit the harm that selfishness and greed cause to society and to other people. That’s why I feel we should consider whether it was appropriate to abandon the gold standard. We should use the political system to establish fair access to the rights to define, to set prices and to mint money, not only in China but in the whole world as well. This means once again selecting a value system for civilization on the political and economic level, and in the domestic and global spheres, for the sake of humanity’s well-being and long-term development.

Five hundred years of development have once again brought humanity to a crossroads of historical evolution. The 2008 financial tempest brought our current human civilization into
crisis mode. In the book *Does Capitalism Have a Future?*, Immanuel Wallerstein describes the 2008 financial tempest as a structural crisis that will eventually lead to the collapse of capitalism due to saturation in the international market, the increasing social and environmental costs of trade, and the decreasing ability of capitalists to realize profit over the next 30 to 40 years. In that same book, Randall Collins particularly observes the pressure technological development is putting on the middle class by making it superfluous, and how the structural dissolution of the middle class will deprive capitalism of its social and political protective mechanisms. Michael Mann focuses on how globalization is accelerating the profound crisis created by climate change, in particular through capitalism’s unrestrained pursuit of profit, nationalism’s insistence on the sovereign right of each to go their own way, and these market and state actions reinforced by consumer rights. He predicts that pollution and migration may result in a reversion to totalitarianism and nuclear war. As a group, however, these scholars express optimism that facing the crisis of group extinction will lead humanity will arrive at a collective solution: “The crucial political vectors in the coming decades will have to be curbing militarism and institutionalizing democratic human rights around the planet. An impasse in the political economy of capitalism brings us to historical junctures where what has been long regarded utopian may yet acquire technically feasible foundations in a new kind of political economy.”

When this economic crisis erupted, industrial civilization had reached the point of unsustainability, and human society had arrived at a juncture where it needed to change the conditions and methods of its survival and development. Civilization now needs to take the direction of transformation into what can be called ecological civilization. The industrial civilization of the past focused its values excessively on human needs. The future trend toward ecological civilization can’t avoid placing human beings at the center, but this position will be relative, and it will involve changes.

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First of all, Humanity must move toward a circular economy of sustainable development based on high technology, and this will involve changes to our residential, living and working space, as well as the development of renewable energy and renewable materials.

Secondly, the key political development must be the establishment of a global system of freedom, human rights and democracy, and the coupling of political democracy with economic democracy that will facilitate the emergence of popular capitalism, or people’s capitalism, that acknowledges human greed and capital’s pursuit of profit, but ensures the fair distribution of profit as income for the majority of people. Entrusting every individual with the opportunity of fair participation in the capital market will avoid what the French economist Thomas Piketty observed in his book *Capital in the Twenty-first Century*: The intensification of unfair distribution of wealth resulting from the excessive interest rate spread between capital and labor.

As the world’s strongest democratic nation, the US, although hard hit by the crisis, has rebounded very well. The US will continue to lead the world for a period of time, but America’s global role still has a lot of room for improvement. I understand American hegemony in this way: Civilizations are constantly rising, falling and being replaced, and a dominant civilization will inevitably manifest itself toward other civilizations through selfishness and assimilation. In a democratic system, the assimilation will be manifested internally and the selfishness externally, while in centralized political systems the manifestation will take the form of internal autocracy and selfish group interests that despise and violate public interests, coupled with an external manifestation that sacrifices the people’s welfare through actions that sell out the country’s interests. This is the problem of today’s China, which is why lack of democratic reform will exacerbate the social and economic crises and make it impossible to protect the interests of China’s people in the international context. In particular, China needs immediate democratic reform to deal with its rapidly deteriorating ecological crisis. China and other Asian nations should take Japan as an example and establish a “Post-Asian Model” that facilitates a linking up and assimilation between Asia and the West under the concepts of freedom, democracy and human rights in a process of synthetic social evolution. Democracy is itself a work in progress, so China faces a long road toward a democratic, modern and mature society. At the same time,
Western democratic societies also require deep-seated democratic reform. Because nature employs disaster to constrain human greed, the world requires a universal system of freedom, human rights and democracy to enable people to join hands and cooperate in addressing and resolving humanity’s shared crisis.

Third, in spiritual terms, people need to reject slavery to consumerism and learn to live meaningfully, finding joy and ultimate meaning in an artistic and poetic life. The new civilization will require better relationships and more equality between people. The consumerist culture under industrial civilization is addictive, requiring constantly increasing dosages and ultimately leading to death through overdose, madness or despondency. It’s no wonder that depression is so rampant today. What we call socialism with Chinese characteristics is really just part of global industrial civilization and consumer civilization, and possibly the most excessive part. From the perspective of human civilization in general, this acquisitive consumerist culture will reach the point where it can’t continue, because it relies on the endless consumption of unrenewable resources. Industrial civilization’s unsustainable value system, combined with human greed and selfishness, has given rise to today’s global crisis conditions.

Chinese civilization is in a state of transformation from industrial civilization into what can be called “post-industrial civilization transition” or “green ecological civilization transition.” The conditions of industrial civilization had both advantageous and disadvantageous factors.

The benefits and drawbacks of social development are inseparable from transformation of the political system. Right now our political forms face the need complete the transformation into democratic constitutional government that has been in progress for a hundred years. We’ve seen that democratic governments are inferior to centralized systems in terms of capacity and efficiency in the transformation of development models to address this kind of major conflict between man and nature. But the corruption of unrestrained power resulting from centralized state power, and the vested interests arising from this corruption, result in a short-sightedness that is harmful to society and also has an adverse effect on transformation in the future.
What we need now is both democracy and centralized state power. We need a weaker government in order to release and expand civil society’s capacity, which is a historical problem that has yet to be solved. But at the same time, a powerful government is needed to transform the development model. For example, energy conservation and emission reduction as global public goods in respect of the ecosystem, and public goods are usually provided or regulated by governments; in fact, one of the reasons for a government’s existence is that people need public services, public goods and public works, and they need the government to handle these things. This also implies that the transition from traditional agrarian society to industrial society, and from traditional autocratic society to democratic society, has not been completed, and that we face the challenge of a transformation from industrial society to post-industrial or ecological society, and from democratic society to a future social form that we don’t even know what to call yet.

China’s system has factors that produce and intensify society’s reliance on it. First of all, our government is the world’s largest, and probably also the most expensive in terms of government expenditure. It is also a government that enjoys the least constraint on its power, and which has the closest ties with economic activity and commercial interests. Of course, these could be advantageous factors for sustainable or green economic development, because the new civilization will require a large and strong government. But our large and strong government emerged under traditional industrial civilization, and its financial voraciousness and the intense impulsiveness of its off-budget revenues also make local governments and the central government even more prone toward quick success, instant benefit and short-term goals, which is a disadvantageous factor.

I also see many knotty issues that will be difficult to resolve, in particular the challenge of straddling space and time. Resource and environmental constraints are unprecedented in the history of human development, and this is very serious for a huge country like China. Facing a situation of almost no outside space, we need to change our subsistence methods and our value concepts. Among developing countries, in the realm of basic science, China relied on the frugal living of previous generations, supported by basic science, to lay a foundation, and that had its
advantages. But I feel some disadvantageous factors will be very hard to surmount; for example, reliance on the past development route of industrial civilization has manifested itself all too clearly in today’s real estate and automotive industries. But it can also be seen that Chinese society has progressed rapidly in many areas, and it’s possible that China is not too far behind other parts of the world in terms of green politics or a culture of environmental protection.

The improvement of environmental protection technologies and the development of low-carbon economy has played a major role in the transformation of the entire industrial structure. We should accept this challenge for the sake of our future. I’ve discussed these environmental issues with a friend who works in Zhongnanhai. I’ve pointed out that the officials in Zhongnanhai can make special arrangements for their water and food supplies, but they still have to breathe the same air the rest of us do unless they simply refuse to go outside. The climate affects everyone more or less equally, so China’s government and people need to join together as active participants in the green political trend that has emerged internationally.

Furthermore, we can’t help but want the universal human values that have liberated human nature from the Renaissance to the Industrial Revolution and on to the present day. Over the past 20 years, China’s rapid advancement accompanied by de-ideolization has also been a period of secularization, and coupled with our traditional atheism and cultural pragmatism, as well as a large government with unrestrained power, this has led to the rapid expansion of vested interest groups and belief in the value of being connected with these groups. For example, becoming a public servant has become a top career choice for university graduates, but their aspiration isn’t to serve the people, but rather to enjoy power and live better. This is a lamentable trend, because even the best transformation and development relies on human agency, so a society’s organizational form and values will have an enormous effect on its development.

We’re now confronted with a choice between two innovative new roads: incremental reform, or a leapfrogging strategy in which we skip the intermediate steps between the development models of industrial civilization and sustainable development. But this isn’t the kind of planning that can be left to any individual. The old model of “development as the first priority” is no longer viable,
so we need new thinking in this area. Stability is development, because neither stagnation nor reversal is stable. Facing the economic crisis requires us to recreate a new period of development that incorporates recreation of the system, culture and values in order to engage in development that is humane, fair and sustainable for society, the economy, governance and the human spirit. I hope that China and the world will immediately embark on a major discussion of development that will liberate people’s thinking and reach a consensus on farsighted and self-sacrificing reform so we can turn the danger of this crisis into an opportunity. We need liberation of thought because China’s intellectual culture is still constricted, and even in the global context, we can see the inertia of bureaucratic organs, the ineffectiveness of international organizations, the brazen greed of multinational corporations and the despair of ordinary people. The whole world needs a liberation of thought and a revolution of the imagination.

Although the technological revolution has steadily eliminated jobs, and the computer and information revolution has threatened the class foundation of Western democracy with the gradual disappearance of the middle class, the further development of new technology and the Internet, especially the emergence of the “cloud revolution,” brings hope that human society can make a change for the better through new symmetries in the access to and use of information. Human knowledge will shatter the confines of universities, libraries, major corporations, banks and other organizations to become a resource that is equitably shared. For now, only a small minority of people recognize the need to transform civilization, but as long as the world’s thinkers can use the Internet’s freedom of expression to communicate new ideas, the economic progress brought by technological progress – for example, group funding and the potential for people’s capitalism – will become the basis for establishing a better society with universal values. Confronting incremental reform and leapfrog development toward a new economy and new civilization will give humanity hope for a new era of freedom, equality and democracy, and ultimately the opportunity to establish a new civilization.

As Dickens wrote, we live in a polarized or even schizophrenic era, world and country that keeps our thoughts and attitudes spinning between pessimism and optimism. In my attempt to suggest a new civilization model and find a road for China’s future development, I need to squarely face
the question of how to rescue myself from such contradictory thoughts and find a consistent and balanced logic that allows me peace of mind. Is it even possible for pessimism and optimism to coexist within one subjective being (one thinker, one country or one civilization)? In order to answer this question, we can look at several examples. Machiavelli and Hobbes believed that human nature was intrinsically evil, and they were pessimistic, but both were fountainheads of Western modern liberal and democratic thought. James Madison, the “Father of the American Constitution,” said, “Men are not angels. If men were angels, no government would be necessary.” His proposition that “ambition must be made to counteract ambition” resulted in the separation and balance of powers becoming the theoretical foundation of America’s democratic constitutional government. If my pessimism can be put to as good a use as in these three great Western individuals, first of all, I need to acknowledge the general law of pessimism, that is, all readers have the right to express pessimism toward my arguments, and then use doubt as a weapon to interrogate them. Second, pessimism of thought must be reconciled through action: Pessimism compels each individual to believe in and empower himself, and to participate in social and historical progress to defend his own interests and pursue his own happiness. Karl Popper’s use of the intellectual weapon of doubt to deconstruct the “closed society” provided legitimacy for the libertarian principle of individualism and the participatory fine-tuning of society. Therefore, my pessimism might create even more pessimists, but if all pessimists take action to participate in the advancement of history, they will achieve an optimistic result for individuals, China and all of humanity. In that way, the contradiction and conflict between intellectual pessimism and optimism will ultimately become reconciled at the level of action.

I pity myself for living in this era, country and world. I also rejoice at living in this era, country and world.
Afterword: Behind this Book

Chen Ping is a very common name in China, so I provide this self-portrait to help readers positively identify me and also understand how the thoughts expressed in this book came about.

I’m now the CEO of Sun International Media (Group) Company in Hong Kong, but I was born 60 years ago in Shanghai. My father was a native of Haimen in Nantong County, Jiangsu Province, the eldest son of a lawyer. He joined the army to fight Japan as a youth and continued with a distinguished military career. When I was an infant, he went to the Soviet Union and never returned, which turned out to be a blessing in disguise. He died an old man where the Don quietly flows. We saw each other one more time at the Moscow train station in 1987, 28 years after we parted. My father apologized to me then, but I calmly and sincerely thanked him father for his abandonment. My mother was a native of Wuhu, Anhui Province, raised in the family of a capitalist rice merchant in Shanghai. This beautiful girl from a wealthy family joined the Red revolution as a student, and subsequently became a military doctor. She married twice and passed away at the age of 63, the quintessential beauty who never finds happiness.

After my father went to the Soviet Union, I was sent to live with my maternal grandparents in Wuhu, a small town on the banks of the Yangtze River in Anhui Province, where I spent more than 20 years of my life. As a youth, I enjoyed being in the mix of things; I learned martial arts and made a lot of friends, spending my days on the streets and nights with my head in a book.

Thanks to chaos of the Cultural Revolution, my formal education was limited to a mechanics technical school. In spite of the Great Leader’s official policies aimed at keeping China’s people in ignorance, I developed a love of reading at an early age, as well as an ardent devotion to freedom of thought and advocacy of human rights that led me to throw myself into the April 5th Movement against reactionary tyranny at the age of 21.

Luckily, slogans wishing the Great Leader eternal life didn’t come to fruition, which allowed me to be reborn as a scholar and an adviser to China’s reforms in the 1980s. By then, my repeated rereading of Marx’s Das Capital had turned me from a staunch Marxist into a critic of
Communism. I had dreamed of becoming a writer, and never thought of going into business, seeing no honor in riches; much less did I ever imagine becoming a media mogul and television personality; I actually looked down on what I considered the superficial world of television. Rather, I devoted myself to the Reform and Opening process in the mistaken belief that China should first become strong and prosperous and only after that free and democratic. The June 4th tragedy of 1989 made me aware that I wasn’t cut out life in government, and in grief and indignation I resigned from my position and joined the private sector in a bid for financial and personal independence.

Surprisingly, I quickly learned how to make serious money by teaching myself to creatively utilize the purchase, merging and reorganization of bad debt and junk assets ten years before such activities became fashionable in mainland China. I succeeded because I understood human nature and the patterns of human society, although I’d never bothered with the so-called knowledge peddled under MBAs. I’ve made money not only in mainland China, where I was born and raised, but also overseas, where the language and culture are foreign to me. In fact, I’d say I’ve made more money in foreign lands with developed markets, while I’ve lost more money over the last 20 years in mainland China, in spite of its familiar culture, environment and social conditions and its rich human resources. The main reason is that I’ve never known how to bend and scrape and fawn.

Ironically, the venture that became the pitfall in my road to success was one that was perfectly suited to my personal inclination toward humanistic pursuits, and it set me on my present course of developing media as a public instrument, regardless of the cost.

Even less expected was that with my gravelly voice and heavy accent, short, burly frame and cropped round head, I would move from backstage to in front of the camera and serve as an unscripted, un-made-up, unfiltered and unregulated talk show host. My program gained high viewership at all levels of Chinese society, rapidly expanding the influence of Sun TV and making me into a virtual TV star with legions of fans. In fact, this kind of success is a tragedy in mainland Chinese society or even in Chinese society generally, because truth could only be
spoke before a video camera for broadcast over satellite, while the falsehoods of the so-called mainstream discourse environment held sway over the broader society.

I’d initially moved in front of the camera as a stand-in until Sun TV found a more suitable presenter, but I was driven by an impulse to speak out, and my colleagues went along with it while it suited their purposes. My first program was the 2007 *Economist* television talk show. I’d already perceived in 2006 that the world economy was in a state of growth fatigue, excessive debt, speculation and bubbles, that the real economy was in decline and the fundamental objectives and methods of economic development had become deranged and distorted, that income disparity had become systemic and excessive, and that the existing democratic capitalist free market system was losing its advantage as its flaws were highlighted by the inflection point of the increasingly unsustainable and crisis-ridden industrial civilization. Likewise, China’s economic growth was becoming hard to sustain as it exhausted its comparative advantages of natural resources, a youthful population, cheap land, living environment, autocratic system, globalization and a heavily overdrawn social welfare system. We created the *Economist* talk show in hopes that Sun TV could sound the alarm that the “flourishing age” was just a mirage and a bubble.

The half-hour talk show that began broadcasting in September 2008, *On Balance*, was something I started on my own initiative out of an intense sense of social responsibility. The subprime crisis that erupted in the US in 2008 exposed what I termed the prelude to the transformation of industrial civilization into ecological civilization. But I saw that the West’s elite politicians failed to see or perhaps turned a blind eye to this irreversible trend, and that from the outbreak of the crisis to the present they have deceived themselves and others and have acted in their own selfish interests, using “quantitative easing” as a pretext for diverting and plundering the wealth of the masses as a “sound strategy for rescuing the declining economy,” using continued overdrafts to settle overdrafts, using increasing debt to delay debt, using even bigger bubbles to conceal bubbles, and to develop the economy by printing currency. Far from the economic crisis being alleviated, much less ended, I saw massive recession and Great Depression looming ever closer, and I felt that I had a responsibility to share my understanding of the situation through television.
At the time of the 2008 subprime crisis and in the months immediately following, mainland China was in euphoria over its successful hosting of the 2008 Olympics, and it was all about “China’s rise,” the “China Model” and the “Beijing Consensus.” For a short time, there were wild claims that only China had good prospects, that the autocratic party-state system was superior, and even that “the salvation the world depended on China.” Little did people imagine that in this global crisis of the century, it was mainland China that was the most fragile and where people faced the most serious harm. On the evening of August 8, 2008, on the balcony of my apartment near the “Bird’s Nest” stadium in Beijing, I watched the fireworks of the Olympics opening ceremony and couldn’t stop crying. I wept with excitement over China’s realization of its century-old Olympics dream, but I wept in sorrow because I rationally surmised that at the moment of this grand occasion, exactly 30 years after China’s began its upward trajectory following decades of suffering, it was about to embark on a new round of decline.

In *On Balance* and the weibo\(^\text{29}\) writings that followed, I repeatedly appealed for turning the crisis into an opportunity to launch genuine political reforms with a democratic system as their objective; only by returning power to the people could wealth be returned to the people, and only by returning wealth to the people could civilian demand be stimulated, and only by stimulating civilian demand could China withstand the global crisis and rescue and develop the Chinese economy. I said this was the CCP’s last chance to take the initiative in leading China into reforms that would make it a free, democratic, strong and prosperous country. This message was vociferously relayed by myself and more than 100 Chinese intellectuals on the *On Balance* program, using argument, analysis and reference to authoritative works to expound on the pressing urgency and feasibility of mainland China embarking on immediate political reform.

*On Balance* was followed several months later by *Midnight*, a half-hour TV talk show with a general focus on history. Like *On Balance*, *Midnight* invited more than 100 outstanding scholars for no-holds-barred discussions seeking only the truth, and I served as the main guest on the program for nearly a year. The cover-up, embellishment, distortion and falsification of China’s recent history has not only become a burden for those in power and seriously obstructed China’s

\(^{29}\) TN: Chinese microblogs, the equivalent of Twitter.
democratic reform, but has also poisoned the hearts and minds of the people, corrupted social
ethics and morals and destroyed social trust and honesty. We harshly criticized putting history in
to the service of politics, governance, vested interests and the preservation of so-called stability,
when in fact this was destroying the country with lies and was suicidal in terms of ethnic and
cultural disintegration. Midnight's mission was to restore historical truth, explain historical cause
and effect, unload historical baggage, release old scores and grudges and rebuild a Chinese
culture of truth.

We were never given any official written notice or information from an authoritative source, but
concerned parties with access to reliable information said these serious and socially responsible
discussion programs, On Balance and Midnight, led to Sun TV having its broadcast agreement
unilaterally cancelled in mainland China on November 28, 2009. Many people found this deeply
regrettable and expressed a willingness to intercede on our behalf, but I chose to quietly accept
the inevitable. Given that mainland China has no freedom of the press, Sun TV already enjoyed
special favor by being granted its limited broadcasting rights, and it was inevitable that this
privilege would be revoked when I chose to make Sun TV a public instrument rather than a mere
mouthpiece. I acknowledge that this came at enormous sacrifice to the commercial and personal
interests of myself and my partners and our families. The shift from the mainland to Hong Kong
and overseas was extraordinarily difficult. The company executives and staff who sacrificed their
personal and family interests in order to remain with Sun TV are rare in this day and age, and
especially in this spot on earth. I admit that we came close to running out of money a number of
times, and were nearly forced to auction off the TV station; if it weren’t for prospective
purchasers being so fickle, it’s possible that it would have changed hands before now. Experiencing
the variability of human relations with our morally bankrupt countrymen and the
snobbery of businessmen from Western free democratic world was a misery beyond retelling, but
my collaborators and I paid this price without complaint. Now that I’ve triumphed over diversity,
I can finally bare my heart here, and consider the possibility that it was Heaven’s will.

From the standpoint of making money, I should consider this incident a blessing in disguise,
because it compelled me to shift my entire focus overseas, and in the process gain genuine
dignity as a human being and as a businessman. My partners and I not only continued with Sun TV, but also founded the well-regarded *iSunaffairs* electronic magazine and the Sun Award for Documentary in Chinese. We haven’t abandoned our rationality because of having been suppressed, or our principles of justice because of acclaim.

The old saying goes, “The rise and fall of the nation is everyone’s responsibility.” Today we can say that China belongs to the Chinese, not just to a single party or faction, and I am as responsible as anyone for the fate of my country. Responsibility is the impact point of a media group that serves as a public instrument by revealing darkness, castigating ugliness, upholding justice, standing up for fairness and enlightening society. If conditions permit, I hope to also establish a humanities-focused international school employing Chinese as the mother tongue (the birth of my twin grandchildren in September 2010 gave me even more intense impulse to establish a school better than those currently available to Chinese people). If I can find a little more extra time, I hope to establish a think tank and spend a third of my time in quiet study. To that end, I stopped hosting television talk shows in late 2010, and also stopped writing for *weibo* and Twitter. The situation in mainland China has developed in such a way that I no longer see any possibility for incremental reform; in the current petrified and crumbling political and economic systems, under which monopolistic wealth and resource distribution is suffocating the economy and working against the interests of the people, the only real option is to risk democratizing political and economic reform that carries out a redistribution of stock under “military junta,” because there will be no breakthrough without external brute force. I consistently called for China’s leaders to choose incremental reform in order to minimize the price that society has to pay and preserve as much as possible the results of the 30 years of Reform and Opening, but I now feel I was wasting my time.

Many well-informed people who regularly viewed *On Balance* and *Midnight* told me, “You have an ideological system.” I don’t deny this, but I also don’t completely agree with it, because I haven’t really had the time and energy, nor do I have the basic skills, to go beyond research and exploration to develop a consummate thought system. But what I said in *Economist, On Balance* and *Midnight* and what I wrote in *weibo* and Twitter is basically what you’ve read in this book.
Without repeating those thoughts here, I want to emphasize two points:

First, while it is a valid argument that historical circumstances mold events and the choices people make at a given time and place, I believe there is such a thing as good and evil, and that human society has fundamental, eternal and fixed standards of right and wrong that transcend time and space. It is therefore essential to restore historical truth, render judgment and square accounts, and I believe that this will happen for China within our lifetime.

Second, I want to emphasize that today’s world, especially free and democratic countries, already have the critical material conditions for reform toward a more ideal, fair and just democratic system, and that widespread use of the Internet provides the conditions for information symmetry for the first time in human history. Such reforms are certain to occur, and will be a crucial component in humanity’s transition into scientific ecological civilization.
Author’s biography:

Mr. Chen is a Chinese entrepreneur, scholar, and director of iSun Media Group. Formerly worked for the Chinese government, he was a researcher, participant and promoter in the Chinese economic reform in 1980s. He founded the Tidetime Group in 1990 and was the investment pioneer in industries such as Internet, Electronics, Education, Media.

He took over SunTV in 2005 and hosted several talk shows such as The Economist, Debate and Midnight, and published several books including Recessionary Times. He initiated the launching of iSun Affairs, the first interactive iPad magazine on current events in August 2011, and established the iSunTV Chinese Documentary Awards in the same year.

After the financial crisis and tsunami, Mr. Chen believes there is a strong need to actively transform the global financial and commerce activities to be more equal and democratic. Through founding iSunMedia, he extends the credibility from SunTV to promote the development trend of crowdfunding and New Economy, and to increase the sustainability of the civilization.

Editor's biography:

Ming Xia is a Professor of Political Science at the College of Staten Island and a doctoral faculty member at the CUNY Graduate Center. He previously taught at Fudan University (1988-1991) and served as a residential research fellow at the Sigur Center for Asian Studies at George Washington University (2003) and the Woodrow Wilson International Center for Scholars (2004).
Book summary

The Age of Plunder recorded Mr. Chen Ping’s public comments during 2008 - 2011. It is about the 2008 Economics Crisis, its pathogeny, its long-term reverberations and its implications for China’s future. The author indicates this great crisis hasn’t fully subsided and it’s an irredeemable crisis of the “one-legged capitalist” social apparatus.

The author predicted and called for a new civilization (following the industrialized civilization) to overcome the prolonged, painful era of decline. A new emancipation movement is needed to break through the vested interests and mainstream values, to foster new cultures, new ways of living and to build a more fair and equitable democratic society with sustainable economic growth.

In China’s perspective, the author proposed that China’s party-controlled development model in the past 20 years is in a historical turning point. China has to rebuild a new republic and democratic state with new system, culture and value to achieve sustainable development.