

China’s reform proposal is bold but hollow

POLICY

CLIVE CROOK
MICHAEL NEWMAN

Call it policy presentation with Chinese characteristics. After the meeting of its leadership last week, China’s Communist Party issued a muddled communique that aroused no great excitement. Then, on the weekend, well ahead of the usual schedule for such announcements, the party released a longer follow-up statement worth getting excited about. It’s radical stuff — in principle, if not (yet) in policy. Maybe China’s new president, Xi Jinping, aspires to be another Deng Xiaoping after all. The “Decision on Major Issues Concerning Comprehensively Deepening Reforms” was nothing if not wide-ranging. Tucked inside it were the biggest headlines, so far as many foreign observers are concerned: China’s notorious one-child policy is to be softened, and the system of arbitrary confinement to “re-education” in labour camps, a tool of political repression, is to be ended. Most of the statement, though, is devoted to a comprehensive list of eco-

conomic and financial reforms. This emphasis is deliberate: “The reform of the economic system is the focus of all the efforts to deepen the all-round reform”. Many of the proposals echo the long-standing recommendations of pro-market advocates at home and abroad. The statement calls for China’s financial sector to be liberalised. There will be new private banks, as well as further moves toward exchange-rate flexibility, market-determined interest rates and capital-account convertibility. The blueprint calls for price reforms in water, energy, transportation and telecommunications. Farmers will be given new property rights, including the right of succession and the ability to sell shares in their land or use it as collateral. The system of household registration, which controls workers’ movement from countryside to city, will be eased (though curbs on migration to the biggest cities will remain). The document promises far-reaching reform of state-owned enterprises. There will be more financial disclosure, and managers will be made more accountable. Where possible, it says, such enterprises will be exposed to competition. Mixed forms of public and private ownership will be encouraged. Needless regulation will be dismantled. There is one, considerable, caveat,

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however. This “Decision” remains mostly a statement of intentions rather than a declaration of specific policy changes. And the leadership, by Western standards, is in no great hurry: The plan calls for results by 2020. Putting the ideas into effect will involve every level of government and multiple layers of China’s labyrinthine bureaucracy. Liberalisation threatens vested interests and will be met with resistance. Good results are by no means guaranteed. Another reason to withhold judgment is that the party statement undoubtedly envisions a more market-based economy — yet not what one might call a normal country with a normal system of government. Its statement is rife with the contradictions that flow from this. The Communist Party frowns on what it calls contradictions, and it con-

stantly dedicates itself to eliminating them more boldly — but the anomalies it has in mind are labour disputes, street protests and “emergencies on the Internet”. The jarring tensions between state and liberty, state and market, and one-party rule and democracy are barely noted in the document, much less confronted or resolved. As a result, even allowing for losses in translation, the statement is full of bizarre disjunctions: “Cultural reform must evolve around the socialist core value system”. On the other hand: “Perfect the market exit mechanism to promote the survival of the fittest”. Karl Marx meets Friedrich Hayek. Perhaps to ensure that these confusing imperatives are responsibly reported: “Institutionalise the government information release system and standardise the vocational qualifications of journalists”.

It’s both a radically pro-reform document and proof that the Communist Party still doesn’t get it. The changes to the one-child policy perfectly illustrate the problem: The plan would allow couples in which one parent is an only child to have two children. The rest of the world may celebrate this as the loosening of an odious infringement of liberty. For the Communist Party, the issue never even arises. It seeks only to fine-tune the rules for demographic purposes: China needs more children — but not too many. (The change is listed alongside another technocratic tweak: “Allow doctors to have a licence to work in more than one hospital”.) A step forward for human liberty, no doubt — in a system that still doesn’t understand what liberty means. To an extent that few would have dared to predict, the Chinese Communist Party has maintained its grip on political power even as its economic reforms have unleashed the most astonishing surge of economic growth the world has ever seen. How much longer can that go on? Mr Xi, it seems, is intent on a bold new phase of economic reform, rightly understanding that this is necessary to extend China’s miraculous run. But if the “Decision” is any guide, the political reform that China also needs is not yet fit for public discussion. One day soon, that subject will have to be broached. ©2013 BLOOMBERG VIEW

COMMENTARY

Paul Krugman



What if the US slump is here to stay?

Spend any time around monetary officials and one word you’ll hear a lot is “normalisation”. Most officials accept that now is no time to be tight-fisted, that for the time being credit must be easy and interest rates low. Still, the men in suits look forward to the day when they can go back to their usual job, snatching away the punchbowl when the party gets going. But what if the world we’ve been living in for the past five years is the new normal? What if depression-like conditions persist, not for another year or two, but for decades? You might imagine that speculations along these lines are the province of a radical fringe. And they are indeed radical — but fringe, not so much. A number of economists have been flirting with such thoughts for a while. And now they’ve moved into the mainstream. In fact, the case for “secular stagnation” — a persistent state in which a depressed economy is the norm, with episodes of full employment few and far between — was made forcefully recently at the most ultra-respectable of venues, the IMF’s big annual research conference. And the person making that case was none other than Larry Summers. Yes, that Larry Summers.

And if Mr Summers is right, everything respectable people have been saying about economic policy is wrong, and will keep being wrong for a long time. Mr Summers began with a point that should be obvious but is often missed: The financial crisis that started the Great Recession is now far behind us. By most measures it ended more than four years ago. Yet our economy remains depressed. He then made a related point: Before the crisis we had a huge housing and debt bubble. Yet even with this huge bubble boosting spending, the overall economy was only so-so — the job market was OK but not great, and the boom was never powerful enough to produce significant inflationary pressure.

Mr Summers went on to draw a remarkable moral: We have, he suggested, an economy whose normal condition is one of inadequate demand — of at least mild depression — and which only gets anywhere close to full employment when it is being buoyed by bubbles. I’ll weigh in with some further evidence. Look at household debt relative to income. That ratio was roughly stable from 1960 to 1985, but rose rapidly and inexorably from 1985 to 2007, when crisis struck. Yet even with households going ever deeper into debt, the economy’s performance over the period as a whole was mediocre at best, and demand showed no sign of running ahead of supply. Looking forward, we obviously can’t go back to the days of ever-rising debt. Yet that means weaker consumer demand — and without that demand, how are we supposed to return to full employment? Again, the evidence suggests the US has become an economy whose normal state is one of mild depression, whose brief episodes of prosperity occur only thanks to bubbles and unsustainable borrowing.

Why might this be happening? One answer could be slowing population growth. A growing population creates a demand for new houses, new office buildings, and so on; when growth slows, that demand drops off. America’s working-age population rose rapidly in the 1960s and 1970s, as baby boomers grew up, and its workforce rose even faster, as women moved into the labour market. That’s now all behind us. And you can see the effects: even at the height of the housing bubble, we weren’t building nearly as many houses as in the 1970s.

Another important factor may be persistent trade deficits, which emerged in the 1980s and since then have fluctuated, but never gone away.

Why does all of this matter? One answer is that central bankers need to stop talking about “exit strategies”. Easy money should, and probably will, be with us for a very long time. This, in turn, means we can forget all those scare stories about government debt, which run along the lines of “It may not be a problem now, but just wait until interest rates rise”.

More broadly, if our economy has a persistent tendency towards depression, we’re going to be living under the looking-glass rules of depression economics — in which virtue is vice and prudence is folly, in which attempts to save more (including attempts to reduce budget deficits) make everyone worse off — for a long time.

I know that many people just hate this kind of talk. It offends their sense of rightness, indeed their sense of morality. Economics is supposed to be about making hard choices (at other peoples’ expense, naturally). It’s not supposed to be about persuading people to spend more.

But as Mr Summers said, the crisis “is not over until it is over” — and economic reality is what it is. And what that reality appears to be right now is one in which depression rules will apply for a very long time. ©2013 THE NEW YORK TIMES

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Debate of JFK legacy continues 50 years after his death

AMERICA

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As historians and journalists downgrade the legacy of President John F Kennedy on the 50th anniversary of his death this week, ordinary citizens around the globe will remember a cherished figure. More than all but the greatest US presidents — George Washington, Abraham Lincoln and Franklin D Roosevelt — Kennedy is an icon of American political culture. Yet, as *New York Times* Executive Editor Jill Abramson observed recently, there has never been a major historical work on the Kennedy presidency, a contrast with significant presidents before him and several who followed. Even contemporary assessments, which are on balance more negative than those of a generation ago, are replete with contradictions. (A personal note: I am chairman of the non-partisan Profile in Courage Committee at the John F Kennedy Presidential Library in Boston.) On civil rights, the burning issue of the day, he was late. Historic advances for minorities were achieved by his successor, Lyndon B Johnson. Yet it was Mr Kennedy who put civil rights on the agenda, sent troops to the South to enforce integration and made it a moral issue, at no small political cost. Under his watch, starting with a disastrous 1961 summit in Vienna with Nikita Khrushchev, the Soviets were emboldened to be more aggressive. Yet when Soviet missiles were detected in Cuba, Mr Kennedy provided a textbook lesson in presidential leadership. Having absorbed the lessons of Barbara Tuchman’s work on the origins of World War I, “The Guns of August,” he was acutely aware of the dangers of a small mishap and rebuffed trigger-happy generals. He also shrewdly heeded the instincts of his brother, Attorney-General Robert F Kennedy, and gave the Soviets a way to save face. It was the world’s closest brush with nuclear war, and Mr Kennedy’s skills may well have saved 20 million to 30 million lives. It was during the Kennedy administration that the US’s involvement in Vietnam slowly escalated. At the time of his



Books on assassinated US president John F Kennedy are on display in a book store window in The Hague, The Netherlands, on the occasion of the 50th anniversary of Kennedy’s murder in Dallas, Texas, USA, on Nov 22 1963. EPA/LEX VAN LIESHOUT

death, there were 16,000 American forces there. Would he, like Mr Johnson, have increased that number more than thirty-fold over the next four years and stuck with that mistaken war? After all, Mr Johnson was following the counsel of Mr Kennedy’s advisers. Yet there are indications that Mr Kennedy, had he lived, might have shuffled his foreign policy team and resisted the anti-communist war lobby. McGeorge Bundy, a leading adviser to Mr Kennedy and Mr Johnson and an architect of the Vietnam disaster, believed JFK would have avoided that costly war, according to his biographer.

There were important achievements: He was the first (and so far only) Catholic president, he initiated a nuclear test ban treaty, and he developed space exploration and the Peace Corps. And there was his rhetorical eloquence. Over the past century, no president’s words, save for FDR’s, have left such a mark: Think of “Ask not what your country can do for you,” or “Ich bin ein Berliner,” or “If a free society cannot help the many who are poor, it cannot save the few who are rich.” Whatever the historians’ verdict, Mr

Kennedy remains an inspiration, even to those who were born well after his death. In the recently published “The Power of Citizenship: Why John F Kennedy Matters to a New Generation,” Scott Reich, a young attorney, captures the president’s devotion to courage, public service and citizenship. This may be why the Kennedy aura still flourishes today. When Joe Kennedy — the 33-year-old freshman congressman from Massachusetts and the most natural politician in the clan since his great-uncles and his grandfather, Bobby — walks into a room full of big shots,

heads turn. Last week, the Japanese celebrated the arrival of JFK’s daughter, Caroline, as the new US ambassador. Fifty years from now, there probably will be important histories of the 1,036 days of the Kennedy presidency, perhaps with mixed verdicts. Chances are, however, that much of the world will still celebrate the gifted and elegant politician that their grandparents told them about. ©2013 BLOOMBERG VIEW

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For the world’s poor, climate change is terrorism

ENVIRONMENT

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As part of the pivot to Asia, the United States government has ramped up its counterterrorism cooperation with the Philippines, Indonesia and elsewhere. But the bigger question from the perspective of the Filipinos, beyond the disaster at hand, is this: Why is it that the US still doesn’t have a domestic consensus that there is such a thing as climate change? When we talk about a global community, we at least ought to be able to start with that item at the top of the agenda. For Filipinos and many poor people around the world, climate change, in effect, is terrorism conducted against them. It is a far bigger threat to people’s livelihood and physical safety than all the things the US is trying to sell them

in order to have its troops’ forward positioned in the Philippines. The US, notwithstanding its recent rescue missions in the disaster area, hasn’t put enough emphasis on fighting climate change, despite its extensive security implications. The US may have the world’s largest military, but it is this question that it will be faced with time and again. Is the world’s mightiest country going after the right issue at the top of the global pecking order? The typhoon in the Philippines is a useful reminder that we need to think more about what can be done, both on climate mitigation and on disaster preparation. The US reaction to the situation in the Philippines was curious. A lot of room was given to asking why the Philippines was so unprepared. Why indeed? It is a very poor country. Americans starting to lecture about disaster relief leaves a sour taste in other peoples’ mouths. Few outside the US have forgotten the lack of preparedness in New Orleans.

Another instinctive reaction is to point to China. Sure, it hasn’t helped enough — and, yes, China has higher CO2 emissions than the United States, but it is the US that is supposed to be the advanced and responsible power. China also comes in for quick criticism that, if and when it engages, it acts in quite a self-interested manner in global infrastructure projects in places like sub-Saharan Africa. True, but it also gets the job done. The Chinese bring in their workers and get it done quickly. Too often, when one looks at those areas, Western powers for centuries have promised to work on infrastructure and they haven’t exactly delivered. So the Chinese can hold that in their favour. But the more important point in the global context is that we need a very real debate about the constant militarisation of US foreign policy. That taking this approach simply “sells” better in Congress compared to more soft-power infrastructure projects certainly isn’t a good enough reason. Neither is the fact that

this approach allows some folks in Washington DC to pay for ever-larger villas in the suburbs. What needs to be addressed in this context is that there are many people in the Washington establishment who have strong incentives to ensure the US takes a more aggressive posture in the Pacific, whether through lobbying fees or pricey defence appropriations. The return on these “investments” is actually much lower than on building better highways and seawalls. While it would be a positive step for the US to invest more in long-term development projects to aid emergency preparedness, there are also other means to achieve the same ends. In Asia, for example, there is the Asian Development Bank (ADB), suitably enough based in Manila. What better tool is there to take out long-term loans — on behalf of all the poor countries backed by the credit rating of the ADB — so that these countries can invest in being better prepared for the next climate event? Clearly, the West can’t do it all. We

need to have more of a regionalisation of these efforts. And these countries — independent of the discussion about who’s at fault for climate change — need to be prepared for their own sake. Either way, the investment in infrastructure also makes commerce easier, allowing countries to grow their national economies and promote tourism. So it’s an investment in their own future and they need to do that. Individual countries can’t shoulder that burden alone. The Philippines remains very poor. President Benigno Aquino has been doing quite well on fighting corruption and the economy has been growing a little bit faster than in the past. But the Philippines probably still needs to have 20 years of solid economic growth before it can be adequately prepared on key emergency preparedness infrastructure in its own right.

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