

Which model of capitalism?

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We are getting near the end of this book, when I will discuss whether capitalism is dying or not and what lies ahead. Before that, I must discuss the models, or varieties, or the diversity of capitalisms. In this book I assume that the historical phases of capitalism are more relevant than the different models of capitalism existing today. Thus, once a people is able to form a nation-state and industrialize, thus realizing its capitalist revolution, it tends to converge to a relatively similar type of capitalist society. Yet even considering only the advanced capitalist countries, we know that capitalism differs substantially from country to country. The growth trajectories are different because the initial conditions vary from people to people when it builds a nation and a state and forms a nation-state, they vary as to level of “civilization” (from the primitive societies to the lettered mercantilist societies), the forms of culture and religion, the time they realized their capitalist revolution, whether they have been subjected to a industrial empire or not, which were the basic development strategies adopted. Once England completed the first capitalist revolution, all other societies which succeed in forming its nation-state and making its industrial revolution adopted copy – copy and adaptation of technology and institutions. The only exception were the countries that tried originally to make a socialist revolution, but the main ones, Russia and China, eventually converged to capitalism. This copying process tends to equalize the economic infrastructure of societies, turning institutional and cultural convergence inevitable – not a full but a reasonable convergence. For sure, the American society is different from the German society, and both are different from the Japanese society, but the three nation-states are rich capitalist countries, and, so, have much in common.

Not for coincidence, immediately after the fall of the Berlin wall and the collapse of the socialist-statist alternative, a sequence of books inaugurated the literature on the models or the varieties of capitalism: Gøsta Esping-Andersen’s (1990) wrote a classical book on three worlds of capitalism, the social-democratic world of the Scandinavian countries, the corporatist of Germany and France, and the liberal of the US and the UK; Michel Albert (1991) distinguished the Rhenish model of France and Germany from the American model; Hall and Soskice (2001) proposed two varieties of capitalism – liberal market economies and coordinated capitalism, the former corresponding to the American, the later, the European model of capitalism; Huber and Stephens (2001) wrote about four models, the three of Esping-Anderson renaming the corporatist as “Christian-democratic”, and adding the “wage earners” model of Australia and New Zealand; the French Regulation School emphasized the diversity of capitalisms. Each model of capitalism has a distinct role for the state and the market, a distinct way of organizing production at company level, and distinct basic values and beliefs, but the main criterium to distinguish one model from the other is the role the state and the market have. Hall and Soskice tried to use as main criterion but the forms of

organizing production but eventually what makes coordinated capitalism different of liberal capitalism is the role that the two basic capitalist institutions – the state and the market – perform.

All capitalist societies count today with three basic social classes (the capitalist, the managerial and the working and salaried class); profit is the main objective of capitalists and capital accumulation, the basic means for profit and growth; financialization and globalization are present in all them, and the services didn't cease to increase their share in GDP. Marx taught that there is a necessary correlation between societies' economic infrastructure and their institutional and cultural superstructure. Thus, successful capitalist development lead latecomer countries to converge on the levels of income and on the forms of social organization of the most developed countries. By developing economically, societies tend to combine capital and organization and, as we saw in Chapter 4, tend to become democratic, although economic inequality remains high. Either the capitalist or the managerial class are not particularly attached to democracy, but the people at large is, and democracy became a universal value. Thus, there are significant forces making for convergence of capitalist societies. The only thing is that we don't know toward what such convergence will take the more developed societies. I will discuss the issue in the next chapter. What I can say now is that it will not be toward socialism, as so many of us hope, nor toward the American mass consumption model, as the American modernization theory expected, and Walt W. Rostow candidly summarized in *The Stages of Economic Growth* (1960) and was object of much protest – not so much because the economic historian predicted convergence, but due to the obvious ideological character of the book whose subtitle was “A non-communist manifest”. Before, however, discussing the future of capitalism, we must know which capitalism we are referring to. An issue that became more relevant with the rise of China.

The forces toward convergence exist, but for the time being they are far from generating a unique model of capitalism. Nor in assuring that backward countries will follow the same steps of the advanced countries and will catch up. Considering that the first countries to complete their industrial and capitalist revolution were England, France and Belgium, the other countries that at that time were part of the advanced mercantilist societies in train of forming their nation-states, as the US and Germany, and the East Asian countries that followed the Japanese developmental growth model, challenged the modern imperialism of the UK, France and the US, both types of nations are today rich countries. As to the other countries, some in Latin America, Africa and the rest of Asia (except India and Vietnam) reached to industrialize and become middle-income countries, but since the 1980s they have fallen in the “liberalization trap” (not the “middle-income trap”) as trade liberalization and financial liberalization involved the desertion of developmental growth model that, between the 1930s and the 1970s, had allowed them to industrialize. The failure of middle-income countries to continue to grow faster than rich countries and catch up is the central theme of a New Developmentalism – a theoretical framework that a group of Brazilian and Argentinean economists are building since the early 2000s.¹

Three models of advanced capitalism

I wrote in 2012 on five models of capitalism: the social-democratic, the liberal democratic and the Japanese models, and two models of peripheral countries: the independent East Asian model and the contradictory Latin American national-dependent model. More recently I changed my focus, adopted a historical perspective, and distinguished five models. Instead of distinguishing the models according to the state-market relation, I assumed that all countries were developmental not liberal countries, and, first, used as criterion whether the country belonged originally to the “centre” of the capitalist system, or, before its capitalist revolution it was part of the “periphery”, it was for some time a colony of the industrial countries; second I divided the centre countries in “original” centre countries, which made their capitalist revolutions in the turn of the eighteenth to the nineteenth century (England, France and Belgium) and “latecomer” countries which industrialized its industrial revolution in the second half of the nineteenth century (Germany, Italy and US). Third, as to peripheral countries, I divided them according to their degree of national autonomy into “independent countries” (Japan, South Korea, Taiwan) and “national-dependent” (the contradictory Latin American countries). And forth, all rich countries were for the time developmental in the Golden Years of Capitalism.²

This categorization is relevant when we try to see the models of capitalism on a historical perspective. But in this book, I will simplify and remain with only the three present-day models of capitalism: the liberal American model, the European social-democratic model, and the East Asian model. The European countries that have gone through the three models were developmental when they made their capitalist revolution, experienced a liberal phase from around the 1840s to the 1930s, and, after Great Depression and the war turned again developmental for around 30 years – the European, moderately, the US, still more moderately developmental. With neoliberal turn, around 1980, the European countries turned liberal for the second time, but conserved some of its Golden Years developmentalism; the US turned for the first time fully liberal;³ and the East Asian countries followed but without the same conviction.

In the liberal or Anglo-Saxon model, state intervention is as limited as possible. And it is always minimized in terms of discourse – the neoliberal discourse mixed with the liberal democracy discourse. The state has a limited role in education, in health care and social care, and in social protection or welfare. “Labour” protection laws, whose cost fall directly on business enterprises, not on the state, are minimal: the key word is to “flexibilize” labour contracts. The number of government-owned companies is small. The regulation of business enterprises is limited. Individualism, technological innovation and oligopolistic market structure prevail over cooperation, social solidarity and business competition.

In the social democratic model, the power of the professional class, especially the public bureaucracy, is greater than it is in the liberal democratic model. State intervention was severely restricted, but there is some room for industrial policy. Labour protection was not fully eliminated, and the welfare state – mainly universal health care, education, and social security – remains alive. , and in the free or almost free provision of collectively used social services. Although among the European countries some guarantee social rights more extensively and effectively than other, I prefer, on the aggregate level with which I am dealing, not to differentiate Rhineland capitalism from the Scandinavian variety: they are

both social democratic; and they seek to integrate and to build solidarity through state regulation. This model moved toward the Anglo-Saxon model in the neoliberal years, but it remains different. After the 2008 global financial crisis, change inverted direction as the crisis was basically a crisis of neoliberalism.

We could call “Japanese model” the East Asian model of capitalism because in their development process South Korea, Taiwan and even China had it as their basic reference. While in their capitalist revolutions the countries in the European model were more social than development, the East Asian countries were more developmental than social. The countries have left social protection to households and business enterprises instead of building their own welfare states, probably because they counted with the family spirit of solidarity that is ingrained in their cultural tradition and with an original economic equality that was greater than the one that existed in Europe before their capitalist revolution. Comparing with the American and the European models, the East Asian was the most developmental form of capitalism. Which is consistent with the fact that the word “developmental”, although was being utilized in Latin America since the 1960s,⁴ it entered the common language of economists and other societies after Chalmers Johnson used it in his 1982 book on Japan. This model is characterized by the existence of an informal national development strategy – a system of laws, public policies, agreements and understandings that create lucrative investment opportunities for the companies while wages grow with productivity. The role of the state is to make operational such objective by keeping the five macroeconomic prices right, particularly the exchange rate and the profit rate, by engaging in strategic industrial policy, and by keeping the labour contracts flexible, limitedly protected. Although China began its development searching to install socialism, it actually copied firmly the Japanese model, including the great privatization of companies that Japan had made between 1908 and 1910 to copy not only the technology but also the institutions of developed capitalism. With the neoliberal turn this model originally developmental also moved toward the neoliberal model of rentiers-financiers’ capitalism. For example, lifetime job security in business enterprises is disappearing. But the variety of capitalism that exists in East Asia continues to be different both from the liberal American model and the social-democratic European model.

We could add a fourth model of capitalism, the national-dependent model which characterized the more developed Latin American countries. I am not considering them because in our three models we have only rich countries, while these countries made their capitalist revolution but didn’t become rich. They are characterized by the ambiguous nature of its elites, which are developmental when they count with the state to promote industrialization but turn liberal when they detect a threat to the local capitalism and associate themselves with the Empire. It was what happened in Latin America in the 1960s due to the 1959 Cuban Revolution; or from the 1980s, when the neoliberal ideology have turned hegemonic in rich countries and have pressed developing countries to follow suite. From the standpoint of the social structure and class coalitions, these countries adopt a developmental policy regime when they made their capitalist revolution with the support of a political alliance between an incipient industrial bourgeoisie and an equally incipient public and private bureaucracy. In this time, the state, apart from being a promoter of economic development, was a producer which promoted forced savings to finance private investments and created state-owned enterprises when investments required vast amounts of capital that

the private sector didn't dispose. At this stage, the managerial and developmental nature of capitalism was clear. In a second stage, however, after the capitalist revolution was completed in some developing countries like Brazil, Argentina and Turkey and the neoliberal turn happened in the North, these have submitted to the neoliberal pressure coming from the North and their growth rates have fallen. In countries like Brazil, which is characterized by a high degree of inequality, an extensive social protection system was created, but this did not stop the fall of the growth rates since the neoliberal turn which had as main direct causes two main policies or non-policies: on one side the incapacity to realize the public savings required finance public investments and, on the other side, the trade and financial liberalization which dismantled the mechanism that neutralized the Dutch disease (basically import taxes on manufactured goods).

Which model?

This triple classification of developed countries in models of capitalism have the nature of the state as the key criterion – the modern state which is fundamental institution in capitalist societies . After all, the state embodies the constitutional and legal system that organizes capitalism. The nature of this state, how much it intervenes in the economy, how democratic or authoritarian it is – these are “choices” of the respective nation. Are a path dependent political construction. As long as democracy improves its quality, the deliberate aspect of this construction becomes stronger. The political decisions of the citizens in democratic societies on the size of the state, on how large social expenditures are, on how universal is health care and education determine whether the state will be social democratic and developmental state or merely a liberal state. The internal structure of business enterprises or the types of capital–labour relationship that exist in them, which Hall and Soskice so carefully researched comparatively, have an influence on the model of capitalism, but they as well the capital–labour relationship are state regulated.

When we read the literature on the models or varieties of capitalism the impression that we have that all models are “equivalent”. The authors are making a scientific assessment where there is no room for value judgement. This is particularly evident in the more prestigious theory – the varieties model, not only because the research is competent but also because both authors teach in a major American university, one a mainstream political scientist, the other, a mainstream economist. But are they really equivalent? For the approaches developed in the US this would be a type of “concession”, because at least since the Second World War, its elites and people have assumed to be the superior form of economic, social, and political organization of society – a form of society for which all the other societies converge, the benchmark for all of them. This seemed to be true in the 1950s and in the 1960s but ceased to be true with the disastrous Vietnam War and the 1970s' crisis. Regained some credibility in the 1990s with the collapse of Soviet Union and the crisis of socialism, but since another disastrous imperial war, the 2003 Iraq War, the 2008 global financial crisis, and the increasing loss of cohesiveness of the American society such assumption stopped making sense. Since the 1970s, the US continued to grow and kept the leading position in the world in economic, technological and military terms, but in the two first domains it is losing rapidly the primacy to China. As to the social and political domains,

European social-democratic countries proved able to build more democratic and less unequal societies.

According to Esping-Andersen (1990: 20), the liberal state that characterizes the US performs a “residual” function: the state takes responsibility when the individual or the family fails.⁵ This kind of state and model of capitalism, unlike the European and the Japanese models, limits universal rights and adopts a policy of individualized social care based on people’s income. Consequently, its effect in reducing economic inequality remains limited. Esping-Andersen also discusses corporatism. The concept of corporatist capitalism was originally proposed by Philip Schmitter, whose paper, “Still a century of corporatism?” (1974), founded the research on the models or varieties of capitalism. Schmitter focused his attention on Germany and the Scandinavian countries and showed that the economic coordination in these countries is not simply based on poorly regulated markets, as happens in liberal capitalism, but on a capable state exerting a mediating role in the framework of a class coalition associating workers, the managerial middle-class, and the several types of capitalists – industrialists, commercial traders, service entrepreneurs, rentiers and financiers. The workers have an interest in the successful management of companies, and capital–labour disputes are mediated by the state on the basis of an understanding between business enterprises and workers, where the companies are supposed to make a satisfying profit that keeps them accumulating capital, and the workers are guaranteed both a stake in productivity gains and state provision of social and education universal services.

The European or social model of capitalism is deeply entrenched in European society, and so its emergence did not require a social democratic party to be in power. In Germany, for instance, the conservative party, that is, the Christian Democratic Party and its “ordoliberal” doctrine, as well as the Social Democratic Party and its “social market economy” doctrine contributed equally to the construction of the German social-democratic capitalism.⁶ The European centre-left political parties participate from the construction of a social state more heartedly than the centre-right parties, but in the Golden Years of Capitalism both were engaged in construction a better society.

Opposition between conservative and liberal political parties characterized entrepreneurs’ capitalism; the opposition between liberal-conservative political parties (conservative because liberalism turned conservative once the bourgeoisie became the dominant social class) and social-democratic political parties defined managerial capitalism; in real exchange rentiers-financiers’ capitalism the latter opposition remained but social democratic parties moved to the right together with the liberal-conservative political parties. In the US, the New Deal in the 1930s was a step toward social democratic capitalism, but the process of change was not completed. Given the ideological hegemony exercised by the US in the 1990s, it was suggested that the liberal capitalism would be superior to the social democratic capitalism. But when we compare as to the five political goals of modern societies – security, freedom, welfare, social justice, and environmental protection – it is hard not to see the better results achieved by the more solidary and cohesive model of society existing in Europe.

The concepts of right and left make sense only in relation to a political “centre”. In Europe, even in the UK, this centre is more to the left than the centre in the US. Whereas individualism prevails in the liberal model of the US, in the social or welfare model of the

Europe of the euro, even at the height of neoliberalism, solidarity and social cooperation played a major role. Among many symptoms of what I am saying is the society's willingness to pay taxes. Whereas in the US the tax burden is a little over 30 percent of GDP, in Europe it approaches 50 percent. Since these countries are democracies, these tax burdens result from the citizens' political decisions. When, in Europe, citizens accept or decide to pay more taxes than in the US, this means that they opt for relatively more egalitarian collective consumption and for relatively less individual consumption. This collective consumption is achieved through the provision of education, health care, and social security services free of charge or almost free of charge, financed by the state. When we compare European capitalism with the American version, we observe that, in the social model of capitalism, income distribution is more equal and social rights are more widely and more generously guaranteed. Countries such as Britain, New Zealand and Australia are in an intermediate position. Despite US' immense wealth, only in 2010 was a law approved considerably extending health care, but without making it universal as in Europe. If the quality of a model of capitalism and of a type of state is measured by how much can it provide of the five public goods valued by modern societies (security, freedom, social justice, welfare and environmental protection), there is little doubt that the most developed European societies have progressed more in each of those goals than the US. Goodin, Headey, Muffels and Dirven (1999: 22, 262) have used Esping-Andersen's classification of the models of capitalism to conduct an investigation in three countries that represent the three types of welfare state, the US representing the liberal regime, Germany, the corporatist, and the Netherlands the social democratic regime. Previously they defined "six moral values which welfare states have traditionally been supposed to serve". They are, promoting economic efficiency, reducing poverty, promoting social equality, promoting social integration and avoiding social exclusion, promoting social stability, and promoting autonomy. After an extensive analysis having these values as criteria, they concluded that the social democratic regime is at least as good and usually better in promoting the social objectives than the other two:

The social democratic welfare regime turns out to be the best choice,, It is clearly the best on its home ground of minimizing inequality. But it turns also to be better at reducing poverty than the liberal regime, which targets its welfare policy on that with exclusion of all else. It also as good at promoting stability, thus integration as is the corporatist welfare regime. The social democratic welfare regime is also at promoting the key elements of autonomy, something that is valued by all regimes.⁷

The post-war period came to be called the Golden Age. It was the great moment of capitalist development. It was not the American but the European, social democratic model of capitalism that people had in mind when this denomination was defined and turned generally accepted.

The efficiency issue

Would the European model of capitalism be not only fairer but also more efficient, that is, more able to promote economic development? Neoliberal ideology categorically states that it is not; it also maintains that the liberal model tends to encourage hard work and that markets allocate the factors of production efficiently. But since the 1980s productivity growth rates in Europe's most advanced countries have been comparable to those of the US and of Britain.

Why? Probably because, as it is possible to observe, efficiency does not result from market competition alone but from the combination of competition and cooperation, of individualism and solidarity, of the free market and its management. The market is always the chief instrument of economic coordination – which is why capitalism prevailed – but markets are always social constructs and are regulated by the state; and there is no reason to believe that they will be more efficient if left entirely “free”, unless we believe the myth that real markets approach the model of perfect competition. It is true that in some European countries excessive regulation of businesses and labour may reduce competition and represent a negative incentive to entrepreneurship. But, as a trade-off, in the most egalitarian and protected societies in Europe social cohesion is greater and so is the legitimacy of the state, its laws and governments. In addition, the greatest social homogeneity reflects cooperation and encourages efficiency. More extensive and generous social security in terms of unemployment benefits makes workers more willing to accept a decrease in their job security (which is important for the competitiveness of enterprises). Greater flexibility in labour markets implies an increase in job insecurity and in part-time employment; the trade unions, in turn, have agreed to limit their wage demands in order to ensure companies’ international competitiveness. However, the losses for the workers from this flexibility have been partially offset by the flexicurity system initially developed in Denmark: while trade unions agreed to limit their wage demands and to forgo some job security, the government extended the duration of unemployment benefits and developed effective policies to retrain the unemployed and help them find new jobs. Therefore, the Danes did not need to imitate the American system and dismantle the social state, as neoliberals had presumed. At the beginning of the twenty-first century, the average unemployment rate in European countries was roughly identical to that in the US, and, although gross economic growth was lower in Europe, it was practically the same in per capita terms since population growth was much faster in the US. And the European countries kept their social state. Expenditure on collective consumption services (identical for everyone), financed by taxes, continued to amount to around 30 percent of GDP in western and northern Europe, whereas in the US it corresponded to less than 15 percent of GDP, indicating a lower level of social solidarity.

During the 30 years up to 2008, the neoliberals and neoconservatives who dominated the American state (whose model of capitalism was already close to their ideal) tried to extend their model to the rest of the world. But, in spite of all its economic power, all its military power, and all its *soft* power expressed in its prestigious brands, in its remarkable universities, in its popular music and in its movie industry, the ability of the US to export its own type of capitalism proved to be limited. It proved to be limited in Europe because, if it is true that European countries “softened” their labour protection laws, they were nevertheless able to retain and even expand their social state. It proved to be limited in Japan for cultural reasons and because neoliberalism coexisted in Japan with the long near-stagnation that emerged in 1990, after the Japanese yielded to American pressure and appreciated their currency. It proved to be limited in the dynamic Asian countries, including China and India, because these countries understood that the neoliberal reforms prescribed by the Washington Consensus conflicted with their national development strategies based on fiscal austerity, competitive exchange rates, and a strategic role for the state. But it proved to be successful in other developing countries that, by implementing neoliberal reforms, by opening their financial markets, and by practicing the macroeconomic policy recommended by Washington, based on an appreciated exchange rate “to fight inflation”, were faced with

financial crises and with economic growth rates substantially below their potential. But, since the early 2000s, the election of left-wing and nationalist political leaders in Latin American countries has reflected the failure of neoliberal reforms and the attempt of these countries to adopt a new developmentalism inspired by the Asian developmental model.⁸

And China?

Before closing this chapter on the models of developed capitalism we must consider the case of China, How do we deal with China where developmental capitalism is booming for forty years but it is not yet a rich country? It is not a developed country but it fast so becoming. Say that China is not a capitalist society, or to say that it is part of the East Asian model? This depends, first on how we define capitalism. If we say that is form of social organization market and state coordinated where a capitalist or bourgeois social class holds the ownership of the means of production and follows the logics of profit realization, capital accumulation and technical progress, China is definitely a capitalist society. Not a liberal but a developmental capitalist society which sets economic growth as its priority and sees the state as its main institution to achieve it and the other political objectives that modern societies have defined to themselves. A developmental capitalism that counts with a national development project and sees the state as its main instrument of collective action; which combines state and market coordination of the economy.

These are the reasons why I view China as a developmental capitalist society. Some liberal analysts prefer to define China as a case of “state capitalism”. This is the view, for instance, of Marie-Claire Bergère, who wrote two books defending this thesis. The 2007 book is a historical analysis of capitalism in China from its origins to the present. In this book she rather speaks on a “bureaucratic capitalism” than state capitalism. She does not pay attention to the economic regression that China suffered under Western imperialism. Instead, she views the 1860-1911 period as the time of “bureaucratic capitalism” where the “compradors”, working the foreign companies and the businesspeople getting associated as with them, were the typical businessman.⁹ She adds that the great Chinese companies of the time were managed by merchants and supported/financed by the mandarins. And she defines 1911-1927, the period which opens with the nationalist revolution that changed China into a republic, as Golden Age of Chinese Capitalism – something difficult to understand when we consider the economic disaster that the Western imperialism caused in China. Anyway, she says that “the fast development of the modern sector and of private capitalism in this time is not explained by state intervention: it was a spontaneous growth promoted by the international economy.”¹⁰ Bergère discusses contemporary capitalism in her 2013 book, *China's New State Capitalism*. After the 1978 transition, China became “a mixed economy dominated by a state capitalism that takes in count certain market mechanisms and is adapted to globalization”. The government, while having a general liberalization of prices, “keeps the control of the sectors that it view as crucial; energy, electric power, and supply of water”, and controls the interest rate and the exchange rate. This state capitalism has a particular aspect to the extent that it derives not from the central state, but from the local municipalities. A state capitalism that does not tend to be transformed into liberal capitalism. In the early 1990s we were naïve enough to believe that once the economy experienced the take-off, the state would

get out of the economy. “Actually, the end of planned economy didn’t mean the end of interventions by the state”.¹¹

Writing on China’s regulatory state, Rosalind Hsueh arrives to a similar conclusion: “The distinctive model of China integration into the international economy” does not show sign that it will change. And concludes: “Which model of international integration will become best practice now that the United States’ liberal economic model has lost traction, along with the diminished appeal and influence of American power and might in the post-Iraq War era and in the light of the 2008 financial crisis?”¹²

Michel Aglietta and Guo Bai, in their 2012 book on China already referred, write also on state capitalism but not in the post-1949 China; in the post 1929 China, when the Great Depression destabilized the world economy. Chiang Kay-shek, who had just betrayed the Communist Party (which have given him support against de regional warlords that had become strong in a lawless China), created a Commission of National Salvation, centralized the national economy under the state, and in 1934 nationalized the banks, what configured a form of state capitalism. In the end of the book, however, Aglietta and Bai ask themselves how to classify China according to the models of state and find some proximity of the Chinese capitalism with the European welfare state capitalism, where the social services are universal but they are offered in limited way: “the Chinese government demonstrated its preference for a universal coverage of minimal services instead of a few aids of higher quality”.¹³ Robert Boyer (2011b), on its turn, is definitive as to the capitalist nature of the Chinese social formation. He observes that “market relations are not the exclusive mechanism of resource allocations, but their logic is permeating the whole economic system and they are so pervasive that *competition* among independent units becomes the main engine of economic activity”. Second, “the growing size of wage-earners in the manufacturing and service actors, by opposition to the declining labour force of the agriculture, is a definite feature of the Chinese contemporary economy. The recurring *labour conflicts* provide further evidence as to the existence of a typical capitalist dynamics. Last but not least, the interaction between competition on the product market and the conflicting nature of the capital labour relation induces a general pressure for any individual unit to accumulate. Consequently, *accumulation becomes the law of motion* of any capitalist economy, with China being again an extreme example in this regard, as the formation of capital represents more than half of the GDP.”¹⁴

The main question in relation to China is not whether it is a capitalist economy or not, but which will be its political system: whether it will move to democracy as it become a rich country, or the “Chinese solution” supposes the maintenance of authoritarian regime. Up to the rise of Xi Jinping to the top of the state and the Communist Party, there was the assumption that China would follow the rule, the pressure to democratize originated in the people and the new middle-class would increase, and the transition to a multi-party political system would be inevitable. This view changed in the last years, and it is difficult to determine whether this was the consequence of the increasing power that Xi is assuming as it changed the Chinese constitution to perpetuate its personal rule or was, in the US, the result of major change of the views its people and elites share in relation to China. Ten years ago, China was still viewed as a large and successful developing country. Not anymore. China’s growth was so impressive, the development of its technology was so astonishing, that it

became the main competitor to the US world hegemony – not only economically but also technologically. The conscience of this competition is not only American, but of all including the Chinese.

Such change originated in the US a new Cold War. Now there is not an alternative of social organization that is being presented, the new challenger, differently from the Soviet one, is not searching to submit the rest of the world to communism, but nevertheless what we are seeing in the US is a Hate War beginning, which includes the explicit objective of stop the growth of China by all means. While the Cold War opposed the US and Soviet Union in ideological and military terms, today's Hate War is opposing the US and China is being fought in the frontier of technology – on information technology, semiconductors, data, 5G mobile networks, artificial intelligence and quantum computing. While the US won the Cold War, there is no sign that it is winning the Hate War. A strange war because China does not represent the threat to the American capitalism or to the American way of life that the Soviet Union represented. The Chinese are not fighting an ideological war as Soviet Union was; they are not offering to the world an alternative to capitalism, they are not pressing or persuading the other countries to adopt the same social organization, while Soviet Union was, and the US is. Thus, this could be a good competition between the two countries, as it was up to the Obama administration. But since the Trump administration competition changed into war where the US objective is to stop the growth of China, is to impede the catching up of China which would threaten the US' world hegemony, as if such position would be a condition for the well-being and security of the American people. As if the relations between the US and China were a zero-sum game. If, instead of a war, it was a competition, the objective should be to show US's superior economic and human development and its ability to continue to advance, should be to learn with China as China have been learning with the US, and view the relations between the two countries as a positive game where both gains.

Chinese capitalism is a developmental form of capitalism where the state plays a greater role in the economy than the American state does. A form of capitalism that is proving to be highly efficient. But while the US is a democracy, China is an autocracy. The US counts with a decadent democracy – a democracy clearly inferior to the European democracy, but anyway is a political regime clearly superior to the Chinese regime. We can say that in the US system is being changed into a plutocracy where the will of the people have been losing weight in the political decisions, but the two minimum conditions for a democracy – the rule of law and competitive elections – are there present in the US, while the Chinese political system does not comply with none of these two requisites.

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¹ For the moment, the more comprehensive work on new developmentalism is Bresser-Pereira, Marconi and Oreiro (2014). As this is a work in progress, the 2016 Portuguese edition of this book is substantially more complete. In relation to the "liberalization trap" see Bresser-Pereira, Araújo and Peres (2019).

² Bresser-Pereira (2012; 2019).

³ We already see that the US was until 1980 developmental; until 1939, due to high import tariffs on manufactured goods; from 1939 to 1980, due to the New Deal and the present

⁴ Fonseca (2014).

⁵ Gøsta Esping-Andersen (1990: 20) bases this claim on the classic distinction made by Richard Titmuss (1958) between the "residual" and the "institutional" welfare state.

⁶ The social-market economy doctrine is often associated to ordoliberalism, but the former is essentially social democratic and was closely related with the Friedrich Ebert Stiftung – the cultural foundation of the Social Democratic Party, while the latter is rather a liberal doctrine.

⁷ Goodin, Headey, Muffels and Dirven (1999: 22, 262).

⁸ In the economic development domain, since 1991 I have developed a whole set of economic models and economic and political analyses that have led me to define a national development strategy, based on the Asian developmental model, which I called "new developmentalism". Its theoretical basis is a

structuralist development macroeconomics. These ideas are developed in *Globalization and Competition* (Bresser-Pereira 2010).

⁹ The compradors were the local managers as well as bus for European companies in East and South East Asia as well as the business entrepreneurs associated to the West. They are the paradigmatic case of alienated capitalists in the developing countries.

¹⁰ Bergère (2007: 55; 98).

¹¹ Bergère (2013: 76; 54; 51).

¹² Hsueh (2011: 270).

¹³ Aglietta and Bai (2012: 378).

¹⁴ Boyer (2011b: 34).