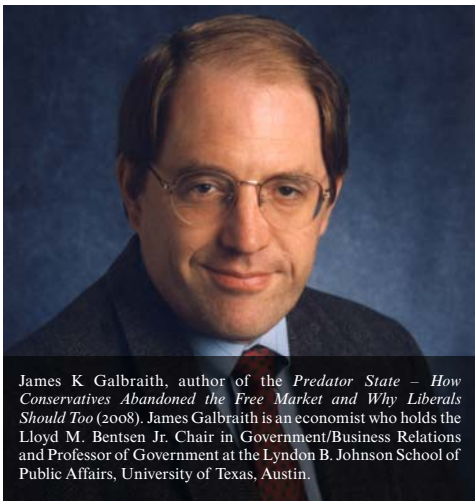


PROTECTIONISM WILL NOT HELP THE WEST

Low wages are not the secret behind China's competitiveness, says James K Galbraith. If the West keeps neglecting its educational system, it will lose the advantages it still has.



James K Galbraith, author of the *Predator State – How Conservatives Abandoned the Free Market and Why Liberals Should Too* (2008). James Galbraith is an economist who holds the Lloyd M. Bentsen Jr. Chair in Government/Business Relations and Professor of Government at the Lyndon B. Johnson School of Public Affairs, University of Texas, Austin.

We have seen the nation state bail out banks and car companies etcetera. So perhaps the state is still very powerful and perhaps companies still have a national identity in the global economy? Or is this just another example of mythmaking in order to tap the resources of the state?

States are still very powerful, and companies depend on them. The depressing revelation of the crisis is that companies look on the state as a final source of funds, to be tapped when the market will not provide. And yet they accept no responsibility, no accountability – they deny that the state has any autonomy or any legitimate role in regulating their activities. And, as their allies control the state, they get away with it.

China's development sheds light in an interesting way on the role of the state, perhaps not just in developing economies. The state is and has been very dominant as director of the economy and as owner of the largest companies – some of them very successful on the global market today. You point out that the concept of state planning has largely been discredited in the West. Will this crisis help change the view of the state also in the West, not only as regulator but also as owner of companies and as central planner of the economy?

In my view, as a former adviser to China's State Planning Commission (as it was then called), state planning is far from being the central element in the Chinese model. Far more important is the structure of ownership of light manufacturing, which includes firms owned by the state, by provinces, by townships and villages, by cooperatives and joint ventures, in great numbers – and therefore highly competitive in the final marketplace. These firms earn very low or no profits in the domestic marketplace, and their losses are covered by loans from the (state-owned) banking system. This, and not low wages, is the essential element that gives them the chance to implement the continuous quality improvement that makes access to export markets possible. Also very important is the structure of land ownership. The fact that municipalities own their commercial land means that they earn ground rents, which are a substitute for property and sales taxes, and which give them ample funds to finance infrastructure development. And this is the key to the visible aspects of Chinese urban development.

If these features were understood in the West, they might help change our view of the state, vis à vis both banking and land ownership. But they

are not understood at all, so Western observers tend to attribute Chinese success to low wages or to state planning, and in both cases they mislead themselves pretty comprehensively.

We now also are at least in a better position to evaluate the privatisation programmes in the West when it comes to for instance energy, communications, education and healthcare. Is it possible to tell whether some sectors are better run by the state than by private companies?

"Insurance is clearly better run by the state, for the simple reason that universal coverage is always cheaper to administer than cherry-picking."

Insurance is clearly better run by the state, for the simple reason that universal coverage is always cheaper to administer than cherry-picking. So state-run social security systems are always administratively much less expensive. This is the clearest case by far. In some others, like communications and cable television, whether private provision is acceptable or abusive depends on the capacity of a state regulator to prevent the abuse of monopoly power. Which it obviously does pretty poorly.

You say that the rise of trade is a potent weapon against the status of labour. Some Europeans, like Emmanuel Todd and Jean-Luc Gréau, argue in favour of a European protectionism with the aim of protecting labour from competition, above all Chinese competition. Would such a policy make sense and be possible?

What those who make this argument fail to realise is that in real terms, and by Third World standards, Chinese real wages are not low at all. A visit there and inspection of the urban population and its living standards will confirm this at a glance: the population is well-dressed, well-fed, decently housed, and it has leisure time which it enjoys. Standards in manufacturing are relatively low, but the workforce is intrinsically low-wage, consisting to a great degree of young rural women, who typically stay for a few years, save some money, and return home. There is nothing so very wrong with this, and it is not for the West to tell China that consumer electronics should be made by older men with families.

“...nothing will stop the Chinese from producing and marketing the goods, nor consumers from seeking them out.”

It is true, of course, that the Chinese model is very cost-competitive, but the real source of this is the low price level for wage goods inside China (food, clothing and lodging cost very little, and for \$300 a month in wages a family lives quite well). The reason for the low price level is the competitive conditions inside China, including the admirably low domestic profit rate. Protecting against this is not justified by appealing to some concept of a just wage. It is also a bit like trying to stop the tide: nothing will stop the Chinese from producing and marketing the goods, nor consumers from seeking them out.

The task in the West is to find things to do that the Chinese economy cannot quickly emulate. Employment in universities, healthcare, elderly

care, the arts, conservation and environment, research institutes, new technologies, and so forth: that's what we should be doing with our labour forces. Not making shoes.

The Chinese will do many things but they are not supermen, and their research institutes lag behind the West for the moment. Of course, the fact that the West has an advantage does not mean it will maintain it. If Western governments continue to starve their universities and their scientific and technical development, this will change. But the Europeans, in particular, who are obviously grossly neglecting higher education, as almost any visit to a European university these days will confirm – will have no one to blame for that but themselves.

It would be far more useful for Western commentators to focus on this problem – the gross neglect by the West of its own most promising sectors – than to keep prattling on about protecting “labour” from China, when in almost every case, the real interest behind protectionism of low-grade manufacturing is to protect the profitability of less-competitive firms in relatively backward sectors.