

# LOOKINGGLASS

by Glasshouse Forum

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NEW PUBLICATIONS

## IS THERE A CHINA MODEL?

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REPORT

# TOWARDS A NEW AUSTERITY?

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# INTRODUCING LOOKINGGLASS AND GLASSHOUSE FORUM

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Glasshouse Forum has the pleasure of presenting the third issue of *LookingGlass*, a newsletter written by Glasshouse Forum's secretariat and fellow researchers. Its aim is to present and discuss topics taken up within the framework of Glasshouse Forum's work and to provide an arena for critical reflection on the merits and problems of capitalism.

*LookingGlass* contains in-depth reports, short interviews, essays and book reviews. You will also find presentations of recent Glasshouse Forum publications. The content will in a flexible way mirror the themes on which Glasshouse Forum is running projects, while *LookingGlass* also enables explorative analysis of issues surrounding capitalism.

Glasshouse Forum, founded in 2007, is a network of researchers and intellectuals – to date about 50 active contributors – from different disciplines, mainly from Europe and the US, but also from China and Russia. The forum is politically inde-

pendent and does not engage in lobbying activities, or make policy recommendations.

#### **The Following Projects are Running Within Glasshouse Forum 2009:**

- The return of the capitalist-authoritarian great powers
- A consumed society?
- Short-termism in the long run
- Globalisation and the middle class in the West

#### **Glasshouse Forum Publications to Date:**

Glasshouse Forum has, to date, published seven titles. The first six were presented in *LookingGlass* 1/2008 and 2/2008:

*An Edited Transcript from a Round-Table Conference on Authoritarian Capitalism*, 2008, 128 pp.

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*White Whale or Red Herring? Assessing Sovereign Wealth Funds*, Daniel W. Drezner, 2008, 24 pp.

*The Limits of the China Model*, Johan Lagerkvist, 2008, 24 pp.

*Tolerance and Democracy in Liberal and Authoritarian Market Economies*, Sten Widmalm and Sven Oskarsson, 2008, 40 pp.

*Towards an Hourglass Society? Income Differentials and the Fate of the Middle Class*, Kay Glans and Johanna Laurin (eds.), 2008, 144 pp.

*An Edited Transcript from a Round-Table Conference on Short-Termism*, Kay Glans and Johanna Laurin (eds.), 2008, 92 pp.

The latest publication is a combined report and film from the China-West Intellectual Summit that was held in Paris in February 2009. The film *Is There a China Model?* and the report with the same title are presented in this issue of *Looking-Glass* (see page 6):

All Glasshouse Forum publications can be downloaded from our website:  
[www.glasshouseforum.org](http://www.glasshouseforum.org).

#### Upcoming Glasshouse Forum Events:

12 May 2009: The Impact of the Global Crisis on EU-China Relations – a Glasshouse Forum-ECFR seminar in Stockholm

Glasshouse Forum and ECFR (European

Council on Foreign Relations) will host an open seminar in Stockholm as a follow up to the China-West Intellectual Summit held in Paris in February. Key note speakers are **Timothy Garton Ash**, Professor of European studies, St Antony's College, Oxford, **Shaoguang Wang**, Professor of Political Science at the Chinese University of Hong Kong, both of whom participated in the intellectual summit; and **John Fox**, ECFR Asia Senior Policy Fellow. Moderated by **Mark Leonard**, Executive Director of ECFR.

For information on how to register, visit [glasshouseforum.org](http://glasshouseforum.org).

12–13 November 2009: Inequality in a Time of Contraction – a Glasshouse Forum-Stanford University two-day international conference

Although there has been extensive discussion of the financial dimensions of the crisis, to date there has been far less written about the distributional implications. The goal of the conference is to bring together scholars from the social sciences, such as economics, sociology, and political science, to deepen our understanding of the link between globalisation (of both financial and real markets) and economic inequality. In this way we will be in a better position to understand and perhaps predict the consequences to inequality of the current economic turmoil.

Among the topics to be discussed: Have past financial crises reduced inequality or increased it? Who are the main winners and losers in this crisis? What international comparisons and benchmarks are useful in understanding the consequences of the crisis and how public policy might address it?

Those who have confirmed their participation include: **Sir Anthony Atkinson**, Oxford University, **Orely Ashenfelter**, Princeton University, **Daniel Waldenström**, Research Institute of Industrial Economics, **Thomas Piketty**, Paris School of Economics, **Maria Guadalupe**, Columbia Business School, **David Autor**, MIT, **Enrico Moretti**, University of California Berkeley, **Philippe Aghion**, Harvard University, **Robert Frank**, Cornell University (on leave at NYU Stern School's Program in Law, Ethics, and Markets), **Richard Blundell**, University College London Economics, **Richard Freeman**, Harvard University, **Jonas Pontusson**, Princeton University, **Luis Garicano**, Chicago University, **John Van Reenan**, London School of Economics/GSB Stanford University, **Jesper Sorensen**, GSB Stanford University, **Bruce Western**, Princeton University, and **Kim Weeden**, Cornell University.

#### Glasshouse Forum in the Media

2009–02–25:  
“Chinese views of the crisis”. The *Financial Times* chief foreign affairs columnist Gideon Rachman writes on his FT blog about the Glasshouse Forum “China-West Intellectual Summit” in Paris 23–24 February.

2009–01–04:  
“Capitalism without democracy?”. Op-ed in the Swedish daily *Upsala Nya Tidning*, referring to the Glasshouse Forum report *Tolerance and Democracy in Liberal and Authoritarian Market Economies*.

2008–11–04:  
“Wake up Left, you've won!” Article in the arts

and culture pages of Sweden's largest daily newspaper *Dagens Nyheter* by Kay Glans, Glasshouse Forum's editorial coordinator.

2008–09–23:  
“Swedish development assistance put out of the running by capitalist dictatorships”. Opinion piece in *Dagens Nyheter* (the debate page “DN Debatt”) by Sten Widmalm and Sven Oskarsson, based on the Glasshouse Forum report *Tolerance and Democracy in Liberal and Authoritarian Market Economies*.

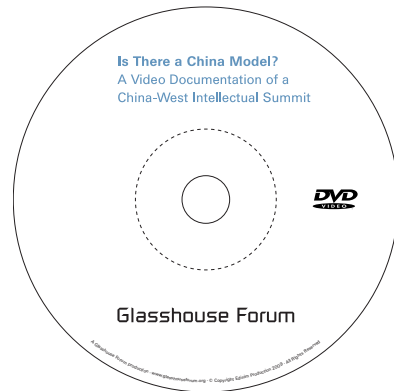
2008–09–22:  
Interview about Glasshouse Forum with Daniel Sachs, CEO of Proventus and chairman of the Concerned Capitalists Foundation, in the business section of *Dagens Nyheter*.

# IS THERE A CHINA MODEL?

## A NEW GLASSHOUSE FORUM PUBLICATION AND VIDEO DOCUMENTATION

Is There a China Model?  
A Summary and Video  
Documentation of a China-  
West Intellectual Summit

Glasshouse Forum



Most attempts to define our age have been based on the ending of a period, rather than the beginning of a new one. We have for example been called post-modernist for a couple of decades. Another influential interpretation has it that history itself has come to an end. In his essay from 1989, “The End of History?”, the American political scientist Francis Fukuyama asserted that there are no longer any rivals to democratic capitalistic society. The fall of communism had made it evident that whoever went down that road would lose out in economic, technological, and ultimately, military development. The world was converging into a single political and economic society. This “Fukuyamaism” has characterised the view on Russia and China. In its most happy-go-lucky form it has persuaded us that all we need to do is to integrate these nations in the global economy and democratisation will automatically follow. *Wandel durch Handel*, as the Germans may say (change through trade). If people have grown accustomed to choosing between different types of coffee at Starbucks, then sooner or later they will also demand a choice between different political parties – that has been many people’s simple notion of the connection between the market and democracy.

The theory announcing the end of history is now twenty years old and has not aged particularly gracefully. In that time, Russia, backed by high oil prices, has become increasingly authoritarian and stronger and has turned to Great Power politics. The Chinese economy has leapt forward at the same time as the Communist party has kept its grip on society. Either we have underestimated the time it takes to establish a robust democracy, or there is something basically wrong with the suppositions of Fukuyamaism about the relation between the economy and democracy.

Have we perhaps drawn hasty conclusions about the 20th century? Communism gave rise to societies that were so inefficient that they collapsed, but it is more difficult to assert inefficiency with regard to totalitarian and authoritarian regimes built on a capitalist base. Nazi Germany did not lose the war through inefficiency, but because the nation was too small to be able to achieve world hegemony. Neither does its defeat prove the superiority of democracy over totalitarian or authoritarian regimes. Finally, it was above all the Soviet Union, another totalitarian regime, which defeated the Third Reich.

Glasshouse Forum considers it important to analyse the relation between capitalism and politics. Perhaps a direct connection between capitalism and democracy is not there at all. In times of crisis like this, it is necessary also to consider whether capitalism may set the stage for undemocratic political movements. The inter-war Great Depression and totalitarian movements are cautionary examples.

The Glasshouse Forum project “The return of the capitalist-authoritarian great powers” aims to investigate this issue. As its starting point it takes an essay by the Israeli historian Azar Gat, in which he states that we are witnessing a return of the authoritarian regimes built on capitalist foundations.<sup>1</sup> To some extent Russia, and even more so China, appear to be demonstrating that one can achieve strong economic growth without democracy.

1) “The return of the authoritarian great powers”, *Foreign Affairs*, July/August 2007.

Has China found its own road to modernity, which can in the future continue to combine an authoritarian political regime with a capitalist economy? Is there a Chinese Model, and whom can it inspire? The first round table discussion in his project took place in Maison Louis Carré near Paris in April 2008. An edited transcript of the talks is available in the publication *An Edited Transcript from a Round-Table Conference on Authoritarian Capitalism* (Glasshouse Forum, 2008). The general conclusion reached was that there are major differences between Russia and China. Russia certainly presents a complex challenge, above all to Europe, which is dependent on its energy production, but the nation's resurrection was largely illusory and in the long run Russia has entered a downward trend. China is a different matter: a gigantic nation whose economic development is based on industrialisation with an increasing degree of refinement. China also provides inspiration to a number of countries, particularly in Africa.

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**"I think that China may be the first major economy that emerges from this crisis."  
Wei-Wei Zhang\***

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So is there reason to speak of a Chinese Model, as people are doing more and more frequently both in and outside China? There was disagreement on that point among the participants at the meeting. Some considered that it was far too early to declare China a model, others said that regardless of what people call it, delegations were arriving from all over the world to study its approach. They come of their own accord, not because of any emissaries from the Chinese regime.

Glasshouse Forum wanted to delve deeper into the issue of whether there is reason to speak of a Chinese model and how if so it should be classified. The idea was to organise an intellectual summit between Chinese intellectuals and representatives for the West. The aim was to obtain a clearer picture of developments in China and the different way in which they are interpreted, and from that to go on to a constructive dialogue. The continuity from the previous round table talks was provided by Azar Gat, Gideon Rachman and Feng Zhang. Other participants from the West were Vivienne Shue, Timothy Garton Ash and Simon Long. The representatives from China were Zhiyuan Cui and Shaoguang Wang, both renowned representatives for the Chinese "New Left", Wei-Wei Zhang, Daniel A. Bell, and Yongnian Zheng from Singapore.<sup>2</sup>

The publication comes with a DVD containing a documentation of the intellectual summit. The one hour long film has been edited and produced by Glasshouse Forum in cooperation with the Swedish production company Edinim. For downloadable files and streaming, visit Glasshouse Forum's website ([www.glasshouseforum.org](http://www.glasshouseforum.org)).

#### **In the Shadow of the Global Crisis**

The venue was again Maison Louis Carré outside Paris, and the meeting took place on 23–24 February 2009. Less than a year had passed since the last meeting, yet it seemed like another era. What had occurred in between was of course the economic crisis, which had begun in the US financial system and quickly spread to the real economy and then all over the world. The first reaction was that it meant a crisis for the Anglo-Saxon model,

and would perhaps have consequences for the standing of liberal democracy. We must not forget that the strong position of democracy is largely due to its economic and military successes.<sup>3</sup>

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**"It does seem to me that the Chinese government faces a particular problem in a way most developed countries' governments don't so acutely in that its success has been measured so much in terms of economic growth."  
Simon Long**

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However, it soon became apparent that the crisis would mean a stress test for the whole world, particularly China. The nation is interlinked with the US economy, partly through exports, partly through major dollar holdings. Growth in China has fallen to the levels considered critical to political stability. Had the economic rise of China taken a serious blow? Or would the crisis in fact hasten a global economic and political reorientation towards Asia?

It was notable, as the moderator Gideon Rachman pointed out in his summary, that none of the meeting participants leapt to the defence of Fukuyama's theory of a convergence of the world's political systems on liberal democracy. Yongnian Zheng said that the younger generation in China had become more critical to liberal democracy and gained more self-confidence from China's economic progress. Wei-Wei Zhang warned the West of being "overconfident". China had learned pragmatically from the West. Was it not time now for the West to learn from China, particularly now that the economic prob-

lems in the West have turned out to be so great?

One recurring theme was that in the West the fragility of the Chinese regime was exaggerated, and it was often presented as a small ruling elite trembling with fear of its own people. Wei-Wei Zhang commented ironically on the continual predictions of China's collapse which could be found in Western media. China would be broken by the Asian financial crisis in 1997, it was said; and SARS would bring disaster. The latest message was that the global economic crisis would destabilise China. However, Wei-Wei Zhang asserted that China is well-equipped to meet the crisis. Every economy needs to resort to state interventions to combat it, and China has more experience than anyone in that field. There is much to indicate that China will be the first major economy to emerge from the crisis.

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**"China is a one party system. A one party system needs a crisis."  
Yongnian Zheng**

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The other participants from China shared this self-confidence. Shaoguang Wang expressed the opinion that China today is much better equipped than it was in 1997. In 1997–2002, 60 million jobs were lost and there was no basic safety net. The social consequences of the crisis were extensive and gave rise to widespread political protests. Today there is a rudimentary backup in the form of a guaranteed minimum income for both the

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<sup>2</sup>) See page 15 for a list of participants.

<sup>3</sup>) See Michael Mandelbaum, *Democracy's Good Name*, 2007.

\* This quote and the following ones are from the film.

urban and rural population and improved health-care. The safety net is not sufficiently strong yet, but at least it is in place.

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**“I’m surprised how much socialist values have been incorporated into people’s value system.”**  
Shaoguang Wang

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Shaoguang Wang also underlined that it is important to view the slowdown in the Chinese economy in a wider perspective. Firstly, the high growth rate in China would have had to slow down sooner or later. Secondly, one must remember that until quite recently, the big problem in China was inflation, and perhaps the countermeasures were a little too effective. The third component in the slowdown is of course the financial crisis first noticed in the USA. However, the situation today is troublesome above all for migrant workers and college graduates, Wang went on, who are hard hit by unemployment. For the other Chinese, the situation seems fairly stable.

But has the crisis not shown that the idea of decoupling is a myth?<sup>4</sup> The quick downturn in the rate of growth in the Chinese economy seemed to confirm the very fact that the Chinese export economy is extremely dependent on demand in the USA. The USA has “spent itself silly”, as Simon Long put it, and China has financed it. The British economic historian Niall Ferguson has suggested that we regard the USA and China as one nation, “Chimerica”, since the economies are in symbiosis. China’s growth is based on American consumption, which is largely fuelled by a recycled Chinese trade surplus. It is a demand generally made on export economies

that they should increase their consumption and not rely on American demand, both for their own sakes and for that of the world economy.

Zhiyuan Cui considered that the West has overestimated the Chinese economy’s reliance on exports. Restructuring the economy to cater for the home market has been going on for some time. Niall Ferguson has actually withdrawn his Chimerica theory after a visit to the town of Chongqing in Western China, which is investing heavily in infrastructure and reckons on 18 per cent growth this year.<sup>5</sup>

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**“The government is looking to Confucianism partly as a way of making sense of what it’s doing, partly as a way of inspiring people.”**  
Daniel A. Bell

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#### **Capitalism/Socialism?**

Wei-Wei Zhang declared that China today is one of the least ideological countries in the world, prepared to test what works in a pragmatic way. However, the perception of China as a socialist state was surprisingly strong among the participants.

Shaoguang Wang said that China was still searching for a model, one that would certainly be socialist. China is much more socialist than is often realised in the West. Historically, socialism in China has meant two things: equality and not following the Western model. That applies today: socialism means economic development and shared prosperity. Another reason to underscore

the socialistic element is the scale of state and collective ownership in China. Publicly-owned enterprises today provide 40 per cent of China’s GDP. The state-owned enterprises have performed much better in recent years and have returned profits amounting to 6 per cent of GDP, Wang explained. He also pointed to the fact that surveys have repeatedly shown that socialist values are strong among the Chinese people in general.

Zhiyuan Cui too stressed the importance of state ownership. The talk of a socialist market economy was not an ideological veneer on a capitalistic reality. He referred to an idea from the British winner of the Nobel Prize in economics, James Meade, who held that profitable state-owned companies in the West can make the state less dependent on taxation and indebtedness. Meade fell out of favour after that announcement, but that is just what is happening in China. State companies return profits that keep down taxes and public indebtedness. In that way, they also make good conditions for private enterprise. There is no conflict between state and private, as is often supposed in the West. The two sectors can compete against one another in a market economy. Zhiyuan Cui also expressed belief that the crisis in the West, which has driven the nationalisation of companies, will change the view towards state ownership. The nationalisations are often presented as temporary, but this need not be the case, and in this the West can learn from China.

#### **Democratic/Authoritarian**

Yongnian Zheng was undecided on whether China should be classified as socialistic or capitalistic. It is primarily a Chinese state. The party

is not a political party in the Western sense, but a latter-day imperial state with traditional elements. It learns from the West as well as from its own tradition. Confucianism has undergone a renaissance, and with it the perception of meritocracy: those best suited run the nation’s affairs. The political system is thus based more on selection than election.

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**“Certainly from our Chinese participants, there seems to be quite a lot of confidence in the Chinese economic model’s ability to withstand the shock coming from the United States.”**  
Gideon Rachman

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Daniel A. Bell too pointed out the importance of Confucianism in today’s China. Its meritocracy and paternalism complement the socialist ideal. In the future, China will be a mix of meritocracy and democracy. This polarity, not the polarity between democratic and authoritarian, is central. The attempts to present this as something specifically Chinese brought disagreement from the participants from the West. Azar Gat reminded the meeting that the vision of government by the wisest is formulated as early as Plato’s *Republic*, certainly not an insignificant text. And was the

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4) The decoupling theory holds that European and Asian economies, especially emerging ones, have broadened and deepened to the point where they no longer depend on the United States for growth, leaving them insulated from a severe slowdown there, even a fully fledged recession.

5) See Niall Ferguson, “The End of ‘Chimerica’”, <http://standpointmag.com/node/399/full>.

socialist market economy not fairly similar to the European social market economy? It is in addition difficult to put Western individualism alongside Asian collectivism. As Timothy Garton Ash noted, it is not difficult to find examples of anti-individualism in Western tradition. Wang countered that by replying that one can find every value in every culture, but there is a difference in how the values are ranked.

According to Wei-Wei Zhang, the democracy-/autocracy dichotomy obscures the crucial issue of whether or not it is good governance. There are examples of bad governance both in democracies and in dictatorships. The legitimacy of a regime must be based on substance, not procedure. China has repudiated both the Soviet Union and the Western model and is now pragmatically and experimentally finding its own way. Experience indicates that liberal democracy only works in countries that have been through the Enlightenment.

Vivienne Shue was of the opinion that the concept of authoritarian has become more or less meaningless with regard to China. The political dynamics are much more complex and demand constant renewal. Many of these innovations, which are to do with different forms of pluralism, possibilities to articulate differing interests and greater inclusion, have been initiated top-down. There is no sign of the rate of change slowing. The Chinese today see it as evident that their future system will look different.

There is an old tradition in China, Yongnian Zheng pointed out, to see the Emperor and the people as good, but the middle strata as evil. This applies today too. The legitimacy of the central

leadership is solid in the eyes of the people. It is the local leaders who take the blame and who risk being dismissed if there is serious dissatisfaction with them. This vertical breadth in China is reminiscent of the American, Timothy Garton Ash said, and it can be a source of strength. It is important to bear that in mind, so that we do not assume we are dealing with an ordinary Asian tiger: it is something much bigger. This special structure with an intermediate buffer is an important explanation for the stability of the Chinese regime, said Vivienne Shue. It gives elasticity and flexibility and also makes it possible to articulate political dissent.

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**“I think corruption could be the fatal flaw in the Chinese case.”**

**Vivienne Shue**

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One decisive issue is of course how this selection is made, if it is not through election. And how can a regime create and renew its legitimacy in the absence of free elections? This was a recurring objection from the participants from the West: only free elections can confirm and renew the legitimacy of a government. But are there possibilities to let public opinion influence decisions even without free elections? Massive efforts are made in China to probe and take into account public opinion. There is today a full-blown industry that canvasses opinions and reactions, Shaoguang Wang pointed out. Every university has such departments, and those in power know that they will be the object of such surveys in all shapes and sizes.

Why does the Chinese regime enjoy such widespread legitimacy in the eyes of the people, and

even more so than earlier? Wang cited Seymour Martin Lipset’s legitimacy theory, which says that a regime is legitimate if it is the best feasible alternative. Some alternatives can be feasible but not better – the Soviet Union was put forward as an example. Others are perhaps better but not feasible, such as Western democracy. In this intersection between good and feasible, the existing regime appears the best alternative. Simon Long countered that this could be due to the fact that the regime did not permit any other alternatives to be visible.

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**“The system is everything from Confucianism to punk and therefore cannot possibly be summarised in any single ism.”**

**Timothy Garton Ash**

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One concept central to understanding how the regime is perceived and how it sees itself is performance legitimacy. One wins legitimacy by doing the right things. This was set against procedural legitimacy, which one has in the West – substance against procedure. This can mean anything from reacting quickly to events to steering macroeconomic development. It took 9 hours for Indian elite units to arrive at the scene after a recent terrorist attack, while it took 20 minutes for the Chinese army to mobilise when an earthquake occurred.

Feng Zhang pointed out that the entire symbolism of the Olympics was a signal to the population that China has now regained its pride after centuries of humiliation, an event that was completely central to Chinese behaviour and feelings. However, as China grows in power, it will most

probably relate to imperial periods farther back in history. There is a widespread belief – Feng Zhang spoke of myths that are used to structure the debate – of Chinese superiority over the West in that it had pursued a more peace-oriented foreign policy, and it is probable that this perception of superiority will grow if the current crisis worsens.

The central objection to the perception of performance legitimacy was that it is difficult to measure. Irrespective of how much one talks of meritocracy and good governance, one must not forget that corruption is a big problem in China. Vivienne Shue feared that corruption may turn out to be China’s “fatal flaw”.

#### **A Chinese Model?**

Is there then reason to speak of a Chinese model, both as part of self-understanding and as an inspiration to others? Several participants had major reservations over this. Vivienne Shue warned that models are always simplifications and are rooted in dreams of something primal. In reality, all models are hybrids. China has assiduously borrowed from both the West and Asia. If one compares a Western model with a Chinese model, there is also a risk of simplifying the road that the West has taken towards modernity – one must not forget that the modernisation of the Western states encompassed slavery and imperialism and that it was not a straight road.

Azar Gat mentioned that industrialisation in the West occurred before the introduction of democracy, and industrialisation would perhaps not have been possible if the people had had their say, since the burden on large groups is so tangible.

The Chinese government stifles opposition to modernisation, and perhaps this is the only possible course. In the case of India one might suspect that industrialisation and urbanisation are impeded since the majority want to avoid the pressures. Gat considered that it was too early to speak of a Chinese model; it lies farther ahead in the future, when China has become more developed. As yet however, we know very little of the future China. How will it react when its comparative advantages diminish? Will it become protectionist and isolate itself?

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**“The brittleness or fragility of the Chinese political system may have been exaggerated in some of our Western assessments.”**

**Vivienne Shue**

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Shaoguang Wang pointed out how difficult it is to clearly define the Chinese model. If one manages to clearly define it, then it is not the Chinese model. However, we can assume that it will be different from in the West and that it will be socialist in the sense that it will emphasise a combination of socio-economic equality and economic growth.

If in fact there is a Chinese model then it is not certain that it is for export. Wei-Wei Zhang stressed that the Chinese have no ambitions to preach to others. Neither do they need to seek Western approval for their society. Simon Long doubted the exportability, by referring among other things to the fact that China’s position, both in time and space, has been of major importance to the country’s development. The economic conditions that have prevailed in recent decades would not apply to anyone wishing to emulate

China and one should not overlook the importance of geography when developing an export economy.

Timothy Garton Ash said that China would perhaps never become a model for others, but would simply be China. It is perhaps the great ideological challenge to come for Western universalism that nations refrain from such model-ambitions and choose simply to be themselves.

#### **Historic Cliff-Hanger**

When this intellectual summit was over, we at Glasshouse Forum had the feeling of going through a historic cliff-hanger. It will probably not take long for us to get answers to some of the questions about China and its model if any. The crisis will catalyse events.

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**“China is still a developing country and it has a long way to go.”**

**Azar Gat**

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Winston Churchill once said of the power struggle in the Kremlin that it was like watching dogs fight under a carpet. After tumult and noise, a victor emerged. To some extent, the global situation gives that impression today: dogs fighting beneath the world map. It is very difficult at present to predict who will emerge stronger from the global crisis. Perhaps there will be several victors, bloody and dishevelled.

#### **List of Participants**

**Timothy Garton Ash**, Professor of European studies in the University of Oxford, Isaiah Berlin Professorial Fellow at St Antony’s College, Oxford and a senior fellow at the Hoover Institution, Stanford University. **Daniel A. Bell**, Professor of Political Philosophy and Ethics in the Department of Philosophy at Tsinghua University, Beijing. **Zhiyuan Cui**, Professor, School of Public Policy and Management, Tsinghua University, Beijing. **Azar Gat**, Ezer Weizman Professor of National Security at Tel Aviv University. **Simon Long**, Asia editor for *The Economist*. **Gideon Rachman**, Chief foreign

affairs columnist for the *Financial Times*. **Vivienne Shue**, Leverhulme Professor and Director, Contemporary China Studies Programme, Oxford University; Fellow, St. Antony’s College. **Shaoguang Wang**, Professor of Political Science at the Chinese University of Hong Kong. **Feng Zhang**, PhD student at the London School of Economics, and researcher at The Foreign Policy Centre in London. **Wei-Wei Zhang**, Senior Research Fellow, Centre for Asian Studies, Geneva and Professor of International Relations, Fudan University, Shanghai. **Yongnian Zheng**, Professor of Chinese Politics, Director of the East Asian Institute, National University of Singapore.



**Standing from the left:** Zhiyuan Cui, Azar Gat, Yongnian Zheng, Wei-Wei Zhang, Feng Zhang, Simon Long, Daniel A. Bell. **Sitting from the left:** Timothy Garton Ash, Shaoguang Wang, Gideon Rachman, Vivienne Shue. Photo: Jonatan Kruse.

# TOWARDS A NEW AUSTERITY?

US household consumption has been the engine of the world economy. This structure has to large extent been financed by debt and is no longer sustainable. How will the younger generation, used to high levels of consumption, react to the crisis? Will we see a renaissance for thrift, and a shift towards a culture less focused on material wealth?

## In the Valley of Debt

In a televised speech after the terrorist attack on 11 September 2001, George W Bush called upon the American people to continue shopping so that the economy would not come to a halt. In wars previously, people had been primed to accept a more frugal existence. Now their civic duty consisted of continuing the spending spree.

It is tempting to take this as a sign that society has entered a new state. The French sociologist Gilles Lipovetsky says that we have left the era of mass-consumption and are living in hyper-consumption. In it, consumption has been completely deregulated: there is no institutional counter-

weight such as the Church or the family. Culture too is extremely individualistic. It is less about conspicuous consumption to assert one's status in the group, and more about exploring feelings and sensations and constantly experiencing something new.<sup>1</sup>

One lesson we have learned from all the projects in Glasshouse Forum is that many of the phenomena we have studied – short-termism, income differentials<sup>2</sup> – have turned out to be closely related to the expansion of the financial sector, and are therefore affected by the prevailing crisis.<sup>3</sup> Can it be that consumption patterns established in recent decades are also associated with financialisation? Will the crisis give rise to a new aus-

terity? It could be a question both of making a virtue of necessity, and a necessity of virtue – not only working off an unreasonable debt burden, but also seeing thrift and moderation as positive values. The American consumer in particular has been walking in a veritable Valley of Debt.

In many parts of the world, moralising fingers have been wagged at Americans for living beyond their means. US household consumption in 2007 was equivalent to 72 per cent of GDP – compared to China's 35 per cent in 2005.<sup>4</sup> The entire world economy, however, has been dependent on US consumption and when its demand slows, export nations worldwide jam on the brakes. This applies not least to China, which recycled its surplus, giving the Americans the opportunity to borrow for further consumption.

Why have borrowing needs been so high in the USA? It is connected to a long-term tendency in the US economy. The relation between productivity and pay has been phased out. Between 1959 and 1979, pay increased relative to productivity; since then salaries have been “flatliners”, even though productivity has increased. From the end of the Second World War to the mid-1970s, it was pay increases that kept up consumption and demand in the USA. Subsequent consumption has to an increasing degree been based on borrowing. The debt volume in the USA increased from 140 per cent of GDP in 1973 to 328.6 per cent in 2005. Since 1989, it has been household indebtedness that has increased most.<sup>5</sup>

The Levy Economics Institute of Bard College publishes a regular strategic analysis. The first of them was published in 1999 and was already warning of the unsustainable imbalances that were

arising. In its latest strategic analysis from the end of 2008, “Prospects for the United States and the World: A Crisis That Conventional Remedies Cannot Resolve”, the institute asserts that the crisis is so deep that it cannot be mastered by conventional means.<sup>6</sup> There is a need among other things for an eventual devaluation of the dollar by 25 per cent. The USA is no longer the player it once was, and neither will the American households be able to act as the powerhouse of the world economy. Dimitri B Papadimitriou, who leads the strategic analyses, says to Glasshouse Forum:

“In the US especially, to some extent Britain and to a lesser extent other countries in Europe, there has been consumption profligacy in the private sector, primarily the household sector, outspending its income because of the easy money that we have had in the past. But the latest statistics confirm that there will be a rebalancing of the balance-sheets of the household sector. And if there is going to be a savings growth, somebody else will have to pick up the pieces so we don't have a further decline in effective demand. Given how

<sup>1</sup> Gilles Lipovetsky, *Le bonheur paradoxal. Essai sur la société d'hyperconsommation*, 2006.

<sup>2</sup> See the projects “Short-termism in the long run” and “Globalisation and the middle class in the West”.

<sup>3</sup> See “The Fall of Babylon”, *LookingGlass* 2/2008. <http://www.glasshouseforum.org/newsletter.html>.

<sup>4</sup> See *Financial Times* 8 April 2009, “China's consumption is a disappearing act”.

<sup>5</sup> See Thomas I Palley: “Financialization: What It Is and Why It Matters”, Working Paper No 525, The Levy Economics Institute, 2007.

<sup>6</sup> See [www.levy.org](http://www.levy.org).

much the private sector was spending, what the government is to spend is nowhere near enough to compensate the private sector. So I foresee we will have a period of protracted decline in growth, until a more coordinated effort can take place, which will include some adjustment of the exchange rate.”

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**“Given how much the private sector was spending, what the government is to spend is nowhere near enough to compensate the private sector.”**

**Dimitri B Papadimitriou**

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#### A Tour in Debtopia

But perhaps the American consumer would in many ways live a better life through consuming less? What does it say about a society if it spends so much over its assets?

Back in 1979, in his classic *The Cultural Contradictions of Capitalism*, the sociologist Daniel Bell maintained that the credit card would have an enormous impact on society. Capitalism was undermining itself by giving contradictory imperatives. As producers we must still be governed by what Max Weber called a protestant ethic – work hard and postpone satisfaction in favour of long-term goals. As consumers, though, we are driven to want everything immediately. Bell saw a correlation between the countercultural cult of the self as the centre of all things and modern consumerism. The result would be an irresponsible and hedonistic individual.

How do things look, though, in Debtopia? Let

us make a study visit, with a travel guide in the form of “For a New Thrift. Confronting the Debt Culture. A Report to the Nation from the Commission on Thrift.”<sup>7</sup>

In itself, it is not a new phenomenon for people to find it hard to make ends meet and to be forced to borrow on unfavourable terms. A hundred years ago, 3 workers in 10 in New York owed money to loan sharks. Popular movements gradually arose, which were dedicated to combating this and which built up a number of institutions and regulations that promoted saving.

We seem to be in a similar situation today: in 2004, a typical family in the USA spent more than 18 per cent of its income on debt payments. In 2008, more than 58 per cent said that their income was falling behind the cost of living and they must rely on credit to make ends meet.

The pre-condition for this debt culture was a total transformation of the institutional landscape over recent decades. The institutions that earlier existed to encourage thrift and economic planning have been overshadowed by a series of new ones which drive people to spend more than they can afford and which in addition drive them to borrow on unfavourable terms. These institutions invariably avoid presenting a complete cost breakdown.

When credit cards came in the 50s, they were a marginal operation for banks. They were held by people who were careful to pay in time, and usury laws set a limit of 12–14 per cent on the maximum interest rate banks might set. Some banks found it so unprofitable that they ceased credit card operations. Since the 80s, usury limits have in

practice been abandoned. That has led to a market for providing long-term credit to financially shaky customers. Between 1989 and 2000, the rate of cardholding among the general population rose from 70 per cent to 76 per cent, while cardholding among households in the lowest income quintile rose from 29 per cent to 43 per cent. The credit card industry was the first anti-thrift sector to discover the huge but untapped profitability of the sub-prime market. It was also first to create techniques to ensure long-term dependency on expensive credit. These techniques include teaser-interest, which means that indebtedness does not immediately have tangible consequences. The method is reminiscent of developments in sub-prime mortgaging. Between 1989 and 2001, credit card debt almost tripled, from 238 billion USD to 692 billion USD. By 2007, revolving consumer credit had reached a level of 937.5 billion USD.

Among the new institutions that counteract thrift, we have payday lenders. At the beginning of the 90s, there were just a few of them in the USA. Between 2000 and 2004 the number doubled from 10,000 to 20,000. Payday lending is one of the fastest-growing and most profitable industries. Revenues have grown from 810 million USD in 1998 to 28 billion in 2006. The principle is simple. People need money when waiting for their salary or welfare benefit or whatever, and since they have no savings, they take a loan as an advance. These loans are so structured that they are difficult to repay. Instead, one is tempted to take new loans and so become ensnared in a constant need for money borrowed on unfavourable terms.

These new institutions have set up new norms and values, or strengthened those that already exist.

“Fast” is one of the most common words in advertising for these loan operations. They have removed the stigma of indebtedness and are schooling young people in this culture. Thrift has acquired a slightly negative aura.

In the middle of the boom a few years ago, when the Commission on Thrift convened a conference of leading academics on the theme of thrift, it turned out that they were either uninterested or had a condescending attitude towards thrift. “It was a waste of money,” says the prominent member David Blankenhorn to Glasshouse Forum. After the sub-prime crisis, things are different, but the reorientation that Blankenhorn is calling for is still hard to digest for most people. If thrift is a threat to the world economy, then the economy is quite simply unsustainable, says Blankenhorn. He admits that there is a connection between pay formation and the debt culture, but does not consider this the main reason:

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**“There has been a shift in our cultural values that has lessened our worry about debt.”**

**David Blankenhorn**

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“There has been a shift in our cultural values that has lessened our worry about debt. Those changes have not been driven by necessity, as much as by cultural and psychological factors. We have a lot more money than our grandparents did, and yet we spend it on a fair amount of stuff they never imagined they needed. The average American

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<sup>7</sup> Published by The Initiative for a New Thrift, [www.newthrift.org](http://www.newthrift.org). Facts in the following passage are taken from this report.

today is so rich, compared to his or her grandparents. It is our philosophy of life – what it means to live a fulfilled and happy life – that has changed. It is our whole attitude towards our stewardship of the material world that has changed. It can't be explained simply by the cost of healthcare or anything like that. To me these are cultural value questions: the responsibility must be within us.”

“Thrift is an ethical posture toward the material world, an ethical stance toward our resources. It draws heavily on the religious concept of stewardship – what we have is not ours, it is held in trust. The thrift ethic emphasises personal frugality, a non-ostentatious, non-conspicuous lifestyle in the interests of stewardship. The kind of mindless consumerism that we have been guilty of probably more than any people on earth is flatly at odds with the thrift ethic. This is not some alien idea that we have got from Europe or some advanced thinker. This is a very ancient point of view that has influenced many generations of Americans.”

“There is a danger that many feel that as soon as we can get the economy bailed out and stimulated, then we can go back to business as usual. Many think of thrift as an unpleasant medicine for hard times, but thrift is a positive vision for a good life.”

### Save Our Souls?

There are signs that we are coming to a shift in consumption patterns. According to the *Financial Times*, a consensus is being established on the emerging consumer profile in the USA. A Citi-group report says that the American consumers are turning towards conscientious consumption

and focusing much more on thrift. These are probably lasting changes. Alix & Partners predicts that spending after the recession will be only 86 per cent of the pre-recession level. Ed Kerschner, chief investment strategist at Citi Global Wealth Management, says that there has been a break with the mentality since the Reagan years that has accepted conspicuous consumption. American anthropologists also believe that the Americans will “un-stuff” their lives and focus more on community.<sup>8</sup>

A crisis must probably interact with long-term changes in society to become a formative experience and lead to a new approach. One such basic tendency is the growing predominance of post-materialistic values that Ronald Inglehart has indicated.<sup>9</sup> He said that increased prosperity after the Second World War meant that materialistic values, emphasis on individual security, social advancement and prestige were gradually replaced by post-materialistic values that emphasise self-development, quality of life, emancipation and civic participation. This tendency is continuing, and is not affected in any straightforward way by economic problems.

An example of this is Germany, which has had a fairly rough ride since re-unification. Martin Kroh at the Deutsches Institut für Wirtschaftsforschung has nevertheless found that the post-materialists have increased from 38 to 47 per cent in the past 20 years. Germans from the former East Germany have also adopted post-materialistic values and have caught up with their West German compatriots.<sup>10</sup>

Post-materialistic values are often interpreted as a consequence of material wellbeing during child-

hood. However, Kroh feels able to show that there is no unequivocal connection between values and the economic conditions during upbringing. It seems the parents' values have a considerably greater impact than socio-economic factors. Glasshouse Forum asked Martin Kroh whether an extended crisis will lead to a greater emphasis on security.

“The theory of post-materialistic value change would indeed predict that the current financial crisis has minor effects on the engrained values of the adult population. Like the war generation in Europe never gave up their materialistic orientation (high relevance of stability, order, etcetera) even at times of high economic growth, the cohorts raised in the wake of the student protests of the late 1960s in particular won't abandon their priority of post-materialistic views (self-expression, emancipation, etcetera). A return to materialistic values could be expected if the financial crisis radically impairs the prospects of the young generation. This may create a lasting need for economic security in these young adults that subtly changes public opinion in the direction of materialism in the coming years. However, do we really expect a long-lasting crisis that overburdens our welfare systems and creates miserable living conditions for a large part of the population?”

“This does not mean that the crisis has no effect on savings, for instance. But here one needs to conceptually distinguish between values and actual (economic) decision-making. The latter may not only be a function of values but also of contextual incentives, such as the crisis.”

“In his early publications, Inglehart speaks of bourgeois values instead of materialistic ones.

This stresses that materialism does not equate with consumption. Members of a bourgeois society, ideally, pursue affluence intrinsically, because it represents besides the capacity for consumption, and a certain status, security, and prestige. In a post-bourgeois society, ideally, affluence loses its additional intrinsic value and becomes solely a vehicle for consumption. In that respect, materialists would all else remaining the same suffer more from losing their affluence. However, severe restrictions on consumption would hurt both materialists and post-materialists. Even organic fair-trade products are expensive.”

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**“The younger generation has not yet been tested in a crisis.”**  
Martin Kroh

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“The younger generation has not yet been tested in a crisis. Indeed, it may be true that someone who is familiar with an economic crisis is not only more likely to value economic security during affluent times, but in the event of social decline is better prepared to accept it.”

In many cases, new life patterns are borne by new generations, and they can lead to stark reorientation with regard to the values of the preceding generation. Something along those lines has been

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<sup>8</sup> *Financial Times* 8 April 2009, “‘New’ US shopper to emerge from crisis”.

<sup>9</sup> Ronald Inglehart, *The Silent Revolution: Changing Values and Political Styles among Western Publics*, 1977.

<sup>10</sup> Martin Kroh, “Wertewandel: Immer mehr Ost- und Westdeutsche ticken postmaterialistisch”, DIW Wochenbericht, Nr 34/2008.

announced for the generation born between 1982 and 2004, who in the USA are called the Millennials. In a book written together with William Strauss, *Millennials Rising. The Next Great Generation* (2000), Neil Howe described them as a great political generation in the future USA, on a par with those who conquered the Depression and fought in the Second World War.

The Millennials have broken with several long-term trends, for example in criminality, drug abuse and study results and there are indications that they are bearers of a new sense of life. It is a cosseted generation: they are close to their parents, healthier and less prone to injury than any previous generation. They are also notable for their optimism. In 2005, 65 per cent of those aged 18–25 thought that they would be economically more successful than their parents.

They also apply a different problem analysis than the preceding generation. They have formative experience of individuals or groups running amok, and therefore have a more positive view towards the state. “Millennials have been moving to the ordered center rather than pushing the anarchic edge”, Howe states in a fresh update, “Yes We Can. The Emergence of Millennials as a Political Generation”, written together with Reena Nadler.<sup>11</sup> The Millennials have already made their political mark through their solid support for Obama.

In some ways we seem to be facing a perfect matching between generation and crisis. That which the times demand is what the Millennials strive for anyway. They stand to the left in economic issues and want regulated capitalism. On cultural matters they have been described as

neo-traditionalists for their respect for family and traditions. They also have firm trust in authorities and want them to intervene in citizens’ lives through a paternalism of the kind that Richard Thaler and Cass Sunstein propose in their book *Nudge* (2008). They also want to reduce income differentials and strengthen the middle class, and think that the demands of the common good must often take priority over individual freedom. The Millennials are the most racially diversified generation in US history, but are sceptical to identity policies and factors that appear to set one group against another. They prefer that minorities are integrated in the majority culture and have opportunities to succeed there.

There is a but, and it concerns their capacity to resolve the crisis and form the future. It is a protected generation that lacks experience of setbacks. Will its optimistic view and drive be lasting? Glasshouse Forum asked Reena Nadler.

“It is of course impossible to predict exactly how this generation will handle an unknown series of possible events. What we can do to get a broad perspective on how Millennials are likely to handle a prolonged crisis is to look at the development of prior generations in history that had similar characteristics – what Howe and Strauss identified as a similar generational archetype.”

“The prior generation that best resembles the Millennials is the GI generation, born 1901 to 1924, the rising young adult generation during the Great Depression and World War II. Similarly to the Millennials, the GIs grew up during a long period of prosperity (the roaring 20s) and were coddled and watched-over as a special generation by parents, teachers, and policy makers. The GIs

were also known for their upbeat, can-do attitude and team spirit – and when, as young adults, they encountered the Great Depression and World War II, these traits became even more pronounced.”

“We now think of them not as coddled children, but as the heroic, team-spirited CCC dam builders and World War II veterans who rose to the challenge when their country needed them.”

“It is likely that Millennials will rise to the challenge in a similar way if America faces a prolonged crisis in the years ahead. Certainly this generation’s self-confidence makes it harder for them to bounce back from personal disappointments. But their civic confidence and team orientation makes it easier for them to pull together as a community in the face of society-wide disappointments. They are more likely than older generations to be devastated by a poor personal performance review in the office – but less likely than older generations to object if everyone office-wide votes to accept a benefit cut to keep the company afloat.”

Are not the older and younger members of this generation growing up in separate worlds? The older ones, born in and after 1982, have enjoyed a period of unique prosperity for almost the whole of their upbringing, while the younger ones will have the crisis among their childhood memories. An American anthropologist recounts that his little daughter asks with concern whether they have a debit card and not a credit card which daddy uses to pay in the shop. She has already learned that a credit card can spell disaster.”

“Yes, there can indeed be differences in the experiences of the first and second half of a genera-

tion. What we usually see is that the second wave of a generation tends to continue the trends begun by the first wave but even more so. For example, the first wave of the Boom generation started many new trends that were a clear break from the Silent Generation that came before them – towards more risk taking, drug abuse, falling educational achievement, widening income range, etcetera. The second half of the Boom generation experienced all these trends to an even greater degree. We are already seeing similar developments among the Millennials, where late-wave Millennials are intensifying the generational trends towards risk-aversion, falling substance-abuse rates, rising protection, etcetera. If younger Millennials enter young adulthood in a more intense atmosphere of crisis than their older counterparts, we can expect these kinds of differences to continue.”

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**“Millennials are likely to adjust more easily to the idea of less prosperity by buckling down with their peers and experiencing the change as a group.”**

**Reena Nadler**

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“Millennials are likely to adjust more easily to the idea of less prosperity by buckling down with their peers and experiencing the change as a group.”

“After all, prosperity is a relative, socially-defined phenomenon, and Millennials are a far more interconnected, social generation than Boomers or Gen Xers. If none of her peers has a Play-

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<sup>11</sup> Published by The New America Foundation, 2009.

station, a Millennial won't want one either – especially since having one might make her stick out from the crowd and make her friends feel bad.”

### Private Interest and Public Purpose

Even though new generations are often bearers of a new approach, a changed mentality is not of course solely dependent on generation handover. The cultural and political climate has a tendency to swing between certain primary positions. After a certain position has been dominant for a time, it seems to have exhausted its potential and a movement begins towards its opposite.

The American historian Arthur M Schlesinger Jr. stated in the essay “The Cycles of American Politics” that there is in American history a cyclic movement between private interest and public purpose.<sup>12</sup> The latter is characterised by public action, passion, idealism and reform. However public purpose takes time and energy and gradually exhaustion and disappointment take over. Matters are left to the market's invisible hand, and people focus on their private affairs. Wealth takes over from Commonwealth and it gradually leads to corruption at different levels of society.

Privatisation is not limited to politics – it occurs in literature, which turns its back on society and focuses on the traumas of the family and the individual. Even disciplines like economics and political science take part in the same retreat and abandon wider historical visions and public responsibility, and become behavioural, quantitative, mathematical, antiseptic, and “value free”.

In many ways, it is pertinent to characterise the

latest decade as a time dominated by private interest, in everything from preoccupation with the private sphere and the small circle, and faith in the market's invisible hand, to elites mutually enriching each other. An indication of a current shift is that the approaching times will demand public purpose. It is about enduring through joint efforts and working one's way out of the crisis, as well as forming a functional order. The hyper-individualistic hyper-consumer that Lipovetsky describes will appear rather alien in a spirit of the age defined by a public purpose.

Through emphasis on the collective, such a period will feature other consumption patterns, above all with regard to conspicuous consumption. Benchmarks and motivation change when a public purpose becomes central. Status is achieved through significant contributions to the public purpose. (Is perhaps self-exploratory hyper-consumption largely an attempt to deal with a lack of public purpose?) Millennials seem to be the tailor-made bearers of such an ethos, with their will to put the collective before the individual.

Glasshouse Forum asked Reena Nadler whether Millennials might represent a shift from preoccupation with material matters to interest in culture. She feels that such expectations are typical for an older generation.

“The idea of focusing on ‘culture and meaning’ in times of low prosperity is in fact very Boomer, and I'm sure we'll hear a lot of Boomer pundits talking about that in the years ahead.”

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<sup>12</sup> In Arthur M Schlesinger: *The Cycles of American History*, 1986.