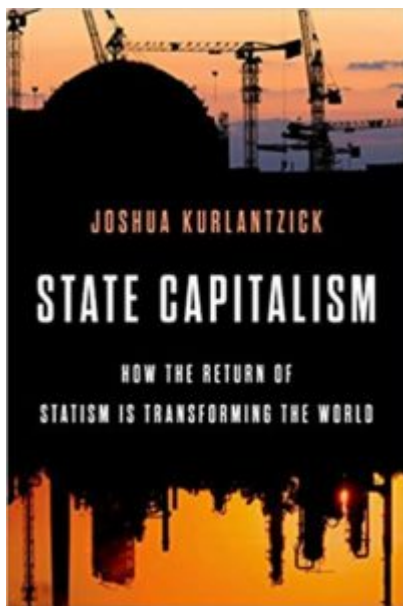


# What is New About State Capitalism in the 21st Century?

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Joshua Kurlantzick, *State Capitalism: How the Return of Statism Transformed the World*. Oxford: Oxford University Press, 2016.

For much of the left, since the 1980s, neoliberalism has been an all-encompassing term to identify the character of contemporary capitalism. Neoliberalism has been defined as the privatization of public property and services, deregulation, free market trade and globalization. Since the 2008 economic crisis, however, with the collapse of the neoliberal model or Washington Consensus, some leftist as well as liberal analysts have argued that this concept is not adequate for defining the current character of global capitalism.<sup>(1)</sup> It does not explain the statist character of the emerging economies and, most recently, the rise of authoritarian statism in Western countries.

The author of the book under review argues that “a new-era state capitalism” is on the rise all over the world (pp. 3, 7). He offers some important facts and analyses on the direction of the global economy, enumerates the features that are new in this new type of state capitalism, and argues that it is more resilient to capitalist crises. Although he writes from the vantage point of a fellow of the Council on Foreign Relations, he can give socialist readers some insights about the current direction of global capitalism.

1. What is the “new type of state capitalism”? How is it different from pre-20th century forms of state intervention as well as 20th century forms of state capitalism that existed in the former USSR, Maoist China or the East Asia development model or western welfare states and mixed economies?

Kurlantzick defines state capitalism as state ownership or significant influence over more than one third of the 500 largest companies (by revenue) in a country. This state ownership or control is not limited to sectors such as energy, defense and communications. It is not based on isolation from the world market but is open to global trade and technological innovation. It also uses modern management techniques similar to any multinational giant, and hires managers who do not promote profitability.

Based on Kurlantzick's definition, China is the most prominent state capitalist country in the world. However, in order of efficiency, from the most to the least efficient, the following states fall into this category: Singapore, Norway, Malaysia, Thailand, Turkey, United Arab Emirates, Qatar, China, South Africa, Brazil, Indonesia, India, Vietnam, Argentina, Kazakhstan, Venezuela, Russia, Saudi Arabia, Iran, Uzbekistan, Egypt, Algeria.

Kurlantzick argues that although states have interfered in their economies for centuries, state intervention has become far more extensive on a global scale in the past two decades since the late 1990s. This intervention is not limited to state spending and work projects, protecting domestic industries (through tariffs and subsidies) and controlling strategic industries. It is not an emergency measure such as the 2008 bailout of bankrupt companies in the U.S. and state ownership of General Motors. It is also not aimed at autarky or creating a pure state-owned economy. Instead, this new state capitalism combines statist strategies with aspects of free-market strategies used by multinational companies. "Thus it may have a better chance of surviving over the long term compared to strategies pursued by Maoist China, The Soviet Union and even a more democratic state capitalism in the 20th century like France" (p. 22).

This state capitalism is also not monolithic but is better understood as a continuum (p. 7). With the exception of Norway, it includes mostly authoritarian and nominally democratic states. Within this continuum, Kurlantzick concentrates on China and the emerging economies.

## *2. What factors have brought about this new type of state capitalism since the late 1990s?*

The two most important factors in the author's estimation are the 1997 Asian financial crisis and the 2008 financial and economic crisis.

In the 1990s, the former states of the collapsed USSR as well as India, African and Latin American countries that had followed the centrally planned import substitution and autarky model, experimented with the prescription of the Washington Consensus (proposed by economist John Williamson for Latin America in the 1980s). According to Joseph Stiglitz, however, the Washington Consensus which aimed to reduce government intervention and state spending and promote private domestic and foreign investment as well as trade liberalization, failed to promote significant growth in most nations" (p. 54).

Kurlantzick acknowledges that the neoliberal model in the 1990s in Africa, Latin America, South Asia and East Asia pushed people into poverty, increased unemployment for the majority of the laboring populations of emerging countries and also led to increasing speculation and bubbles which in turn led to the 1997 Asian financial crisis: "By contrast, Malaysia and China which shunned IMF advice and kept their currencies pegged and protected, and many of their banks and large companies in state hands, survived the crisis far stronger initially than Thailand or Indonesia" (p. 75). They did not face an upsurge of poverty, capital flight and speculation. Their debts increased but their economies grew. Kurlantzick concludes: "The moral of the Asian financial crisis of 1997 was that only countries that had not given in to liberal economic reforms had survived without a heavy dose of pain" (p. 75).

Following the model of state intervention, after the 2008 economic and financial crisis, the U.S. government also bailed out banks and companies that were “too big to fail.” Western observers began to argue that a more centralized model as practiced in China or Singapore might avoid the short-term profit orientation that created the maze of gambling type derivatives and mortgage investments that sparked the 2008-2009 financial crisis.

Kurlantzick argues that rapid economic decision making of the Chinese leadership that did not have to deal with the impediments of the legislative and judicial branches or a free media seemed more effective. He also cites Thomas Friedman, one of the strongest advocates of neoliberalism, praising the process of economic decision making in China: “One party autocracy certainly has its drawbacks. But when it is led by a reasonably enlightened group of people as in China today, it can also have great advantages. One party can just impose the politically difficult but critically important policies needed to move a country forward” (p. 77). Even John Williamson, author of the Washington Consensus, was asking: “Is the Beijing Consensus Now Dominant?” and arguing that “China’s economic strategy had proven far more effective” (p. 77).

By 2011, India reversed some of the neoliberal reforms of the early 1990s and early 2000s. Narendra Modi, governor of Gujarat and leader of the extreme nationalist BJP became president in 2014 and partially owed his support to his advocacy of a return to more state intervention.

In Russia, the utter poverty experienced by the majority of the population following the introduction of neoliberal measures in the 1990s, created the condition for the rise to power of Vladimir Putin in 2000. Putin also partially owed his support to his advocacy of more state ownership and control as the basis for “making Russia great again.”

In Brazil and South African, the increasing poverty and hardships which the masses experienced after the introduction of the neoliberal measures in the 1990s led to the rise of more state interventionist governments such as those of Lula da Silva in Brazil in 2003 and Jacob Zuma in South Africa in 2009.

In the wake of the 2008 economic and financial crisis, China further increased its emphasis on state ownership and state intervention. The Chinese Communist Party relied heavily on nationalism as a unifying ideology. Xi Jinping who became the chairman of the CPC in 2013 launched a Maoist style campaign against neoliberalism and liberal democracy (p. 82). China also gained an important role as a lender of capital at a time when the 2008 economic crisis led to a sudden drop in international capital flows to developing nations.

### *3. How has this new type of state capitalism proved to be “more resilient” in China?*

The main point argued in this book is that the new state capitalism, especially as it is practiced in China and Singapore, can perform better than neoliberalism in terms of productivity, profitability, employment and efficiency. It is also more resilient to economic crises. China’s experience since the late 1990s is cited as proof.

Kurlantzick argues that China was able to avert an economic collapse in 2013 and a stock market collapse in 2015. In 2015 its production of goods and services grew by 6% (p. 18) and its state firms still represented 89 of 500 slots in *Fortune’s* 2015 annual ranking of largest revenue (p. 96). In his opinion, the key to the success of state capitalism as practiced in China is the following:

1. Full ownership or ownership of a majority share or voting class share, or control through party and army appointment of board and CEOs of strategic industries such as energy, communications, transportation, automobile and auto parts production, all heavy industry and

banking.

2. Tax breaks, low-interest or no interest loans and no rent for state owned companies if they maintain standards of profitability and efficiency. Closing companies that do not produce profitability and punishing their managers.
3. Allowing the private sector to enter industries that are not deemed strategic, such as light industry or the service sector. In many cases, nominally private companies are subsidiaries of state companies. Even private companies are highly dependent on the state for tax breaks, loans, government contracts, and have army and party members on their boards.
4. Introduction of international technologies through allowing foreign multinational corporations to participate in joint ventures which help Chinese partners become more technologically advanced. Buying western companies and using their patents or stealing patents.
5. Funding research and development through collaboration between universities, industry and state.
6. Controlling the export of capital and requiring that ordinary people deposit their savings in state banks which in turn use the cash to invest in infrastructure, manufacturing and as seed capital for new investment ideas that might be profitable to the state in the long range but may not receive private capitalist funding in the short range.
7. Using economies of scale to compete with other large firms on a global scale, especially in auto manufacture and aviation.
8. No large dependence on natural resource extraction (pp. 104-105).
9. Minimal welfare state benefits.

Thus, “what makes China competitive now is no longer only cheap labor but technology, skilled labor, efficiency and precision manufacturing.” China is competing with the U.S. in Artificial Intelligence, self-driving cars and the aerospace industry (p. 106). It will soon be the largest economy in term of gross domestic product (p. 17). It is also boosting its military budget and building its influence in other countries through its loans, investments and infrastructure building project.

According to Kurlantzick, the Chinese government has also been able to co-opt eighty percent of the urban middle class which currently support the state because they are satisfied to see that the bulk of the large profits made are going back into infrastructure development and manufacturing, and thus producing capitalist development and employment. The rural population however, is very dissatisfied and is organizing tens of thousands of protests per year (pp. 30, 188). China’s income inequality level, is not higher than the U.S. but similar (p. 181).

In general, Kurlantzic believes that “this new type of state capitalism—though not without flaws—has proven more resilient, complex, and multifaceted than many previous challenges to the free-market economics model...because of its adaptability today, because it has combined traditional state economic planning with elements of free-market competition...Modern state capitalism has genuine strengths that earlier challenges to free-market economics did not contain” (p. 22).

#### *4. What are the dangers of this new type of state capitalism?*

The main dangers, Kurlantzick argues, arise from the fact that the concentration and centralization of capital in the hands of the states would allow states to threaten democracy, use state companies to destroy labor and environmental regulations and declare actual shooting wars on other states.

For instance, he cites Russia’s denial of heating gas to Ukraine when Ukraine sought to join the European Union, or China’s military actions and use of state companies to set up oil rigs in the South and East China Sea and to claim islands and economic zones (pp. 204-207). While not mentioning China’s One Belt, One Road project, the author does discuss the ways in which China’s

building of infrastructure for countries in Asia, Africa, Latin America with loans from its state companies is allowing it to practically own these countries and shut them down if they challenge it (p. 213). Furthermore, he points out that, as of 2016, the largest recipients of Chinese overseas investments were Australia, U.S., Canada, U.K. and Brazil.

Kurlantzick also points out that “evidence calls into question the theory that economic freedom and affluence will bring political freedom. Indeed, the Chinese government may be able to survive indefinitely without opening up its political system” (p. 187). In general, he concludes, “a country can have relatively efficient state capitalist economics and some degree of political freedom or it can have real political freedom and only some degree of economic efficiency. But it cannot have both” (p. 134).

The arguments that he offers about the concentration of money and power allowing leaders and states to buy and purge or repress critics, or act as imperialist powers and start wars, are also true about free-market capitalism. He does admit that western liberal democratic states have also used their capital to violate labor, environmental and human rights. He has also written a book on the U.S. war in Laos and the role of the CIA. However, in general, Kurlantzick is far less critical of western capitalism (p. 219). He does not address the rise of authoritarian statism in the West and specifically in the U.S. in this book. In a different book, *Democracy in Retreat* (2014), he has addressed the global decline of democracy, but with a focus on emerging economies.

##### 5. What is missing in this book?

The author seems to think that politics can inhabit a realm over and above economics in order to prevent the concentration and centralization of capital from leading to authoritarianism. Thus, he argues that if we only had free elections and independent political institutions and media, we could make state capitalism democratic. With the exception of Norway, and Brazil under Lula and Rousseff which suffered from major corruption problems however, the examples of democratic state capitalism which he offers are not so democratic: Indonesia and Singapore (p. 151). Indeed, he does not address the ways in which the logic of capital itself thwarts genuine democracy.

Although Kurlantzick implicitly admits that capitalism moves in the direction of the concentration and centralization of capital in fewer hands, his work suffers from any engagement with Marx's *Capital*. For Marx, the logic of capital is the accumulation of capital as an end in itself. It is the result of the capitalist mode of production: Labor which is alienated not only from its products, but its process, from other human beings and from the human potential for free and conscious activity.<sup>(2)</sup> Whether capital is owned privately or by the state, its logic is the same. It leads to crises and wars.

Marx discussion of capitalist accumulation had predicted that within different capitalist states operating in the context of the world market, the means of production could become concentrated in the hands of a single capitalist or a single capitalist corporation in order to increase the rate of extraction of surplus value from living labor.<sup>(3)</sup> Nevertheless, he argued that capitalism's own tendency toward the concentration and centralization of capital in fewer hands leads to crises mainly in the form of the tendency toward a decline in the rate of profit.

This tendency toward crisis Marx argued, could be periodically but not entirely overcome through countervailing factors such as increasing the rate of exploitation of labor (including the use of slave labor), decreasing the value of the means of production, or the outright destructive effects of war.<sup>(4)</sup>

Kurlantzick does not see crises as organic to the capitalist mode of production itself but thinks that greater state intervention if not isolated from world trade and technological innovation, can largely avert crises.

Thus, he does not address the fact that China's growth continues to rely to a large extent on the high rate of exploitation of labor, including the use of slave labor in prisons. (Note the existence of a million Uighur Muslims in concentration camps in Xinxiang.) He also does not address the ways that China's "efficient" capitalism's destroys human lives and nature.

Kurlantzic would have also benefited from consulting various Marxist theories of state capitalism such as those developed by Raya Dunayevskaya, C.L.R. James and Tony Cliff which, though not alike, and concerned with a different period, still offer important questions for us to consider in analyzing state capitalism today. <sup>(5)</sup>

### 6. Lessons for Socialists

Despite Kurlantzick's lack of any serious critique of capitalism, his assessment of the new features of state capitalism today need to be examined by socialists. He thinks that these new features can allow for a more resilient capitalism. In fact, like many others, he argues that the era of neoliberalism has ended. This new type of state capitalism is the wave of the future. It is not democratic but is efficient and can provide growth. It does not have most of the social benefits that welfare states offered but guarantees that the bulk of profits go back into the production of infrastructure and more advanced technology for the state and not private gain.

That is precisely how Marx defined the accumulation of capital: an increasing portion of the profits go back into the production of the means of production at the expense of humanity and nature. Efficient capitalism is about production for the sake of production. <sup>(6)</sup>

Indeed this "efficiency" is being tested now as China faces the spread of a new coronavirus in epidemic proportions. Despite its current 6% annual economic growth rate, China does not have a functioning primary care system. The spread of the virus could have been avoided if authoritarian capitalist practices were not in place. The Chinese government's current quarantining of 56 million people in Hubei province also promises to have disastrous consequences. <sup>(7)</sup>

Either we develop a humanist alternative to capitalism—private and state—or we are doomed to live under this new "efficient" state capitalism.

### Endnotes

1. Bill Dunn, "Against Neoliberalism as a Concept," *Capital & Class* (Vol. 41, Issue 3, Oct. 2017), 435-454; "State Capitalism's Global Reach: New Masters of the Universe," *The Economist*, January 21, 2012; Jamil Khader, "Trump's Popularity and the Rise of Authoritarian Capitalism," *Truthout*, March 23, 2016.
2. See Marx's essay on "Estranged Labor," <https://www.marxists.org/archive/marx/works/1844/manuscripts/labour.htm>.
3. Marx concludes that "In any given branch of industry, centralization would reach its extreme limit if all the individual capitals invested there were fused into a single capital. In a given society this limit would be reached only when the entire social capital was united in the hands of either a single capitalist or a single capitalist company." Karl Marx, *Capital*, Vol. 1 (Vintage Edition, 1976 [1867]), p. 779.
4. Michael Roberts, *The Long Depression* (Chicago: Haymarket Press, 2016); Edward L. Tapia, "The Tendency for the Rate of Profit to Decline—and Why It Matters," *New Politics*, Summer 2019; Andrew Kliman, *The Failure of Capitalist Production: Underlying Causes of the Great Depression* (London: Pluto Press, 2011).

5. Raya Dunayevskaya, *The Marxist-Humanist Theory of State Capitalism* (Detroit: News & Letters, 1992); C.L.R. James, Raya Dunayevskaya and Grace Lee Boggs, *State Capitalism and World Revolution* (Charles H. Kerr, 2013 [1950]); Tony Cliff, *State Capitalism in Russia* (London: Pluto Press, 1974).
6. Marx argues that in expanded reproduction or accumulation of capital proper, an increasing portion of the surplus value extracted from workers goes back into purchasing or producing means of production (machinery or buildings) at the expense of wages and in order to extract more surplus value from workers. The bulk of the surplus value extracted goes back into obtaining means of production to increase the productivity of workers to produce more surplus value to expand value as an end in itself. That is the logic of capital. *Capital, Vol, 1*, pp. 735-737.
7. Steven Lee Meyers and Chris Buckley. "Novel Virus Tests China's Authoritarian Bargain," *New York Times*, January 27, 2020; Sui-Lee Wee. "Feeble Health System in China Strains to Combat Deadly Virus," *New York Times*. January 28, 2020; Li Yuan. "China's Rifts Laid Bare by Outbreak," *New York Times*, Jan. 29, 2020; Li Yuan. "In China, Virus Spurred Rush of Blame Shifting," *New York Times*, Feb. 4, 2020.