

# COUNTERPUNCH

## Red Capital, Red Baiting, Yellow Peril

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For many Americans China has been such a perpetual threat that when Covid arrived it could easily become the “China Virus” even for those who weren’t avid Trumpers. China-the-enemy has been secure in our collective minds ever since the 1949 revolution brought communism to power, piling on a menace that the Soviets had already managed to corner. Its democratic-sounding name—the People’s Republic of China (PROC)—couldn’t vacate the prejudices that came from knowing the country was controlled by one Party (we certainly get bragging rights here, our two Parties greatly overlapping in substance, only the fringes are mostly different). But the system Mao crafted in subsequent years that imposed the “cultural revolution” on its citizens seemed to confirm everything bad about communism, prejudices that prevent an honest assessment of the larger changes necessary for critics to focus their ire.

The post-Mao reconstruction relied on pragmatic reforms from outside the orbit of the state and especially Beijing’s central directives, according to Ronald Coase and Wing Nang. Private farming and business development in cities, townships and villages were allowed to operate outside the boundaries of “communism,” though in special economic zones that permitted some measure of control by the state and Party. These “marginal revolutions” brought entrepreneurship and market forces to China, showing how the lineage from Adam Smith’s liberal vision could coexist with authoritarian structures; how the invisible hand became relatively clearer through state control (“How China Became Capitalist,” Cato Institute Policy Report, Jan/Feb 2013).

Therefore, China is best characterized as an authoritarian capitalist country according to Coase and Nang. Its Party-controlled system authorizes the activity to create and implement capital within the constraints of its ethical guidance which is not dependent on the principles of pure communism, as demonstrated by the society’s residuals of hierarchy and class, but the far more palatable doses of mere improvement in equality (this perhaps the precondition of the former, the seeding of a trajectory toward greater—if not complete—communist equality).

China’s experiment with liberal markets is certainly an anomaly if only because in the West we associate them with functioning democratic institutions. Its early control of the pandemic and rapid recovery from the resulting economic downturn—its GDP for 2020-2021 remains above 6%—suggest that a structured plan must have advantages in helping to make sure all sectors function with maximum efficiency, even if the wills of many were not inputted. In the US some measure of control existed during the years when Keynesian theory dictated policy—from the early days of the Depression until the early 1970s—because the Democrats controlled Congress for many of them. They were able to coordinate monetary policy and the nominal play of markets with fiscal intervention to produce that era’s progressive outcomes. Mildly progressive,

however, because of the limits of the mere two-Party system and the checks and balances structure which often forces suboptimal compromises in alliance with extra-legislative influence peddling and lobbying. The parliamentary form practiced by most advanced Western societies, which permits coalition-building through multiple Parties, is an improvement.

But democracy is messy—a fact likely not ignored by the governing click in China as the movements for change attempt to fortify their positions—even if relatively functional, since the nominal freedom of plural interests to play the system inevitably leaves some able to game it more favorably. In the US, democracy is feeble at best since the wishes of the people are mostly satisfied through a top-down process that only allows ratification of choices made by elites. The lack of power and influence from below surely produces an apathy that in turn leaves spaces open for the inordinately powerful to fill, an inefficient process that delivers benefits to a minority and contributes to a high level of illiteracy about how the system works.

The supplanting of Keynes for Milton Friedman in the early 1970s sanctioned this delivery in restricting the role of the public sector—and especially fiscal control—in favor of the private sector's power to offer a revival of economic liberalism's creed. This new—or neo—liberalism, mostly the same ole script but refined through the likes of Friedrich Hayek and the Austrian School of Economics, gave Adam Smith's ideas renewed influence. The gist of these ideas has held sway since the early 1970s: the relative freedom of the private sector to dictate the distribution of capital with minimal restraints from government, reinforced by the deregulation of markets; the monetization of public goods through the free play of market forces; austerity and the restriction of budget deficits, among others. These tenets, as Rob Urie has shown, effectively qualify this revival as a political theory and not a purely economic program since it sanctioned a top-down revolution where inequality has mushroomed. The filter down mechanism, sold as the means where profitability for the orchestrators of this process will find its way into the lives of the masses, was roundly refuted as was the notion that markets were free. These markets are virtually owned by the elite that benefits from weakened fiscal powers and the concentration of wealth in oligopolies (“Neoliberalism and Its Discontents,” *CounterPunch*, 2/12/21).

The pre-eminence of private power restricts access to capital and effectively constricts the wealth production of the economy since the masses are blocked from participating, and productivity declines. A comparison of the GDP figures between the Keynesian and neoliberal eras justifies this conclusion. The former produced a far greater expansion because more were granted access to the economic machine through a variety of extra-market influences: union strength; programs specifically targeted to subsidize the lower—though mostly the middle—classes; and especially public debt creation. This latter was key to this expansion in providing the financing for those excluded that the banks refuse because they lack collateral assets. Central to Keynesian policy is making deficits work to create capital that the masses can access, the expansion of activity in turn increasing the tax revenues that can reduce if not eliminates deficits.

There's a flaw in the relation posed by Joseph Schumpeter and others from the Austrian School that capitalism and democracy are somehow joined in a perfect working marriage. Since a capitalism un-affected by extra-economic influences tends to accrue benefits to a minority, not many will have access to its power, and this demonstrates the antithesis of democracy. The full extension of Keynesianism, in its creation and extension of capital, promises to offer more

democracy and thus compensate—though not completely—for the limits of the neoliberal, market-purity form.

China's capitalism, driven by the Communist Party, appears to provide this compensation. Its muse is not Keynes as such but a full-throated Keynesianism which stresses public over private power (Mohamad Shaaf, "Why China Passed the United States," *Information Clearing House*, 4/4/21). It draws from Marx, who was also an advocate of a strong extra-economic influence to make markets work better and whose ideas of course helped construct the Chinese state. But there are differences. Marx was committed to securing a new system where the power of capital could be unleashed through new social relations, giving the previously excluded—primarily the workers—maximum access to capital. The Keynesian imperative is mostly committed to saving capitalism.

While a workers' state is surely not what China has approximated to date, it realizes at least the spirit of Marx in complicating one of his more enigmatic statements: that capitalism is both the best and the worst system to evolve. It is the best since it is far and away better than Feudalism in freeing up the lower classes to participate in society and in generating the wealth that can potentially create the best outcomes for eliminating subjugation and misery. It is the worst in the sense that the wealth from capital is not being shared by the masses. The solution to the latter is in finding a way to preserve the power of capital while constructing a political framework that fosters a more equitable distribution: engage the power of capital but rid the system of exploitative capitalists. The state has not withered away into communally constructed workers' societies anywhere yet, his prediction at least before 1848 that revolutions were inevitable. The few societies—mainly in Northern Europe—with democratic political systems that have made benevolent compromises with capital still possess significant pockets of inequality. The utopian goal of making capital universally accessible has always had to confront the dilemma that what drives capitalist wealth creation is an industrial process that depends on cheap labor, hierarchies and occupational specialization, and with this system continually operable this push will force the shrinkage of capital since the existing capitalists won't be able to exact the profits necessary to make it all worthwhile for them and as a result they'll drop out of the game. Has China developed a political system that manages—at least in the short term—these contradictions?

That is, is the making of capital universally accessible only possible—short of a successful cultural revolution that manufactures benevolent consent—with a system that's at least relatively authoritarian? Has this contributed to China's success at engineering a revolution within the system? Will the increasing pressure from the movements for change within China threaten this result, or contribute to the withering away of the state and Party, replacing them with a multiparty system?

Democratic movements reflect the desire for greater inclusion and especially the idea that cultural and moral issues should compensate for the limits of strictly economic concerns, supplement the logical mindsets of science and determination: the desire for buffers to protect people from the wanton carnage wrought by an impersonal system driven by some abstract notion of "progress." Hence the awareness that many become victims of such a system, slipping through cracks that they as individuals have no responsibility for creating, and the interest in assuring that ethical imperatives for improved distribution countermand these flaws. This is where the Chinese attraction to Adam Smith's ideas is notable. His *Wealth of Nations* justifies the free market system of capitalism, but this new system was a truly liberal alternative in the

18<sup>th</sup> century, an engine for empowering those who had never had the chance to rise and prosper (Marx in this sense was in sync with elements of his liberal slant). This work is lifted out of context and often married to the contemporary refinements of his ideas, especially Milton Friedman's work in the 1970s, becoming the political authority for neoliberalism.

His other major work, *The Theory of Moral Sentiments*, is not part of this lifting but bolsters the case for the complete Adam Smith. Since Mao's demise this book became very popular—with more than a dozen Chinese translations—and has been embraced by much of the Party elite.

The other Smith in this book pushes a kind of raw runup to the Sociological theory of Symbolic Interactionism that Cooley and others refined in the early 20<sup>th</sup> Century, complicated with touches of Erving Goffman's more recent social-psychological slants. Moral ideas and actions ferment through people's interactions as social creatures. As such they're naturally fixated on the capacity for society to survive, which inevitably involves performing actions that produce justice. The cultivation of mere rational individualism is counterproductive for social progress, even though individuals are naturally inclined to look after themselves. As social creatures, inevitably forced to interact with others, they naturally express empathy toward others, and others toward them. As people mature into adulthood they learn—upgrading Cooley's "Looking Glass Self—what is acceptable to others and adjust their behavior accordingly. Justice is a function of the urge to be part of something, a collective experiment.

Thirty-five years of attraction to Smith's ideas have surely seeded the desire for justice, even with a relatively un-democratic system in play. The movements for democracy are fighting for a more complete system of justice, contending that the Party is holding it back. But again, will a more democratic political apparatus beholden to the West, and especially the US, condition a capitalism more in sync with the neoliberal norm and lead to more inequality and less justice for the masses?

As it stands now, China has developed a hybrid system that provokes irrational and contradictory reactions, the critics schooled in the old Chinese order still mostly dictating the terms of discussion, especially the cliché that China is simply a communist country. But uttering this wisdom doesn't deliver much knowledge in the absence of a thorough analysis of its hybridity since communism in the form it took after 1917 up until the Cold War expired in the early 1990's no longer exists.

And this simple reaction serves the purpose of stalling debates. Like when certain conservatives, for example, claim that the Biden administration is "socialist," the journalists neither explaining it themselves nor pressing the perps to elucidate. And this leads to constructing China as an enemy of the US among the many who mostly accept uncritically what the media snippets advertise. Street and café chatter these days around LA mimics the simplicities passed along by a powerful and persuasive elite, eager to embrace easy answers that serve to distract many from the issues and repress the complexity of the seemingly unsolvable problems they're experiencing here.

Is this the constituency for the new Cold War, the push of the military into Asia that's provoked a reaction from China, this reaction circulating as the full story stripped of the all-important context that initiated the friction? But the problem is that an aggressive mindset cancels diplomacy and the search for truth.

Are citizens here threatened by the amount of the country owned by China? But, unfortunately, the easy-answer crowd reveals little of the context. The ravages of the conversion to neoliberalism in the 1970s forced austerity regimes into play, with budget deficits becoming epidemic, and sent companies bolting overseas for cheaper labor. This opened the door to foreign capital.

Are they threatened by the superior competitiveness of the Chinese, like in the 19<sup>th</sup> century when they outpaced American workers in building the railroads, becoming the target of violence and racism? This is also the century when Asians began to be described as yellow, the racism associated with this turn producing the “Yellow Peril” label (up until then Asians were described as white). Economic friction generates racism, but the damaging effects from its practice secure its perpetuation. Are we witnessing now the resurgence of “Yellow Peril” prejudice in reaction to the Covid outbreak, a burst of condemning irrationality in lieu of patient investigation that’s beholden to these age-old prejudices.

We’re beginning to see the emergence of a red-baiting variant, mostly in conservative circles, but Democrats and Republicans are nearly in lockstep, the discrediting of opponents’ positions and arguments for not being on the anti-China bandwagon, an authoritarian response to accompany accusations of a repressive authoritarian regime that pressures pockets of potential sympathizers to conform. Do they pander the anti-communist ditty because this absolves them from having to face the success and complexity of China’s capitalism? If they patiently opened their minds to the facts of its capitalism, they would have to critically process the data that demonstrates how China’s system has performed so much better, and would have more difficulty constructing China as an enemy (though capitalism has a tendency to produce warring factions!).

Is this the symptom of the lingering effects of MAGA, stoked by the previous administration but embraced by the new one through more seemingly humane lenses? Making great is entwined with putting down, sure evidence of a convoluted nationalism that scuttles our potential to understand China. We need to scrap neoliberalism and embrace a democratically influenced version of the Chinese model. Nothing short of this will lead to a reduction of inequality, what has sustained the structural poverty in the US, perhaps the greatest deficit from our post-Keynesian drift. Continuing our current neoliberal path while failing to acknowledge the urgency of these issues will perpetuate the fear mongering and enemy construction