3CR, Solidarity Breakfast, 29 April 2017. PROSE VERSION TO POST

Can Marx vault over the Great Wall of Debt?

This morning, we'll stick to our twin topics. We'll begin with a progress report on the publication of *Das Kapital* 150 years ago, early in September 1867. Then, we'll segue into our other regular topic, the condition of global capital. This time, we'll do that by returning to the China's Great Wall of debt.

Das Kapital

Since it is already late April, we'll have to backtrack to February 1867. Picture this. For light relief, Marx is completing his manuscript, he reads two novels by his favourite contemporary author, the political reactionary, Honore de Balzac. One of those fictions is *The Unknown Masterpiece*. It tells the story of a painter who reworks his canvas so often that in the end nothing could be discerned. Here is a warning against the pursuit of absolute perfection. Marx is already two years late.

To everyone's relief, by 2 April, Marx declares that the manuscript ready. He wants to deliver it himself to his publisher in Hamburg. But yet again, his watch and his clothes are with the pawnbroker. Yet again, Engels sends £35 for the journey. Marx entertains another of the delusions that afflict authors. He expects that royalties from *Capital* will solve his financial problems.

On 12 April, Marx arrives at the Hamburg publisher. With nothing to do until the type has been set, he visits friends in Hanover. While he's there, a minister of the Prussian government offers him a job. Marx treats the suggestion with amused contempt. But he also takes it as confirming that he need not fear the censorship that he had to avoid seven years earlier. In 1859, he cut a chapter from *A Contribution to the Critique of Political Economy*. He also made no mention of history as class struggle in that work's notorious "Preface'. That omission has misled generations into reducing historical materialism to an economic base determining a political superstructure.

Marx gets the first galley proofs on his 49th birthday, 5 May. That happy coincidence reminds us that not only do we have the 150th anniversary of *Capital* to celebrate in September. Eight months later will be the bicentenary of Marx's birth in 1818.

This background to *Das Kapital* has carried us forward to next Friday, which will Marx's birthday. Later this year, we'll return to see what's happened to the great work. If you don't know the story, you're in for a few surprises.

<u>Marx and China</u>

In preparing these notes I had intended to ring down the curtain on *Capital* and bring it up again for China. I couldn't think of a segue. Then the solution occurred. The segue is that there isn't one. That gap is the point we have to take on board as historical materialists.

Marx wrote quite a bit of journalism about China. But in volume I, it gets only two mentions, and both are in footnotes. The first is one of Marx's elaborate jokes. To make sense of it, the Penguin translator needs twice as many words as Marx used. I'm told that the Chinese translators get around such problems by leaving the jokes out.

Volume II has three mentions of China and volume III has four. That's a grand total of nine in 3,000 pages. You'd be silly to think that *Capital* is a sure guide to China in the 19th century. You'd be daft to suppose that *Capital* is a blueprint for analysing capitalism with Chinese characteristics today. Marx was always at pains to show how economic laws worked themselves out differently in each place, even at the same time. He distinguished the impact of British intervention in India from that in China.

Capital cannot tell us *what* is happening within contemporary capitalism anywhere. At best, our study of *Capital* should help us to learn *how* to investigate the current situation. That *how* is what Marx had to teach himself. He didn't stop learning just because he handed the manuscript of volume I to the printer.

There is one further point. As historical materialists, Marx and Engels rejected all suggestions that any aspect of human behaviour was eternal, natural and universal. Our species keeps on remaking what it means to be human. We become what we do. That precept is as true for us as individuals as it is for our species. The historical, that is to say, the transitory nature of human activities has a critical corollary for historical materialists. Just as human beings transform the actualities of how we live, so must we re-make the concepts we need to make sense of those changes.

<u>More Chinese crackers</u>

A few people have been ringing alarm bells about the rapid expansion of the Chinese economy almost from when it began in 1993.

Recently, the concerns have centered on the mounting piles of debt.

More and more analysts are giving up any doubts they had about the likelihood of a banking or general financial crisis. One long-time sceptic about a crisis now accepts that 'crunch time' is at hand; the Chinese economy, she admits, has moved into 'unchartered territory'.

A few experts persist in arguing that - somehow or other - debts don't matter in the Chinese system. No one has explained why Chinese debts are different. There is one powerful reason for believing that they are. That reason is because if they are not different, the world is in for a very bumpy ride, with or without a hard landing.

What's beyond question is that the debts are galloping ahead. Total government spending went up by more than 20 percent year on year to the end of March. That is more than three times the rate of economic growth. China's broad measure of credit and liquidity has hit $1.3 trillion. The ratio of debt to the total economy is over 260% - up form 160 in 2008 and from 210 by 2012.

<u>Growth stats</u>

It's long been recognised that Chinese statistics are a particularly boring form of science fiction. The first quarter claim is for an increase from 6.7% to 6.9%. The actual figure is closer to 5%, up from 4.8%.

Where did the improvement occur? Real estate grew by 9 percent, with housing starts up by 12 percent. That hike compounds the problems of over-supply. Curbs imposed last year on unit construction had little effect. That failure is the last in a line of failures since 2011. In one more attempt to contain the housing bubble, some two dozen cities have imposed new restrictions in the past few weeks. This cycle of tighter rules with no result is a reminder that the regime is not able to impose its will at will on the economy.

Meanwhile, improvements in the processing sector came from the protracted attempts to consolidate heavy industry, for instance, by shutting down steel mills built 40 or 50 years ago. In this area, the government is finally recording some success at making local and regional governments cooperate with the central planners.

Shutting down the old plants reduces pollution. But the closures do nothing to reduce China's capacity to produce steel. On the contrary, the new mills are churning out more steel and more cheaply. Hence, the excess capacity is getting bigger. Hence, the drive to dump at near or below cost around the world.

While China's economy as a whole expanded more than last year, the service sector did not. That sluggishness highlights one of the barriers to shifting from export-driven economy to one powered by domestic demand.

The crux in Marx's *Capital* applies in China, as it must in every capitalist economy. The exploitation of working people is the only way to accumulate capital.

It's true that most Chinese have more material goods than the bulk of the population did in 1980. However, the gap between rich and poor is almost twice as great. Even wider disparities appear once you contrast male with female, rural with urban. The share of the total output that went to labour in 1982 was 53.6 percent. By 2014, it had settled around 46.5 percent, down by 7 %. Meanwhile, the bottom 20 percent are stuck around 8% of the total. The top 10 percent of urban households take a quarter of the total.

No surprise then that there are thirty-five billionaires in the Peoples Congress. When rural people moved to the cities for work they retain their old household registration (known as *hukou*) and are treated as second-class citizens. Their children lack post-primary schooling, and even their earlier years are more often not shoddy. How many of those 200 millions sit in the Peoples Congress?

The 2-300 millions in the Chinese middle-class fear democracy much more than they fear the authoritarianism that protects them from a radical redistribution.

Rising inequality in real incomes raises the barrier to shifting from an export-driven economy towards supplying the demand at home. China has unmet needs aplenty, but they are not economically effective.

In brief, the current Sons of Heaven face four economic tasks;

1. reduce excess capacity;
2. cut back on debt;
3. redirect away from exports into domestic consumption;
4. redress inequalities of real income.

Dealing with one of these issues is beyond the wit of most governments today. Beijing is going to need more than Tai Chi to balance all four at once.

Were the leadership to pull off even three of these, they would be out-performing their Western counterparts. However, there is a more alarming and longer-standing bomb ticking away. That danger is from nearly twenty years of burying bad debts. The practice started with the Asian crisis of 1997-98. Beijing cleaned up the books of the country's four biggest banks by setting up four so-called 'bad banks' to carry the loans that had gone belly up. The deal was that they would be paid off over the next ten years.

That solution might have worked - had it not been for two things. First, no real attempt was made to pay up. Secondly, the ten-year limit came in 2009 – just as the government engaged on its biggest spending binge to weather the Global crisis.

Twenty years on, the account books of the banking sector seem rosy. Last year, the banks scrubbed a trillion dollars off their balance sheet. The ratio of non-performing debts held steady for the first time since 2012.

Seems good. According to the *Economist* (15 April 2017) 'the beautification of the books has relied on financial engineering.' In the last three years, the government has set up thirty-five more 'bad banks'. These institutions buy the debts from the troubled banks. And they often do so with money lent to them by those self same banks. A variant on that approach is for the firms unable to met their debts to sell shares to someone else, again for money lent by the banks that the original debtors can't repay.

I don't know whether the Chinese invented the thimble-and-pea trick but they are now world champions.

Just when you thought the news couldn't get much worse, ponder this item. In March, China's central bank had to pump cash into several smaller banks which had failed to repay other banks. If that sideshow reminds you of Lehman Brothers you are not alone. Or perhaps this is the 'proof' that debt does not matter in China?

And we haven't mentioned the geo-political pressures on the Korean peninsula and the South China seas.

One final caution. A prime reason why the world did not spiral down into a 1930s depression after 2008 was because the Chinese government went in for a massive expansion of credit. It pumped out a trillion, and has kept the economy going by continuing to relax credit in fits and starts. Next time global capital hits trouble, China won't be able to plunge further into debt to save us. Were it to make the attempt, it would make matters worse, in China, and everywhere.

Marx was the first to demonstrate why capitalism is crisis prone. What *Capital* cannot tell us is how exactly the debt overload in China will manifest itself. That it must is inevitable.

Humphrey McQueen