

Learning from China.

Do what they do, not what they say.

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Salvatore Babones

The Chinese economy grew by a factor of thirteen between 1980 and 2010. It is still growing by more than six percent per year. China is justifiably proud of this accomplishment and Chinese economists might be expected to claim some of the credit. They should be strutting across the global policy stage alongside Chinese exporters and internet entrepreneurs, offering sage insights to all comers. The problem is that Chinese economists have not formulated a distinctively Chinese approach to understanding growth and development in their own country. As in post-communist Europe, the old generation of Marxist economists was poorly equipped to handle the transition to a market economy. Also as in Europe, the new western-trained generation answers all problems in free market terms.

China's economy is far from a free market. At least half of all economic output is in the state-owned sector, and probably much more. No one knows the real number because Chinese state-owned enterprises are officially encouraged to work through private "non-state" subsidiaries in which they retain majority ownership.

Visitors to China are confronted with a myriad of western brand names but entire industries are state preserves, including banking and energy. Behind the familiar western shop fronts are state-owned or state-related real estate developers and infrastructure providers - plus a plethora of state officials to be bought or bribed before real entrepreneurs can get down to business.

The universities where Chinese economists work are also closely tied to local and national governments. They are often more concerned with meeting government-mandated objectives than with producing knowledge as such. While it is easy to criticize the "ivory towers" of western academia, insulation from government allows western professors to pursue knowledge wherever it may lead.

Most Chinese professors make very little money for their lecturing. Their main sources of income are publishing and consulting. Chinese universities literally pay professors for each publication, resulting in much waste as Chinese academics pursue publications rather than the knowledge that is supposed to underlie publications. When they are paid for consulting, they are expected to endorse government policy, not challenge it.

Like many western universities, top Chinese universities pursue one metric above all others: success in the Shanghai Jiao Tong University's Academic Ranking of World Universities (ARWU). The ARWU is a quantitative ranking of universities based on numbers of Nobel prize winners

(excluding literature and peace) and numbers of re- search citations in the sciences and social sciences (excluding the humanities).

The 3200 social science journals included in the ARWU rankings are overwhelmingly published in English. Articles that achieve high citation counts in the database are almost inevitably in English. And it should go without saying that the country with the highest concentration of English-language, highly-cited articles is the United States.

Chinese economists thus come under strong pressure - including direct financial pressure to publish in English in SSCI-indexed journals. The easiest way to do that is to publish research that focuses on the United States or that applies American ideas to China. And the easiest way for universities to find professors who can do this is to hire American-trained PhDs.

The result is that most Chinese economic analysis is literally "made in America" in the sense that the Chinese economists doing the analyses have learned all of their economics in America - and often even focus on American data in their research. Most Chinese economists have little knowledge of or expertise in the study of mixed economies like China's.

But American ideas don't always work for Chinese realities. When the 2008 financial crisis caused a complete collapse in Chinese exports, the Chinese government implemented the very un-American solution of massive public spending on infrastructure. The post-crisis expansion of the Beijing metro system made the previous preparations for the 2008 Olympics look like a pre- game warm-up.

Confronted with catastrophe, the government rightly threw theory out the window and did what common sense dictated had to be done. Despite years of western criticism that its Olympic building program was a wasteful misallocation of government re- sources, the government doubled down on infrastructure spending in 2009. The result was that China did not suffer a major economic crisis - and Beijing got a first-class metro system to boot.

Now that the immediate crisis has passed, American economics is back in vogue in Beijing. In 2013 the government announced that henceforth the role of the market in economic decision-making would be "decisive." Public spending would be reined in, infrastructure spending would be wound down, and people would be expected to pay more for public services. Perhaps unsurprisingly, growth has slowed.

In mature economies like those of the United States, Japan, and western Europe, massive government spending might (or might not) spark inflation and stifle the market. This is hotly debated, with the mainstream economics profession falling on one side and comparative social scientists falling on the other. I personally advocate increased government spending in developed countries but I recognize the plausibility of the opposite view.

In a poor country with inadequate human and physical infrastructure the conventional American view that public investment should be left to the private sector is just plain wrong. China is poorer than Mexico and much poorer than Eastern Europe. The private sector will open fast food outlets

in China but it won't build urban mass transit systems, rural high schools, or nationwide food safety agencies.

If Chinese economists want to teach the world about economic development, they should look to China's successes instead of repeating American theories. When people want standard American economic advice, they'll always go to Washington, not to Beijing. China has the opportunity to teach the world instead how development is actually done. The world is listening. It's time China stood up and spoke for itself.