

Klein told a journalist in early December that he did *not* support the students in Tiananmen Square, because “the students didn’t know *what* they were asking for. You can’t have a country run by young kids!” he said. Granting political freedom to China would be “very disruptive” to the socialist economy. The Tiananmen Square movement “was *not* the movement that was needed, or desired, at that time,” he said, and when Kissinger said dissent could not be tolerated, “I agree with that. *My* friends in China, with whom I associate most closely . . . said that we *could not tolerate* political instability.”

Klein’s economic advice is just as brutal. He praises himself as the architect of China’s “step-by-step reform process,” which he and other Anglo-American economists oppose to the International Monetary Fund “shock therapy” which has destroyed most of the factories and brought chaos to eastern Europe. What Klein means by “step-by-step,” however, is to “stay backwards,” and in fact “stay communist.” Klein told the interviewer that he is advising the Chinese “not to go to capitalism” but to stay with “socialist planning . . . trying to modernize the socialist economy. . . . That’s a legitimate goal.” He is advising China, he said, to stay with “reformed communism.”

Klein brags that he advised against the initial 1979-81 efforts, at the beginning of the reform, to launch great projects such as nuclear power plant electrification and modern, high-technology infrastructure development. Building Japanese-style high-speed Bullet trains to unify the nation would be “too much of a luxury,” Klein said. China should stick with upgrading their coal locomotives to U.S. 1960s-level electrical and diesel locomotives, “to have just the next stage, to go step by step.” China should absolutely “*not* build nuclear plants,” he said, but stick with the older “kind of power plants which were built in the ‘60s” in the West.

This, he claimed, is because China’s engineers are “not as well qualified” as the French and Japanese, who have gone nuclear. “Nuclear power is a very *expensive* technology, if you do it right with the right safeguards,” he said. It’s “too expensive for China.”

Klein’s economics are just another variety of the British malthusian anti-technology and anti-infrastructure policy to maintain cheap labor; it is identical to “shock therapy.” The results are the same: While a vast unemployed work force is made available to western investors desperate for quick profits from a cheap labor source to prop up the depression-wracked Anglo-American banking system, the agricultural and industrial infrastructure of China continues to be ignored.

“A foreign investor doesn’t want to come into a country and ask, ‘Will I have to deal with another government tomorrow?’ ” Klein said. “They want to know whom they’re dealing with . . . and they want permission to repatriate their earnings; they want to convert their earnings into international currencies. So someone has to permit that. . . . And who *knows* what might have happened to that,” if the students in Tiananmen Square had won.

Interview: Lawrence Klein

China ‘economic czar’: Don’t develop quickly

Dr. Lawrence Klein, longtime director of Wharton Econometric Forecasting at the Wharton School of the University of Pennsylvania and now Professor of Economics at the University of Pennsylvania, was officially hired on Nov. 10 as chief economic adviser to the State Planning Commission of the People’s Republic of China. The State Planning Commission runs China’s economy.

In an interview on Dec. 4, Klein told a freelance journalist that he has in fact been “acting economic czar” for China since 1979, and that his Chinese students of the early 1980s set up the information division of the State Planning Commission.

Q: There is a line in the U.S. press that the eastern Europeans used “shock therapy” and tried to do too much too fast, but the Chinese are doing it differently. Would you advise them to do it differently?

Klein: Yes, that’s a perceptive point of view, that China’s done it right and the eastern European countries have done it wrong—that’s my opinion, and I’ve had a lot of discussions with Chinese officials on that issue. Just a year ago we had meetings in Stockholm, the jubilee meetings for all living laureates of the Nobel Prize, and one session I participated in was entitled “The Demise of Socialist Planning.” My participation in that panel was to say, “There is still socialist planning and over a billion people are involved and it’s trying to modernize.” . . . That’s where socialist planning is still very much alive and they’re trying to modernize the socialist economy.

Q: And that’s good?

Klein: They are doing it well; I think it is possible to do that. *Time* magazine said it’s an oxymoron, “market socialism,” but *they’re* morons, if this is an oxymoron. They’re trying to make their type of economic system work better, and that’s a legitimate goal.

Q: You’ve been working with the Chinese much longer?

Klein: I’ve been teaching modern economics in China since 1979. In 1980, I organized a summer workshop to help get modern econometric methods started in China, and I’ve had a lot of students and scholarly trainees at my university here in Pennsylvania, and I’ve gone to China many times since then. I’ve been associated with Chinese activities since 1979.

Q: What institutions were you working with?

Klein: I led a National Academy of Science and an American Social Science Research Council team of economists; our counterpart was the Chinese Academy of Social Sciences. Now there's been a further development where, on the State Planning Committee, there's a State Information Center, where economic planning has been centered. I've been at the State Information Center many times over the past several years since it was created in the mid-1980s, so the appointment was formalizing what I've already been doing for a good many years.

The people who originally worked with me were all from the Chinese Academy of Sciences. At some point some of them stayed there, and others went and set up the State Information Center. And I began working with that.

I've always worked closely with the Ford Foundation in China, which has always heavily supported teaching modern economics in China. And I've been on the executive committee for that for the Ford Foundation.

Q: Regarding Hong Kong, the Chinese say they will have "one country, two systems." But doesn't that really mean that Hong Kong's economy will take over mainland China? Can you really water down communism?

Klein: It's a reformed communism. I was at a meeting in September sponsored by the U.N. Development Program in Bucharest, and I gave a paper, entitled "The Mixed Economy," saying that "when the [Asian communist] economies reform, they're not going to go to the epitome of capitalism like Hong Kong, or to the epitome of centralized planning which was the old Soviet Union. They're going to end up somewhere in-between, with features of state intervention and features of market clearing."

Some who thought you had to go one way, or another, said that you had to do the shock therapy, introducing capitalism right away, privatize right away. But I said, "No, you first control inflation, get the economy growing on a stable path, get things in *order*, then start introducing prices, free up the agricultural sector, free up small enterprise, then gradually transform."

Now, that has been more or less the path of China, and [it has been] very successful. My argument is that it's a better path to establish economic democracy first, get the economy on a sound and growing basis, and *then* gradually introduce political liberalization.

Q: On the political liberalization: Why wait? Why not give them democracy?

Klein: Because they're not prepared to govern yet. That takes time. Look at the Soviet case, glasnost went ahead full speed, everybody stood on street corners discussing what should be done, and nothing *got* done. You cannot disrupt an economy overnight and change everything, and throw people out of work and stop the production process. You

should go step by step. And one of the steps along the way will be political reform.

Q: Are you saying that political freedom is economically disruptive?

Klein: If you do it all at once when there hasn't been political freedom, it *can* be very disruptive.

Q: Theoretically, if we could, without bloodshed, bring to power the Student Democracy Movement which sat in Tiananmen Square calling for freedom, you would not be for that?

Klein: No. The students didn't know *what* they were asking for. You can't have a country run by young kids! The Chinese [leadership] attitude was, that they went through the Cultural Revolution, when the young people ran amok, and it was a disastrous period in their lives and they don't want to repeat it. . . . The reason the Chinese didn't want to give in to the students was that they didn't want to return to the days of the Cultural Revolution. . . . The students were calling for a government that was a total turnover of what existed, and it was like the shock therapy treatment, of doing it in the political sphere before the economy had been made ready for it.

But that was not the movement that was needed, or desired, at that time. . . . The logic of the students was not the logic for the proper economic development of China.

Q: In other words, you agree with Dr. Kissinger's statement that the Chinese could not tolerate this uproar?

Klein: That's right. I didn't read what Kissinger said, but if that's what he said, I agree with that. . . . But *my* friends in China with whom I associate most closely said that we could not tolerate political instability.

Q: How do you "free up" agriculture, for example?

Klein: Some 80% of the people are rural-based. . . . I advised them to let people "have" their own land. . . . Now it could be only on a leasehold basis or on an ownership basis (that's just a technical issue), but at least be allowed to work the land and to get the crops in.

Q: But they haven't given it to them, you say, just allowed them to work it?

Klein: I don't think in a technical legal sense that they have property rights on the land. But they have rights to use the land. . . .

The next part was to have small enterprise freed up. I told them, "It's too big a job, too complicated, to plan the minute details of every company." I said that it's better to run these things on a small scale.

Q: How could a Chinese buy a small factory?

Klein: I just advised them to free it up, the techniques of doing it were all their own. I did see a lot of foreigners, that

is, Chinese-Americans, who had a fair amount of money, who came in and opened it up—foreign capital.

Q: So, the state didn't turn things over; rather, people came in with foreign capital and bought them?

Klein: To some extent, and now they're coming in from Hong Kong and Taiwan. . . .

Q: Isn't it true that all this foreign money is going in there because this became the cheapest labor on the block, that these people had never worked for market-level wages before?

Klein: That's right, at least not for variable wages. They got a wage, but it was fixed.

Q: Wasn't one of the reasons you didn't want to have political turmoil was that foreign capital was coming in for the cheap labor? Labor costs had begun to rise elsewhere in Asia by the late 1980s, and Chinese labor was the cheapest.

Klein: Yes, of course. Foreigners always want to see political stability, they want to know who's in charge. Will their investments function as they expect them to?

A foreign investor doesn't want to come into a country and say, "Will I have to deal with another government tomorrow?" They want to know whom they're dealing with, they want to have a contract in writing, and they want permission to repatriate their earnings—to convert their earnings into international currencies. So someone has to permit that.

Q: The students in Tiananmen Square might not have?

Klein: Well, who knows what might have come of *that*. That's one reason a lot of foreign investors are very wary about enterprises in eastern Europe and the former Soviet Union, because of the political instability.

Q: Do you think that China should do what Iran did when oil prices went up, and the Shah went out and started buying nuclear power plants and talking about building Japanese-style Bullet trains?

Klein: No, no! That's the way things started out in 1979. They were running up a lot of contracts. There were promises, saying, "We'll do this, and we'll do that." They told foreigners, "You can build this, and you can build that," but it didn't work out. Now they've corrected those mistakes and are proceeding gradually and cautiously.

Q: What about a Bullet train from Beijing to Canton?

Klein: I think that that's too much of a luxury. You see, first, so many of the trains are coal-burning steam locomotives. What you really want is to electrify the lines, to have diesel locomotives, to have the next stage up. Go step by step. They don't build luxury automobiles, they don't build high-speed cars. The Bullet train would be a kind of a luxury thing.

Q: Some people think that if you put in your highest technology first, you get a bigger overall rise in productivity for the buck, so it's not a luxury. You disagree with that?

Klein: Yes, as a general principle I would disagree with that. In scientific matters, high-tech is being introduced. Say, in software; it's okay for computer software. But in very expensive hardware like the Bullet train, not right away.

Q: For the other infrastructure, China can't afford that?

Klein: They're doing some nuclear, but that has problems. On the whole, I don't say they should go back to the 1930s style, but they should go to the kind of power plants which were built in the 1960s and '70s.

Q: They should not build nuclear power plants?

Klein: No, because that's not a China problem, that's a world problem. The nuclear thing has never turned out satisfactorily. It didn't fulfill the dreams people had in 1945. Nuclear power is interesting and possible, and if you do it the way the French did, you can get a lot of cheap electricity.

But everyone is not as well qualified as that, and then you have Three Mile Island disasters, and Chernobyls. So it's a very expensive technology, if you do it right, with the

Profile: Lawrence Klein

Lawrence Klein began his career as a trainee on the American side of a transatlantic project established to use then-fledgling computer technology for quantitative economic griddings. The headquarters of the project was the Strategic Bombing Survey, the psychological profiling operation launched by Anglo-American intelligence immediately after World War II to evaluate the effects of the massive Allied bombing of civilian targets in Germany.

The survey was directed by Cambridge economist Nicholas Kaldor. His staff was an extension of the group Lord John Maynard Keynes had formed at Cambridge in the 1930s. Their task was to create an economic theory that could undermine the programs for technological and industrial development in the Soviet Union, programs which were seen as a mortal threat to British economic and geopolitical goals.

At the core of this Cambridge effort were the Italian economist Piero Sraffa, and Joan Robinson, working under Keynes's personal direction. Their work wedded Marx to Malthus, and Robinson spent the next 40 years of her life promoting malthusian policies to socialist bloc countries.

right safeguards—too expensive for China.

The Chinese have the brainpower, but they don't have the training. It's the training that is needed.

Q: But this is China, they can do what they like.

Klein: They still need worldwide technology. . . .

Q: You mean they can't get the technology because foreigners won't sell it to them?

Klein: I don't know how the French are doing it, how they're safeguarding it. The French are *not* in there building nuclear plants for them.

Q: What about the United States?

Klein: Well, we've given up on our own. I don't think we're doing it for anyone else. That may be on a prohibited list.

Q: A power plant?

Klein: No, the nuclear technology.

Q: To run a power plant?

Klein: To build it, to build it safely. There are a lot of problems about accumulation of nuclear materials. Many countries say they're just building a power plant, and what

they're accumulating is high-grade plutonium and other nuclear materials for a weapons plant. . . . Iraq said that they were just building a power plant.

Q: But I'm asking you as an economist: How we can get a lot of cheap electricity in China very fast?

Klein: And I say, you can't, er, it's *not* going to be done fast through nuclear. Not only the U.S. government, but any government that has all the know-how, they want to guard against nuclear proliferation.

Q: The infrastructure seems to be going to go fairly slowly?

Klein: It has gone slowly, but it's moving. Transportation is better than it was. To give you a simple example, it was almost impossible to make round-trip ticket reservations for airlines travel. Now that's possible. . . . Bit by bit it comes in. In the hotels you can now make direct-dial overseas calls, you can have faxes come in. All these things are now possible. Year by year, some new item like this advances. That's what the country needs to do, is make steady advances, not to do it all at once.

Q: Slow, but steady?

Klein: That's right. . . .

Both Sraffa and Robinson were then members of the Cambridge cell of the Communist Party of Great Britain. Kim Philby (now a KGB general), Guy Burgess, and Donald Maclean, the intelligence-trained scions of British oligarchs who "defected" to the Soviet Union in the early 1950s, belonged to the same CP cell.

Klein enrolled in these networks in 1946, becoming a member of the Communist Party U.S.A. Although Klein now says his CP membership was merely an "incident," he later acknowledged his intellectual debt to Robinson and her colleague, the Polish economist Michael Kalecki.

Shortly after his first econometrics work, Klein was brought into the National Bureau of Economic Research by NBER's founder, Wesley Mitchell, and was subsequently given a job working for Mitchell. Mitchell was an early collaborator of the Fabian Society in England who build up the economics faculty at the University of Chicago. In the same postwar years that Mitchell took Klein under his wing, he was training Milton Friedman and the rest of what is today known as the "Chicago School."

In 1950, Klein went to the Survey Research Center of the University of Michigan, just formed by Kurt Lewin, one of the directors of the British psychological warfare division at the Tavistock Institute and a central figure in the Strategic Bombing Survey.

Driven out of Michigan for his communist affiliation in 1954, Klein went to England for advanced training at the Oxford Institute of Statistics.

While he was out of the United States, Strategic Bombing Survey personnel arranged a series of conferences to transfer the next stage of the Cambridge econometric project to the United States. The leading institutions represented at these conferences during 1955-56 were U.S. Air Force Intelligence, the RAND Corp., and the Brookings Institution.

Klein returned to the United States in 1958 and was placed in charge of the most advanced of the ongoing projects, that at Brookings.

In 1963, the model was shifted to the Wharton School at the University of Pennsylvania for commercialization. The reasons for choosing Wharton are not entirely known, though the fact that Wharton was the base of operations for Eric Trist, another of the senior British operatives of the Tavistock psychological warfare division, was an important factor. Wharton Econometric Forecasting Associates was born.

In 1969, the special targeting of Mexico began. Klein, who sells his Wharton models as "socially progressive" economics of a different brand from Friedmanite "shock therapy," was later hired as an economic adviser to the Mexican government.