

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.