

# China's 'chop therapy' no alternative to IMF

Since the Dec. 18 fall of Russia's former Prime Minister Yegor Gaidar, the champion of the International Monetary Fund's "shock therapy," the Anglo-American press has mounted an advertising campaign for Communist China as the "new model" for economic development. From "China: the Coming Power," the lead article of the New York Council on Foreign Relations' journal *Foreign Affairs* in December, to the Jan. 11 *Wall Street Journal* editorial "Making Money on Mao," a "China boom" is being promoted.

Across eastern Europe, the same foolish leaders who three years ago swallowed the IMF's free-trade theory are now calling for a change—to the China model.

*Caveat emptor.* Reality is that the London and New York bankers' shock therapy has been totally discredited with the hyperinflation and collapse of Russia's economy. With it, the "British System" of Adam Smith's "free-trade" economic theory is badly tarred.

Fearing that nations might return to the "American System" of economics pioneered by Alexander Hamilton and Friedrich List, which first industrialized the young United States, Germany, and Meiji Japan, the bankers are scrambling to sell a new brand of "voodoo economics" to Russia, east Europe, and the Third World.

University of Pennsylvania economics professor Lawrence Klein, chief economic adviser to Beijing, revealed the scheme in a recent interview. The China model is "reformed communism," Klein said. It also imposes the same anti-industrial, anti-science economics as shock therapy, but with a "step-by-step approach."

The China model is just a "chop therapy" variety of British System colonial economics, in which pieces of the victim economy are chopped off gradually, rather than at once as in "shock therapy." It is not an Asian idea, but a myth fabricated in London and imposed from outside, just as Britain imposed opium on China in the Opium Wars. Klein is an economist in the British tradition, trained at Cambridge University in the 1940s by Nicholas Kaldor, head of the Communist Party cell there. (See *EIR*, Jan. 8 for Klein's biography, and Part 1 of an interview with him.)

## No infrastructure, no industry

Dr. Klein, founder of Wharton Econometric Forecasting at the Wharton School of the University of Pennsylvania, has been "acting" Chinese economic czar since 1979, advising China to go with "reformed communism."

"China's done it right and the eastern European countries

have done it wrong—that's my opinion," he said. The main problem with "shock therapy," he lied, is that it gave Russians *political freedom* too rapidly! Political freedom, Klein said, "is economically disruptive . . . because they're not prepared to govern yet! Look at the Soviet case. . . . Everybody stood on street corners discussing what should be done, and nothing got done. You cannot disrupt an economy overnight. . . . You should go step by step."

Now he's promoting this "reformed communism" around the world. "I've had a lot of discussions with Chinese officials on that and lectured at meetings" in the United States and Europe, Klein brags. "I was at a meeting in September sponsored by the UNDP [U.N. Development Program] in Bucharest, and I gave a paper entitled 'The Mixed Economy.'" Some speakers from eastern Europe called for shock therapy, "but I said, 'No, you first control inflation, get the economy growing on a stable path, get things in order.'" . . .

"A year ago we had the jubilee meeting in Stockholm for all laureates of the Nobel Prize. One session was 'The Demise of Socialist Planning,' and my participation in the panel was to say: 'There is still socialist planning and over a billion people are involved!'"

Klein's China model is nothing but British colonial economics: It blocks the development of *infrastructure* and *heavy industry*.

Klein brags that he helped stop China's 1979 efforts, at the start of the reform, to launch great infrastructure development projects such as nuclear power plant electrification, a high-technology rail grid, and water management systems. China should "*not* build nuclear plants," he said, but should stick with the old "kind of cheaper power plants which were built in the '60s."

Building Japanese-style high-technology Bullet trains to unify the nation would also be "too much of a luxury," Klein said. China should restrict itself to upgrading coal locomotives to 1960s-style diesel locomotives, "to have just the next stage, to go step-by-step."

Promoting lower infrastructure technologies as "cheaper to build" is the hallmark of British school economics, since old infrastructure is more *expensive to run* per kilowatt of electricity generated, per ton of freight transported. It keeps the colony nation's economy *trapped* at lower levels of productivity and industrial output, so it can be dominated from abroad.

Klein also is against having China modernize and rebuild its basic heavy industry, for without an internal heavy industrial base, no country can remain independent. In Klein's model, "You don't emphasize heavy industry the way the Soviets did," he said, drawing the false conclusion that all heavy industry is somehow Stalinist. Resources instead should be poured into consumer industries, he said. "And that means more bicycles, more radios, more housing, these are not heavy industry ventures. Building bicycle factories instead of railroads . . . that is step one in the 'step-by-

step' process! As opposed to steel mills and railroads, heavy industry." This keeps the subject nation forever dependent on imports for any real development.

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## Interview: Lawrence Klein

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# Make bicycles, not Bullet trains

*Part 2 of Dr. Lawrence Klein's Dec. 4, 1992 interview on China has been provided to EIR by a freelance journalist. The first part appeared in our Jan. 8 issue.*

**Q:** I understand the big reform in China was kicked off by a U.S. trip by Deng in February 1979, to meet with the Carter administration. Were you involved in that?

**Klein:** I went in '79, and I got briefed by the State Department and Carter people from the Commerce Department, because I was a friend of the Carter administration.

**Q:** Was this after Deng came over to open it up?

**Klein:** My first visit was before he came; then I went there quite a few times after he came. What I was doing in China was very academic: We were trying to get the study of economics on a modern path. . . . It caused a lot of change, sure. I've been back almost every year since then, and you can see the progress on every visit. . . .

**Q:** I understand there was a debate between those who wanted a Japan model, to do a lot of infrastructure investing first, and a group around Zhao Ziyang, saying "No, we should go to the model of Alvin Toffler in *The Third Wave*: bypass all this heavy industry, go directly into a more modern."

**Klein:** I don't know the facts of that, but I do know that Zhao Ziyang had this idea, and essentially he wanted to liberalize more and more. You see, there were four principles. One principle was the open economy principle, the open door. And you could not do an open door principle and put up tariff walls and be restrictive. And in particular the Chinese were very exercised then, and are exercised now, about Most Favored Nation treatment, and they could *never* have gotten Most Favored Nation treatment on that basis. And *that's* what they really wanted!

**Q:** So the U.S. requisites for the Most Favored Nation treaty encouraged this open door policy to be adopted, instead of the centralized investment plan?

**Klein:** Yes; but that's only one of the aspects, the open door.

Modernization could have been done without the open door, adopting modern technology from the West. They also recognized they had infrastructure bottlenecks and they did some work on the bottlenecks, but the open door is something you can do very quickly.

**Q:** But was there one philosophy saying, "Put the investment into heavy industry and infrastructure," and another saying, "No, we can go to a service economy"?

**Klein:** The people whom I rely on, said: "We must raise living conditions for the bulk of the population." And that means more bicycles, more radios, more housing. These are not heavy industry ventures—we've got to get the people on our side by giving them a higher level of consumption. And that would say not to neglect heavy industry, but you don't emphasize heavy industry the way the Soviets did.

**Q:** They built bicycle factories instead of railroads?

**Klein:** They built bicycles, and there are millions of bicycles all over the country, the main transportation. . . . They didn't import; they only imported high-tech goods. Many universities have fancy lab equipment that was purchased by World Bank and other loans. But that was a very arcane, esoteric kind of investment. The concept of first getting *consumer* goods to people, that is step one in the "step-by-step" process.

**Q:** As opposed to putting a lot of heavy industry up?

**Klein:** As opposed to steel mills and railroads, heavy industry, yes. There were steel mills, and a lot of it came from foreign capital and expertise, but the first step was to raise the level of living.

**Q:** You had said that it's better to do this *before* lots of democracy, because that just causes chaos.

**Klein:** Yes, that's right, and I also said that one of the first things was food. In the early days, China had bad harvests and had to import food. . . . So the second step, which went along with that first step, was to liberalize agriculture. To provide people with their own plots.

**Q:** What do you think is going to happen now?

**Klein:** My projection is that China will keep an impressive growth rate, probably a little under 10%, between 7-10%; they won't let inflation again get out of control; they will work very hard to keep their foreign accounts in balance or in surplus—they have a big currency reserve now, they will try to project that; they will expand their Special Economic Zones and Export Zones; they will try to spread economic development more evenly over the country; and they will try to break the infrastructure bottlenecks—but that will be slow.

And that's the best I've got. It sounds good, but you see you must distinguish between rate of improvement, rate of growth—and level of living. It still leaves them as a relatively poor country. But, making very good headway.