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Richard Judd: Saving capitalism

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In the early 1980s, a major point of contention among economists was whether the Japanese economy was guided by a national industrial policy.

An effective U.S. response was not forthcoming because of differences in opinion by U.S. government policymakers. There was no response to Japanese attacks on the U.S. consumer electronics, machine tool and auto manufacturing and parts supply. The Japanese had developed industrial policies that fostered the formation of cartels, guided the cartels, forced technology sharing among firms and closed markets to outsiders.

Soon China was imitating Japan's approach and began improving it, creating what is now considered a "hybrid socialist-market system." China has created a system of state capitalism in which the government owns and controls all strategic industries, while secondary and service industries are left to the people for private ownership — which the government also controls, in large part.

Historically, the principle differences between the Chinese approach to global business contrasted with the U.S. approach are that the U.S. has not owned the major enterprises on which our economy depends and the U.S. operates on a two-party system while China is governed by one party. In China the government sets the economic agenda and controls all major resources.

State capitalism in China has developed over time such that Chinese producers have a price advantage over foreign competitors in virtually every product they make in almost every market in the world.

Professor Navarro of the University of California-Irvine conducted a study that identified eight factors that give China a price advantage in global competition while calculating its contributions to that advantage.

- Low wages for high-quality work with a wage equivalent to 18 percent of a comparable U.S. worker.
- The center of the world's piracy and counterfeiting is in China, which is about 8.6 percent of the Chinese price advantage.
- Minimal worker health and safety regulations contribute 2.4 percent to the price advantage.
- China is the world's top polluter due to lax environmental regulations and enforcement. Navarro calculates the absence of environmental regulations as contributing 2.4 percent of the price advantage.
- China provides export subsidies to firms exporting products, which contribute 16.7 percent of the China price advantage.
- Industrial network clusterings much like River Rouge that Henry Ford built in Michigan between 1917 and 1928, where raw materials arrive on docks and finished products leave the factories account for about 16 percent of the China price advantage.
- China is the world's principal destination for foreign direct investment. Foreign technology, management expertise and global distribution networks accompany these funds, which add about 3 percent to its price advantage.
- China's undervalued currency, pegged to the value of the U.S. dollar has kept it undervalued. Navarro estimates that the Chinese Yuan is undervalued by about 20 percent, which contributes to about 11.4 percent of the China price advantage.

China's 11th five-year plan is focused upon invigorating the country with science and education. As multi-national firms transfer their R&D and high-tech production to China and other nations, the U.S. is losing its preeminent position as the world's leading producer of advanced technology products that require R&D and whose benefits extend into broad areas of an economy resulting in new products and/or materials, which lead to more spin-offs. This type of work requires higher-skilled, better educated and better paid workers.

For decades the U.S. was the epicenter of advanced technology production. No longer. In 2008 the U.S. exported $275 billion of such goods but imported more than $329 billion. Of those imports, $91 billion came from China. The U.S. depends on advanced technology, yet we are outsourcing production.

The state of global trade in 2010 is as precarious as global finance was before its 2008 collapse, largely because of a free-market approach to global trade and deregulation of the money industry. The overall goal was unhindered movement of capital, technology, goods and services across national borders with most workers and all unions remaining where they were. The result has been a massive outsourcing of jobs from the U.S. and a surge of imports from low-wage nations that have few or no health, safety, environmental or social regulations.

The de-industrialization of America has created a huge economic imbalance. In 2008, the U.S. imported $58 billion a month more than it exported, paying for that consumption by selling assets and borrowing from foreign central banks and other sources. The massive trade deficit offsets any U.S. economic stimulus. America can't ignore what has taken place; it must stay strong.

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