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Why China Does Capitalism Better than the U.S.

By Tony Karon

One of the great ironies revealed by the global recession that began in 2008 is that Communist Party–ruled China may be doing a better job managing capitalism's crisis than the democratically elected U.S. government. Beijing's stimulus spending was larger, infinitely more effective at overcoming the slowdown and directed at laying the infrastructural tracks for further economic expansion.

As Western democracies shuffle wheezily forward, China's economy roars along at a steady clip, having lifted some half a billion people out of poverty over the past three decades and rapidly created the world's largest middle class to provide an engine for long-term domestic consumer demand. Sure, there's massive social inequality, but there always is in a capitalist system. (Income inequality rates in the U.S. are some of the worst in the industrialized world, and more Americans are falling into poverty than are being raised out of it. The number of Americans officially designated as living in poverty in 2009 — 43 million — was the highest in the 51 years that records have been kept.) ([See TIME's photo-essay "The Rise of Hu Jintao."](#))

Beijing is also doing a far more effective job than Washington of tooling its economy to meet future challenges — at least according to historian Francis Fukuyama, erstwhile neoconservative intellectual heavyweight. "President Hu Jintao's rare state visit to Washington this week comes at a time when many Chinese see their weathering of the financial crisis as a vindication of their own system, and the beginning of an era in which U.S.-style liberal ideas will no longer be dominant," wrote Fukuyama in Monday's *Financial Times* under a headline stating that the U.S. had little to teach China. "State-owned enterprises are back in vogue, and were the chosen mechanism through which Beijing administered its massive stimulus."

Today Chinese leaders are more inclined to scold the U.S. — its debtor to the tune of close to a trillion dollars — than to emulate it, and Fukuyama noted that polls show that a larger percentage of Chinese believe their country is headed in the right direction, compared with Americans. China's success in navigating the economic crisis, wrote Fukuyama, was based on the ability of its authoritarian political system to "make large, complex decisions quickly, and ... make them relatively well, at least in economic policy."

These are startling observations from a writer who, 19 years ago, famously proclaimed that the collapse of the Soviet Union heralded "the end of history as such ... That is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government." ([See TIME's video "An Eye on China, Old and New."](#))

Fukuyama has had the good grace and intellectual honesty to admit he was wrong. And he's no apologist for Chinese authoritarianism, calling out its abuses and corruption, and making clear that he believes the absence of democracy will eventually hobble China's progress. Still, as he noted in the *Financial Times*, while they don't hold elections, China's communist leaders are nonetheless responsive to public opinion. (Of course they are! A party brought to power by a peasant rebellion knows full well the destructive potential of the rage of working people.) But the regime claims solid support from the Chinese middle class, and hedges against social explosion by directing resources and investment to more marginal parts of the country.

China's leaders, of course, never subscribed to Fukuyama's "end of history" maxim; the Marxism on which they were reared would have taught them that there is no contingent relationship between capitalism and democracy, and they only had to look at neighbors such as Taiwan, South Korea and Singapore to see economic success stories under authoritarian rule — although the prosperity thus achieved played a major role in transforming Taiwan and South Korea into the noisy democracies they are today. Nor were Beijing's leaders under any illusions that the free market could take care of such basic needs as education, health care and infrastructure necessary to keep the system as a whole growing.

But Fukuyama also made a point about the comparative inability of the U.S. system to respond decisively to a long-term crisis. "China adapts quickly, making difficult decisions and implementing them effectively," Fukuyama wrote. "Americans pride themselves on constitutional checks and balances, based on a political culture that distrusts centralised government. This system has ensured individual liberty and a vibrant private sector, but it has now become polarised and ideologically rigid. At present it shows little appetite for dealing with the long-term fiscal challenges the U.S. faces. Democracy in America may have an inherent legitimacy that the Chinese system lacks, but it will not be much of a model to anyone if the government is divided against itself and cannot govern." ([See "China's High-Speed Rail."](#))

Money has emerged as the electoral trump card in the U.S. political system, and corporations have a Supreme Court-recognized right to use their considerable financial muscle to promote candidates and policies favorable to their business operations and to resist policies and shut out candidates deemed inimical to their business interests. So whether it's health reform or the stimulus package, the power of special interests in the U.S. system invariably produces either gridlock or mishmash legislation crafted to please the narrow interests of a variety of competing interests rather than the aggregated interests of the economy and society as a whole. Efficient and rational decisionmaking it's not. Nor does it appear capable of tackling long-term problems. ([Comment on this story.](#))

China is the extreme opposite, of course. It can ride roughshod over the lives of its citizens (e.g., building a dam that requires the forced relocation of 1.5 million people who have no channels through which to protest). But China's system is unlikely to give corporations the power to veto or shape government decisionmaking to suit their bottom lines at the expense of the needs of the system as a whole in the way that, to choose but one example, U.S. pharmaceutical companies are able to wield political influence to deny the government the right to negotiate drug prices for the public health system. Fukuyama seems to be warning that, in Darwinian terms, the Chinese system may be more adaptive than the land of the free.

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