A Discussion with Prof. Pedro Paez

During the South South Forum organized by Lingnan University, I had the opportunity to discuss with Prof. Pedro Paez, who is not only a well-known scholar, but also the former minister of economic policy coordination for the government of Ecuador. The main topic of our discussion was the current financial crisis in Europe and the nature of the measures (so-called austerity measures) taken to avert it. When I raised the question of the current sovereign debt crisis faced by several European countries, Prof. Paez responded without the slightest hesitation that the present crisis goes back twenty years ago. He emphasized that both the present sovereign debt crisis in Europe and the financial meltdown in 2008 were caused by overproduction. His analysis echoes the theory of regime change in capital accumulation first proposed by a group of French economists known as the regulation school. According to this theory, the weakness of the Fordist accumulation of capital was clearly exposed in the crisis of the 1970s. The oil embargo imposed by major oil-producing countries in the Middle East resulted in global recession. As the strategy of the Fordist accumulation hinges on mass production of standardized goods, a steady rise in mass consumption is the pre-requisite for the sustainability of the Fordist accumulation. The global recession caused by the oil embargo put paid to any rise in mass consumption. But the Fordist set-up is such that any disruption to mass production means that the heavy investment in its assembly line will go to waste.

According to the theory of regime change in capital accumulation, since the 1980s, various adjustments took place within the capitalist system and a new Post-Fordist regime of capital accumulation gradually took shape. The new Post-Fordist regime (also known as the new Flexible regime) supposedly solved the problems of the Fordist regime by avoiding the previous reliance on mass production of standardized goods and the accompanying pre-requisite of mass consumption. The economy of scale engendered by the Fordist regime is said to be beaten out by an economy of scope whereby production becomes production of a variety of goods in small batches. The new regime however creates new problems of the reduction of turnover time both in product innovation and in consumption. While the former can be solved by encouraging innovations in information technology, the latter problem is much more tricky to solve. A cultural turn in the economy seems to be the best option.

The discussion with Prof. Paez suggests that both the financial meltdown in 2008 and the current sovereign debt crisis in Europe are clear indications that the adjustments within the capitalist system are not only far from complete but also far
more messy or even far more nasty than the theory of regime change has argued. Prof. Paez emphasized that the problem of over-production continues to plague the capitalist system. Although he did not mention specifically the rise of emerging economies spearheaded by China in particular, it is not difficult to see the link between the rise of China and the crisis within the core countries of the capitalist system. With the likes of China and India producing goods at a fraction of the cost needed were they produced in North America or Europe, entire manufacturing sectors in North America and Europe are made redundant. Before the financial meltdown of 2008, the idea of a weightless economy was much in vogue. In the U.K. for example, it was once argued that the entire economy can just feed off the financial sector. De-regulation became the norm so as to enable the financial sector to come up with ever more new instruments not only for investments but also for insurance against those investments. Even as new instruments for investment were introduced almost on a daily basis, investors were guaranteed against loss. Instead of a brave new world, it is a timid and greedy new world. The possibility of loss for an investor has been taken out from the equation. The financial meltdown of 2008 took place in an environment where financial institutions that were supposedly in the know took on toxic assets in the unfounded beliefs that these toxic assets were safe bets.

To ward off the financial meltdown of 2008 and to save the world from recession or possibly depression, governments had to step in. The debts incurred by private financial institutions were transferred to governments and became public debts or sovereign debts. In this sense, Prof. Paez is indeed far sighted to emphasize that the current crisis goes back twenty years ago and that the underlying problem is one of over-production within the core countries of the capitalist system. As a government minister in Ecuador, Prof. Paez pioneered a system of mutual credits as a way to foster trade among countries without having to resort to the financial systems of the core countries of the capitalist system. Prof. Paez thinks that China, with its huge reserve can be a powerful force if it puts its vast resources behind a system of mutual credits. Typical of those on the left outside China, Prof. Paez has a rather benign view of China, which put its own interests above all else. Paramount among China’s various interests is the survival of the Chinese Communist Party (CCP) not so much in China itself as in a world dominated by the capitalist system. With its huge trade surplus, China has profited greatly from globalization, which is simply the spread of the capitalist system throughout the world. But with each single benefit obtained by means of embracing the capitalist world system, the legitimacy of the CCP is further eroded. Highlighting such a basic contradiction is the fact that China is the only country in the world where the budget for internal security exceeds the budget for
nation defense. In my view, China under the authoritarian rule of the CCP is too mired in its narrow self-interests to offer support for any meaningful attempts to create a new financial order free from the shackles of that dominated by core countries of the capitalist system. As things stand, China is often accused of upsetting the balance of the world economy. Even China itself has for some years, admitted that it has to re-balance its economy and to rely less on exports. There has been constant talks of boosting demands within China itself. But twenty years of annual double digit growth in China has only created a vastly unequal society. With a class of nouvelle rich, there is no lack of demand for luxury goods in China. The problem is with people in low-paid jobs, boosting demands for these people is simply a luxury. As the CCP stubbornly stick to its own brand of communism, it has created a vastly unequal society. Those who accused China of upsetting the balance of the world economy are of course self-serving in their accusation. But the rise of China and its economic success does come with a heavy price. In wake its success, China has not only created a vastly unequal society, but also succeeded in doing so in the name of communism.

¹ For an excellent comparative analysis of the level of inequality in China, Japan, South Korea, Taiwan and other Asian tigers during the same stage of economic development, see Hung Ho-fung, "America's Head Servant", New Left Review no. 60, Nov/Dec 2009. The gist of Hung's argument is that the level of inequality in China is the most severe.