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The Secrets of China's Economy: The Government Owns the Banks rather than the Reverse

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> "The banks — hard to believe in a time when we're facing a banking crisis that many of the banks created — are still the most powerful lobby on Capitol Hill. They frankly own the place." — U.S. Senator Dick Durbin, Democratic Party Whip, April 30, 2009

While the U.S. spends trillions of dollars to bail out its banking system, leaving its economy to languish, China is being called a "miracle economy" that has decoupled from the rest of the world. As the rest of the world sinks into the worst recession since the 1930s, China has maintained a phenomenal 8% annual growth rate. Those are the reports, but commentators are dubious. They ask how that growth is possible, when other countries relying heavily on exports have suffered major downturns and remain in the doldrums. Economist Richard Wolff skeptically observes:

We now have a situation in the world where we have a global capitalist crisis. Everywhere, consumption is down. Everywhere, people are buying fewer goods, including goods from China. How is it possible that in that society, so dependent on the world economy, they could now have an explosive growth? Their stock market is now 100 percent higher than at its low — nothing remotely like that hardly anywhere in the world, certainly not in the United States or Europe. How is that possible? In order to believe what the Chinese are saying, you would have to agree that in a matter of months, at most a year, no more, they have been able to transform their economy from an export-based powerhouse to a domestically focused industrial engine. Nowhere in the world has that ever taken less than decades."

How can China's stimulus plan be working so well, when ours is barely working at all? The answer may be simple: China has not let its banking system run roughshod over its productive economy. Chinese banks work for the people rather than the reverse. So says Samah El-Shahat, a presenter for Al Jazeera English who has a doctorate in economics from the University of London. In an August 10 article titled "China Puts People Before Banks," she writes:

"China is the one leading economy where the divide – the disconnect between its financial sector and the world normal Chinese people and their businesses inhabit – doesn't exist. Both worlds are booming again and this is due to the way the government handled its banks. China hasn't allowed its banking sector to become so powerful, so influential, and so big that it can call the shots or highjack the bailout. In simple terms, the government preferred to answer to its people and put their interests first before that of any vested interest or group. And that is why Chinese banks are lending to the people and their businesses in record numbers."

What Wolff calls a "global capitalist crisis" is actually a credit crisis; and in China, unlike in the U.S., credit has been flowing freely, not just to the financial sector but to industry and local government. State-owned banks have massively increased lending, with local governments and state enterprises borrowing on a huge scale. The People's Bank of China estimates that total loans for the first half of 2009 were $1.08 trillion, 50% more than the amount of loans Chinese banks issued in all of 2008. The U.S. Federal Reserve has also engaged in record levels of lending, but its loans have gone chiefly to bail out the financial sector itself, leaving Main Street high and dry. Writes El-Shahat:

"In the UK and US, the financial sector is booming, while the world of normal people seems to be going from bad to worse, unemployment is high, businesses are folding and house foreclosures are still taking place. Wall Street and Main Street might as well be existing on different planets. And this is in large part because banks are still not lending money to the people. In the UK and US, banks have captured all the money from the taxpayers and the cheap money from quantitative easing from central banks. They are using it to shore up, and clean up their balance sheets rather than lend it to the people. The money has been hijacked by the banks, and our governments are doing absolutely nothing about that. In fact, they have been complicit in allowing this to happen."

Cracks in the Chinese Wall?

The Chinese economy is not perfect. The push to make profits, particularly from foreign investment capital, has encouraged speculative ventures, with a great deal of money going into high-rise apartments and other real estate developments that most people cannot afford. Chinese workers are now complaining of too much capitalism, since they are having to pay for housing, health care and higher education formerly picked up by the State. And while efforts are being made to make more loans available to medium-sized and small businesses, state-owned businesses and large corporations are still getting most of the loans. This is because the banks have been told to tighten their lending standards, and these larger entities are safer credit risks.

Wolff thinks China's "miracle" is a bubble that is about to burst, with catastrophic consequences. Historically, however, when bubbles have collapsed suddenly it has been because they were punctured by speculators. When the Japanese stock market bubble burst in 1990, and when other Asian countries followed in 1998, it was because foreign speculators were able to attack their currencies with exotic derivatives. The victims tried to defend by buying up their own national currencies with their foreign currency reserves, but the reserves were soon exhausted. Today, China has accumulated so much in the way of dollar reserves that it would be very difficult for speculators to do the same thing to the Chinese stock market. A gradual stock market decline due to natural market forces is something an economy can take in stride.

Economic Role Reversal?

For the time being, at least, China's stimulus plan is clearly working better than those of the U.S. and the U.K.; and a chief reason it is working better is that the government has a grip on its banking sector. The government can operate the banks' credit mechanisms in a way that serves public enterprise and trade, because it actually owns the banks, or most of them. Ironically, that feature of China's economy may have allowed it to get closer to the original American capitalist ideal than the United States itself. China is often referred to as communist, but it has never really been communist as defined in the textbooks, and it is far less so now than formerly. Communist Party leader Deng Xiaoping, who opened China to foreign investment after 1978, famously said that it doesn't matter what color the cat is, so long as it catches mice. Whatever the Chinese economy is called, today it provides a framework that effectively encourages entrepreneurs.

Jim Rogers is an expatriate American investor and financial commentator based in Singapore. He wrote in a 2004 article titled "The Rise of Red Capitalism":

"Some of the best capitalists in the world live and work in Communist China. . . . No matter how long China's leaders persist in calling themselves Communists, they seem quite intent on creating the world's dominant capitalist economy."

Meanwhile, the U.S. has sunk into what Rogers calls "socialism for the rich." When ordinary U.S. businesses go bankrupt, they are left to deal with the asphalt jungle on their own; but when banks considered "too big to fail" go bankrupt, we the taxpayers pay the losses while the banks' owners keep the profits and are allowed to continue speculating with them. The bailout of Wall Street with taxpayer money represents a radical departure from capitalist principles, one that has changed the face of the American economy. The capitalism we were taught in school involved Mom and Pop stores, single-family farms, and small entrepreneurs competing on a level playing field. The government's role was to set the rules and make sure everyone played fair. But that is not the sort of capitalism we have today. The Mom and Pop stores have been squeezed out by giant chain stores and mega-industries; the small private farms have been bought up by multinational agribusinesses; and Wall Street banks have gotten so powerful that Congressmen are complaining that the banks now own Congress. Giant banks and corporations have rewritten the rules for their own ends. Healthy competition has been replaced by a form of predator capitalism in which small fish are systematically swallowed up by sharks. The result has been an ever-widening gap between rich and poor that represents the greatest transfer of wealth in history.

The Best of Both Worlds

The Chinese solution to a failed banking system would be to nationalize the banks themselves, not just their bad debts. If the U.S. were to adopt that approach, we the people would actually get something of value for our investment – a stable and accountable banking system that belongs to the people. If the word "nationalize" sounds un-American, think "publicly-owned and operated for the benefit of the public," like public libraries, public parks, and public courts. We need to get our dollars out of Wall Street and back on Main Street, and we can do that only by and we can do that only by breaking up our out-of-control private banking monopoly and returning control over money and credit to the people themselves. If the Chinese can have the best of both worlds, so can we.

Ellen Brown developed her research skills as an attorney practicing civil litigation in Los Angeles. In Web of Debt, her latest book, she turns those skills to an analysis of the Federal Reserve and "the money trust." She shows how this private cartel has usurped the power to create money from the people themselves, and how we the people can get it back. Her earlier books focused on the pharmaceutical cartel that gets its power from "the money trust." Her eleven books include Forbidden Medicine, Nature's Pharmacy (co-authored with

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