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Forget a New Cold War, the US and China Need to Fight Against Inequality

Has the United States now entered a new Cold War, this time around with China?

"Rhetoric coming out of Washington, amplified by hawkish media commentary," Andrew Bacevich of the Quincy Institute for Responsible Statecraft observed this past spring, "appears to take a Second Cold War as a given, something perhaps even to be welcomed."

The 2020 U.S. presidential election, John Kemp at Reuters noted last month, saw "both major candidates determined to appear tough on China." Kemp sees elites "in both countries" ready for an ever deeper row, amid "growing complaints" about everything from intellectual property theft and trade imbalances to espionage and territorial challenges.

U.S. diplomats, for their part, appear to be almost itching for more confrontation. Biden national security adviser Jake Sullivan has declared that "the era of engagement with China has come to an unceremonious close," and Antony Blinken, the current U.S. secretary of state, pointedly pontificated before his first meeting with China's top diplomats that no one should consider that session the start of a "strategic dialogue."

BBC diplomatic correspondent Jonathan Marcus, meanwhile, is advising us not to consider current China-U.S. relations a mere "Cold War mark II." The superpower face-off now emerging, he predicts, could become "something far more dangerous."

Can we avoid that danger? Sure, but only if instead of itching for a new Cold War, our two global superpowers start itching for greater economic equality — on both sides of the Pacific. Narrowing our great divides — between the rich and everyone else — will be the key to reducing our new Cold War tensions.

So suggests the work of Matthew Klein and Michael Pettis, the authors of *Trade Wars Are Class Wars: How Rising Inequality Distorts the Global Economy and Threatens International Peace*. The world typically sees disputes over trade, the pair note, as conflicts between countries with incompatible national interests. But such disputes, Klein and Pettis believe, much more commonly reflect "the unexpected result of domestic political choices" that "serve the interests of the rich at the expense of workers and ordinary retirees."

Klein, currently an economics commentator at *Barron's*, has been a financial industry investment associate and a researcher at the Council on Foreign Relations. Pettis has worked on Wall Street for over 30 years and currently teaches at the Peking University Guanghua School of Management.

"If you're an American worker and you feel as if the Chinese government has done things that are bad to you, you're probably right," Klein has noted. "But, to be clear, the reason you're right is because the Chinese government did things that were bad for the vast majority of people who live in China. And it's a side effect of those choices that American workers have been harmed."

Klein traces his perspective back to the insights of J.A. Hobson, the British social critic who authored the influential 1902 book *Imperialism*. Klein's take on Hobson's key point: If you want to understand the classic European imperialism of the late 19th century, "you have to understand the internal dynamics of the distribution of income within the major European powers."

Back then, in the raw early years of the industrial age, the rich routinely ran roughshod over their workers. Their intense exploitation stunted the growth of European domestic markets. Working families simply had too little to spend. That meant, notes Klein, that powerhouse European nations had to go abroad to find markets and attractive investment opportunities. That dynamic would eventually spur imperial conflict and unimaginable horror.

A similar dynamic is playing out today.

"Growing inequality within countries," as David Beckworth of the Mercatus Center sums up Klein's core point, "is creating tensions between countries."

Inequality within modern China started soaring in the 1990s. New economic policies fueled the soaring. China, Klein notes, would "squeeze workers and household consumers" as much as feasible to "create a massive glut of goods" for export. That "glut of goods," in turn, undermined workers in the United States and other nations that had become China's export markets.

On paper, this export-oriented approach worked out well. China's share of global GDP jumped from under 3 percent in 1978 to almost 20 percent in 2015, point out economists Thomas Piketty, Li Yang, and Gabriel Zucman. Real incomes in China's poorest half, over those same years, increased at a 4.5 percent annual clip. Incomes in the middle 40 percent increased even faster, at a 6 percent rate.

But some in China — the rich — did even better. China's top 1 percent averaged 8.4-percent annual income gains between 1978 and 2015, with the richest of the rich, China's top 0.001 percent, enjoying a 10.4-percent annual rate of income growth.

Overall, calculates the Piketty team, the top 1 percent's share of Chinese income went from a little over 6 percent in 1978 to at least 14 percent in 2015.

"The level of inequality in China in the late 1970s," these researchers conclude, "used to be less than the European average — closer to those observed in the most egalitarian Nordic countries — but it is now approaching a level that is almost comparable with the US."

This rising level of inequality has created the sorts of social and cultural stressors that widening inequality always creates. In societies growing ever more unequal, the "winners" — the rich — signal their success with the products they buy and the services they engage. The "losers" — everyone else — find themselves under enormous pressure to keep up, no matter the sacrifices that "keeping up" may demand.

Those sacrifices can be unforgivably grueling. In the United States, for instance, students and their families now face mountains of college debt. In China, tens of millions of families are going deep into debt to fund private tutors to help their children get *into* college.

In China today, *Bloomberg* explained earlier this week, graduating from an elite urban university all but guarantees "a well-paying career." Entrance into these highly competitive schools rests on how well aspiring college students perform on the *gaokao*, "a notoriously difficult, life-defining college-entrance examination." The "defining" impacts parents as well as students since most parents lack adequate pensions and depend on an only child to "make enough to support them in old age."

These pressures make after-school tutors for kids an absolute essential, and the tutoring business has become a highly profitable, $100-billion industry. In Beijing, parents are paying up to $46,400 a year — over three times the average local disposable income — on extra Chinese, English, math, and calligraphy classes for *nine*-year-olds.

These classes don't eliminate anxiety for Chinese parents. They do createmammoth private fortunes. Larry Chen, the founder and CEO of Gaotu Techedu, started this year with a net worth of over $15 billion. TAL Education Group CEO Zhang Bangxin entered this summer worth almost $3 billion. His New Oriental Education & Technology Group rival, Yu Minhong, entered with $1.3 billion.

Billionaires like this trio abound in China, and outrage at their enormously good fortune has been growing, especially since the start of the pandemic. As of last October, the personal wealth of China's richest mogul, Jack Ma of e-commerce giant Alibaba, had jumped 45 percent for the 2020 pandemic year, up to $58.8 billion. China's billionaires, as a group, had gained $1.5 trillion.

Ma and other superstars of China's high-tech boardrooms have been operating, just like their U.S. counterparts, largely by their own rules. Their wealth has essentially insulated them from any existing regulations they may find inconvenient. Last fall, in front of an august assembly of Chinese economic and political luminaries, an arrogant and condescending Ma openly blasted government regulators for stifling innovation.

But this time Chinese authorities struck back. They squashed a planned initial public offering of Ma's finance arm that had been expected to reap the biggest IPO windfall of all time and announced new regulations on micro-lending that could severely shave Ma's financial earnings.

U.S. cheerleaders for a new Cold War dismissed the policy significance of this pushback against Ma. They either deemed that pushback a mere show of pique or portrayed Ma as a valiant defender of China's "innovative" high-tech pioneers. But these claims, other observers note, miss the real story. The move against Ma, they argue, signals a tougher Beijing stance on China's entire high-tech billionaire class.

Early last month, for instance, government regulators had China's wildly dominant version of Uber removed from app stores. Food-delivery services now have to pay a living wage. Tech firms with over a million users must"pass a review before listing overseas" on foreign stock exchanges. These overseas listings had been *the* quick ticket to corporate executive jackpots.

Even more dramatically, Chinese authorities have totally upended the fabulously profitable after-school tutoring industry. They've ordered private tutoring companies to become nonprofits that can't pursue executive-enriching IPOs or rake in foreign capital.

Share prices for China's tutoring giants naturally tanked almost immediately after the government's ruling. China's billionaire tutoring titans have subsequently all lost their billionaire status.

The bigger statistical picture: Over the first six months of 2021, the world's ten richest grew $209 billion richer. China's richest lost $16 billion over the same time span.

"The age of unfettered gains for China's ultra-rich," *Bloomberg*'s Blake Schmidt, Coco Liu, and Venus Feng report, "now appears to be coming to an abrupt end."

What's going on here? Some analysts are pointing to many of the same concerns fueling public policy debates in the United States, among them"anticompetitive behavior in the tech industry, risks to financial stability from lightly regulated lending platforms, and the rapid proliferation of sensitive personal information in the hands of large corporations."

Chinese officials, adds veteran business analyst Hubert Horan, have learned from the U.S. high-tech experience. They've watched from afar as years of laissez-faire toward America's tech giants have let a handful of companies achieve "unprecedented" size and made it "virtually impossible" to address the "externalities" the tech giants have created. Any system that gives moguls like Jeff Bezos and Mark Zuckerberg the "unfettered freedom to flaunt any rules they didn't like," Chinese officialdom has come to see, "may not have been producing efficient outcomes for the rest of society."

Chinese authorities have also come to see the public outrage at the unfairness of their economy as a clear and present danger.

"The government is going after industries that are creating the most social discontent," posits Liao Ming, the founder of a Beijing-based financial company, Prospect Avenue Capital.

China, in effect, is abandoning the "development phase" of its past three decades. In the new phase that China's upper political echelons envision, "common prosperity" will take priority over massive concentrations of private wealth, and keeping average Chinese families smiling will rate as far more important than keeping home-grown billionaires beaming.

Chief Bloomberg economist Tom Orlik and his colleague Tom Hancock are calling the emerging new attitude of Chinese officialdom "progressive authoritarianism." Whatever the right tag may be, China's new crackdown on the rich appears to be wildly popular within China. A similar crackdown on the super rich, polls indicate, would be equally popular in the United States.

Indeed, could we finally have found a socially redeeming arena of competition between the United States and China? Why, after all, waste billions on an arms race prepping for a new Cold War when we can compete instead over which nation, China or the United States, can do more to narrow corrosive gaps between the rich and the rest of us?

What a glorious competition this face-off for greater equality could be! The peoples of both the "winner" and the "loser" in this competition would find themselves living on a much more equal globe, a world better able to battle the real terrors that confront it, starting with climate change.

Forget the new Cold War. We need a race to end grand private fortune.

Sam Pizzigati writes on inequality for the Institute for Policy Studies. His latest book: The Case for a Maximum Wage (Polity). Among his other books on maldistributed income and wealth: The Rich Don't Always Win: The Forgotten Triumph over Plutocracy that Created the American Middle Class, 1900-1970 (Seven Stories Press).

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