## State Capitalism

## Summary

At the end of the first decade of the twentieth- century, the question that seems to be on the minds of economists and state bureaucrats is whether or not the market should determine social relations, or leave it to state bureaucracies. In a 2012 *New York Times* op-ed piece, Thomas Friedman stated the question succinctly. "When the private sector overwhelms the public, you get the 2008 subprime crisis," Friedman wrote, "when the public overwhelms a private, you get choking regulations."[[1]](#footnote-1) Wang Jianping and his wife, Shue, compared with other Chinese families, are a relatively affluent Chinese couple, with an annual household income of $16,000 -- more than double the national average for urban families. They own a modest, three-bedroom apartment here in a northeastern industrial city and sent their son to study electrical engineering at prestigious Tsinghua University, in Beijing. Contrasted with other Asian families, they are huge savers, having $50,000 in a state-run bank but have little spending power. According to a *NY Times* article, “They [Wang family] do not own a car, and they rarely go shopping or out to eat. That is because the value of their nest egg is shrinking, through no fault of their own.”[[2]](#footnote-2)

## Key Term(s)

State capitalism is characterized by the dominance of [state-owned business enterprises](http://en.wikipedia.org/wiki/Government-owned_corporation) in the economy. State capitalism has also come to refer to an economic system where the [means of production](http://en.wikipedia.org/wiki/Means_of_production) are owned privately but the state has considerable control over the allocation of [credit](http://en.wikipedia.org/wiki/Credit_%28finance%29) and investment. Inflation is when the price of goods and services increase; it is particularly detrimental to working class people and those on fixed incomes, who have to pay a larger percentage of their incomes for goods and services than the affluent when prices rise.

## Connecting Key terms with Summary

It is inaccurate to view economic system is as either/or propositions. For example, looking at the history of macroeconomic policy in the United States, there was a 1971 dollar devaluation instituted by the Nixon administration and a 1985 dollar devaluation instituted by the Reagan Administration. Furthermore, when discussing "socialist" economic systems, the United States is not often the first country that comes to mind. Regarding government intervention in the macroeconomic management of a nation, the question becomes how much state intervention is possible if a nation continues to associate its economic system with “capitalism.” When a country such as China favors state-run banks and companies over wage earners, the government keeps the interest rate on savings accounts so artificially low that it cannot keep pace with China's rising inflation. At the same time, other factors in which the government plays a role -- a weak social safety net, depressed wages and soaring home prices -- create a hoarding impulse that compels many people to keep saving anyway, against an uncertain future. Of course, Chinese workers have a much higher savings rate than American workers, who often have to borrow from parents and relatives to survive. The Chinese government and select Chinese firms then use this money for loans to the commercial real estate industry. Put differently, the private, commercial Chinese real estate market is being subsidized by the earnings of Chinese workers. At the same time, Chinese workers are forced to save more than workers in the United States because there are fewer social safety nets in China, such as unemployment insurance. Furthermore, Chinese workers "lose" as consumers because they make lower wages than workers in the United States and also than workers in many smaller, poorer countries. Because China's macroeconomic policy has favored a devalued wan in order to make their exports cheaper in United States, Chinese consumers pay more for "made in USA" products.

## Remittances

### Summary

President Bush and other leaders from the Group of Eight industrialized nation’s discussed ways to reduce the cost of sending money home. Ideas included reducing the size of commissions paid to companies that transfer the money, drawing immigrants to the traditional bank and financial system so more the money is saved and made available for loans, and using those savings for specific small – scale development programs. Government leaders dedicated to dismantling barriers to free flow of goods and services often avoid talk about opening borders concerning people who make those goods or perform those services, earn and then send back the money. Experience of such workers in host nations is often missing from discussions of trade and globalization. Migrants risk their lives to reach a rich country like the United States, where they hold down two jobs and earn less than $20,000 a year, suffer years of separation from their families and endure an uncertain legal status

A study done by the Inter-– American Development Bank showed how remittances exploded with globalization and the technological revolution that allowed money to be wired quickly to remote areas of the developing world. Dilip Ratha, a senior economist at the World Bank argued, "If we can reduce the cost of sending these remittances, it would mean an additional $10 billion flowing to the poor in developing nations." "If we can get the money moving through formal channels, that would mean greater savings and more credit for these people." Kathleen Newland, director of the Migration Policy Institute, stated the discussion should include recommendations for allowing migrant workers to travel back and forth legally, so they can take an active role in improving their home communities. "That would have a bigger impact on development," she emphasized.[[3]](#footnote-3) With foreign aid at low levels and foreign investors preferring proven powerhouses like China, many poor nations increasingly depend on their own workers to go abroad somebody home. This brings up the issues of “return migration.” Workers returning home to become a huge new flow for new investments if there were incentives to invest, they return to their home country when economic opportunities are offered there, yet migration has been a one – way street. Workers come to the United States and their families eventually follow. Critics fear will be a permanent class of countries that survive by providing cheap labor to rich nations-- underdeveloped societies always having to export their labor.

### Key Term(s)

For people in the South, the **remittances** sent home by migrant workers in the North have made a significant economic contribution to governments and households in the South. Worldwide, remittances have grown from $2 billion in 1970, two $70 billion in 1995, to $300 billion in 2007. In many countries, remittances are a more important source of income than either foreign investment or foreign aid. In the Philippines, for example, migrant women working as nurses and maids sent home remittances worth $15 billion in 2006, six times the amount the country received in foreign aid (2.4 billion). For many years, economists and demographers regarded remittances as unimportant. They argue that remittances were small in size and that the people received them simply "wasted" the money on consumer goods, rather than saving or investing it, and this did little to promote economic development. But this view changed after 2003 World Bank study showed that remittances were much bigger than economists thought and that they made positive contributions to governments, households, and businesses (Schaeffer, 122-3).

## Connecting Key terms with Summary

Rather than advertising lecture goods or fine tourist hotels, El Salvadoran billboards advertise electronic transfer of payments, called remittances. This is money earned in the United States while Salvadorans, and sent back to their home country. Remittances are an essential money source for developing countries like Albania, El Salvador, Tonga, and Lebanon. Small bundles of money ($200 or $300 a month) add up to large transfers of wealth from rich countries to poor ones. Global remittance market may total $150 billion annually, which is triple the development aid given by wealthy nations to poor countries. Sometimes remittances may total more than foreign direct investment.[[4]](#footnote-4)

The work that immigrants do in the United States including gardening, laborers on construction sites, and domestic service work is not by any means associated with "high – status" jobs. Nonetheless, a "crappy" job in the United States nets migrant workers hard currency in the form of dollars that they send back to their homelands to support families. Why have remittances largely been unnoticed to economists? This author argues that economist and sociologist have focused instead on major macroeconomic agreements, such as the North Atlantic Free Trade Agreement (NAFTA), major organizations designed to standardize trade such as the World Trade Organization, and developmental projects orchestrated by the World Bank and international monetary fund (IMF). Nevertheless, as the article suggests, remittances are a major resource for a poor country. For example, in Mexico remittances are a source of revenue that rival oil revenues and tourism.

Major government leaders, as made clear in the article, are concerned that revenues are supporting individuals rather than the financial system. For example, Schaeffer (2009) suggests that "between 50 and 80% of migrant remittances are using informal markets, where people use hard currencies as a hedge against domestic monetary problems and keep their savings in dollars, which they regard as safer" (123). This practice weakens the value of domestic currencies. Moreover, Schaeffer argues that households can improve their economic situations more effectively with remittance income than government bureaucracies can make of foreign aid or private corporations can make of foreign investment (124). The article failed to mention the issue of “dollar apartheid.” People with dollars bid up prices of local goods and services creating a two-tiered economies---people with access to dollars obtain advantage. Partly as a response to this situation, countries are adopting the dollar as their currency, which El Salvador did in 2001.

## Feminization of Immigration

### Summary

A *NY Times* picture depicts immigrant women gathering near an intersection of Brooklyn, waiting for a day’s work cleaning houses. In secret sidewalk negotiations, women are hired for a day’s work at minimum wage or less in struggling garment factories. Rosa Yumbla supports four children in Ecuador and addressed a national conference of day labor organizers at New York University Law School. "We suffer the changing weather throughout the year, the heat of the sun and cold in winter, because where we wait to be picked up is on the corner." She pleads to “help us secure a space where we can be safer."

### Invisible Workers

The work is $8 an hour housecleaning, and those vying for days scrubbing, many for Hasidic homemakers (Orthodox Jewish), stand in a hierarchy of employer preference: Mexican and Central American women in their 30s at the back, Polish immigrant women in their 50s and 60s in the middle, and young Polish students with a command of English at the head of the line. May Chen, vice president of Unite, a garment workers union, whose headquarters is only a few blocks from where the women look for work, said she was unaware of the shape-ups existence until she was asked about it for the article. Aaron Adams, veteran garment center landlord who passes by every day, was oblivious to the woman standing there "were just shooting the breeze." According to sociologist Rhacel Salazar Parrenas , "The space that these women occupy, the public spaces in the city, are just like fleeting moments," she argued. "They don't really have a place in the city that's visible, so it's easy to ignore them."[[5]](#footnote-5)

### Key Term and Facts

About half of economic and political migrants are women, a recent development that demographers have described as the "**feminization of migration**." In the North, the growing demand for workers with skills that are culturally attributed to women include nurses, brides, orphaned girls, and trafficked women. Women migrate not only for economic and political reasons, but also for sociocultural reasons based on their identities as women (Schaeffer: 103, 115). Women make up 44 percent of the nation's low – wage immigrant workforce, and worldwide, studies show more women are migrating for work. Male day laborers have become the most public and contentious face of economic immigration to United States, so female immigrant women often goes unnoticed. Nationally men account for about two thirds of labor migration among illegal immigrants, primarily because agricultural demand. Global patterns indicate that women are easily half the immigrant workers flowing to large metropolitan areas like New York, explained sociologist Rhacel Salazar Parrenas.[[6]](#footnote-6) Women have replaced men in big cities like New York where they pick lettuce or processed poultry or to serve in the vast underground economy domestic service. Women who migrate for worker single women supporting children in their native countries. Despite higher levels of education, women earn less than men. According to the Urban Institute, 2 million foreign dashboard women made less than the minimum wage. Furthermore, women are more likely to remain in America and send home a higher proportion of their earnings.

## Connecting Key terms with Summary

While a graduate student enrolled in a seminar on immigration, this author will never forget the image of a pregnant dead, Mexican woman who tried unsuccessfully to cross into the United States; she was abandoned by her coyote.[[7]](#footnote-7) This woman knew that if she crossed successfully and gave birth in the United States, her child would be U.S. citizen. The point is that mothers will often do anything for their children, sometimes even risking death. As this article points out, migrant women are in the United States and send their earnings to support children in their homelands. Although it is not clear from the article if the garment factories are legitimate businesses, the article suggests the difference between formal and informal labor markets. For example, Orthodox Jewish women (i.e., Hasidic women) who hire female workers for domestic service are an example of an informal labor market. Sociologists term these economic transactions the "underground economy." These transactions go untaxed and the government loses revenue. Notably, while cleaning homes is considered a low-status, "crappy" job in the United States, female migrant workers earn hard currency that they can send back to their homelands and support families. Furthermore, these women are considered high-status people in their homelands. Schaeffer (2009) describes how in 1974 Ferdinand Marcos, then dictator of the Philippines, encouraged Filipino workers to work overseas and even established a government bureaucracy called the Overseas Workers Welfare Association to facilitate migration (113). The women cited in this article are from Latin America or Eastern Europe, countries that do not have bureaucracies and programs to serve as brokers between migrants, sending states, and destinations such as United States. Latin American women's lack of English language skills is a further barrier to success in the United States. In some, the feminization of migration will continue as long as there are disparities in wealth between countries that push women to seek new opportunities.

1. Thomas Friedman “Capitalism, Version 2012.” *The New York Times* Late Edition 14 March 2012 [↑](#footnote-ref-1)
2. David Barboza “As Its Economy Sprints Ahead, China's People Are Left Behind.” *The* [*New York Times*](http://search.proquest.com.libaccess.sjlibrary.org/pubidlinkhandler/sng/pubtitle/New%2BYork%2BTimes/%24N/11561/DocView/896814770/fulltext/14065913F2E45846403/14?accountid=10361), Late Edition 10 Oct 2011 [↑](#footnote-ref-2)
3. Elizabeth Becker. “Adding Value to Immigrants' Cash.” *The New York Times* 6 June 2004. [↑](#footnote-ref-3)
4. Elizabeth Becker. “Adding Value to Immigrants' Cash.” *The New York Times* 6 June 2004. [↑](#footnote-ref-4)
5. Nina Bernstein. *“*Invisible to Most, Women Line up for Day Labor.*”* The *New York Times* 15 August 2005. [↑](#footnote-ref-5)
6. ##  Nina Bernstein. *“*Invisible to Most, Women Line up for Day Labor*.”* The *New York Times* 15 August 2005.

 [↑](#footnote-ref-6)
7. "Coyotes" are those who are paid to help Mexicans cross illegally into the United States. As the US – Mexico border has become a rigid boundary, coyotes charge more for their fees. [↑](#footnote-ref-7)