Twitter Thread by Michael Pettis



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1/11

An article worth thinking about: “As changes to the world structure accelerate, China’s rule is in sharp contrast with the turmoil in the West,” says Beijing.

I agree, but I draw a different conclusion. The world is certainly currently

2/11

through "a period of turbulent change", in Beijing’s words, and great structural adjustments, but usually when that happens, what matters in the long run is not how stable a system seems but rather how successfully political, economic and social institutions adjust to...

3/11

the new conditions. In the past these adjustments have almost always been messy, chaotic, and disheartening to most, but ultimately they were necessary even if we were unable to judge them so at the time.

I would argue that the world today is undergoing both a reversal...

4/11

and rejection of the current model of globalization and an urgent need for most countries in the world, including China, to initiate a major rebalancing of the way income and wealth (and ultimately political power) is distributed, but there are few if any historical...

5/11

precedents in which this level of restructuring and rebalancing have been neat or orderly.

Beijing's response, which is to do whatever it takes to maintain stability, may look good in the short term, as this strategy always does, but if it prevents the necessary...

6/11

rebalancing (as it has for well over a decade), in the future the Chinese may judge their response much less favorably. We went through similarly turbulent periods in the 1920s and 1930s, and then again in the 1960s and 1970s, and in both cases it seemed that the older...

7/11

democracies of the West were failing the test, unlike the stability-obsessed autocracies. Mussolini in the 1920s and early 1930s, remember, was considered even by many prominent American and English politicians to be one of the world’s few great leaders, mainly because...

8/11

he managed to "stabilize" Italy, even as the older American and European democracies were in turmoil. Forty years later the USSR seemed an oasis of purpose and stability when once again Western Europe and the US seemed on the edge of collapse.

9/11

In both cases we were wrong. My point isn’t that Beijing's response is necessarily the wrong one, and ours necessarily the right one. It is only that when we are in the midst of a period of turbulent change, it isn’t always obvious who is adjusting to new conditions and...

10/11

who isn’t, and it certainly isn’t necessarily the case that countries undergoing the least messy institutional changes are the ones adapting best. History suggests almost the opposite – that countries adjust mainly in the midst of turmoil – but either way we will only...

11/11

know many years from now. It will depend mainly on how the different systems react to the real problems that nearly every country faces today, whether, for example, the US, China or Europe respond forcefully to the current turmoil by aggressively rebalancing income.