

## 25. Liberals and Conservatives: Who's What and Where?

ONE OF THE FEW MATTERS on which Democrats and Republicans generally agree is the appropriateness of their respective designations as “liberal” and “conservative.” Their affinity for these labels is ironic because the policy orientations associated with liberals and conservatives in American politics are the precise opposites of what the labels stand for in the rest of the world.

The contrast is sharpest in countries like China and Russia, which are in various stages of transitioning from what were highly centralized “planned” economies to market-driven ones. But the contrast persists in developed countries, such as those of Japan and Europe, as well.

In China most of the recent reform measures that abridge the central government's control of the economy are viewed in party circles, in the Central Party School, in the Chinese Academy of Social Sciences, and in the press as the result of “liberalization” policies, and their advocates are viewed as “liberals.” These liberal measures include the rapid growth of the private sector, which

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currently accounts for more than 55 percent of China's GDP—a share that continues to increase because the private sector's growth is substantially more rapid than that of the state sector. China's liberalization is also reflected by wider opening of domestic markets through reduction of tariff and nontariff barriers, and by a growing if sometimes contested recognition of the crucial importance of private enterprise and by admission of private entrepreneurs to membership in China's Communist Party.

Another controversial issue dividing liberals and conservatives focuses on reform of China's health-care system. "Conservatives" urge that care formerly provided by and through state-owned enterprises should morph into a system largely dominated by government—essentially a single-payer health system. On the other hand, "liberals" express concern about the perverse incentives created by a single-payer system and argue instead for some type of cost-sharing and copayment by consumers in a restructured health system.

Vigorous opposition to these "liberal" measures has been expressed by staunch "conservatives" (sometimes called "leftists"), who instead favor reversal of these changes; for example, the "liberal" reformers are urged by the government press (the *People's Daily* in a recent editorial) to "stay the course and stiff-arm the leftists."

A persistent question in China's discussion of these matters is whether the top leadership of the Communist Party's standing committee genuinely supports these liberalizing policies or whether the policies result from forces—both internal and external—to which the leadership is reluctantly accommodating. When China's previous top leader, Jiang Zemin, articulated his "Three Represents" concept in 2001, which made capitalist entrepreneurs eligible for party membership, this "liberal" innovation was considered particularly surprising because it emanated from someone previously regarded as a stalwart party "conservative."

A favorite pastime of today's China watchers is conjecturing whether the current top leaders, Hu Jintao and Wen Jiabao, are genuinely supportive of liberalizing policies or are instead simply accepting some of them to diffuse pressure to accept more.

In Russia, also, vehement debates are under way between those who endorse the Putin government's expansion of government intervention in the economy—especially in oil and gas, telecommunications, and other key sectors—and those who vigorously, if vainly, oppose it. The government protagonists constitute the “conservative” side of this debate; its opponents are identified as “liberals.” Among the vocal liberal opponents are several top officials from the Yeltsin regime, including former prime minister Yegor Gaidar and former minister of economic planning Evgeny Yasin, as well as a former top Putin economic adviser, Andrei Illarionov.

A central issue in the debate focuses on the economy's relatively high growth rate—its annual average since 2000 has been above 6 percent, three times that of the other G-8 countries. Russia's “liberals” argue that this is largely due to windfalls from Russian exports of oil and gas and the rapid escalation of their prices (according to recent RAND research, about 40 percent of Russia's growth is attributable to this source), rather than to sensible government policies. The liberals contend that growth would have been still higher if the interventionist, “conservative” Putin regime had opened Russia's domestic markets more fully to foreign as well as domestic competition and that the current double-digit inflation would have abated if some of the economy's sharply increased foreign exchange holdings (currently \$250 billion) were used instead for imports of investment and consumption goods.

Stated simply, Russia's liberals want less government intervention and control; the Putin conservatives want more.

Although political labeling who and what is liberal and con-

servative is especially vigorous in “developing” countries such as China and Russia, it is no less manifest in developed, industrialized countries such as Japan and the European Union.

Consider Japan’s recently enacted program of privatizing its postal savings and life insurance system (PSS). With assets of more than \$3 trillion, PSS is the largest bank in the world. It is government-owned and has been government-favored and government-protected since its inception. Its privatization is the most dramatic reform undertaken by the Koizumi government, requiring a national election last year to overcome parliamentary opposition, including extensive opposition within Koizumi’s own Liberal Democratic Party. Opponents of privatization were viewed and viewed themselves as “conservatives” and included much of Japan’s large bureaucracy as well as large numbers of voters with long-standing attachments to and deposits in the postal system. Supporters of privatization were viewed and viewed themselves as “liberals” and included most of Japanese modern financial and business organizations.

According to a recent study by the Fraser Institute, to start a new business in Japan is twice as difficult—more time-consuming and more costly—as in the United States because of the plethora of licenses, clearances, and mandated waiting times required by government regulations. Those in Japan who deplore these obstacles are viewed as “liberals”; those who support them are “conservatives.”

Similar alignments and corresponding labels pervade the economies and societies of the European Union. Of course, Europe has solid credentials for classical liberalism. Indeed, the intellectual roots of liberalism’s emphasis on free markets, competition, free trade, and the benefits of entrepreneurship lie in the eighteenth- and nineteenth-century writings of Adam Smith, David Ricardo, and the Manchester School in Britain, and of Francois Quesnay and the Physiocrats in France. On the other

hand, Europe has no less solid credentials for assigning dominant control to the state either directly through ownership of enterprise assets or indirectly as the principal regulator of privately owned or mixed public-private enterprise. Although the stature of Karl Marx and European socialism have been degraded by the sorry history of the Soviet Union, the welfare state remains a vital “leftist” antidote to classical liberalism in Europe.

One example of these historical cross-currents is the active resistance within the EU to terminating its common agricultural policy (CAP) of government subsidies to Europe’s high-cost agricultural producers—a resistance that is likely to abort the Doha round of trade “liberalization.” The “conservatives” who favor the CAP and other forms of protectionism appear to be stronger than the “liberals” who favor their removal.

The cost and delivery problems currently besetting Airbus and its preponderant owner, the European Aeronautic Defense and Space Company (EADS), provide another example of the conservative versus liberal stance in Europe that contrasts with U.S. practice. The dominant influence in EADS of shared majority ownership by the French and German governments accounts for such anomalous management practices as having two CEOs and two board chairmen (one each for France and Germany). These practices in turn are defended by “conservatives” such as France’s president, Jacques Chirac, and its prime minister, Dominique de Villepin, and deplored by “liberal” business interests and media commentators.

Public policies frequently and perhaps inevitably involve a choice between relatively greater reliance on markets or on governments—each with its own putative strengths and limitations. In most of the world, those who favor reliance on markets are called “liberals,” those who favor reliance on governments are “conservatives.”

Reversal of these labels in the United States is a phenomenon

whose roots lie in the intersection between the Great Depression in the 1930s and the huge expansion of government responsibilities initiated thereafter by President Franklin Delano Roosevelt and his administration's New Deal. In FDR's second inaugural address on January 20, 1937, he expressed his faith in "the innate capacity of government . . . to solve problems once considered unsolvable." The expansion of governmental responsibilities that followed in the immediate and later years encompassed full employment, Social Security, health care, education, market regulation, environmental protection, and national security. "Liberals" in the United States following the lead of FDR and the Democratic Party became identified as those who advocated this expansion. "Conservatives" sought or at least accepted the label of those professing opposition to it. That these labels are exactly reversed from the practice in the rest of the world is an anomaly, as well as perhaps another instance of America's supposed "exceptionalism"!

POSTAUDIT

Reversal of the usual "liberal-conservative" labels in the United States compared with the rest of the world is too deeply embedded in the rhetoric of American political debate to change. More careful and selective use of the terms, however, would help to cool and clarify a seemingly endless and often confusing and mis-characterized debate.