



One Lesson or Two? Political & Economic Change in the People's Republic of China

William R. Keech

Duke University

BB&T Lecture presented at the University of Houston

November 14, 2017

Outline of talk

- Lesson One: What China has taught us about how to achieve economic growth.
- Is there a Lesson Two? China may be in a position to teach us something new about governance and regimes.



- Lesson One: What China has taught us about economic performance

- Since reforms began in 1978:

- China's GDP has surpassed that of Canada, France, Great Britain, Germany, Italy, and Japan.

- Now world's second largest economy as measured by exchange rates

- Now the largest economy according to Purchasing Power Parity (PPP)

- China has lifted 500 - 700 million out of poverty



This is an historic achievement

- Unsurpassed scale and scope of increases in income, wealth and well-being
- This achievement creates a presumption of benevolence on the part of the Chinese government
- Is there another government (authoritarian or otherwise) that can claim as much?



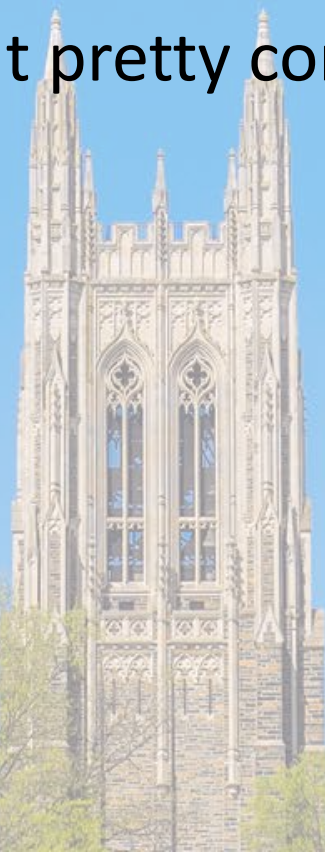
Good for China; good for world

- First, it is good for the Chinese people, but it is also good for the world:
 - Worldwide worries about China's declining growth
 - (China is a major market for world commodities and processed goods)
 - Western stock markets linked to Chinese prosperity
 - China produces a lot of things US imports, at low prices (the upside of trade deficits and lost jobs)
- (Convergence theory explains slower growth)



How did they do it?

- This is my interpretation
- Post hoc ergo propter hoc, but pretty consensual



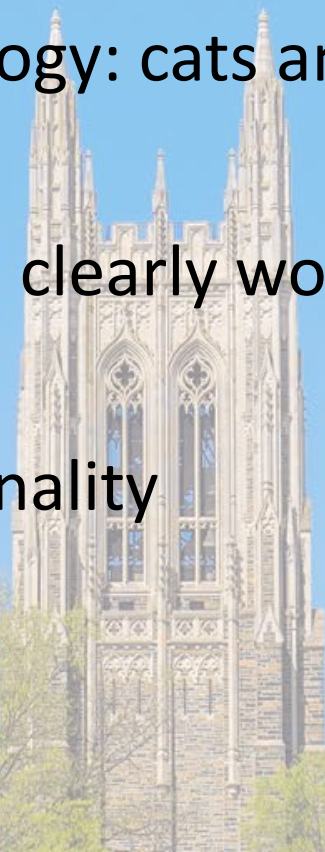
First condition: a strong state

- A government that governs: order and stability; law and order; infrastructure and public goods
 - Huntington, 1968: ***Degree*** of government more important than ***form*** of government
 - A positive part of Mao's legacy: order and stability



Second condition: a sense of direction

- Deng Xiaoping as leader
- Pragmatism rather than ideology: cats and stones
- Wait until market reforms are clearly working before endorsing them
- Self-effacing; no cult of personality



Deng's 4 Cardinal Principles (1979)

1. Upholding the socialist path
2. Upholding the people's democratic dictatorship
3. Upholding the leadership of the Communist Party of China
4. Upholding Mao Zedong's thought and Marxism-Leninism

Purpose?: continuity, legitimacy, (and authoritarianism?)

- A good idea?
- A necessary condition?

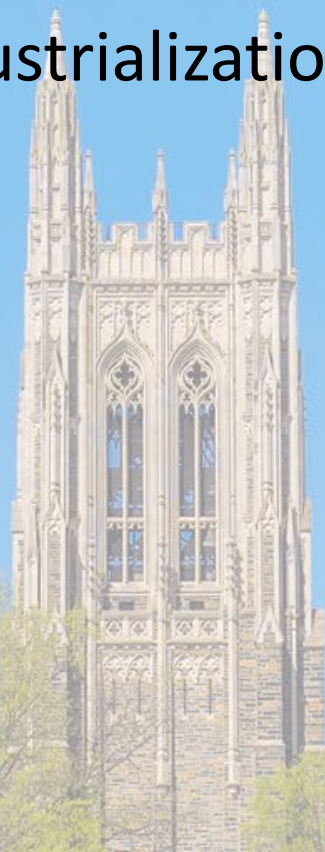
“My father thinks that Gorbachev is an idiot”

- Sequences of political and economic development
- Gorbachev had set out to change the political system in the USSR first and then reform the economy
- “He won’t have the power to fix the economic problems, and the people will remove him”
- This sequence may not be relevant for all times, but it may be relevant for Post WWII era.



Avoid one-size-fits-all solutions

- Not “Big Bang”
- Not “Import Substitution Industrialization” (ISI)
- Not “Washington Consensus”
- Not even “Asian Consensus”



Adapt (capitalist) economic principles to existing institutions

- Pragmatism: cats and stones
- Dani Rodrik. 2007. One Economics, Many Recipes: subtitle
- Ezra Vogel. 2011. Deng Xiaoping and the Transformation of China



Example: Household Responsibility System

- Context: collective farms with quotas
- Reform: harness individual incentives
 - allow farmers to keep surplus beyond a designated level
- Result: productivity rose substantially



Other applications of capitalist principles

- Township and village enterprises (TVEs)
- Introduce competition into State Owned Enterprises (SOEs)
- Special Economic Zones for foreign direct investment and export
- Allow individuals to set up their own businesses



The Theme

- Capitalist principles in action with the language of Marxism-Leninism:

- Is the combination a good idea?

- Is it a necessary condition for growth and prosperity?



• From Lesson One to Lesson Two

- China is an autocracy / authoritarian government at least since 1949
- No autocracy has been as economically successful as the PRC
- There is a comparison group:
 - Japan, Taiwan, South Korea, Chile
 - All developed economically under authoritarian regimes
 - And they became democratic
- What are the expectation that economic development precedes political development and democratization in China?



Lessons One and Two?

- See Deng's Gorbachev comment above
- But note Tiananmen demonstrations for democracy crushed June 4, 1989
- Serious doubts that China will become a conventional western democracy with interparty competition



In my view,

- There is not one best set of political and economic institutions to foster economic growth for all conditions
 - Democracy may not be best for economic growth
- Best institutions are context specific:
 - E.g. historical, developmental



Aghion's conjecture

- For countries far from the technological frontier, a concentration of state power is desirable:
 - the capacity to carry out a program
- For countries close to the technological frontier, limitations on government power are appropriate:
 - limits on the power to grab resources, expropriate



Authoritarian governments

- Since 1949, widely used indexes consistently register PRC as “authoritarian”
- In spite of enormous differences between
 - China under Mao (1949 – 1976) and
 - China in the Reform Era since 1978
- Differences among authoritarian governments as great as those between authoritarian and democratic governments



Authoritarian regimes are a mixed bag

- Authoritarian governments include some that are constructive
 - And some that are not:
- Amin, Assad, Deng, Hitler, Mao, Marcos, Park, Peron, Pinochet, Stalin
- PRC more comparable to Taiwan, South Korea, Chile
 - All of which have
 - developed economically under authoritarianism,
 - and become democracies
- But is there a better classification scheme?



Taking governance seriously

- Some authoritarian states are “stationary bandits”
- Mancur Olson showed that even revenue-maximizing stationary bandit has incentives to make their society prosperous,
 - if only to maximize the potential for predation
- In my view, PRC is better than a stationary bandit.



- Is there a Lesson Two?

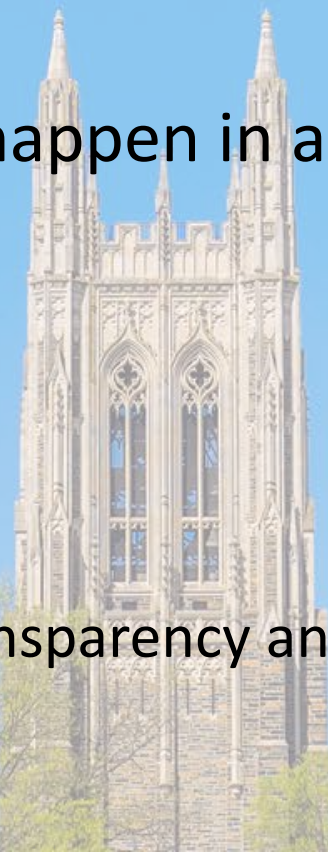
- Can China teach us something about governance and political institutions that is subtler than democracy vs. dictatorship?

- Three things that would not happen in an ordinary authoritarian government

- Bell (2015): Meritocracy

- The scholarship of YU Keping

- Malesky and Stromseth on transparency and participation

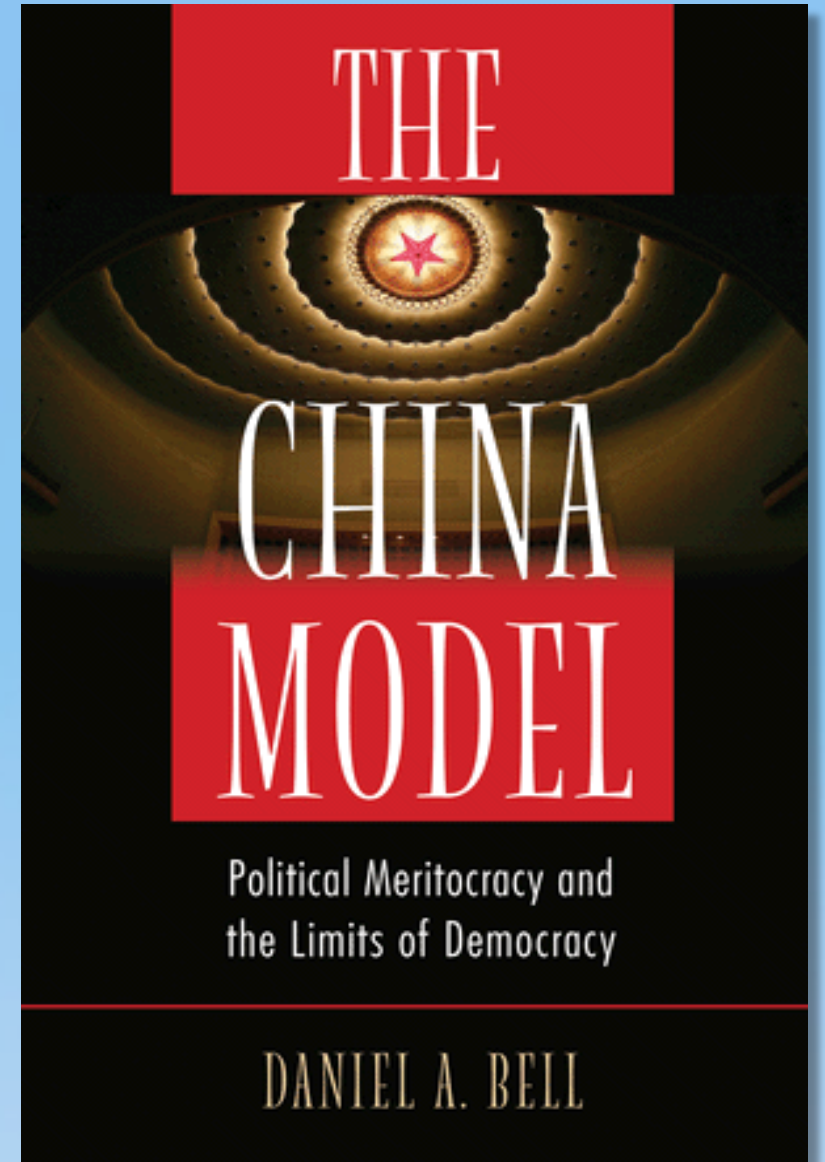


China as meritocracy

Daniel Bell. 2015. The China Model: Political Meritocracy and the Limits of Democracy

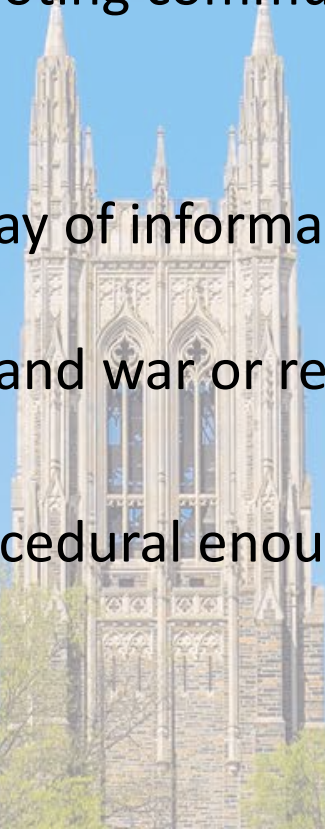
Chinese Credentials: a 2,000 year tradition of written exams

Demagogues would not pass



China as meritocracy, continued

- Bell's critique of American democracy
 - Especially with “tyranny of the voting community” over the unborn
 - Fiscal and climate issues
 - Present orientation and the decay of informal institutions that support sustainability
 - E.g. government borrowing and war or recession
- In my view, “meritocracy” is not procedural enough



China as “democracy”

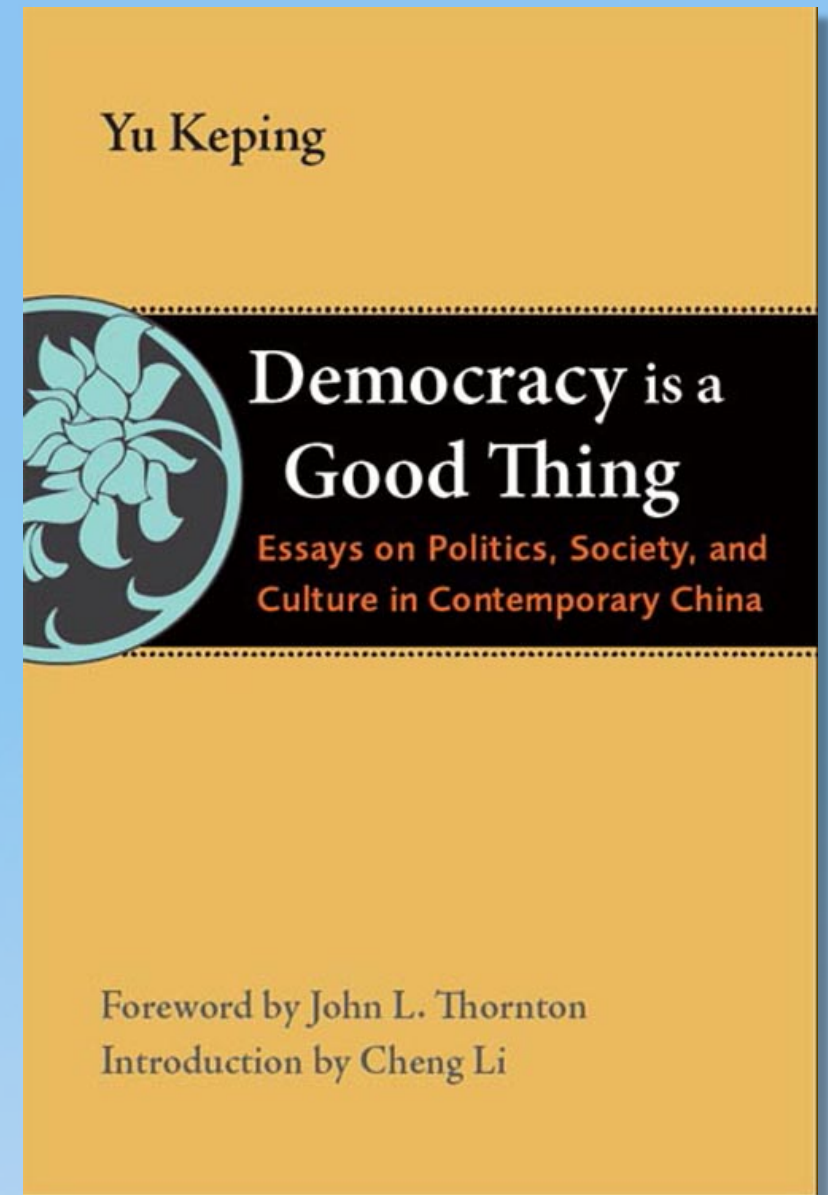
Yu Keping. 2009. Democracy Is a Good Thing

Democracy is not perfect, but the system with the fewest flaws

Sovereignty belongs to the people

Democracy guarantees basic human rights (race, gender?)

The human character is incomplete without democratic rights



Yu's caveats

- But democracy does not come without a price
- Certain politicians use democracy as a tool for gaining power and the result is populism or dictatorship
- Unconditional promotion of democracy will bring disastrous consequences
- An ideal democratic system must be related to the level of economic development of a society
- “We Chinese are building a political democracy that is closely integrated with the history, culture, traditions, and existing social conditions in our nation.”

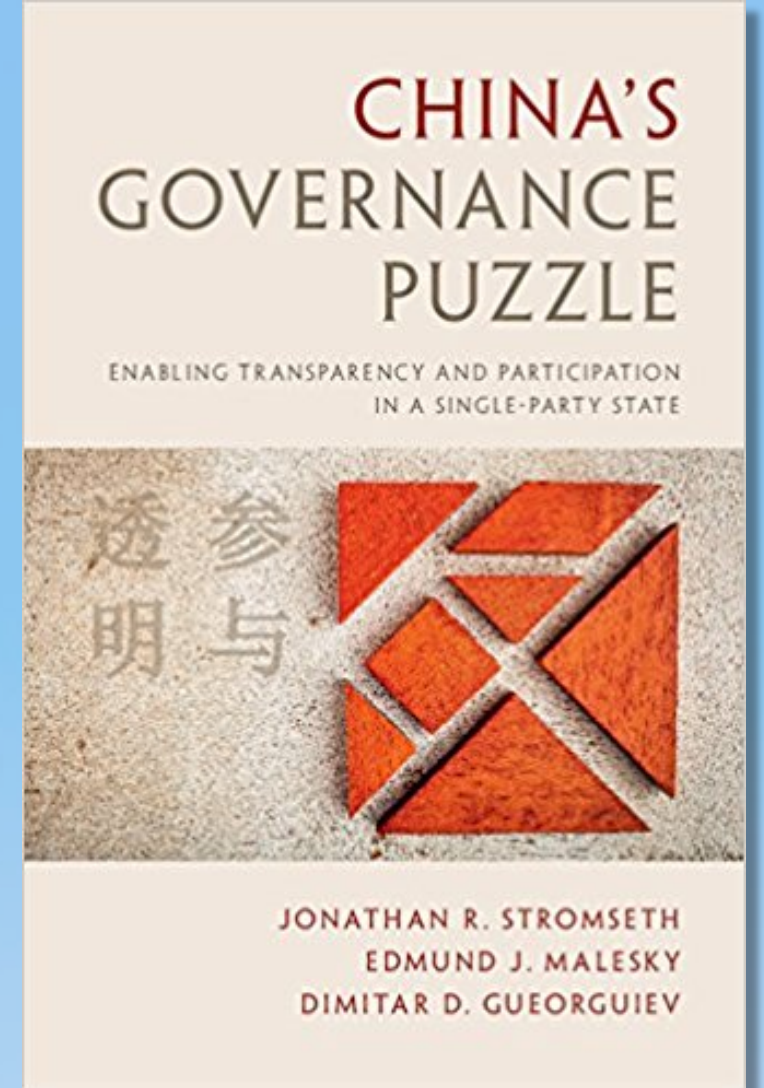
Transparency and participation as elements of good governance

Stromseth, Malesky and Gueorguiev

Why would an authoritarian government want to
limit its own power by authorizing

Transparency

Participation



Fire alarms and police patrols

- In the spirit of McCubbins and Schwartz,
 - Engage mass publics in monitoring corrupt behavior
 - Reduce corruption and enhance compliance
- Facilitate democratization
 - while making authoritarianism more effective in the short run
- Give CCP confidence it might prevail in fair multiparty competition
 - Or give China good governance without interparty competition



A positive assessment

- Was I censored at Fudan University?
- Things not to mention: Tiananmen, Falun Gang, Tibet, Uighurs, Hong Kong, Taiwan
- Speech vs. action
- A remarkably open society but without political leaders chosen in competitive elections



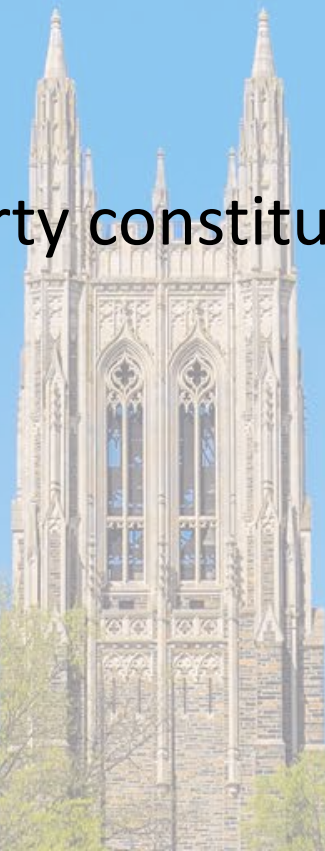
A more negative assessment

- Continued taking of political prisoners (action vs. speech)
 - Liu Xiaobo
 - Chen Guangcheng
- Continued censorship
 - “68 Things You Cannot Say on China’s Internet” (NY Times, 9/25/2017)
 - Close down *China Quarterly* and other publications of Cambridge U Press
- Police state in Xinjiang (reported 9/2017)
- Prison terms for disrespecting the PRC flag



19th Party Congress

- No designated successor to Xi Jinping
 - Opens way for a third term
- Xi mentioned with Mao in party constitution
 - A cult of personality?



Will there be a Lesson Two?

- Negative assessment leaves us with just one (very important) lesson (on economic growth) from this amazing civilization
- But a positive assessment leaves a basis for expecting that there will be a Lesson Two

