

The Key to Success: Good Institutions or Good People?

Is political meritocracy a superior system to electoral democracy? North, Wallis, and Weingast in *Violence and Social Orders*, maintain that institutionalized competition in both political and economic spheres results in the most stable and prosperous political orders.¹ Limiting free economic or political competition creates entrenched elite interests that stifles the economy and threatens to undermine the separation of politics from organized violence. Daniel Bell in *The China Model* defends the success of non-democratic regimes that select leaders according to meritocratic criteria. He also critiques fundamental institutional weaknesses of electoral democracy.²

In this paper I will test each author's framework against the other. First, I will lay out North's description of the differences between authoritarian regimes and democracies. Second, I will evaluate the weaknesses of democracy according to Bell's critique. Next, I will examine whether North's presentation of the limits of non-democracies is consistent with Bell's presentation of their potential advantages. Finally, I will consider the case of China's economic success in order to determine whether it is due to free markets or *authoritarian meritocracy*.

¹ North, Douglass C., John Joseph Wallis, and Barry R. Weingast. *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*. Cambridge ; New York: Cambridge University Press, 2009. (For brevity, I refer to the authors henceforth collectively as "North").

² Bell, Daniel (Daniel A.). *The China Model: Political Meritocracy and the Limits of Democracy*. Princeton: Princeton University Press, 2015.

Open Access Orders and Organizations

Organizations are the key in North. His analysis distinguishes two fundamentally different types of social order: the “natural state” (non-democratic authoritarianism) and an “open-access order” (liberal, electoral democracy). The fundamental difference here is in how organizations, both political and economic, interact within the dominant coalition in control of the state.

For authoritarian orders, the threat of violence between elite groups is kept under control by a distribution of rents (wealth and power) amongst them. This process is illustrated by the distinction between fragile, basic, and mature authoritarian states. A “fragile state” has no stable bargain between elite groups, each of which controls independent means of violence. Under these volatile circumstances even state controlled organizations cannot consistently be maintained and are threatened with overthrow. “Basic states” have solved this danger of violent dissolution by establishing a stable compromise amongst groups in the dominant coalition. This compromise is maintained by an acceptable distribution of rents, such as state revenues or power positions, which endures long enough and has enough institutionalization that members of the elite come to rely upon and even defend the arrangement. Only state organizations are permitted in this circumstance, and their existence relies directly upon the patronage of elites currently in power. A “mature state” can instead rely upon a body of public law. With this mechanism, there exists an institutionalized means for resolving conflicts within the state apparatus itself, insulated from the whims of the current ruling

coalition. Offices take on defined functions separate from the person or regime that holds them, and contracts are enforced on commonly accepted terms. In its most developed form, a mature natural state functions according to a “virtuous logic” where organizations are strong enough to discipline the state itself.

According to this set of criteria, China falls between a basic and a mature natural state. Rule of law only has a limited reach within China. There is currently no formal mechanism for prosecuting top officials. And since the judicial appointments are made by and composed mainly of communist party officials, the prospect of a fair and equal treatment for members inside and outside the ruling party is limited. Nonetheless, the institutions of the state are long enduring and have served as the vehicle for the orderly passing of power between top leaders. The sweeping anti-corruption efforts under the Central Commission for Disciplinary Inspection (CCDI) assumes this role of disciplining corrupt officials, however, the chairman is Xi Jinping himself and there is no mechanism or feasible coalition that could oppose him.

Liberal democracies allow the control of government to be contestable and subject to clear rules. Political parties contest each other for power in elections, which serve as vehicles for the formation of dynamic coalitions between economic organizations and civil society. If a group were to cling to power and then capture state revenues for private purposes, the negative effects would incentivize opposing coalitions to contest state power. The rights to create independent political and economic organizations are open to everyone and preserved impartially by laws and

the judicial system. Under authoritarian regimes, on the contrary, organizations are only permitted limited independence and are barred from contesting state power. Organizations, freely created and in open competition, generate dynamic change that ensures competent rule and a successful economy.

Weaknesses of Liberal Democracy

For Bell, liberal democracies suffer from inherent weaknesses that consistently produce negative outcomes. He refers to these democratic weaknesses as the “four tyrannies”.

First, there is the tyranny of the majority. Most voters, according to Bell, lack the competence to make intelligent political judgments. He also cites studies showing that more informed voters usually participate less. The collective wisdom called upon in open elections cannot overcome these cognitive obstacles, nor has public education demonstrated the ability to eliminate ignorance or bias. A logical but infeasible solution, says Bell, would be to deprive uneducated voters of the ability to vote. However, the belief in one person, one vote has become so sacred that it is unquestionable no matter how unsatisfactory the political results from elections. For North, liberal values and institutions work together to protect against tyranny and ensure good leadership. For Bell, these same values and institutions almost guarantee substandard outcomes and forbid the consideration of other alternatives. Directly recruiting officials through competitive examinations, rather

than relying on a wise selection by an ignorant electorate, avoids the negative effects of poor voter selection.

The second weakness of liberal democracies is the tyranny of an affluent minority. With open markets and elections, wealthy people are able to control politics, lobby for their own interests, and obstruct policies for the common good. From the perspective of North's liberal democracy, disadvantaged groups would need to rally together to unseat wealthy control through elections. Yet because these same incumbent rich have the right to spend their money and influence to preserve and extend their rights, the prospect for an equitable distribution of power and authority is unlikely. Here liberal values and institutions permit inequitable results and then justify them in the name of individual freedom. A logical answer to this problem would be to exclude the rich from governance. In China, Bell considers this aim partly achieved by disallowing interest groups from capturing state power via independent pressure or elections.

Liberal democracies, according to North, rely upon the results of open competition to incentivize an opposing coalition of sufficient power to limit the excesses of the minority or replace them in open elections. The continuing rise of inequality all over the world, including within democracies, demonstrates that the rich are able to maintain sufficient control of government and the economy to preserve their rule despite widespread dissatisfaction. This institutional failure is accentuated when those who are losing in the system continue to maintain inaccurate beliefs that the system is fair. And even when specific leaders may be

elected on promises of change, there are only weak, occasional mechanisms to ensure fidelity to those promises. In a memorable analogy, Bell compares faith in democracy to a group of baseball fans believing that by electing the teams for the All-Star Game, they are also then influencing the outcomes of wins and losses during the rest of the season. North does not question whether even free elections can ultimately fail in the face of an elite coalition managing the democratic process for its own benefit.

The third weakness is the tyranny of the voting community. Here voters act collectively to oppress minorities, harm other countries, or short change future generations. Because equality only extends to fellow citizens, there can be a rational pursuit of advantages over internal or external enemies supported by both leaders and the populace. Opportunistic politicians can offer short-term gains at the cost of long-term interests. In a democratic system, moreover, the long-term consequences for bad policy are rarely felt by the current administration. Even far seeing policy can be overturned by subsequent administrations. The open design of institutions of electoral democracy facilitates these suboptimal outcomes. From this perspective, a ruling elite with continuity of power may have a greater incentive and ability to better plan for the long-term future.

Finally, there is the tyranny of competitive individualists. With competition at the core of both the economy and politics, there is an incentive to be cutthroat to achieve victory. Negative campaigning is ubiquitous in liberal democracies. Unsubstantiated allegations can be more effective than honesty. In unceasing

electoral battles, opposing sides must make enemies of each other in order to pursue their own agendas. Such acrimony can make successful compromise difficult. China avoids this strife by requiring competitive elections for national and regional office. In addition, legislative agendas are determined by consensus internally to the party before presentation to the national assembly, which then approves the entire year's legislation at one time, without contentious debate. With a limited civil society, and the inability to struggle openly for power, a controlled harmony is preserved.

Institutionalized open competition is the wellspring of innovation, according to North. Creative destruction, both economic and political, serves a positive role in liberal democracies. In politics, different coalitions of economic organizations can band together to pressure and replace officials. Victory then permits a reallocation of state resources and policy according to the victors. With this prospect, "political entrepreneurs" will create organizations and new ideas in order to attempt to succeed over rivals. Only in an open access order will organizations and the people that support them feel confident enough that losers will not be punished and will retain access to this arena of open competition.

Party competition, rather than forging innovative policy, according to Bell, will "wreck the whole system" built up under meritocracy. Under periodic elections, constant focus on short-term necessities for re-election will distract from the long-term interests of the country. Under those conditions, the qualities necessary for leadership are no longer intelligent, comprehensive planning, but skill at

exaggerating promises and spreading false and destructive portrayals of opponents. Both authors agree that leadership qualities in democracies derive from the pressures of electoral competition. For Bell, success in this domain often harms societal outcomes. For North, the necessity of struggle improves outcomes. Nevertheless, Bell does acknowledge the value of democracy in throwing out bad policies and leaders. However, under non-democratic authoritarianism, an independent agency, or enlightened officials, are required to overcome failed policies or dishonest leaders.

Advantages and Disadvantages of Authoritarian Meritocracy

Instead of institutions, Bell grounds the success of a regime in individual characteristics: intellectual ability, social skills, and virtue. He begins his discussion of these characteristics with the simple observation that of course everyone would prefer leaders who are more intelligent and more virtuous than those who are incompetent and corrupt. So, given the ability of democracies to consistently select leaders with these qualities, what advantages would be gained by selecting leaders according to these criteria instead of open elections? And how can this selection process be extended and improved?

Intellectual ability can be determined by academic aptitude tests. By selecting officials according to cognitive criteria at the beginning of their careers, then the possibility for the election of incompetent officials is lessened. Under democracy, the only quality that is required is that the person is elected. Such a

system of selection may also will pick the most talented minds for the opportunity at office, but elected leaders need not be competent to win. An additional advantage to selecting according to intellectual ability is that bias against a particular class or ethnicity can be avoided, and greater social mobility can be achieved. While testing for intellectual ability is relatively straightforward, objectively assessing social skills and virtue is more difficult.

Bell observes three likely problems that a meritocracy will suffer: the rulers are likely to abuse their power, a specific elite will capture and hold power, and the system will be difficult to legitimize to those outside of power.

Winston Churchill famously remarked that democracy is the worst political system except for all the others. However, do the institutions of liberal democracy make the political leadership any less corrupt, or is lack of corruption simply a function of wealth? Bell cites studies indicating that the single best predictor of less corruption is wealth. For now, the Chinese have instituted policies aimed at curbing the excesses of a powerful entrenched leader: term limits, collective leadership, and mandatory retirement age. Additionally, the Xi Jinping administration has implemented the CCDI as an independent corruption watchdog agency. However the fairness of such an agency that operates without independent oversight remains to be seen. Such an agency is a predictable result in a limited access order, in North's terms, because the state is unable or unwilling to open up political control to popular election.

North keenly observes that corruption, rather than being a bad thing under a natural state, is simply the mechanism whereby the elite coalition is kept together. Without this distribution of state privileges and economic resources, elite groups might abandon their agreement to forgo violence. Bell recommends that China follow the Singapore system and increase the salaries of public officials in order to reduce the incentive to corruption. Ultimately, however, Bell believes that corruption will only be curbed if the practice is seen as shameful. He thus joins with a number of Chinese scholars and the Chinese government in advocating for a revival of Confucian moral education. The imperial system in China of public service examinations through testing in the Confucian classics usefully combined a test for academic acumen in memorization, composition, and explanation with inculcation in the moral content of the corpus. Yuan-kang Wang, however, convincingly demonstrates the lack of a causal connection between the quantity of Confucian scholars and the moral nature of state policy.³ Bell must resort to this faith in moral suasion since an authoritarian institution prevents an orderly overthrow of leaders for wrong doing.

Ossification of an elite who are unconcerned for the public welfare is also a pitfall of political meritocracy. While selecting party members from top universities seems a reasonable method for making sure they will be technically competent, how to ensure that do not simply further their own prosperity rather than the country as

³ Wang, Yuan-Kang. *Harmony and War: Confucian Culture and Chinese Power Politics*. New York: Columbia University Press, 2011.

a whole? Here the weakness of Bell's focus on improving individual traits is displayed when he simply exhorts government officials to be more humble and sympathetic, and to "combat the tendency for self-love" (Bell, 135).

Liberal democracies do not rely upon the compassion of leaders to ensure that policies enacted are in the public's interest. In competitive elections, opposition parties are free to describe the failures of the incumbents and put forward alternative plans for governance. The open access order that North describes as the successful system in liberal democracies does not bother trying to select or force leaders to be moral beyond impartial enforcement of the law.

Legitimacy without Elections

Lack of legitimacy is the largest problem for a political meritocracy. Even though the Chinese people consistently report that they perceive the central leadership as legitimate, it is difficult to accept this proposition without skepticism given the heavy amount of control exerted by the Chinese government over opposition speech, and the violent repression of dissidents. Therefore the Chinese government, according to Bell, has turned to three different strategies for legitimacy.

First is nationalism. The Chinese government has radically shifted from a Marxist party claiming to uphold an egalitarian communist ideology, to patriots defending the Chinese nation and its history. Despite the gains of the past thirty years, the famine, chaos, and violence brought about under the Great Leap Forward and the Cultural Revolution remain difficult to reconcile with the current leadership.

Such failed policies are the epitome of entrenched incompetence. Therefore the regime has fostered a nationalism forged in resentment against a century of humiliation with enduring overtones of anti-Japanese hysteria. Bell's most optimistic suggestion here is that China win a war to secure nationalist legitimacy.

Performance is also a means of legitimacy. Both Bell and North mention an East Asian understanding of democracy as good results rather than participative procedure. North mentions this difference only once in his description of fundamental beliefs of open access orders. Equality before the law, however, is entirely different from sharing economic growth. The first is a formal right that need not be associated with any material benefit. For instance, for the members of a political party representing impoverished citizens, who lose an election to a more powerful party representing the ultra-rich, the poor voters who lost have achieved the limits of what is promised them under an open access order. In democracies, you are free to try to change policy, but you have no right to win even if your case is legitimate and your opponent unscrupulous. Winning elections defines legitimacy. Bell notes with dismay the power of this faith in electoral democracy and a central aim in writing his book was to 'desacralize' electoral democracy.

Case: China's Economic Success

Sharing economic growth, in contrast with mere equality before the law, is a measurable attainment. In this case, the Chinese people consider their government legitimate because the standard of living has been consistently rising over the past

30 years. Even though they lack a means of organizing to participate in the governance of the country, they are content because their lives have improved and therefore the ultimate aim of democracy has been achieved. Bell also observes that populations under autocracy may have more ability to influence government policy because opposition puts the legitimacy of the entire regime at stake. In the case of a democracy, however, accumulated dissatisfaction can be deferred to hope for the next election.

Nonetheless, Bell concludes that China will need to legitimize the regime in a democratic manner. According to the one party Chinese state, almost any policy is preferable to competitive party elections. So the mechanism he proposes is a referendum. If the Chinese people were to assent to the legitimacy of the selection of leaders according to meritocracy, much pressure for political liberalization may disappear. He recommends, without irony, that the referendum could be strategically planned to occur at the height of Chinese government popularity. This demonstrates that even without competitive elections, the government must cater strategically to the approval of the general population.

Is democracy required for economic growth? Are there institutional obstructions in authoritarian regimes to economic success? How has authoritarian meritocracy contributed to China's growth? North explicitly connects economic success and democracy. The central mechanism, he claims, is adaptive efficiency. He traces the economic success of democracies to the ability to limit the length of negative growth periods. Within his framework, it is the ability of economic and

political organizations to band together and capture political power through elections that ensures that a failed policy or incompetent or corrupt coalition of leaders will not be able to cling onto power. Then alternative ideas will adapt to the changed circumstances and avoid prolonging the problem. While North supports this story with empirical data going back over the past 200 years, he also acknowledges that the results over the past 20 years have been mixed.

The central outlier is China, which has increased its total economy by a factor of 25, and lifted more people out of poverty (600 million) than any other regime in history.⁴ When compared with the stagnation of the Western economies during the same time period, we can see the empirical basis for doubts that have arisen about the inherent superiority of a democratic system. This has implications not only for members of the democratic systems themselves, but also for developing countries that are trying to determine the best models to follow to achieve economic success.

This topic contains a rich debate between those who attribute China's success to the state planning of the economy, and those who claim that the most successful aspects of China's development have relied upon free market mechanisms. North, in one of only two references to China, attributes the success of China's growth to the loosening of central control over local party officials, who were then evaluated and promoted strictly according to their contribution to GDP growth. Bell echoes this observation when he acknowledges that the appointment of

⁴ Lardy, Nicholas R. *Markets Over Mao: The Rise of Private Business in China*. Washington, DC: Peterson Institute for International Economics, 2014.

SOE leaders according to political criteria, rather than market performance, encouraged both inefficiency and corruption.

There is a fundamental logical difference between measuring success according to academic achievement and measuring success according to profitability. By the nature of competitive markets, the customers that go into making a company successful require no direct respect or reliance upon the competence or virtue of the people selling them their product. Take the problem of ensuring food safety, for instance. According to North, the problem would be institutional requiring credible regulatory bodies for food safety that are insulated sufficiently from corruption enough to constrain unscrupulous business practices. From Bell's perspective, you must convince the unprincipled seller of the shamefulness of profiting from harmful food, or alternatively, have elected someone with enough intelligence and social conscience to implement a way to discourage the practice. Privileging the improbability of human nature does have an appealing optimistic tone. Nonetheless, ensuring good behavior via a system of checks on bad behavior seems more likely to succeed.

Bell and North disagree on what essential mechanism determines societal outcomes: individuals or institutions. Do individuals have an independent causal effect beyond the institutions in which they serve? Bell offers an intellectual defense of the choice of leadership in China according to meritocratic, not democratic, criteria. Given the ideological skepticism in the west towards non-democratic regimes, he strives to make his claims as limited as possible. However, if the reason

for Chinese success is the competence and integrity of its leaders, Bell fails to provide an adequate explanation for this connection. In order to systematically cultivate the good qualities of government officials, institutions are required. And in order to ensure these institutions remain free of corruption, officials must be competent and just. Without a formal means of throwing out the ruling party, reliance upon the integrity of a recruitment mechanism run by an authoritarian state strains even an optimist such as Bell.

North's framework, on the other hand, does provide an explanation for the stability and success of democracies, but cannot account for the recent superiority of Chinese authoritarian economic performance over the democratic West. According to North, China is a limited access order that should suffer from a slow growing economy and be vulnerable to shocks. Over the past 30 years, however, China has grown consistently faster and on a larger scale than any regime in world history. It has also distributed these gains equitably within its own population more readily than democracies despite the fact that the beneficiaries of these policies, the Chinese people (not to mention the rest of the world economy), had no formal means of electing the leadership or influencing the policy decisions of the Chinese communist party.

Evidently then, consent of the population through participation in competitive party elections is not required for economic success. This wealth without representation undermines North's notion of a "double balance" between economic and political openness. This idea encapsulates the core logic of North's

institutional framework. Economic success from free markets requires a corresponding political openness, otherwise the beneficiaries of these profits will gradually capture even state revenues and the government itself. In a liberal democratic order, however, disenfranchised organizations are free to struggle for political power through elections and then rebalance the state. So if Chinese economic success occurred thanks to free markets, a corresponding political liberalization should be required for state stability. Such political liberalization has not occurred in China, so we are left with two possibilities: either North's theory of the double balance is incorrect, or Chinese economic success cannot be due to the dynamism of the private sector.

Nicolas Lardy claims that Chinese growth over the past 30 years is indeed due to private sector growth, and that those who maintain state capitalism is the source of the success are wrong. Even if this assessment of the previous 25 years were mistaken, it certainly accords with both the current assessments of the Chinese government and a wide consensus of commentators. The Xi Jinping administration is forthright about continuing to liberalize economic markets, and equally resistant to political liberalization of national leadership. China has been able to successfully liberalize the economic sector while retaining political control firmly within an authoritarian party insulated from popular election. This combination appears so incongruous in western political theory because of the presumed connection between free markets and democracy.

What other erroneous presumptions underlie the classical depiction of liberal democracies? Bell points out that under a democracy there is no institutional defense to the domination of the state by the rich. If any group of citizens is free to utilize the extent of their wealth to control the political process, a freedom central to democracy according to North, then we can reasonably predict that the rich will control the state. From this position, all the oligarchical coalition need do is keep their theft of economic and political benefits small enough, or obscure enough, such that no opposition coalition can succeed. If Bell's proposition is correct, and the more academically competent a dominant coalition the more successful it will be, then this further explains the intransigence of a minority elite under democratic capitalism. More than 60% of Ivy League graduates enter Wall Street or a management consultancy upon graduation, where they apply their superior acumen to improving the profitability and stability of their employers.⁵

Many of the same graduates from the same elite universities returned to China and achieved high positions in the central government. Have the results of these meritocratic elite been different under Chinese authoritarian institutions than American democratic ones? How then do we explain the sharing of wealth in China with 600 million impoverished people?

Bell explains the economic success with meritocracy, and the equitable distribution with an unconvincing allusion to inherited Confucian ethics. North

⁵ "The Ivy League Has Perfected The Investment Banker And Management Consultant Replicator", Forbes Online, February 2014: <http://www.forbes.com/sites/michaelgibson/2014/02/07/the-ivy-league-has-perfected-the-investment-banker-and-management-consultant-replicator/>

would require a counterpoising political coalition of impoverished Chinese to have forced the Chinese state to distribute this wealth equitably. Neither author attributes the success or its distribution to egalitarian communist ideology.

Similar rapid economic growth has occurred previously in Japan, South Korea, and Taiwan. The population of each of these nations, including China, has what North and Bell both refer to as a common belief in shared growth. For North, shared beliefs are reflected in the activities of independent organizations founded to further these beliefs. In a liberal democracy, these organizations can join with political parties and compete for state power. Shared economic growth can then be attributed to the triumph of these organizations in elections and the creation of state policy for these ends.

But this mechanism for transmitting beliefs into state power is not available under the Chinese communist government. The Chinese people hold the same set of Confucian beliefs in shared growth, and their government reflects these beliefs, yet the people lack the formal, legal ability to freely form economic, political, religious, and educational organizations to further these aims. And while diverse civil organizations do exist in China, all of them, especially political organizations, exist only insofar as the Communist party permits them to exist. This absolute political control extends even to property rights, where formally there is no such thing as private ownership of real estate in China. Instead, land and properties are merely leased for 70 years from the government, but the government itself still retains ultimate ownership.

The result in the East Asian liberal democracies and the Chinese communist state is the same, and this result reflects the shared beliefs of the population. However, the institutional character is at odds. Without the check of freely competing organizations in China, what prompts the Chinese communist party to share the benefits of the nation's economic growth in an egalitarian manner with the population? There is indeed great inequality in China today, and yet nonetheless there has been a tremendous amount of shared growth, with even further promises for the future. North's framework has no mechanism for the benevolent distribution of economic benefits amongst the population other than successful political competition. Bell explains this munificence on the basis of Confucian values reflected in state policy. He does not explain how the same party that forty years ago almost totally destroyed their Confucian heritage was able to switch ideologies without any institutional discontinuity. North's framework sees no contradiction in such wild shifts in ideology, because the essential aspects of the authoritarian state have remained intact.

Conclusion

North and Bell both offer an explanation for the success of regimes. For North, organizations and their freedom to act independently define the difference between an authoritarian and liberal democratic regime. Without independence from state interference, limited access order can achieve stability only at the cost of political and economic stagnation. China's economic vitality over the past three

decades challenges this assumption. By loosening top-down control at the local level, and measuring performance according to free market indicators, China has forged a compelling alternative to electoral democracy and open markets. Bell focuses on the individual qualities of government officials under authoritarian regimes, and the mechanisms whereby more competent and honest public servants can be cultivated. By challenging a long-standing faith in the economic dynamism and political fairness of democratic systems, he has helped illuminate the distinctive logic of the current Chinese state. However his recommended reforms for improving China's meritocracy avoids the essential fearfulness of authoritarian regimes and long-term instability they suffer from.