

Specificity of Chinese institutions

- China is becoming the world's largest market economy, but it is ruled by a communist party (CPC) whose ideology is against the market economy and private ownership.
- Party-government duality has always been a feature of communist regimes.
- How to understand this unique institutional configuration?
- Mixture of institutional innovation (Leninist power structure) and historical institutional tradition.

CPC power.

- The CPC has power over a large *number* of people, inside and outside China, and can affect a *very large set of decisions* of individuals, much broader than what normal political power entails, though somewhat less than in a fully totalitarian state where the private sphere is totally eliminated.
- Inside China, power of CPC goes beyond jurisdiction of the law and the sphere of government and the Army. Power of CPC permeates all layers of society, and all societal organizations, private enterprises, sports clubs, etc...

CPC power

- Power of CPC is a typical 20th century phenomenon. Political regimes led by communist party were introduced in Soviet Union after 1917 and in many other countries in Eastern Europe and East Asia after WWII.
- Until 1978, all communist regimes had socialist economies, and were characterized by dominant state ownership and central planning as main resource allocation mechanism.
- **Innovation** of China's market reforms (followed also by Vietnam and Laos but not North Korea) is to transition to a **market economy with mostly private ownership within the communist regime**.

CPC power

- Initial thinking was that political reform would sooner or later follow economic reform (didn't USSR have a political transition?). If anything, the opposite happened.
- **The transition to the market economy was decided with the goal of preserving and consolidating the power of the CPC.** Until recently, this has been an unmitigated success!
- China's current system is one of **CPC power over a market economy.** Growth objectives were pursued using existing CPC institutions. CPC power has not faded with progress of market economy. On the contrary!
- CPC has probably become the most powerful organization in all of world history.

The erosion of communist power under central planning.

- Under socialism, communist party concentrated all political AND economic power in its hands. In the long run, this proved a toxic mix for communist Soviet leadership.
- The burden of managing an economy with no real balanced central plans and more economic complexity (more good differentiation, more input complexity, more economic links, ...), without using the market as central resource allocation mechanism, led to economic stagnation and gradual erosion of communist power.

The erosion of communist power under central planning.

- Gradual erosion reflecting increasing bargaining power of enterprise managers:
- **Step 1:** elimination of mandatory planning replaced by some form of non-binding plan for enterprises (Hungary, Poland, Yugoslavia, USSR under Gorbachev) ;
- **Step 2:** increase in decision-making autonomy of managers, in particular on prices and wages;
- **Step 3:** privatization of assets to managers, be it via spontaneous privatization, MBOs, mass privatization,...
- **Step 4:** implosion of communist power structure and race among political entrepreneurs to grab power positions in state apparatus and transform these in money machines. Oligarchs and emergence of the kleptocratic state, present in various stages of development in Eastern Europe.

The Chinese institutional innovation.

- In the light of stagnation of USSR in the seventies and chaotic (and lunatic) Maoist management of the economy since 1958, Deng Xiaoping thought that best bet to consolidate power of CPC was to introduce a market economy, following the examples of Taiwan, Hong Kong and Singapore, not to return to central planning of fifties.
- Deng used power of CPC to unleash market forces relying on government decentralization and yardstick competition (meritocracy). This process eventually reinforced power of CPC in all spheres (military, education, press,...) instead of decreasing it.
- Private entrepreneurs can since 2001 become CPC members.

Some history of communist organizational form.

- Communist organizational form is result of Leninist organizational doctrine (What to do? 1902 and One step forward, two steps backward, 1904).
- Historical context of tsarist regime with powerful secret police good at dismantling revolutionary organizations. Need to survive repression, work in illegal conditions and to create an organization capable of seizing power by violent means.
- This type of organization was able to assure dominance over Soviet Union in a matter of a few years, despite strong shortage of cadres. Same in China and other communist regimes. Functioning like a military organization with large use of ideology for disciplining purposes, it has been able to make fast, decisive moves and defeat various kinds of opposition.

Main principles of Leninist organization.

- 1. Strict conditions for party membership.** “vanguard of the proletariat”, devoting their life to the revolution, being professional revolutionaries trained in techniques of agitation, propaganda, mass mobilization, organization and leadership of mass organizations; strict filtering before being allowed as party member. Members can be excluded for inactivity or breach of party statutes or even for ethical misconduct incompatible with communist principles. Members are evaluated regularly, possibly for promotion. Must submit all materials asked from them. No private sphere.

Main principles of Leninist organization.

2. Democratic centralism.

- Party members express their personal view on political issues only within their unit (party cell), never outside (sin of *fractionism* – fractions ≠ factions - seen as big danger for party unity) and must implement party decisions with iron discipline, whether they agree or not;
- Party cell membership restricted to work unit (factory, enterprise, street block or town area) with self-contained capacity to act (task specialization inside cell) and no horizontal communication with members of other units;
- Strict organizational hierarchy with vertical flows of information and of party commands;
- Politburo is head of organization, centralizes information flows from below and issues executive orders on a daily basis.

Main principles of Leninist organization.

- Supreme organs.
 - Party Congress. Composed of delegates elected from below. Decides Party program and statutes for future and elects Central Committee.
 - Central committee meets regularly between Congresses to decide on party orientations (plenum meetings or subcommittees). Elects top leaders. Acts a bit like Parliament of the Party.
 - Politburo is de facto leader of the party and decides collectively. Each politburo member is also in charge of a specialized task, represented in subunits up to the party cells (security, personnel, propaganda, logistics, ideological education...). Control over the organizational machine tends to assure more power (Stalin).

Main principles of Leninist organization.

- Overall, Leninist form of organization is elite organization designed for united action (unity being the biggest public good), efficiency and nimbleness in action. The organizational machine (everybody below central committee) is focused mostly on action. Serious debates reserved for politburo, Central committee and Congress.
- Very difficult to challenge incumbent leaders in absence of a serious crisis. Dissent leads easily to accusations of fractionnism, breach of statutes and/or of ideological deviationism by the incumbent leaders.
- Working for promotion is the best ambitious leaders may expect. Strong working record matters more than any other skill.

Main principles of Leninist organization.

- Fundamentally, the Leninist organization solves many of the problems of political power within its ranks.
 - It has clear rules for succession;
 - It has rules for information circulation to the top deciders
 - It has rules to prevent revolt and maintain unity within the organization
 - It has control over resources and does not face big “fiscal” challenge

Some facts about CPC power

- 20th Central Committee (2022) has 205 full members and 171 alternate members (without voting rights).
- On CC are provincial party secretaries and governors, ministers and minister-ranked, PLA heads.
- Average age is 56.1. Mandatory retirement of 65. Turnover of 62% at Party Congresses. Average number of mandates less than 3.

Some facts about CPC power

- Politburo currently has 24 members. Not as powerful as in other communist parties because of role of Politburo Standing Committee (PSC). Decisions by consensus.
- Its members are party chiefs from important provinces, heads of military, of government, of important commissions of CC. Meets only once a month.

Some facts about CPC power

- Standing committee (PSC): top center of power. Meets once a week. Has 7 members (secretary general and premier Li Qiang, Zhao Leji, Wang Huning, Cai Qi, Ding Xuexiang, Li Xi).
- Innovation: All close supporters of Xi. No more faction representation. Previously, unanimity decision-making. Not clear if it is still the case.
- Previous PSC had 3 supporters of Xi (Li Zhanshu, Zhao Lezhi, Wang Huning), 2 communist youth league (Li Keqiang, Wang Yang), 1 Shanghai faction (Han Zheng)

Some facts about CPC power

- CPC controls government at all levels, but also has power over private enterprises, schools, universities, law firms, mass movements, public organizations, NGOs.
- After the cultural revolution, CPC limited its scope of power from totalitarian to authoritarian: CPC stopped being a thought police.
- Principle of “leading role of the CPC” at all levels of society. Party holds official truth, just like the Vatican, except that the Vatican does not control governments and executive power organs.
- Knowing party “truth”, i.e. party line is important for navigating in power circles, because it is common knowledge signal of loyalty.

Some facts about CPC power

- CPC is by doctrine “above the law”, but makes and uses the law (equivalent to Qin legalism). Modern form of imperial system.
- CPC has power over private enterprises as well as over SOEs.
- CPC positions carry prestige and offer possibilities of social mobility. All CPC careers must start at the bottom to acquire experience of power at all levels.

Some facts about CPC power

- Organizational apparatus of CPC is Leninist (Nomenklatura system). Organization department has files on careers of all cadres. The party, at all levels, follows careers of officials and controls appointments (critical in SOE and government positions) and promotions.
- Performance evaluation (in function of party's current goals) important for promotions, increasingly important the higher the level.
- Party control is an obstacle to standard corporate governance in firms.

Some facts about CPC power

- “The party commands the gun”. Party has total control over PLA, one of the pillars of state power. Party has tight control over military, military is not allowed to make public statements.
- The party keeps firm control over media through propaganda department and censorship. Censorship serves not only to prevent collective action, but also “not to show weakness”. Lorentzen (2014) showed that some media freedom may alleviate tensions and keep local bureaucrats on their toes. Repression stronger if tension higher and government perceived as weaker (harder economic times).

CPC power over China from the point of view of standard political science.

- Those in power have always had to solve several key problems:
 1. The succession problem.
 2. The information problem.
 3. The problem of taxation.

The succession problem in China

- Mandatory retirement at 65 for CC level leaders and 68 is maximum age for PSC nomination. Age interval between 50 and 68 reduces the number of candidates
- Leader chooses successor's successor: Deng chose Hu Jintao, Jiang chose Xi Jinping, Hu chose Hu Chunhua (Guangdong party secretary). Xi stopped respecting this rule and did not nominate any successor (except Xi).
- Bo Xilai incident: Bo wanted to use his influence to make a bid for power but failed.

The information problem in China.

- Top party leaders have always used vertical channels of information. Reporting duties important at all levels.
- Vertical channels have failed severely at times (Great leap forward). Leaders have learned to rely on alternative sources of information: tolerance of local revolts, whistleblowing (SARS), social media,...
- Wuhan 2020, the vertical channel failed again...

The information problem in China.

- Lorentzen (2013) showed why government investing massive resources in policing tolerates more than 200,000 mass incidents per year. Delivers information from population (that will not protest if too strong repression) and keeps local politicians on their toes.
- Totalitarian turn under Xi seems to worsen informational problem (parallel with Putin).

The taxation problem in China

- This has been solved successfully.
 - Strong state capacity gives high capacity to tax. Chinese state has traditionally set taxes at low level. Standard government expenditures also kept at a relatively low level. Collectivist culture relies more on extended family to provide social insurance. Scandinavian individualist welfare state not a model for China.
 - Significant state ownership gives direct control over state resources, which also helps keep tax rates low and reduces tax distortions (Gordon and Li, 2009)
 - CPC has additional instrument of party mobilization, which can at times mobilize resources. Mobilization and campaigns are a standard instrument of CPC that can be used in exceptional times. Advantage over Western democracies.

Interaction between CPC and government in the market economy

- Standard story about Chinese growth: success is combination of decentralization of government and meritocratic promotion rules based on growth performance (Xu, 2011).
- This story is at odds with basic theory of autocracy of fundamental tradeoff between loyalty and competence. Shouldn't choosing the most competent reduce stability ? Shouldn't we see more Bo Xilais?

Interaction between CPC and government in the market economy

- Solution to the fundamental trade-off of autocracy in the Chinese context is the party-state power duality in the context of the market economy: the party secretary controls political power, while the governor, subordinate to the party secretary, is in charge of the economy (Shirk, 1993; Shambaugh, 2008) and has more information on issues pertaining to managing of the local economy, which give him de facto power in that area (Weijia Li, 2018).

Basic story of autocratic trade-off without power duality:

- Competence means better ability at generating economic surplus leading to growth. More competent leader has thus more incentives to topple the leader.
- However, there is a commitment problem: the population will not support a revolt led by a leader who lacks benevolence. Public good provision before revolt can act as a signaling device of benevolence.
- Top leaders are not interested in promoting most competent leaders. This is the basic autocratic trade-off of loyalty versus competence, enhanced by a commitment problem of the leader.

The effect of power duality on the autocratic trade-off.

- In current market economy China, the party secretary in a province is in the best position to launch a revolt with his formidable political and mobilization power, but since economic power lies with the governor, the population cannot infer degree of benevolence of secretary, and thus will not revolt.
- This leads top leaders to promote most competent leaders. Power duality promotes meritocracy better!
- This effect is absent in the socialist economy because party leaders, who have more power over government officials, also make economic decisions because of centralized character of economy.

The case of Bo Xilai.

- “Chongqing model”: major public good expenditures made Bo Xilai very popular.
- Details of his bid for power not well known, but his demise did not lead to popular revolt in his favor.
- The policies implemented in Chongqing were popular. Bo himself may have been seen as possibly benevolent, but also possibly ambitious and power hungry future new Mao.
- Note: Zhou Yongkang, Bo ally was secretary of Sichuan province.

To summarize.

- Party-government duality is not only “duplication” of power channels, but in the context of the market economy creates, despite party supremacy, task specialization that reduces probability of popular revolt and gives strong incentives for meritocracy and sufficient decentralization.
- This is probably the best solution (unintended consequence of Deng’s strategic choices) found so far in history to the loyalty-competence trade-off under autocracy.
- Image is one of strong regime stability in China, but all is relative.

To summarize.

- CPC was reinforced by market reforms and growth miracle.
- Side effects were 1) corruption, 2) obsolete ideology.
- CPC leaders are obsessed with staying in power.
Lessons drawn from collapse of Soviet communism is that CPSU was too “liberal” (glasnost’). Ignore implosion of centrally planned socialist economy.
Return to socialist economy risks similar fate as that of CPSU.