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World Institute for Development Economics Research

Working Paper No. 2010/84

Why Are the Elite in China Motivated to Promote Growth?

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July 2010

Abstract

Rapid economic development in China in the post-1978 era has been considered 'intriguing' and 'puzzling' since it occurred under the dominance of the Chinese Communist Party – the fusion of politics and economics is supposed to be a powerful impediment to market growth. Scholars have proposed different accounts to explain this paradox, with particular emphasis on the role of the political elite in economic progress. This paper contributes to this literature by studying why the political elite are motivated to promote economic development in China. It argues that like politicians in other types of political regimes, autocratic leaders are interested in high growth rates. It also studies the historical development of China's developmental elites to understand their motivations for economic growth in the reform era. To better understand whether or not elites in developing countries promote economic growth, scholars should focus on factors such as historical experience, political stability, leadership turnover, or elite perceptions about the impact of growth on their hold on power rather than the differences between autocracy and democracy.

Keywords: China, democracy, autocracy, development, growth, elites

JEL classification: O53, P20, P26, P27

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This study has been prepared within the UNU-WIDER project on The Role of Elites in Economic Development, directed by Alice Amsden, James Robinson, and Alisa DiCaprio.

UNU-WIDER gratefully acknowledges the financial contributions to the research programme by the governments of Denmark (Royal Ministry of Foreign Affairs), Finland (Ministry for Foreign Affairs), Sweden (Swedish International Development Cooperation Agency—Sida) and the United Kingdom (Department for International Development—DFID).

ISSN 1798-7237 ISBN 978-92-9230-322-8

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Typescript prepared by Janis Vehmaan-Kreula at UNU-WIDER

1 Introduction

A large literature on the democracy-growth nexus maintains that the fusion of politics and economics impedes economic growth (e.g., Olson 1993; Pei 2006; Rock 2009). China's rapid economic development has thus been considered to be 'intriguing' and 'puzzling' since it has occurred under the dominance of the Chinese Communist Party (CCP). Scholars have proposed different explanations for this paradox, with particular emphasis on the role of the political elite (i.e., top government officials and CCP leaders) in economic progress since they are central to governance in the People's Republic of China (PRC). The questions they have asked include: What is this role? How have the political elite played it? Has the role of the political elite diminished with the rise of market transactions and private ownership? (Li and Lian 1999: 161–2; Shevchenko 2004: 161–2; Cai and Treisman 2006; Economy 2004; Pan 2008; Pei 2006; Gilboy 2008; Gilboy and Heginbotham 2001; Wang and Song 2008).

This paper examines a hitherto understudied topic: why are the Chinese political elite motivated to promote growth? This question contributes to the study of the democracy-growth nexus by helping us to understand the nature of the Chinese political elite, the relationship between politics and economics in the PRC in the post-1978 era, and the Chinese model of development. This paper first summarizes the literature on the democracy-growth nexus and discusses how this literature has guided the study of the Chinese state as a predator. It then outlines the rapid economic development under the CCP dominance since 1978 and critically assesses the democracy-growth nexus. This critical assessment shows that democracy is not necessarily superior to autocracy in promoting economic growth. Next, this paper examines the historical development of China's developmental elites to explain elite motivations to govern economic development. It argues that the CCP is an organization with an ideology which is consistent with growth. To better understand whether or not elites in developing countries promote economic growth, scholars should focus on factors such as historical experience, political stability, and leadership turnover, rather than the differences between autocracy and democracy.

2 The democracy-growth nexus

China's post-1978 economic performance provides an opportunity to revisit the debate on the relationship between democracy, dictatorship, and economic growth. Some scholars have concluded that the link between democracy and growth is either weak or non-existent (Persson and Tabellini 2006; Przeworski and Limongi 1993; Robinson 2006; Savoia et al. 2010). Others however have argued that the fusion of politics and economics is a powerful impediment to economic development. It is claimed that 'a permanent democratization is associated with approximately a one half to one per cent increment in annual real per capita GDP growth' (Papaioannou and Siourounis 2008: 1,520). Compared with that in autocratic societies, growth in democratic societies stabilizes at a higher level in the medium and long run (Barro 1996: 1; Acemoglu 2008; Hayek 1978). A United Nations' study (2002: 36) suggests that democracy and growth are compatible since most rich countries with per capita income of US$20,000 or more have the most democratic regimes. Rodrik and Wacziarg (2005: 50) claim that major democratic transitions have, if anything, a positive effect on economic growth. 'Democratization tends to follow periods of low growth rather than precede them.

Moreover, democratic transitions are associated with a decline in growth volatility'. Thus, there is a widely accepted view that democratization is a precondition for market growth in transitional economies (Schiffbauer and Shen 2010: 59).

Why is autocracy inferior to democracy in promoting growth? The democracy-growth nexus suggests that democracy commands greater encompassing interests than autocracy and hence is more likely than autocracy to provide social goods that are central to economic growth. Also, due to their insecure hold on power, autocrats are more likely than democratically elected leaders to take a short term horizon (Olson 1993; Pei 2006) and implement the revenue-maximizing tax rate that is detrimental to market activities (McGuire and Olson 1996: 72–3; Olson 1993: 568–9; Bueno de Mesquita et al. 2002, 2003; Doucouliagos and Ulubasoglu 2008; Papaioannou and Siourounis 2008; Rock 2009; Tavares and Wacziarg 2001; Yi et al. 2008). Furthermore, autocracies do not have the court system, independent judiciary, and respect for individual rights and law that are essential for economic growth (Haggard et al. 2008; Carothers 2006; Dam 2006; Olson 1993; Trubek and Santos 2006).

3 The Chinese elite: a grabbing hand or a helping hand?

Although many scholars do not find a strong correlation between growth and democracy (Persson and Tabellini 2006; Przeworski and Limongi 1993; Robinson 2006; Savoia et al. 2010), their works have not been sufficiently reviewed and cited in Chinese studies. Instead, the democracy-growth nexus has guided the literature on the predatory state, corruption, and economic development in China (Pei 2006: 37; Duckett 1998: 5–7; Lu 2000; Sun 1999; Li et al. 2005). This large literature considers the Chinese elite as a grabbing hand that destroys rather than enhances the resources available to society (Chen 2008; Ngo and Wu 2008).

Specifically, it is argued that because of the political logic and institutional determinants of autocracy – i.e., patronage, political monopoly, and ineffective monitoring and policing of the state's agents in the absence of the rule of law, civil liberties and political opposition – are more likely to create a predatory state than a developmental one in China. This trend has been strengthened by the slow progress in political reform and institutional building in the post-1978 era. Weak political accountability has led to pervasive corruption and collusion among the ruling elites, while the loss of confidence in the regime's future has led their agents to hold a short term horizon and engage in unrestrained predation. Predatory agents compete with one another and with the ruler for the same revenue, they have the incentive to steal, which reduces the aggregate amount of income for the state (Pei 2006: 37–40, Lu 2000; Ngo 2008; Sun 1999). Using this logic, China's economic growth is unsustainable and its transition to a market economy will be sidelined (Pei 2006: 206–7).

Although this literature captures a great deal of rational behaviour among the political elite in the PRC, especially in terms of cadre corruptions, it cannot explain China's economic growth since 1978. By definition, a predatory state extracts otherwise investable surplus and provides little in the way of collective goods in return such that it impedes economic transformation. Those who control the state apparatus plunder without any more regard for the welfare of the citizenry than a predator has for the welfare of its prey (Evans 1989: 562). If the Chinese elite behaved like predators, there would not have been substantial economic progress in China since 1978.

By no means does the above discussion deny the widespread corruption by elite members and lower ranked CCP cadres in China. But the consequences of their action do not seem to impede economic growth. A possible explanation is that rents may compensate officials for their public services implicitly and encourage them to promote more policies that benefit both the public and themselves (Li and Lian 1999: 165; Cowen et al. 1994).

Indeed, there has been rapid economic growth despite cadre corruption in the reform era – building construction in Shanghai takes place at such a breakneck pace that the city's maps need to be rewritten every two weeks; a town the size of London shoots up in the Pearl River Delta every year; and during the run-up to the Beijing Olympics, China built enough new roads to go four times around the world (Leonard 2008). The PRC has maintained high growth rates for the past 30 years and will surpass Japan to become the second largest economy in the world in 2010. It is predicted that in 2040, the Chinese economy will reach US$123 trillion, or nearly three times the economic output of the entire globe in 2000. China's per capita income will hit US$85,000, more than twice that forecasted for the European Union (EU). Its share of global GDP (40 per cent) will dwarf that of the US (14 per cent) and the EU (5 per cent) (Fogel 2010). These outstanding achievements have been accomplished under the dominance of the CCP in Chinese politics, which contradicts the democracy-growth nexus argument that the fusion of politics and economics impedes economic development. How can the Chinese experience be accounted for?

4 Democracy, autocracy, and economic growth

Many China experts have dealt with this question by reinterpreting the role of the Chinese elite in market transition. They have proposed a developmental state model, a local state corporatism perspective, an entrepreneurial state thesis, a clientelist state thesis, and a regulatory state account respectively.[1] These theoretical models have considered the Chinese elite to be a helping hand in economic development which is consistent with China's performance since 1978 (Blecher 1991; Cai and Treisman 2006; Economy 2004). However, much of this literature describes what the political elite have done to promote growth without adequately discussing their incentives in governing China's market growth. Some scholars have understood elite incentives with reference to the CCP's need to legitimize its rule with economic growth in the post-1978 era (Li and Lian 1999; Yang 2004).

This explanation is insufficient since it cannot explain elite behaviour in the pre-1978 era. Equally important, it is necessary to understand why the Chinese elite want to promote economic development although they are autocratic leaders who, according to the democracy-growth nexus, overlook the encompassing interests of society, take a

1 For the developmental state model, see Anagnost (2008: 497); Blecher (1991: 270, 276); Pearson (2004: 302); Cook (1999); Ma (2000); Nee et al. (2007); Wade (1984); White (1984); White (1988); Blecher and Shue (2001); Unger and Chan (1999); for the local state corporatism perspective see Oi (1995: 1,137–8); Oi (1992, 1998, 1999); Sargeson and Zhang (1999); for the entrepreneurial state thesis, see Duckett (1998: 173–4); Blecher (1991); Duckett (1996, 1998, 2000); Hubbard (1995); Lin and Zhang (1999); Ma and Chan (2003); Shieh (2002); for the clientelist state thesis, see Wu (2003: 1,678); Oi (1992, 1995, 1998, 1999); Ruf (1999); Wank (1995); for the regulatory state account, see Bach et al. (2006: 499–500); Breslin (2006: 127); Economy (2004: 109); Pearson (2004: 297); Yang (2004: 1–2, 8); Anagnost (2008); Heilmann (2005); Johnston (2004); Liu (2000); Pearson (2007); Wachtel et al. (2009).

short term horizon, tax the population heavily, and are not supported by the Western style of institutions that are central to market activities.

It is argued below that the literature on the democracy-growth nexus underestimates the potential of autocrats to govern market growth. It does not differentiate different types of autocratic leaders. Nor does it provide evidence that institutions in an autocracy are less capable of promoting growth than those in a democracy. However, these discussions do not establish that all autocrats are enthusiastic about economic development. Hence, a historical account is provided below to explain why the CCP has been a developmental elite.

4.1 Encompassing interests

According to the democracy-growth nexus, democracy promotes economic growth because it includes more encompassing interests than autocracy. Therefore, democratically elected leaders are more likely than autocratic leaders to provide social goods such as education and social order for economic growth. Yet the relationship between encompassing interests and elite incentives to promote economic growth has not been verified empirically. Also, democratically elected leaders do not necessarily take care of the encompassing interests of the majority that send them to office, as evidenced by the fiscal irresponsibility of an outgoing cabinet i.e., the Bush administration, pork barrel politics, etc., in the US. The uneconomical ways the Brown government in the UK handled the financial crisis, education, healthcare, etc., were criticized as unsustainable and would create a tremendous burden for the next cabinet.

This is not to say that elites in a democracy are more irresponsible than the Chinese elite. The latter have been responsible for including the Great Leap Forward campaign and the Cultural Revolution that created enormous suffering. Yet there is no evidence that elites in the West are more likely than Chinese leaders to take encompassing interests seriously. This is partly because elite behaviour in the West is regulated more by electoral politics than by encompassing interests. Politicians know that they are judged by voters over a wide range of issues. Economic performance is not always the major concern of the voters before and during an election.

In comparison, economic development is one of the most important political agendas of autocrats such as those in China since it is the main pillar of their political legitimacy. Unlike democratically elected leaders, autocrats do not have other mandates to justify their rule. Furthermore, the PRC claims to be the owner of the wealth, both tangible and human, in China. As the owner of their domain, the Chinese elite have an incentive to make their property productive through the provision of public goods such as social order, low taxes, and public education (other examples include Singapore, pre-democratic Taiwan, and pre-democratic South Korea). The Chinese elite have a stake in economic development regardless of whether or not they want to 'serve the people'. A booming economy will generate more opportunities for rent seeking and make the PRC stronger. A stronger economy means regime stability and a longer tenure of employment for the political elite. This is true for both democratically elected leaders and autocrats, irrespective of how large encompassing interests they represent.

4.2 Revenue-maximizing tax rates

According to the democracy-growth nexus, tax rates in autocracy are higher than those in democracy. An autocrat has an incentive to charge a monopoly rent and to levy this monopoly charge on everything in his domain to support his quest for military power, international prestige, and larger domains. Democracy is less likely than autocracy to implement the revenue-maximizing tax rate. Democratic competition does not give a political leader the incentive to extract the maximum attainable social surplus from society to achieve his personal objectives. In addition, a tiny reduction in the tax rate will increase the national income greatly, which will matter greatly to the majority but not the autocrat (McGuire and Olson 1996: 72–3; Olson 1993: 568–9; Bueno de Mesquita et al. 2002, 2003; Doucouliagos and Ulubasoglu 2008; Papaioannou and Siourounis 2008; Rock 2009; Tavares and Wacziarg 2001; Yi et al. 2008).

In reality, tax rates are not necessarily higher in autocracy than in democracy. In a democracy, the provision of public goods is largely motivated by electoral politics rather than the elite's commitment to the encompassing interests in society. Bueno de Mesquita et al. (2002, 2003) argue that given the total amount of government expenditures, the larger the proportion of voters whose support is required for the government to stay in power, the higher the level of public goods provided by the government. Elections imply that the government requires support from a large number of citizens to stay in power. Hence, democracy increases public goods provision. Not surprisingly, the elite in the West prefer huge public spending in order to appeal to voters. But to secure sufficient resources to keep their campaign promises, incumbent politicians in the West have to implement high tax rates (Rogoff and Sibert 1988; Cerda and Vergara 2008; Veiga and Veiga 2007). They could also finance public spending with borrowings or selling state assets. Public spending must be large and tax rates must be high since democracy is about equality among its citizens. Benefits must be received by the majority and thus are expensive. Plumper and Martin (2003) conclude that in a democracy, the government tends to overinvest in the provision of public goods and therefore reduce growth rates.

In comparison, autocrats are not responsible to ordinary citizens and supportive of equality. They are not likely to raise taxes, borrow money, or sell state assets to set up expensive social welfare programmes. Unlike those in a democracy, state assets belong to the elite in an autocracy. Also, unlike their counterparts in democracies, autocrats do not face the ever growing pressure for tax collection to fund public spending. Autocrats are likely to implement low tax rates since a regressive tax regime benefits high income earners, who are their followers and their families.

Finally, as noted, an autocrat extracts the maximum possible surplus from society in his appetite for military power, international prestige, and larger domains. This not only impedes economic growth but also invites man-made disasters. Yet this possibility has been greatly reduced after the Cold War: autocrats cannot find a superpower to protect them from the wrath of the US in the new world order, and have to act cautiously. Indeed, after the CCP started economic reforms in 1978, Deng Xiaoping insisted that China would be a humble member of the international community and focus on domestic matters as the country needed a peaceful period of time and foreign investments for economic reconstruction. Deng's instruction has been closely followed by his successors. Chinese leaders understand that it does not pay for China to confront the West given China's reliance on the markets in the West and the US military prowess as demonstrated in the wars in Iraq and Afghanistan. Precisely because of this understanding, the Chinese elite are motivated to develop China's economy.

Hence, the US hegemony in the new world order has discouraged military adventures for territorial expansion by autocratic leaders, and has forced them to concentrate on economic growth to strengthen their position domestically and internationally. The US hegemony has also forced the US and its allies to police the world, which increases the pressure for military spending and borrowing. Autocracies such as the PRC are not likely to contribute militarily and financially to human rights, democratization, etc. since these are not their priorities and are not consistent with their values. This partly explains why tax rates and levels of debt in the West are higher than those in China and other countries that have not adopted the Western style of electoral politics.

4.3 Time horizons

According to the democracy-growth nexus, an autocratic leader does not have political legitimacy and faces constant challenges from both internal and external rivals. As a result, autocrats tend to make decisions based on their short term impacts alone. It is in their interest to confiscate the property of their subjects, to abrogate any contracts if it benefits them, and to ignore the long-run economic consequences of current choices. Even the possibility that an autocrat will make such choices reduces confidence in investments and in the enforcement of long-run contracts (Olson 1993; Pei 2006).

While this may describe elite behaviour in some autocracies, it should not be over-generalized. In the case of China, its leaders know that they will stay in power and will harvest what they plant today in the years to come. The Chinese elite govern the PRC, which is one of the major powers in the world. No country in the world has yet devised a plan or has the capacity to disintegrate it. The Chinese elite have faced no credible domestic opposition due to effective control and suppression. An autocracy is likely to be a predator if it is intrinsically unstable, and *vice versa* (Robinson 2001; Acemoglu and Robinson 2006). The Chinese elite are able to make decisions based on their long-run outcomes and develop incentives to promote economic growth precisely because they are autocratic leaders. For example, the PRC has produced a series of economic development initiatives such as the five year plans of China since 1953. This has not been done by Western politicians.

This is partly because a key feature of democracy in the West is the limited term of office. Electoral politics determines that the elite in the West do not personally benefit from promoting long term economic growth since by that time, someone else will be in power. It is difficult for the current leaders to claim the credit for future growth since it cannot be attributed to a single factor, and it is hard to prove that single factor to be their leadership. It is difficult for the elite in the West to be elected with a policy on long-term growth. Voters want to know what politicians can do for them now rather than five years later. Thus, competitive elections force politicians in the West to hold a short term vision and be pragmatic since there is no guarantee that he or she can win the next election.

4.4 Institutions and market performance

According to the democracy-growth nexus, autocracy is less capable of promoting market activities than democracy because the former does not have economic and legal institutions such as an independent judiciary (Olson 1993: 572; Eicher and García-Peñalosa 2006) which protect property rights and enforce contracts. An autocracy cannot coexist with these institutions since it is by nature not subject to political and legal constraints. It thus cannot sustain long-term growth (Haggard et al. 2008; Carothers 2006; Dam 2006; Olson 1993; Trubek and Santos 2006).

However, other scholars have argued that these institutions were neither necessary nor sufficient conditions for rapid growth in certain developing countries. For example, pro-market autocratic leaders such as those in Singapore or pre-democratic South Korea and Taiwan protected property rights as a matter of policy choice, not due to political constraints or an independent judiciary. As another example, Amsden (2003) argues that China, India, Korea and Taiwan have built their own national manufacturing enterprises and invested heavily in R&D. Those developmental states are champions of science and technology. By contrast, Argentina, Brazil and Mexico have experienced a wave of acquisitions and mergers that have left many of their major enterprises controlled by multinational firms. The developmental states of Mexico and Turkey have become hand-tied by membership in NAFTA and the European Union. In short, the search for a single institutional ‘taproot’ of growth is likely to be a misguided exercise. There can be different means for solving various collective action, credibility, and informational problems that constitute barriers to market growth (Haggard 2004).

Thus, while many researchers have used institutions to explain economic growth in Europe and the US (e.g., Acemoglu et al. 2005; Rodrik 2000), some scholars of the developmental state (e.g., Amsden 1989, Deyo 1987, Wade 1990) have focused on autocratic institutions to study economic growth in East Asia. They have identified two seemingly contradictory institutional features as a key for understanding economic success: autonomy of the state and constraints that prevent predatory behaviour of the state. But how can the state be autonomous and at the same time be constrained from becoming predatory? Besley and Kudamatsu (2008) suggest that the state is autonomous only from opposition groups. The ruling elite discipline the state to prevent it from becoming predatory.

While it is not clear why the ruling elite want to discipline the state, the above discussion suggests that the Western style of institutions such as an independent judiciary is not necessarily a prerequisite for economic development in non-Western countries. For example, the PRC has experienced rapid market growth since 1978 without the support of Western style institutions (other examples include Vietnam, Singapore, and pre-democratic South Korea and Taiwan). There can be market transactions without these institutions. And though autocratic leaders have the power to confiscate private properties and violate contracts, they do not always activate this power since they benefit from a booming economy. Historically, some autocratic leaders presented themselves as the champions of justice and order and did not rock the boat unless they had no other choice. This partly explains why there was a good amount of progress under self-interested and often extravagant autocrats throughout most of human history (Li and Lian 1999: 164–5; Olson 1993). Besley and Kudamatsu (2008: 452) forcefully argue that

> 'autocratic government is not always a disaster in economic terms. Indeed, there are examples of growth and development in autocratic systems of government throughout history. For example, the British industrial revolution predates the introduction of free and fair elections with mass participation. Modern China is also a case in point with a spectacular growth performance in a non-democratic setting'.

It is generally accepted that the institutions such as an independent judiciary, respect for the integrity of contracts and private property provide the essential framework for economic activities in a democracy. They create and maintain a relatively fair and predictable environment for investment and market competition. Their absence means a riskier environment for business activities, but it does not necessarily mean that there would be no economic transactions. In fact, they may not be the most effective and appropriate instrument in supporting market growth or correcting market failures, as evidenced by the 2008 global financial crisis. The PRC has done a good job in promoting economic growth without the Western style of the institutions for the past 30 years. To test a model of development, 30 years is a relatively lengthy period.

5 A historical account of elite behaviour in China

While the above discussion suggests that democratically elected leaders are no more likely than autocratic leaders to promote economic growth, it does not prove that all autocratic leaders promote economic development. In fact, many autocrats are well known for their ability to ruin their economies. Examples include Ferdinand Marcos of the Philippines and Robert Mugabe of Zimbabwe. These autocrats engage in corruption, and maximize profits for personal consumption without regard for national interests or economic growth.

But there are different types of autocratic leaders. Scholars have produced an array of terminologies to classify different autocratic regimes. Examples include totalitarianism (Linz 2000), bureaucratic authoritarianism (O'Donnell 1979), neopatrimonialism (Bratton and van de Walle 1997), the rentier state (Beblawi and Luciani 1987), competitive authoritarianism (Levitsky and Way 2002), etc. These autocratic regimes have carried out different policies and differed from one another in terms of economic performance. Shen (2007: 343) argues that dictators act differently: a 'good' dictator implements growth-enhancing policies, e.g., investment in public education and infrastructure, whereas a 'bad' dictator taxes his citizens for his own consumption.

But why are some autocratic leaders (including the Chinese elite) more likely than other autocratic leaders to govern market growth? Kohli (2004) shows that markets, liberty and security require a strong state and argues that the differences in state capacity of Brazil, India, Nigeria and Korea have been shaped by their distinct historical experiences (Amsden 2003).

This insight suggests a path dependency account of elite behaviour in China. The CCP has always been a political organization with a developmental ideology. The Chinese communist elite were a product of China's extensive search for solutions to save 'the Middle Kingdom' from being colonized by Western powers since 1840. The traditional Chinese gentry tried various measures, ranging from the Self-Strengthening Movement to the attempts to form constitutional monarchy. They first tried to use Western military technology and then made efforts to learn from Japan, but to no avail. Although a republic was set up in 1911, it soon fell prey to warlords. Capitalism did not produce encouraging outcomes in China (Spence 1999; Vohra 1999).

Marxism was then chosen by radical intellectuals as the means to revitalize China. This partly explains why the vast majority of the early Chinese communists were from well-off families in China. They were nationalists before becoming communists. Marxism was also chosen because it offered a plausible account that socialism was superior to capitalism in empowering China. Russia's October Revolution inspired radical Chinese intellectuals. They formed the CCP in 1921, aiming to build a socialist China with industrial power. The mission to build a powerful China was always part of the CCP platform and its basis of political legitimacy before it came to power in 1949 (Brown 2009; Guillermaz 1972).

The CCP's ruling socialist ideology determined its intervention in economic growth after it came to power in 1949. The CCP relied on a centrally planned system to develop China's economy in the early 1950s and achieved reasonably good results (Bramall 1993). The CCP consolidated its power and enjoyed popular support thanks to improved living standards in China. Encouraged by the early successes, the CCP's Chairman Mao Zedong launched the Great Leap Forward in 1958 in an unrealistic bid to surpass the UK and the US in industrial outputs in ten and twenty years respectively. Mao was determined to boost the Chinese economy in the shortest period of time. Since China was short of capital and technology, he called upon political mobilization to increase industrial outputs. Although born a revolutionary rebel, Mao tried to become an economic tsar in launching the Great Leap Forward campaign.

The Great Leap Forward was conducted through administrative fiat rather than sound economic management and became a mockery. It, together with natural disasters, dealt a heavy blow to the Chinese economy between 1958 and 1962. Party leaders such as Liu Shaoqi and Deng Xiaoping had to come forward to put things back together. The Chinese economy began to recover in 1963 and was on the right track by 1965. Mao stepped down but became preoccupied with the plots to stage a political comeback, which led to the Cultural Revolution when politics plunged China into chaos between 1966 and 1976. Both Liu and Deng were toppled and their followers were subject to mass criticisms and demotions (Brown 2009; Lieberthal 2003). Despite these, Mao was always ready to adopt economic recovery measures whenever he thought that his power was consolidated. He even invited his formal political rival, Deng Xiaoping, to come back to be in charge of China's modernization programme in the early 1970s. However, Mao felt threatened and threw out Deng again in April 1976.

Mao passed away in September 1976, which paved the way for Deng's political comeback in 1978. There was no evidence that the CCP's political legitimacy was in crisis. The problem Deng faced was the Chinese economy, which was a real and urgent issue since it was on the brink of collapse in 1976. In 1979, Vietnam challenged China politically and militarily, encouraged by China's weak economy. The resulting Chinese military campaign into Vietnam was not successful, which strengthened Deng's determination to do everything possible to develop China's economy as quickly as possible to improve the living standards of the Chinese people and modernize China's defence. However, he was unable to promote economic growth with the Soviet-style command economy and state plans as he had done in the 1950s and early 1960s.

By the early 1970s, like other state socialist countries, the Soviet-style planning system had produced poor economic performances in China. In comparison, market mechanisms brought double-digit annual growth to Japan and the Four Asian Tigers (Hong Kong, Singapore, South Korea, and Taiwan) during the same period of time. The sharp contrast in performances of the PRC and Taiwan, between North Korea and South Korea, and between East Germany and West Germany, showed the superiority of the market mechanism over the planning system (Nee and Lian 1994). Hence, the CCP elite adopted market principles to pursue economic growth after 1978. This brief historical account partly explains why the Chinese political elite, including the revolutionary idealist Mao Zedong, have always been motivated to promote economic growth.

6 Summary and conclusions

The post-1978 Chinese economic miracle suggests the need for a critical assessment of the democracy-growth nexus, which insists that democracy is positively related to economic progress whereas autocracy impedes market growth. Scholars have proposed different accounts to explain the role of the political elite in governing market growth in China. They have related elite behaviour to their need to use growth to legitimize the CCP's rule. Clearly, these accounts have not adequately dealt with the key arguments that support the democracy-growth nexus, which insists that autocratic leaders take a short time horizon and maximize profits for personal consumption without regard to encompassing interests and economic growth. Yet this is not the way the Chinese elite have behaved since 1978.

This paper contributes to the study of the democracy-growth nexus by providing a historical account of elite behaviour in China, which partly explains why the Chinese elite have promoted economic growth. Some autocrats are capable of ruining their economies. Other autocrats (including the CCP) govern market growth. Whether a dictator chooses to promote economic development depends on historical experience. In the case of China, it is the history and ideology of the CCP that account for the elite's motivations for economic growth in the reform era.

This paper also contributes to the study of the democracy-growth nexus by arguing that like politicians in other types of political regimes, autocratic leaders are interested in high growth rates because this will enable them to capture more rents. Democratically elected leaders are no more likely than autocratic leaders such as the PRC's President Hu Jintao to take encompassing interests seriously. Chinese leaders are interested in wealth accumulation in their domain since they are masters of the PRC. In comparison, politicians in the West are interested in public spending on social welfare due to electoral politics. They are more likely than autocratic leaders to implement high tax rates. In addition, after the Cold War, autocracies such as China, Cuba, and Vietnam are less likely than Western democracies to engage other countries militarily given the US hegemony in the world. They are motivated to develop their economies as the strategy to survive in a world dominated by liberal ideology. Hence, to better understand whether or not elites in developing countries promote economic growth, scholars shall focus on factors such as historical experience, political stability, leadership turnover, or elite perceptions about the impact of growth on their hold on power rather than the differences in encompassing interests, time horizons, tax rates, etc., between autocracy and democracy (Acemoglu and Robinson (2006); Besley and Kudamatsu (2008); Robinson (2001); Shen (2007).

Finally, despite the rapid economic growth in China, its business environment is less certain, fair, and transparent when compared with many Western countries. There are more arbitrary decisions, environmental pollution, social injustices, and discrimination in the PRC than in the West. Most winners of market reforms in China are rent seekers with strong political ties. Equally important, democracy is more effective than autocracy in preventing an economic catastrophe or political instability. This is because, unlike their autocratic counterparts, democratic leaders are less likely to make arbitrary (and wrong) decisions since they engage in wide and lengthy consultations with different social sectors. They are also more likely than autocratic leaders to identify and reverse bad decisions due to checks and balances. Thus, Rodrik (2000: 140–1) argues that participatory politics leads to social cooperation and economic stability, which are central to market activities. Pitlik (2008: 258) maintains that compared with autocracies, democracies not only carry out more liberal economic policies, but they are also more responsive to economic growth crises. Rodrik (2000) finds strong evidence that less democratic countries experience more policy instability, the heterogeneity of preferences within society, and high-frequency growth volatility than democratic societies. Cuberes and Jerzmanowski (2009) similarly report that reversals of trend-growth are sharper and more frequent in non-democracies than in democratic countries. Hence, in the long term, democracy shall have a better record of economic growth than autocracy.

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