

China Struggles to Reform

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The most important role of governments in the world today is to deal with the state of their national economies. Of the 200 or so countries in the world, perhaps half are in some form of serious economic dilemma, and most of the rest face major challenges to keep their economies up with burgeoning demands on them. After the fall of the U.S.S.R., the 15 nations that emerged from it and the countries of the former Soviet bloc in eastern Europe are all struggling to abandon their Soviet style governments and economies and accommodate to a “market tested economy” that few of them really understand. Most of the nations of Sub Saharan Africa have economies that are so weak that they are scarcely able to support even basic public services, especially when the country is in the hands of tyrannical and incompetent governments mired in wars, rebellions and the incursions of terrorist war lords. In the Far East, state socialist governments are also being forced to abandon much of their socialist economies and retreat slowly and reluctantly into some form of market economy. The countries of the Middle East deteriorate because of armed conflicts. Unfortunately, these realities come at a time when the more developed countries of the world are evolving into a complex new “globalization” world which widens the gap over the struggling less developed economies.

A large part of this greater complexity and sophistication relates to the ability to absorb new technologies, and to shift the economy of a country away from low value economic activities to those that produce a higher rate of wealth generation. Economies can be characterized as falling into the following groupings:

1. Primary economic level consisting mainly of agriculture, forestry, fishing, crafts, cottage industries, and much of the informal economy.
2. Secondary level involving mining, primary metals creation and fabrication, processing of metals, soft goods, manufacturing production and assembly operations, construction, chemicals processing, and machinery fabrication.
3. Tertiary level featuring provision of utility services (gas, electricity, water), finance and banking, real estate, communications, transportation, distribution and wholesaling, health care, social services, education, retailing, information management, cleaning maintenance and disposal, sports, culture, recreation and government.

There seems to be a natural trend of movement of economies from the primary level up the scale of economic development. In addition, many governments are pursuing deliberate strategies to move into the secondary or tertiary levels because these economic activities are far more wealth creating and “value added”. The United States is among the most advanced in moving heavily into tertiary levels, and leaders in countries such as Japan and S. Korea for example, are now perceiving that their current policy of

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encouraging manufacturing is perhaps incomplete and needs to be modified to push their economies into tertiary levels of activity. Also, one of the consequences of this movement is that moving up the scale requires a higher degree of education and technical training, and the capacity to advance is highly influenced by the quality of education in the country and the ability of large numbers of people to adapt to more sophisticated work environments than usually found in structured manufacturing work. Economic success now rests more on answering the question “What does the world want?”, and less on the issue of “What do we have to sell?” Over-reliance on natural resources and cheap labor produces marginal economies. Protectionism of domestic economies is increasingly seen as costly and inefficient in world terms.

It is not easy for government leaders, especially in former state socialist countries to understand these powerful economic trends. In many cases, when national leaders are forced to face up to poor results, they tend to stick to the same policies but resolve to “try harder”. Thus, one of the initial responses of the Chinese government to poor performing state owned enterprises (SOE) was to develop a program of management “contracts” with SOE managers involving performance goals and targets. But of course, the Party continued to interfere in matters of SOE operations and such contracts were essentially meaningless.

The Emergence of the “Semi-Socialist” State

Just as there is no such thing as a single clear definition of a “democratic” state, there has never been a single model or pattern for the socialist state. With the decline of economic socialism, several dozen countries in all parts of the world are struggling to define how their governments must be reformed and redirected over the next 2 to 3 decades. Each approach is different because, while they all reflect their socialist past, each differs in their history, culture, national motivations and ambitions, the state of economic development, and the differing nature of their previous regimes. All are experimenting, and there is a high degree of uncertainty about how to proceed or what the outcomes will be. All however seem to share certain common characteristics. First, all are retreating from a socialist past. Some are retreating slowly and reluctantly. Others are pushing - somewhere - as fast as possible. In most cases, the retreat is being directed by many of the same people who directed the governments they are now forced to change. A new generation of leaders is slowly emerging, but until they do, the older generation will move slowly. They are reluctant to abandon old strongly held commitments, and most are very reluctant to abandon such massive power.

The most striking shared characteristic is the reluctant recognition that economic socialism is a failure, and that somehow, the combination of centrist government policy and financial controls and the operational performance of state owned enterprises proved to be inferior to a market based economy extensively freed from various forms of government controls.¹ This is an excruciatingly painful admission for dedicated socialist leaders to make. Socialist government philosophies are still strong, and inertia is very great. Thus, most socialist governments seek to retreat as slowly as possible from economic socialism, hoping for some form of reprieve, and stopping or delaying action whenever it is possible. Many countries seek to retain as much of the “social socialism” commitments as possible, and retain the philosophy of deep involvement of governments

¹ See for example Yang, Dali L. *Remaking the Chinese Leviathan*, Stanford California, Stanford U. Press, 2004, Chapter 5.

in social well-being. Most importantly, governments seek to retain socialist political power and control of the government, or at least a strong socialist political party in the country.

What is emerging are several dozen nations seeking new ways to combine a retained socialist political dominance with some degree of movement of the economy into market based patterns,² which can be called the “semi-socialist” state. But such a “semi-socialist” state is viewed with skepticism by purists at both ends of the political and economic spectrum. The pure socialist intellectuals see this as betrayal and apostasy. The pure free marketers see it as infeasible, inadequate in scope, and ultimately unworkable. The advocates of democratic governance see it at best as a transitional course in which centrist socialism will inevitably give way to the will of the people. But the hope and expectation in these several dozen governments is that, by experimentation or muddling through, they will find a middle ground that proves to be stable and successful. Even supposedly representative democracies too are rather muddled combinations of market economies and heavy government involvement in the provision of social services. In this sense, all governments in the near future may well be “semi-socialist” states.

While the experiments with the semi socialist state are as different as the countries pursuing them, several general models can be described which might help to understand what approaches are being tried.

1. The “western” model

Patterned broadly after governments in the Organization for Economic Cooperation and Development (OECD), the basic approach is to relinquish direct economic development and operations almost entirely to the private sector, with governments confined to certain imperatives such as broad fiscal and monetary policy, the operations of a central bank, and some oversight over private sector practices. In this model, most of the state owned enterprises are being sold off to the private sector, government controls over the economy are being reduced, and the government is concentrating its energy and resources on vital social programs and public infrastructure. Control over the private sector is primarily exercised through the tax system and the courts, and through public health and safety regulations.

2. The Chinese Model

In the People’s Republic of China, what may be called the “Chinese model” involves the socialist/communist political leadership remaining firmly in control, but with a rapid opening up of the economy and greater latitude for private sector investment and the guarded privatization or “commercialization” of state owned enterprises. The key policy is to retain a very high level of political control over the economy, responsibility for social services, and control of society in general. While there is now a more extensive and vigorous market based economic sector, the government still maintains a very extensive range of SOEs, with control of the most important of them in the hands of the national government, but the remainder delegated to provincial governors and municipal mayors. Even while privatizing most of its banks, the central government maintains control over critical elements of banking and investment including the four largest commercial banks, along with the “commanding heights” industries. There continues to be heavy state regulation of economic affairs, public policies directing the affairs of local

² Ibid. Official policy since 1992 refers to the “new socialist economy”.

governments, almost complete ownership of land, and an almost intact control over policies framing Chinese society along socialist lines.

3. The Indian model

After a protracted effort at full blown state socialism, and excessive use of state owned enterprises, the Indian government now seems to be on a track which permits parallel economies -- one public and one private -- to be pursued more or less at will. But the overall allocation of roles between the two sectors remains in the hands of the government, which shifts its views from regime to regime so that the evolution of these roles is a loose pragmatic one. Social programs remain almost entirely the responsibility of government, with richer people able to buy some services such as education and health care from private sources. Government social programs remain hopelessly inadequate.

4. The Bi-level model

As typified by a country such as Turkey, this approach is a form of the “commanding heights” approach in that the government maintains a large public sector in which much of the larger elements of the economy are regarded as “commanding heights”, and the private sector is conceded primacy in small and intermediate sized businesses, the services sector, non-manufacturing industry, and the rest of the non-basic enterprises. Like India, social services are necessarily a responsibility of the government and poorly done.

5. The Capital Investment model

In some cases, the state is privatizing most of the economy; it may or may not keep certain “commanding heights” public enterprises, but its real efforts are concentrated on providing the funding for development of large capital intensive economic development risks which the private sector cannot or will not undertake, or which are seen as a national policy imperative which must be expedited.

The essence for these retreating socialist governments is much the same as it is in all other countries: how far must a government go in relinquishing centrist power -- both to corporations and to individuals -- in order to create a more effective and growing economy, versus how much real power can be retained in the government to control or modulate economic affairs. The Chinese obviously see their future as remaining very strongly centrist and socialist and they do not see these ambitions as inconsistent. It seems perfectly feasible for most forms of semi-socialist states to become economically successful. But there is an important form of reality in this “socialism versus market economy” debate that still remains unclear. Because of the fact that highly socialist and centrist regimes of the past have failed, the key question centers around how far the socialist retreat may have to go to reach economic viability, and is it so far that a real socialist regime ceases to have meaning? Is there some watershed in economic evolution beyond which the socialist framework no longer survives? China has now decided to move as swiftly as any nation in the world in opening up its economy, and abandoning both the theory and the regulatory practices that kept it sealed off from the outside. Will the opening of market entrepreneurialism unleash such forces in the country that old regimes will be seen as obsolete or obstructionist, and be swept aside? Will liberty in economic terms precipitate liberty in political terms? These are the issues that haunt the Chinese leadership and the leadership in many other retreating socialist regimes.

In order to put together more development capital for investment in its “new wave” market economy, the Chinese government has finally been forced to face up to the

inefficiencies of its state owned enterprises. At first, in the 1980's, the Chinese government sought to upgrade the performance of SOEs by pressing for better management, usually through the form of performance management contracts between the government and each enterprise. This effort failed in large part because the motives for difficult upgrading did not exist, and in part because of the limits placed on SOEs by the government itself (e. g., no funds for new technology). In another effort, the central government fobbed off many enterprises onto provincial and municipal governments and told them to cope.

But now, fiscal and economic reality is closing in and forcing what the Chinese government has most dreaded --the closure of many SOEs that have not been able to respond to improvement efforts, and can no longer afford to carry millions of redundant workers on the payroll. The Chinese government is notoriously unwilling to publish any reliable figures about its economy, but sources seem to indicate that an extraordinary 24 million jobs have been lost in failed SOEs in the last 4-5 years. Most were in the economic areas such as agricultural collectives, mines and primary manufacturing, including many of the very large manufacturing SOEs. But despite these draconian reductions, still more cutbacks and closures appear necessary. In banking for example, some 45,000 offices have been closed, and 250,000 people laid off.³

The sheer magnitude of the reductions simply highlights the degree to which these enterprises were overstaffed in the first place. Many of the workers who have been unemployed will receive a stipend for three years while they seek other employment: these workers are not counted as unemployed until the stipend is completed, but unemployed they are. Millions will not succeed in finding new jobs in the private sector, and will have to be absorbed into the informal economy, thus increasing competition, and lowering incomes for all. Others in rural areas can retreat back onto family farms, but this is the same marginal economic environment from which they fled to the cities in the first place. In all, the government figures list 8 million workers officially unemployed, and an additional 6 million who are considered "between jobs, and seeking work". Other estimates run considerably higher. In addition, rural under-employment is estimated to be a staggering 150,000,000 workers, and there are an additional 125,000,000 "floaters" in urban areas not counted in official employment figures.⁴ Chinese economic development policy faces an additional dilemma: the kind of high tech economic organizations that they need to meet the standards of the international economy, are also the types of organizations that have least to offer in the way of creation of large numbers of jobs to help soak up all of that unemployment.

Social Services Reforms

The central theme of the Chinese government is the emergence of modern cities and their surrounding regions that are expected to become powerhouses for economic development and the provision of millions of new jobs to absorb the shift in population

³ See Yergin, Daniel, and Stanislaw, Joseph, *The Commanding Heights*, New York, Simon and Shuster, 1999. But the concept was originally expressed by V. I. Lenin in 1922 in defense of his New Economic Plan for the USSR, in which he proposed to permit small businesses and farms to be operated privately with the State retaining only the "commanding heights" of the national economy; that is, those elements such as steel production, power, transport and banking that were critical to the control of all other elements of the economy.

⁴ See *Governance in China*, an OECD report, 2005, Chapter 11.

from farms and rural areas. In the short run, this has overwhelmed many cities, especially since they are facing the decline of SOEs.

In Chinese cities, there are “entitled” workers and their families who are given priority access to subsidized housing, food, state-sector jobs with many fringe benefits including health care, disability pensions, unemployment compensation and other vital social services. But there are millions of urban workers who are not “entitled” and who must fend for themselves.⁵ This policy was a means of modulating the shift of populations from agricultural to manufacturing jobs, but in fact, individual workers have swarmed into cities in huge numbers in defiance of that policy. The government officially discourages these people, but on the other hand, they constitute a reservoir of cheap workers who contribute to the urban economy without the added costs of the “entitlement” benefits, so they are largely tolerated. In fact, this is a good example of the failures of governments to try and control urban growth. The percentage of workers outside of agriculture rose to 43% by 1993. Some of this floating population lived in near-by towns where they could commute to the cities daily for work, but most lived crowded into apartment slums.

In general, the policy of the government was almost wholly concentrated on development of large scale manufacturing, most of it in SOEs. It was anti-urban, in the sense that it tried to limit the growth of cities to the pace of industrial development. There has been little or no policy of rural development, but there has been an attempt to disaggregate SOE responsibility to townships, villages, and provincial governments. There is also an effort to divert militarily important facilities away from coastal areas into the interior.

But despite these policies, the coastal cities had such economic advantages, including foreign direct investment, that they became rich at the expense of all others. City jurisdictions were expanded to include much of the surrounding territory, and new suburbs began to develop. Also, many urban factories are subcontracting to suppliers and parts manufacturers in smaller towns and rural areas -- again, largely through the SOEs.

Many of the floating population -- all of whom were supposed to be temporary -- became permanent, or semi-permanent, often returning to their villages during off periods of seasonal work. Most are young, male, and with limited education. Many of these floaters drifted into the informal economy, and make major contributions to the supply of consumer goods and services, which the formal economy neglects. But they also overburden the official public infrastructure, which is justified and financed only to deal with the “official” population of the city -- a socialist planning mistake. During the 20 year period of enforced “Stalinist” industrialization, housing, consumer goods and services had been sacrificed for heavy industry. Few stores were open, restaurants were scarce, long lists of goods were rationed, and housing was unbelievably crowded.

In recent years, these mistakes have started to be corrected. Investment in light industry has started (much through the disaggregated SOEs at the local government level), rules for creation of neighborhood collectives, cooperatives, and private ventures were liberalized, farmers are allowed to direct market in cities, etc. This policy is working ---- but Chinese cities are about 50 years behind their Western contemporaries.

⁵ Ibid.

In effect, the economic policy continues to favor the heavy industry base, and consumerism and service sectors are “delegated” to lower governments, private enterprise, and the informal economy.

Many social services supplied by governments are universal and often free. The government has relied on heavily subsidized food supplies, elementary/secondary education, and low cost housing. But other social services are still tied to SOEs -- health care, pensions, disability insurance, some vocational training. Thus, in many places, only about 65% of the urban population really has access to these benefits.⁶ SOEs that are in a deficit situation (most of them) are hard put to live up to their commitments, and are trying to retrench or mandate co-payments. Provinces and local governments are being forced to absorb these social responsibilities, but lack the stable funding base to do so. Many of the special rationing and food subsidies that are no longer justified are extremely hard to eliminate or even reduce.

The state is realizing that “full employment” can no longer be promised in the state sector, and two trends are happening: hope is being placed in the private sector, and a form of unemployment compensation is being installed. Similarly, there is an attempt to shift old age pensions from the SOEs to a universal system administered by local government -- but without the funds to do so.

Housing has improved vastly over the last 15 years. Average space is increasing: from 3.6 square meters (6' X 6') to almost double that now. Serious problems remain. The State has neglected maintenance and repair, and many units provided by the State are being fixed up by their occupants or by managing cooperatives, at their own expense. But over half of all housing continues to be under the SOEs or government bodies. Rents are heavily subsidized, but the pattern is bad housing at low cost. Proposals to “marketize” rents are under way, but stiffly resisted.

The number one complaint of urban dwellers is the lack of consumer services including transport and child care, but also including small retail shops and the availability of consumer goods. This is a direct consequence of long term government neglect and the prevention of private entrepreneurship. But more latitude for private and “informal” enterprise is reducing the past failures of the market, and has begun to make up for the lack of public funds. Cities and townships are leading a “bottom-up” effort to fill consumer needs, often through the creation of collectives which are enterprises controlled by their owners and managers.

With the emphasis on heavy industrial development, several other problems were created. Many jobs in other sectors were frozen, and there were few salary increases, shrinkage in the number of housing units, lack of consumer goods, rationing, and long lines. Thus, the average citizen was “taxed” in more ways than one. The urban destitute are denied a political voice because the leadership doesn't want to hear the complaints, and can do little about them. The “cradle to grave” commitment has not meant much except to those in the favored sectors of the economy; and as State resources have withered, things have only gotten worse. New neighborhood-run collective enterprises, urban private enterprises, and rural subcontracting are the most dynamic part of the economy.

⁶ Ibid.

The Example of Chinese Health Care

China, much more quickly than the Soviet Union, recognized the urgency of major movement of the economy into the competitive market based economy, and it began the process as early as the 1980s, with remarkable results. China has been growing its economy an average of 9.7% over the last 20 years. But this pattern of total economic growth has been offset by a number of adverse consequences in the social services arenas. First, as in the Soviet Union, much of the provision of social services was mandated on the state owned enterprises. Each was supposedly responsible for such things as health care, pensions, and even education for their workers, and by default to much of the communities in which they operated.

Thus, as China has moved to divest these SOEs, the burden of social services was supposed to be taken up by local governments. At the same time, in order to reduce the costs financed by the national government, the Chinese central government, again like the Soviets, dumped social services programs on municipalities, townships, and provinces. But this was accompanied by drastic reductions in the levels of funding provided by the national government. As a consequence, local governments inherited huge new responsibilities without the funds to carry them out. The central government happily concluded that it had cleaned up its budget on the assumption that local governments would somehow make up the difference. But most of China's townships and counties are broke and many cities and provinces are not much better off. As a result, the substitution of local funding for national funding has simply not taken place. At the same time, the central government was also purging the central budget of the huge losses run up by these SOEs, believing that the combination of the newly created private sector and revitalized SOEs remaining under government control would generate new wealth that could be tapped in the form of government taxes. But most of the private sector, recognizing the lack of legal and enforcement powers of the government, has managed to avoid providing health insurance at all. National financing of health care fell from more than 60% of total health care spending to less than 40%.

These catastrophic declines in health care funds come on top of a national health care system that was wholly inadequate to begin with. Paralleling the Soviet pattern, health care had been marginal in cities and almost non-existent in rural and village areas. The old pattern of subsidized clinics around the country has collapsed to the extent that perhaps 90% of the rural population has little or no access to health care, and even the cities are fortunate to be able to meet 60% of their demands. There continue to be big gaps between the provision of social services in the new economic development regions of the country and the rural hinterlands. Even more serious is the fact that, even where health care is available it is so relatively expensive that most poor people simply cannot afford it. A recent government survey found that 60% of the rural population says that they no longer feel that they can use the hospitals that are available. As a consequence, the true "cost" of the collapsed health care system is measured by the inability of people to get it. Diseases that had been all but eliminated such as small pox and tuberculosis are now apparently on the increase. And this collapsed system is facing an ominous new challenge in the form of the spread of HIV/AIDS, with an estimated 1 million victims now, and the prospect that this number will increase ten fold in the next 5-10 years.

The government was shaken out of its preoccupation with economic development by the panic created by the outbreak of the severe acute respiratory syndrome (SARS) in

2003. This panic brought home not only how totally inadequate the health care system is, but a greater sense of what enormous efforts will be needed to modernize and expand it to some acceptable level, and how extraordinarily difficult it will be to find the funds to undertake modernization. There is an urgent need for one or more systems of health care insurance. Even moderately well off people lack an adequate reserve of savings to meet even a moderate medical crisis, and there is some evidence that the very high rate of savings by Chinese is in part a reflection of the need to build up family financial reserves against an uncertain medical future. Local governments are often unwilling or unable to make the necessary contributions, especially in poorer regions. And individuals are often unwilling to pay for a service that they feel they may not immediately need. For the past two decades, local governments have gouged farmers for contributions to an almost non-existent health care system, with the money being used mostly to pay staffs (many surplus to requirements or simply non-existent), with the money being used to line officials' pockets, rather than to pay for services. Consequently, there is reluctance to join any new scheme.

The government is pinning a lot of hopes on the greater involvement of private sector investors, and many townships or cities are trying to sell off their hospitals to private investors. But such investors fear the extent of continued government involvement (most hospitals are still owned and overseen by governments), nor are they sure whether a reasonable profit can be earned except in the richest areas of the new Chinese economy. Therefore, shifting costs to the private sector will remain a slow and tricky process. Privatization has meant many improvements in services, and greater investment in equipment and training, but again, these hospitals are in wealthy parts of the country, and they are unlikely to lower costs very much elsewhere. The government policy thus seems to be to rely on an uncertain set of expectations for the private sector, meanwhile concentrating declining public funds on a smaller number of facilities. But it is clear that, for a very long time, governments at some level will have to provide health care for the masses of the rural and urban poor, and there is no private sector "out" in meeting that need.

Dealing with Centrist Governments

Looking at the enormous power exercised by totalitarian regimes, there is a tendency to feel powerless and hopeless, and to believe that no power can unseat them. This is especially true when the ultimate pathology has occurred and a tyrant has succeeded in perverting the governing laws themselves and making them the instruments of oppression. In the face of such evil, many people simply give up. Others manage to flee to other countries. Some hide out in hills and forests, and forge anti-government rebel bands. It may be that there is no power other than armed conflict that will ever break ultimate totalitarian control. Many tyrannies have been overthrown by revolution, massive civil unrest or military coups d'etat. Tragically, the result of such horribly damaging efforts is often the emergence of a new tyranny, no better than the old.

What is most extraordinary however is not how many people give up, but how many people have the courage to battle to reclaim their lives and their countries. And times do change; totalitarians and their regimes grow old and die, and younger, and hopefully better leaders emerge. Internal struggles within the ruling clique may weaken the regime and make it more vulnerable. Tyrants and their military backers may fall out. Successful counter strokes succeed. Increasingly, the globalized world has learned to

apply pressure from the outside that forces changes that could not have been achieved by local forces alone. Occasionally, external invasion threats, support for dissidents, economic sanctions, or world-wide criticism force behavioral modifications for the better. In other cases, massive social or economic failures become so destructive that even tyrants are forced to change their ways. China now is experiencing all of these pressures, and the Communist Party and the operational government has decided to “get ahead of the power curve” in the hope that its version of the semi-socialist state will earn it the long term support of Chinese citizens.

In addition, there is another major dilemma in governance: the laws can be written by perverse politicians to make almost anything legal – everything that people hate and fear about governments can be and is made mandatory by some law, and its enforcement strictly applied. Every corrupt, unfair, undemocratic, foolish, dictatorial, wasteful, anti-social, bigoted, repressive government activity can be made the law of the land, and thus make a travesty of the “rule of law”, and turn the supposed protections of the law upside down, where they become the enforcers of government destructiveness. The author suggests that this may be termed “pathological” governance.⁷ In the dictionary sense, pathology is defined as “conditions of abnormality and/or deviations from what is considered healthy or to be the assumed normal state of things.” Pathological means diseased. When applied to governments, this concept means a government that is malfunctioning and abnormal – based on some conception of what is healthy and normal. One of the diseases of pathological government is corruption. Here the test is primarily a legal one: corruption here is defined as an illegal act in violation of duty, induced by improper means. In government, it involves deriving personal and private gain from the exercise of official duty, or acts by others to induce government officials to act illegally in violation of duty. There are many ways to try and control corruption -- auditors and inspectors, financial controls, law enforcement, etc., but the fact is that few of them seem to work adequately. Protections are too weak, and motives to be corrupt are too strong. Not least of the problems is that most of the protective mechanisms are controlled by the very people who have decided to be corrupt. But even if legal corruption could somehow miraculously be eliminated, there would remain an extraordinary range of other ways in which governments are pathological. Any given failure of governments may come about from honest error, insufficient understanding or mere incompetence, and such failures are not necessarily pathological. But, in the author’s opinion, there are some common elements of governance that appear to distinguish pathological behavior:

1. If laws are broken by public officials. This is the acid test for corruption.
2. If the intent of a policy or action is pathological; that is, the deliberate sacrifice of the general well-being in favor of improper institutional advantage or narrow self-interest.
3. Where, in the face of evidence of failure or impropriety, the leadership chooses to ignore the evidence.
4. Where the leadership is incapable or unwilling to admit and correct mistakes, either to avoid negative political consequences or to conceal incompetence or corruption.

⁷ Sun, Yan *Corruption and Markets in Contemporary China*, Ithaca, N. Y., Cornell U. Press, 2004, Introduction. See also *Governance in China*, op.cit.

5. Where the rule of law is persistently and deliberately ignored, violated, or manipulated for perverse motives.

6. Where professional knowledge about “how to do it right” exists – but is not utilized or where knowledge of best management practices is ignored. Incompetence by individuals may be exhibited but not seen as pathological. After all, it is human to be a little ignorant or indecisive or lazy. But government institutions should be much closer to full competence since they can employ many talents or buy expert assistance.

7. If the body of regulations of the government has, either deliberately or incompetently become oppressive, excessive and/or unfairly, ineptly or corruptly enforced.

Where totalitarianism is not “total”, there are many ways in which such governments can be influenced and their power mitigated such as the following.

1. Avoid Centrist Concentrations of Power

A government which is highly centrist creates so much concentration of power that other elements of society cannot defend themselves and maintain their own well being. Governments cannot be trusted to avoid the improper exercise of this power. The whole design of the relationships between governments and the rest of a country’s national institutions must be structured to decentralize power within society so that the power is shared, and sufficient strength exists outside of the central government to modulate centrist power and negotiate and force compromises providing workable power balances. The U. S. constitution is based on this concept of shared power at two levels: first as between the central national government vs. the residual powers of the states; and second, in a sharing of power between the president, the congress and the courts. But nations need to go farther in sharing of power in two ways: a deliberate sharing of power between the government and private interests both individual and commercial; and a genuine sharing of government power between the national government and a state/province level of government, and also with cities and towns. Further, the role of religious, cultural, social, ethnic institutions which are critical to the well being of the public must be kept liberated from political control and intervention and free to evolve as determined by their broad public desires.

2. Deliberately Work to Create Strong Local Governments

Governments are broadly either national or local, and there is a world of knowledge and experience which supports the premise that the national government cannot and should not be the dominant level of government in the definition and delivery of local governance. Citizens will probably always feel that they are weak in dealing with the power of their government, but this concern is best addressed by designing a “service delivery” kind of government at local levels close to, and directly reachable by citizens. National governments are almost always remote, unreachable, and unrealistic in relation to on-the-ground service delivery, and China continues to resist relinquishing real political power to local governments even though it has relinquished much economic power. Such remoteness is inherently undemocratic. In order to create a strong local (i.e. state/province level or city level), it is critical to create for local governments the separate power to tax. Local authorities that are forced to rely on the national government for all or most of their money inevitably lose any real ability to control or even define the level of revenues obtained, and also lose a critical degree of control over how public funds will be spent. Funds are drained off by the national government from local resources,

laundered through both the political and bureaucratic mechanisms of centrist authority, and then returned to local governments depleted and distorted by national rather than local needs and priorities.

The national government can't be denied the funds required to meet truly national needs, but it should back off from being the sole effective tax collector. The tax system should be deliberately structured to provide a second level of revenue defined, collected and spent by local governments. Local revenues should be adequate to meet their basic program operating needs. There may well be further transfers of funds from the national to local governments, but each such transfer should be the subject of continuous negotiation between the two levels. It is critical in such negotiations that local governments speak from a position of some power and not total dependency.

Collateral to this argument is the need for local officials to have their own independent power base as defined by law. This means more than just having local officials elected, because such elections can still be over-ridden by centrist laws, regulations, and fund controls which can make local officials almost powerless. Therefore, in addition to financial liberation, local officials need legal and regulatory liberation. One of the best means of ratifying this local government independence is to shift the reality of where citizens go for decisions about important public services and controls from the national government to local governments, and then to provide deliberate means by which citizens and groups can influence the decisions of these local governments, and the quality of public program delivery. Finally, the managers and workers in local governments should be responsible only to their local elected leadership including not only the right to hire and fire, but the obligation to develop the government workforce up to an adequate level of performance.

3. Citizen Self-Sufficiency

A major lesson that has come out of the socialist experience in governance is that governments create a fatal mistake when they persuade the public to rely on governments for too many things as a substitute for individual self reliance. Where citizens are no longer able to provide for their own savings, or obtain their own housing, or create their own occupations or find their own jobs, or make important decisions in their lives without government approval, they have lost a critical element of democratic vigor. Inevitably the government that assumes these burdens will be overwhelmed by the magnitude of these needs. People expect, or at least hope for, a lot of things, including hope for constant improvement in their lives and those of their children. No government yet has proved capable of being the sole means of meeting such expectations, and they should not try. The more people are able to care for themselves, the better able governments will be to successfully perform the roles that the government truly must perform. This view runs directly counter to the philosophies of socialist governance, or even the liberal intellectual views which advocate big government. Whether a government is big or not is not critical. What is critical is whether governments function in ways that deteriorate the ability of their citizens to handle their legitimate share of their own well being.

4. Sharing Power with the Private Sector

Another failed perception is that of a purist view, most often expressed by business leaders that the government should stay entirely out of economic matters. This

is obviously impossible, and it is a view that has faded in the face of a complex modern world.

It is probably self obvious that the government is, and should be, heavily involved in matters of the national economy. What is less obvious is the equally important point that the private sector is, and should be, heavily involved in the delivery of critical public services. Here, public services are broadly defined as provision of what citizens need to conduct their lives. As the Soviet government example showed, one can obliterate the distinction between public and private sectors-- everything was government. But the real debate is and always has been how any society will allocate the responsibility for public services between its public and private sectors, recognizing that there is a very wide range of acceptable solutions to these allocation choices. Take for example the provision of higher education. Some countries create national university systems, with little latitude for private universities. Others rely mostly on private universities, with the government concerned with supporting the poor who cannot finance higher education for their children. Most countries seem to be happy with a mix in which a combination of both public and private schools emerge in patterns that are more spontaneous than planned. The point is that the private sector has assumed a high degree of responsibility for the public service of “higher education.” Similar patterns of shared responsibility can be seen in housing, transportation, food production and distribution, and many others.

5. Adequate Public Revenues

A key lesson is that the question of adequate public revenues is really dominated by the question of the adequacy of the economy -- not by the ability of the government to tax money out of the economy. For example, the Soviet Union had almost unlimited power and legal authority to suck money out of the Soviet economy, but it still failed to provide adequate public revenues to meet even basic citizen demands. This is because the Soviet economy was neither big enough nor “value added” enough to provide adequate funds for many needs, including government needs.

This reality has dominated the fate of most of the socialist governments that found themselves unable to develop their economies enough to sustain their national commitments. The compelling role of governments is to create the conditions within the country that will permit the best possible pace of economic growth, and socialist doctrine and socialist economic apparatus is crumbling where it is perceived that it does not meet this acid test.

As nations grow more prosperous, the potential for obtaining public revenues is enhanced. But it remains a highly sophisticated task to pull wealth out of the economy sufficient to fund the programs of the government without going too far and impairing the very economic growth that makes these public revenues possible in the first place.

6. Corruption Control

A deeply disturbing reality all over the world is that government institutions seem particularly vulnerable to the problems of corruption, which is not just illegal but “immoral” in the sense that it is a violation of the public trust and inherently undemocratic. And there is an even worse dilemma in many governments – some of the most vicious and criminal and dysfunctional activities can be made perfectly legal, and therefore not “corrupt” in the normal sense. In China, this issue of corruption has become so serious that it is even seen as threatening the acceptability of the current political system itself. For example, one researcher stated: While corruption was already

a major issue in the mid-1990s, by the end of the 1990s, it was unmistakably the most prominent sociopolitical issue in China. In a variety of Chinese surveys – the respondents invariably ranked corruption as the most serious issue confronting Chinese society.⁸

7. Political Competition

There are many countries where a reasonably democratic government has existed with only one political party dominant over a long period of time, and there are others where a large number of parties have not foundered the democratic environment. But a single dominant political party places the country at great risk -- of sinking into forms of tyranny both major and petty, or in a loss of competitive vigor in disciplining the leadership toward more effective and representative governance. The existence of such supposedly democratic mechanisms as elections, bi-cameral legislatures, separation of powers, an independent judiciary, and a free press are not enough to prevent the emergence of tyrannical regimes.

Many developing countries find that there are too few talented leaders in total, and far too few who can or will subject themselves to the trauma of politics. Such countries have great difficulty mounting two or more credible political parties at all, especially against incumbents who use the government authority to beat back political opposition. A party in power can buy support by dispensing public funds; concealing facts from the media and the public; using the police to coerce opposition; and keeping cases out of the courts. It is all too common to see opposition candidates threatened, harassed, denied access to the public and the media, or even arrested on questionable and largely uninvestigated charges. Under such conditions, it is understandable that talented and decent people are exceedingly reluctant to take on an entrenched regime. Thus, the existence of an effective political opposition must rise up from the whole of society, and cannot rely simply on the courage of a few who are willing to make an extraordinary commitment. Good people must be urged to compete, with promises of support and protection behind them. Businesses, courts, bureaucrats and police must try to function in the broader interests of the country, rising above the short-term rewards or punishments dealt out by those in power.

8. Citizen Participation

This imperative applies even more crucially to the citizens themselves. There are some very stark options facing a national populace. In the absence of strong countervailing means to modulate the excesses of a ruling elite, the public will likely find itself robbed, cheated, lied to, and deprived of vital elements of their lives, as victims of their own government. And if such circumstances become unbearable, without a means to remove such a government, the only option may become the horrors of a civil insurrection of the kind that is now characteristic of the contemporary world. Considered in this light, defending and supporting valid political opposition, whatever the risks, seems far the best course.

This maintenance of political opposition means that citizens have to be committed, must watch their government closely to identify its worst excesses, and to form themselves into action groups to bring back pressure on the government. This broad counter pressure is needed to defend viability of socially protecting institutions, and to expose political corruption. It must be constant and serious, because centrist

⁸ Yang., *op.cit.*

regimes, once strongly entrenched, are extraordinarily difficult to dislodge. It is right and important to say that democracy is first and foremost a state of mind, and it must become the dominant public morality. There is hope in the fact that even soldiers and police and judges and public officials are both human beings and citizens who can choose to function for the public good if pressed to do so by the common judgment of the community.

9. The Tyranny of Regulation

One of the most perplexing arenas of governance is that of public regulation, which has been a “growth industry” in almost every country. Regulation can be one of the most valuable means by which governments deploy their power, to protect the public and to advance the common good. Almost every country benefits now from proper regulation of health protection, public safety, environmental protection, and modulation of the functioning of the economy. But regulation knows few limits; there are almost no ground rules to define where regulations exceed reasonable limits and become instruments of oppression and petty tyranny. One of the most important thrusts of Chinese administrative reform has been the removal of Administrative Approvals by hundreds of government entities at all levels, because they represented a serious impediment to the vital policies of economic liberalism, and the encouragement of commercial investment and development.⁹ This type of administrative deregulation, driven by economic necessity, is also seen as a prototype for the purging of other forms of economic and social overregulation throughout Chinese society.

10. Control of the Military

Throughout history, nations have sought to maintain a strong military, and yet keep it within the control of the political leadership -- from pharaohs and kings, to presidents and legislatures. Surprisingly, governments have most often succeeded, and this tradition of civilian control is reflected in most governments today.

But the exceptions to this generalization have been many, and have, over time marked some of the worst periods in many national histories. Often, civilian and military leadership have been one and the same. In other cases, the military has overwhelmed or dominated the civilian side of government, most often with dysfunctional consequences. Sometimes, the military regards itself as a separate and equal focus of national power, or reserves to itself the role of overseers of the country, with some latent responsibility to depose what it regards as an unfit civilian government, or to meddle extensively into the functioning of the rest of government. And there is a long and mostly perverse history of military leaders using their authority over military units to overthrow the incumbent government and establish their own dictatorships.

Civilian/military relations can also be perverse in the other direction. Civilian governments have often used the military not as the national protector, but as an enforcer of their own political control, and as a means to destroy or intimidate political opposition, and a means to quash public protest.

11. The Opportunities Created by Major Social or Economic Convulsions

Massive social or economic failures, while tragic, can so discredit a regime that it loses much of its power base. Such failures can also create shifts in alliances for the ruling elite, along with splintering, weakening, and even dissolution. Such failures

⁹ See Yang, Ibid.

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increase the likelihood of massive civil unrest on a scale to cause an overthrow of the government.

When an arrogant regime is so embroiled in corruption that it becomes a national scandal, this alone may precipitate its own convulsion, and unite many forces in society to overturn the regime – by elections if possible, or by civil unrest.

CONCLUSIONS

China's version of the semi-socialist state is one in which the current political structure of top-down Party control will remain intact, but the economic structure is systematically directed toward a higher degree of market based functioning. The emphasis here is on the retention of political control which is now perceived as not requiring absolute ownership. The top 1,000 SOEs including the four largest commercial banks will remain firmly under Party control. Land ownership remains with the government, and its use is largely dictated by government strategies for its allocation. Special regulations give the government a grip on the evolution of collectives and cooperatives, which are China's version of small/intermediate sized companies.

Thus, China intends to remain an authoritarian regime, but a more subtle one, in which it retrenches its power and authority to those elements that are crucial to real control. But time is China's enemy. The population is aging rapidly and in enormous numbers. All forms of social services are far behind even basic needs in the country, and are the source of a growing tide of public outrage. Social equity is almost completely neglected, and freedom of thought or religion or the rights of minorities still tend to be viewed as threats to communist/socialist doctrine. It is not at all clear that the new economy will develop fast enough and broadly enough to generate new sources of public revenue adequate to upgrade these critical elements of Chinese society. To return to the basic question "Is there some watershed in economic evolution beyond which the socialist framework no longer survives?" the answer of Chinese leadership is definitely no. In the broadest terms, it is likely that Chinese citizens see and feel such advances that they tend to agree. Poverty in China has been remarkably reduced, even while there remain serious disparities and dysfunctions to deal with. China's leadership has accomplished so much, and the tides in the economy are so favorable that there is little likelihood of some convulsion of such a magnitude that it dislodges the current political framework.

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