

Privilege and corruption: The problems of China's socialist market economy - New Perspectives on Transition Economics: Asia

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Introduction

SEVERAL YEARS AGO, when I discussed China's problem of corruption with a simple game theoretical model (Yao 1997), I predicted that, as the GNP grew, the level of corruption and the emphasis on anti-corruption by the Chinese Communist Party (CCP) leaders would increase simultaneously. In the last several years, my prediction has been proved completely accurate, although this does not give me any satisfaction. Recently, Ms He Qinglian, a well-known Chinese political economic expert, has some good publications (He 1997, 1998) on China's political and economic problems during the economic reform. In particular she has correctly pointed out that the widespread corruption problem is generated by China's political and economic system. The general arguments and the analysis I will present in this paper will provide support to He's assessment.

In the game theoretical model in Yao (1997), my main focus was on the political relationships between three groups of individuals in the Chinese population. In this paper, however, I will analyze the corruption problem by concentrating on the basic economic mechanism of China's socialist market economy. Through the analysis of some simple economic models, we point out that the fundamental cause of corruption is privilege, which is granted and protected by the ruling class--the CCP.

II

The rest of the paper is divided into six sections. In Section II we provide some arguments as to what is the root of corruption. Some different views concerning this question are quoted, together with our comments on them. We then present our general arguments, pointing out that the presence of privilege in China's political system is the fundamental cause of implicit corruption in the short run and of explicit corruption in the long run. To make our general arguments convincing, we examine some formal economic models. A basic general equilibrium model is constructed in Section III. Then in the subsequent sections we compare the Walrasian equilibria that result in different political and economic environments. The readers will see that all the results derived from our mathematical models do support our general arguments. We conclude our discussion in Section VII.

The Root of China's Corruption

SINCE DENG XIAOPING LAUNCHED China's economic reform in the late 1970s, the Chinese economy has been growing at an exceedingly high rate, but corruption crimes have become more and more widespread and the average social wealth loss in each corruption case has become more and more substantial. Today, no one, including the Chinese Communist Party leaders, would deny that corruption has become a fatal problem of China's economy and a cancer of the Chinese society. However, with respect to the fundamental cause of the corruption problems, there exist many diversified views.

The so-called New Leftists, with Dr. Cui Zhiyuan as one of their representatives, accuse that corruption is caused by the capitalist market mechanism introduced by China's open-door policy. These leftists spare no effort to criticize the Reform. They argue that China's rapid economic development in the past 20 years actually benefitted from the solid economic foundation laid in Mao's era. On the other hand, all the bad things, such as inflation, unemployment and corruption, according to their arguments, are direct consequence of the Reform because capitalism has been introduced and people have become completely money-oriented. (Refer to, for example, the article by Xin Mao in Issue zs9809a of the online magazine "China and the World.") They advocate that China should restore Mao's socialist political and economic system, arguing that this is the only way to save China from all kinds of social troubles. (See the article by Zheng Yanshi, "On the Merits of Mao Zedong and Mao Zedong Thought--In Memory of Mao Zedong on his 105 Birthday," Issues zs9709a-zs9801a of "China and the World.")

The New Leftist scholars have not been able to find many supporters except a small number of former CCP officials (and their children and relatives) who have lost their powers or privilege during the Reform. The majority of the Chinese people, including many of the unemployed workers, have never forgotten their sufferings in Mao's era during the economic and political movements such as the Great Leap Forward and the Great Cultural Revolution. While they hate corruption and are not satisfied with the current economic situation, they have no good memory of the Mao era. After all, as can be seen from our analysis that follows, Mao cannot escape responsibility for the offense that it was he who created a political system granting and protecting privilege, which is the very root of China's corruption problems.

Some people hold the view that China's corruption problems have their root deep in the Chinese culture. They argue that the Chinese people, as well as most of their counterparts in Asian countries, have a long tradition of placing personal connections above the law, and that this is the real source of corruption. They conclude that, no matter what political system China chooses, the corruption problem can never be avoided. Many CCP officials and business bigwigs agree with this view, although they do not admit it in public. I have had discussions with several friends who are either CCP officials or very successful businessmen; all of them privately supported this view. They even argued that corruption was not too bad, and that if you could take advantage of it, it could work for you very efficiently, and that, after all, you had to accept it if you wanted to survive in China.

The culture-root view fails to realize that, while culture might affect people's social behavior, a political system together with a legal system of society could introduce a new social norm, changing people's way of thinking and their behavior, and changing culture itself gradually. In China's history, such as during the early Han Dynasty and the early Tang Dynasty, there were actually periods of rule of law, and no serious corruption crimes were recorded. On the other hand, the darkest periods in China's history are all related to a corrupt political system and to the illegal behaviors of a tiny group of bigwigs or aristocrats who were protected by a fatuous and self-indulgent ruler.

Most Chinese economists and scholars, however, correctly observe that the cause of China's current corruption problems is the lack of separation between business and government brought

about by efforts to open up the Chinese economy. Dr. Xu Cheng Gang, a lecturer at the London School of Economics, argues that, with China in the midst of economic upheaval, the government continues to allocate resources, placing officials at the center of the market and enabling them to channel profits into their own pockets. (Refer to BBC News, September 13, 2000.) The observation of Dr. Xu is of course correct. However, like most other Chinese scholars, he does not go the further step, and expose the root of corruption in China's political and economic system.

Since the CCP came into power, in order to secure their hold, their top leaders have been paying great attention to the problem of selection of "successors." A tiny percentage of their former subordinates and many children of the top CCP leaders--the princelings--have been chosen as candidates. The princelings, beginning from a young age, have enjoyed various kinds of privileges, from attending the top universities to choosing the best occupations. After a period of training and practice, many of the princelings have been promoted to heads of CCP organizations or to heads of important government departments. Today, the leading members in the CCP central committee, the top-level central government officials, the highest-ranked military officials, the heads of the provincial governments and the heads of the major state-owned enterprises, except for a very tiny percentage, are all members of this privileged class.