



Berlin, Nov.14, 2018

## **Learning from China**

### ***Guanxi Economics everywhere through the Delta Factor***

### **by political party cadres?**

Party cells in enterprises! Chinese authorities are reported to plan making the formation and institutional anchoring of party cells compulsory in every enterprise<sup>1</sup>. In view of the stunning Chinese experience with economic growth in the recent decades, model-builders of economic development should prick up their ears and have a close look at the possible role of political parties and their special logic of their cadres' behaviour in the process of economic accumulation. The following lines are not intended to provide an empirical study about that subject, but to conduct an intellectual experiment about the possible implications of such a move.

When it comes to study and reveal the enigma of the Chinese model of rapid and broad-based economic development, we find references to *guanxi* everywhere. The term means relationship in general terms, but can also imply mutual power and economic relationships over longer periods and considerable volumes of wealth, income, reputation and prestige. In contrast to the Soviet Union and its main successor country Russia in the later decade, China did not get rid of its Communist Party, but used it within a very specific mode of production. The local party secretaries and their *guanxi* networks can be identified as the main drivers of economic development after the Cultural Revolution of the late 1960s and early 1970s.

It was in 1979/80, when Deng Xiaoping uttered his famous slogan "It is not important, whether the cat is black or white; as long as it is catching mice, it's a good cat", by which he changed the traditional socialist "Planned Economy" into a "Socialist Market Economy", opening the way to use and exchange resources for money, to innovate, to open banks and enterprises (at first only at the local village level), and – finally – to become rich. Without functioning markets for consumer and capital goods, real estate, financial services and labour, economic growth would have been impossible according to our economics textbooks. How-

<sup>1</sup> See Süddeutsche Zeitung, Nov. 5, p. 15.

ever, China experienced a stupendous process of economic accumulation over the next few decades<sup>2</sup>.

There was an essential ingredient, which is often overlooked, an important remnant of the past with its Planned Economy, namely the double-headed governance of enterprises and nearly all other institutions, including the military and university institutes, with the director, who is responsible for stability, plan fulfilment and the general line of activities, and the party secretary, who was not only controlling the ideological stance of managers, workers, employees and functionaries, but who also served as change agent and as initiator and facilitator of projects. The inherent rigidity of planned economies is somewhat overcome with this flexibility mechanism. The career patterns of directors and party secretaries were, and are, quite different – long-term bureaucratic pyramid-climbing according to age and merits with regard to the institution for the director, and rather short-term success with regard to partisan projects for party cadres as persons. Party members often become directors, when they can show successful projects and ideological obedience within Leninist “democratic centralism”.

In the 1980s and 1990s, China still lacked the typical institutions of a capitalist market economy, so that the *guanxi* networks of the members, secretaries and functionaries of the omnipotent Communist Party took over the main tasks in guiding this rather successful experiment of a *Guanxi Economy* as a mode of production *sui generis*<sup>3</sup>.

This pattern lost weight with the rise of full-fledged banks and the other institutions of a modern monetary economy in China, and a certain struggle for hegemony arose between the Central Bank and the Central Committee of the Communist Party of China. However, the new insistence on the presence of party cells in enterprises and beyond makes one wonder, whether there has meanwhile been a truce between the two, and a synergetic, hybrid super-structure might have emerged in China. If China’s continued high growth rates can be attributed to these combined traits within its “Socialist Market Economy”, this model might turn out to be quite attractive - or repulsive - for other countries and for other parties beyond communist ones. Is it really a China-only constellation of pro-growth actors with party cadres involved? Or could perhaps a more general pattern be found in other countries for the fulfilment of the same functions which are here linked to the party secretary?

In the Schumpeter-Keynesian line, economic accumulation, growth and development have basically been modelled around the *duo* entrepreneur-banker<sup>4</sup>. The *banker* gives a loan *ex ni-*

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<sup>2</sup> I use the somewhat old-fashioned term accumulation in order to make clear that not more is meant here than the simple piling-up of resources for lucrative use, whether socially good or bad, ecologically correct or not, let alone sustainable or leading to the end of Mother Earth. The term “growth” implies too much “more of the same”, and “development” too many additional positive ingredients; but for convenience sake the three words are used as synonyms in the following of this essay.

<sup>3</sup> See Nitsch, Manfred / Diebel, Frank (2008): *Guanxi Economics: Confucius Meets Lenin, Keynes, and Schumpeter in Contemporary China*, in: *Intervention. European Journal of Economics and Economic Policy*, Vol. 5, No. 1, pp. 77-104.

<sup>4</sup> Schumpeter, Joseph (1912): *Theorie der wirtschaftlichen Entwicklung*, Leipzig: Duncker & Humblot (and numerous later editions and translations).

*hilo* to the “*Unternehmer (entrepreneur)*”, who is ideally without wealth of his own. This money is used for the acquisition of resources from a third person who must be ready to give up his or her control over those resources or to work for the entrepreneur, hopefully against fair remuneration. The third voice in the *trio* is called by Schumpeter the difficult-to-translate “*Wirt*”, i.e. the all-encompassing figure of the *oikonomos*, who owns, uses, manages and works with all the resources of the economy in the status-quo world. The transfer of assets and employees from the *wirt* to the entrepreneur turns the economic status-quo equilibrium into economic development. Keynes and the Monetary Keynesians have developed the model a bit further in that the modern monetary economy is shown to live in permanent economic development without the need for any state of “equilibrium”. When shares are traded at the stock exchange, the company in question is considered to be an *unternehmer* by the buyer, and a *wirt* by the seller. That is the daily accumulation process in a monetary economy, which Schumpeter characterizes as “creative destruction”.

The accumulation *trio* is turned into a *quartet*, when the *office-holder* enters the stage. He is to symbolize the guarantor of the general external conditions which govern the interactions between the entrepreneur, the banker and the *wirt*. This figure encompasses not only the police officer at the market, who makes sure that the apples are bought and sold, not stolen; It embodies also the other universal rules of law, planning, administration and regulation, which govern his bureaucratic behaviour and on which the success of the accumulation process depends in these multiple regards.

The initial question about political party cells in enterprises and other institutions leads to the question, whether there might be the need for a fifth person in our economic model in order to make up for and combine a *quintet*, when it comes to rapid and broad-based economic growth. What happens to our model, when we identify, in addition to the entrepreneur, the banker, the *wirt* and the office-holder, the speaker of the envisaged party cell, namely the party secretary, as the missing link when trying to identify the ingredients for an economic boom?

Economic growth on a broad scale comprises a myriad of projects. And in a world of unbalanced and dynamic conditions, every innovative, entrepreneurial project needs a lot of incremental changes in the control of resources by entrepreneurs, bankers, *wirte* and office-holders in their surrounding social and legal circumstances in order to be successful. The local conditions for economic growth are provided by more or less beneficial universal rules, implemented and regulated by the office-holders in charge. But the concrete circumstances of any project of economic development always require small adjustments and case-oriented cost-benefit decisions. In mathematics and in our professional *economese* jargon, the term *Delta* stands for incremental change; that is why it is suggested here that economic boom periods are typically supported by a *Delta Factor* on a broad scale, enhancing entrepreneurial economic development beyond *wirt*-like accumulation along a savings-first path.

When talking to practitioners and experts about business and cooperation projects, they always refer to the cardinal role of a certain local intermediary, who seems to be essential for their success. More often than not, he is referred to as “our man”, our “weasel” or “rat”, because he is the *Delta person* to bring the bribe to the one who makes the difference, to loosen

the unnecessary brakes, to introduce you to the important people, etc. There are obvious parallels to the role of a party secretary with similar functions. However, that kind of intermediary is costly, and very often linked to corrupt persons with little or no interest in the common good. Party members and functionaries could be a better alternative, even though there are certainly always all kinds of people in every party like in every other human group. But let's have a somewhat closer look at the specific logic of party cadres' behaviour.

Political parties are vehicles for selecting persons who are to decide about the universal rules of a society. They are comprised of members who support a certain ideology which is partisan in the sense that not everybody is supposed to agree with it and that a certain club partisanship spirit is reigning. Not only the Communist Party of China, but every political party has a certain degree of "vanguard" vision of its role in society. Party members are typically distributed all over the place, because membership is not a full-time job. However, it gives you the possibility to extend your social reach beyond family, neighbourhood and professional job. Interchange with party members, friends, comrades, colleagues, brothers and sisters increase your personal power, and you are able to participate in the selection of full- and part-time party cadres, party secretaries in particular. They try to mobilize support from their members through successful projects, and they get support from their fellow party secretaries from the local level up to the other echelons and finally the national central committee and the presidency. In a one-party state, membership also opens the path to nearly all the directors and politicians all over the country. The path for a fortunate career in terms of success in the allocation of resources for economic growth, the promotion of the common good, and the accumulation of personal wealth leads through party membership and leadership. Typically, the stage as a party secretary, with all those "weasel" functions as a facilitator for projects, is crucial for that success.

When backed by a mono-party with a certain discipline which is "refinancing" its local cadres with power and resources, a party can be compared to the financial system of a purely capitalist monetary economy. The central committee of the party can be seen as the equivalent to a central bank with its function as lender of last resort, i.e. provider of access to resources, being the apex of a pyramid of intermediaries between savers and investors. It is interesting to note that Schumpeter stresses the equivalence of quasi absolute political power and the ability to create money, when he calls his *bankier* the "ephor of the economy"<sup>5</sup>, referring to the governance structure of ancient Sparta, where an *ephor* was an important supervisor with allocating powers. As already mentioned, the early decades of Chinese growth in a *guanxi* economy can be seen in that light, and the recent moves toward the anchoring of party cadres even in fully foreign-owned companies make one wonder, whether the fifth actor, the Delta player in our Schumpeterian growth model *quintet*, should be taken more seriously beyond China.

Looking for the Delta Factor in economic development, the success stories are often told with an important role for political parties and their figureheads, such as Helmut Kohl and his Christian Democratic Union with their unification performance in post-Wall Germany, Italy, France and South Korea in various periods, and recently Lula and his Partido dos Trabalha-

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<sup>5</sup> Ibidem, p. 198.

dores in Brazil. However, the relationships between political parties and business are mostly remembered and documented under the heading of “corruption”. Every country of the world has probably seen problematic cases of collusion between business and party cadres, but the positive side of cooperation and enhancement of the common good has nearly always been ignored.

Neither in the theoretical discussions in the economics and business administration communities, nor in political science, the honourable and efficient forms of Delta-type cooperation between the five players in our quintet, if any, have been brought to light and analysed in a systematic way. The regulations for party financing by business, campaign rules and transparency obligations should perhaps be looked at in this light and eventually revised and adjusted.

For business in democratic countries with more or less “social”, not “socialist” market economies, the establishment of workers’ councils and other representations of their workforce has become quite usual, but compulsory cells of a Leninist party are, of course, a nightmare. In authoritarian regimes, however, the Chinese model might be seen as a chance to promote both growth and political “stability” through similar measures. In the 1930s, the fascist parties had taken a similar line.

Is there a way to learn from China how to enhance economic accumulation with the élan and the power of party cadres and party members without falling into the traps of corruption and dictatorial “vanguard” and “social harmony” arrogance?

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