
TWO ESSAYS ON THE MARKET ECONOMY AND DEMOCRACY

By Qiao Xinsheng

In the following two pieces, Qiao Xinsheng argues that despite the argument that democratic reforms can come only after a certain degree of economic development, which many policymakers in China still hold to, developing a market economy must go hand-in-hand with developing democracy, or there will ultimately be economic downturn and political upheaval.

1. Can Authoritarian Government Further the Development of a Market Economy?

A HISTORICAL MISCONCEPTION

In Chinese academic circles, the view has long been accepted that an authoritarian regime (*ducai*)¹ is indispensable to the development of a market economy because it requires a high degree of efficiency in policy. In recent years, I have conducted dozens of interviews in Chinese companies, including private family-owned companies, state-owned enterprises, and companies that were listed on the stock market following an enterprise restructuring process (*qiye gaizhi*).² A recurring pattern, or rule, emerged from these interviews: whenever the company chairman arrogates all power and authority to himself, his decisions are implemented smoothly and the company's productivity grows continuously; but whenever a company's decision-making processes are diversified and opinion is divided, the company's productivity gradually declines. This phenomenon has confirmed many scholars' opinions that during periods of social transition, economic development requires greater efficiency in decision making, and more efficient decision making calls for authoritarian rule. This is also the economic rationale for the factory manager responsibility system enshrined in the Law on Industrial Enterprises Owned by the Whole People (1988).³

Economic development in other countries would seem to confirm the "rule" that authoritarian rule is conducive to the development of a market economy: during Pinochet's dictatorship, Chile's economy experienced rapid economic growth; during Ferdinand Marcos' regime, the Philippines became Asia's economic development superstar; and under Suharto's rule, Indonesia experienced rapid economic growth. These examples would seem to demonstrate that only an authoritarian regime can achieve rapid economic growth. Moreover, although these countries have continued to experience economic development under democratic governments, growth is not nearly as fast as it was during authoritarian rule. Thus, the argument goes that during a period of social transition, a country must choose authoritarian rule, because a vigorous push toward democracy would slow down economic development. The ferocious feuding between political parties could not only bring economic development to a standstill, but even cause economic regression.

The unspoken premise of this argument for authoritarian government is to "give priority to efficiency with due consideration to equity."⁴ Only when economic development has reached a certain stage can one begin to consider building a democratic political system.

This historical misconception has gained more and more recognition among scholars and academics in China, a country that is currently in transition. Indeed, historical experience and current realities would seem to provide ample evidence for the argument that only a strong authoritarian regime can effectively promote economic development and enhancing private wealth.

AUTHORITARIAN RULE IS THE NATURAL ENEMY OF MARKET ECONOMY DEVELOPMENT

It is true that in a country's process of economic development, authoritarian rule may be conducive to rapid economic development during specific historical stages. The same is true of a business enterprise. During the initial stage of a company's life, the concentration of decision-making powers in the hands of a single or a small number of decision makers enables them to respond rapidly and flexibly to changes in the market and to run the company from a position of strength.

But if we apply a phenomenon that is restricted to a certain stage in history to all social-historical development, and take the argument that authoritarian government is conducive to the development of a market economy as a universal truth, we are betraying a fundamental principle of scholarship and making a serious error in logic. To seize opportunities in battle and secure victory in wartime, nations at war must implement a wartime decision-making system and concentrate power in the fewest hands possible. The logic of the market economy, however, calls for as much competition as possible, which means spreading society's resources across different market players and letting them determine pricing through competition, thus bringing about the most rational deployment of resources. Consequently, authoritarian rule not only runs counter to the laws of a market economy but is actually the natural enemy of market economy development. Once a country has genuinely established a market economy, it cannot have an authoritarian regime. On the contrary, it must develop democracy,

Investors play cards in front of an electronic board showing stock information at a brokerage house in Nanjing, Jiangsu Province, February 4, 2008. Photo credits: REUTERS/Sean Yong.

证券名称	最新	买入	卖出	今开	现	手	证券名称	最新	买入	卖出	今开	现	手	证券名称	最新	买入	卖出	今开	现	手	证券名称	最新	买入	卖出	今开	现	手	
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基金开元	2814	2812	2814	2809	2809	2809	上证B指	50453	000	000	50382	000	4488	地产指数	0881	000	000	00188	2460	000	000	00244	2427	000	000	000	000	000
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基金聚宝	2557	2557	2558	2546	2546	2546	上证50	60483	000	000	58585	000	22748	IT指数	0300	000	000	03629	0546	000	000	00024	2023	000	000	000	000	000
基金聚丰	2345	2345	2346	2346	2346	2346	中小综指	56546	000	000	53541	000	45884	航空指数	05846	000	000	05076	3139	000	000	00058	2023	000	000	000	000	000
基金天元	2539	2538	2539	2548	2548	2548	上证综指	43751	000	000	43053	000	25075	金融指数	03438	000	000	02842	4274	000	000	00051	2023	000	000	000	000	000
基金同盛	2463	2463	2464	2053	2053	2053	上证B指	49458	000	000	49118	000	24184	地产指数	24057	000	000	23652	1718	000	000	00055	2023	000	000	000	000	000
基金鸿飞	329	329	330	349	349	349	上证A指	68113	000	000	64508	000	9380	服务指数	0268	000	000	02046	0567	000	000	00052	2023	000	000	000	000	000
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基金天华	2095	2095	2095	2095	2095	2095	上证综指	43751	000	000	43053	000	67074	基金指数	49184	000	000	48784	14683	000	000	00049	2023	000	000	000	000	000
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基金仁和	2594	2593	2594	2594	2594	2594	上证B指	49458	000	000	49118	000	26002	巨潮100	55249	000	000	55099	69675	000	000	00041	2023	000	000	000	000	000
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because this is the only way to secure a true market economy and ensure that society's wealth is shared.

When a state relies on authoritarian rule to concentrate the nation's resources in the hands of a small minority, violent upheaval will sooner or later unravel the entire fabric of society. Impoverished people, robbed of their earnings and even of the opportunity to earn a decent living, are bound to resort to extreme measures to change the existing order. The entire society will plunge into chaos, descending into a violent struggle for wealth. According to classical Marxist theory, when the entirety of a society's wealth is concentrated in the hands of a small minority of capital owners, millions will respond to the political call "Proletarians Unite!" If this scenario develops, a rising tide of social unrest will lead to a cessation of wealth-creation, to a redistribution of the nation's resources to a different social class, and in all likelihood, to a change of government.

Some scholars see the emergence of a society characterized by "olive-shaped" income-distribution (a bulging middle class) and stability. I am afraid that they are putting the cart before the horse with this kind of thinking, however. A new middle-class would not only not allow an authoritarian regime to hold onto power over the long term, but would in all likelihood become the strongest impetus for the overthrow of authoritarian rule: members of such a middle class would take to the streets with disadvantaged social and economic groups (*ruoshi qunti*) in a movement for democratic rights. In other words, marginalized and disadvantaged groups would demand a share in the material benefits of society, and the propertied middle class would demand political rights. This is why in the Philippines, an example of an authoritarian regime, marginalized groups took to the streets to protest corruption, with the middle class following right behind them, demanding political rights. Street protests led to parliamentary struggle, and in the end Ferdinand Marcos was deposed. From this we can see that an authoritarian regime that develops a market economy actually digs its own grave. The middle class not only has the economic foundation to protect itself against economic sanctions and reprisals the regime may impose to stay in power, but because its members are well-educated, it can also enlist the support of the media to organize and launch marginalized

groups into the streets, and convert the politics of the street into a parliamentary struggle for democracy.

Scholars and academics who have pinned their hopes on authoritarian rule producing a genuine market economy are either distorting history to accommodate the regime, or have concluded that a phenomenon restricted to a particular historical stage has universal validity. Either way, they have violated the fundamental postulates of scholarly research.

DEVELOPING DEMOCRACY AND DEVELOPING A MARKET ECONOMY ARE EQUALLY IMPORTANT

Developing democracy and developing a market economy are equally important. When the masses have no power to make their own decisions, there can be no market economy. When citizens are excluded from decision-making processes, the government's macro-regulatory policies can create serious errors. When a handful of self-appointed "supreme rulers" see the centralization of power as the most efficient policymaking mechanism and arrogantly do as they please, they fail to realize that this approach to economic development is not only short-lived but also inherently risky. Because it is vulnerable to large-scale corruption, this kind of economic reform is neither sustainable nor legitimate. Once this reform reaches a certain stage, market mechanisms are likely to malfunction, causing fissures in the political structure.

The facts prove that when the masses are excluded from the reform policymaking process, corruption becomes a critical problem. The reason why the reform of China's state-owned enterprises produced so many corrupt officials is that the executive leadership of the reform is concentrated in the hands of a small number of officials. On the surface, checks and balances are built into companies' decision-making systems, but in reality a small number of people at the top wield the power to make arbitrary and peremptory decisions. While a small number of policymakers are developing the economy under the banner of economic reform, they are at the same time converting state-owned assets into their private property.⁵ A series of major cases of corruption in China's state-owned commercial banks in

recent years amply demonstrates that this type of reform is no more than a wealth redistribution scheme that does not contribute to the national welfare and is not sustainable in the long run. Having concentrated all of society's wealth in the hands of a minority, policy-makers hope that the mechanisms of the market economy will soon cease to play any role. As an institutionalized system of monopolized management replaces the planned economy in the allocation of material assets, society is divided into winners (those with vested interests in the system) and losers (those who are victimized by the system). The majority of those who have been excluded from the political decision-making process may seek opportunities to vent their anger and rediscover their own value in society through extreme revolutionary means that could destroy the social structure.

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All around the world, authoritarianism manifests itself in two ways: first, in the allocation of capital resources, which might be termed economic authoritarianism (*jingji ducai*); and, second, in political authoritarian rule. It cannot be denied that in capitalist countries, "authoritarian" control is generally exerted over the allocation of capital resources, in that a small number of investors control huge amounts of capital and use this capital to employ wage labor and create surplus value. But because capitalist countries are generally democratic, they aim to use democratic means to diminish the deleterious effects of the dictatorship of capital (*ziben ducai*). Citizens whose sole economic asset in the competitive market is their labor at least have the ballot, which empowers them to express their views. To obtain citizens' votes, politicians are, under ordinary circumstances, forced to compel the owners of capital to loosen their hold on decision-making processes and to give up part of their share of the nation's wealth. For example, in many democratic countries, left-wing political parties tend to increase taxes on the wealthy in order to establish social security and welfare systems that meet the basic subsistence

needs of the marginalized and impoverished. Right-wing political parties, on the other hand, may be unwilling to encroach on fundamental vested interests, but they reduce taxes to make the country's businesses more competitive and create more wealth for everyone, including the poor. Consequently, the dictatorship of capital needs to be checked by political democracy, while democracy provides external guarantees for economic development. Any attempt to rely on political and economic authoritarianism to achieve rapid economic development will inevitably result in the covering up of social problems, present a false image of growing economic prosperity, and ultimately prove to be an unsustainable path of economic development.

History has shown time and again that whenever economic authoritarianism is coupled with political authoritarianism, a country's economy will eventually collapse.

The economy of China, a country in the midst of social transformation, remains in many respects uniquely Chinese. For example, a significant portion of market players are either state-owned enterprises or state-owned enterprises that have been converted into shareholding enterprises. Under the Chinese Constitution, these enterprises' assets are owned by the whole population, but under existing legislation, they have become the property of the state. In accordance with the Company Law,⁶ the government has been transferring state-owned assets to a small number of corporate decision makers and managers of state-owned assets, who have invariably converted these assets into private assets for their own personal gain. Therefore, unless democracy is established in China soon, alongside this economic authoritarianism, all the hard-earned wealth of the Chinese people will become the private property of a small minority. If this situation is allowed to develop further, a violent revolution will ultimately threaten the ruling Party's hold on power. Even arguing from the premise that the ruling Party ought to stay in power, it is still necessary to accelerate the construction of democratic politics in tandem with the development of the nation's economy. The theory that authoritarian government is conducive to the development of a market economy is a historical misconception. Trumpeted by a small number of academics, this misguided theory has already been translated into a series of government policies that have led to deep-

rooted problems. Consequently, in order to correct all sorts of problems brought about by the market economy, and to enable the marginalized disadvantaged groups that fail to benefit from market competition to exercise their right to free expression within the framework of a democratic society, political democracy must be developed alongside a market economy.

The minority of academics who argue that decision-making mechanisms at the micro, company-level are applicable at the macro-national level are seriously lacking in scholarly rigor. One fundamental principle of ownership rights systems is that individuals can use their own property as they see fit without interference from authoritarian rule. Clear-cut property rights ensure that any participant in the market may own, use, and dispose of his or her private property, and profit from it. Among the greatest achievements of human civilization are the employment of labor by capital, the protection of property rights in various countries, the establishment of rational systems of capital resource allocation, and the protection of the legal rights and interests of employers and employees in business enterprises. The Labor Law⁷ and Labor Contract Law,⁸ for example, protect the rights and interests of workers, and encourage them to participate under clearly defined conditions in their enterprises' decision-making processes. Legislation of this sort provides an institutional arrangement that conforms to traditional concepts of property ownership, contributes to the rational use of wealth in a modern society, promotes social responsibility within business enterprises, and protects public interests. Academics who see only the high degree of efficiency of authoritarian management, ignore democratic decision-making processes within enterprises, and proceed to argue that authoritarian management ought to be applied to the entire society, are simply looking for a pretext for authoritarian government. This kind of "scholarly reasoning" is mere nonsense.

USING POLITICAL DEMOCRACY AS A CHECK AND BALANCE ON ECONOMIC AUTHORITARIANISM

The construction of democratic politics in contemporary China needs to be accelerated not so much for the redistribution of political power—the Chinese Consti-

tution already enshrines the principle that the people are the sovereign masters of the nation—but for the protection of citizens' legitimate property rights. Unless the construction of democratic politics is accelerated, unless democracy is used to provide checks and balances to economic authoritarianism, unless the reform of the administrative system is accelerated, and unless a new state-owned assets supervision system is established, the wealth of the Chinese people will be completely depleted. In fact, the amount of public funds spent by China's decision makers on themselves has been steadily increasing. More than a third of fiscal revenues are spent on "official expenses" to pay for foreign travel, education and training, the purchase of new private cars, and the construction of office buildings and houses for officials at all levels. If the problem of economic authoritarianism is not solved through democratic politics and the government tries to strengthen authoritarian control to develop the economy, social unrest is bound to escalate and the goal of sustainable economic development will be difficult to achieve.

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Although authoritarian regimes are authoritarian in the political sphere, in the economic sphere they give investors a free hand to make their own decisions, stimulating the economy on a temporary basis. Because most investors have close ties with government officials in countries ruled by authoritarian regimes, and have formed large vested-interest groups with them, social polarization is an inevitable by-product of economic development. Here, a small minority is extremely wealthy and the great majority of the population lives in extreme poverty. Therefore, once these countries' economies reach a certain level of development, revolutionary movements inevitably begin to stir. A popular uprising then topples the regime, the wealthy entrepreneurs affiliated to the ruling clique are either thrown in prison or go into

exile, and the national economy goes into a tailspin. Thus, economic development under authoritarian government is an abnormal and temporary social phenomenon. This type of market economy is not only unsustainable, but also prone to foment revolution.

Thus, in tandem with the development of the economy, government policymakers must make a vigorous effort to develop democratic politics and redistribute political power to reduce all sorts of social ills brought about by economic authoritarianism. Moreover, it is necessary to establish a stable and normalized democratic political system that is geared toward economic development and is capable of preventing collusion between power

and capital and the emergence of “crony capitalism.” The minority of vested interests that attribute China’s accumulated wealth to the existing system are simply misleading public opinion. They are unwilling to face up squarely to deep-seated social contradictions, and they fail to see the urgent need for social transformation. The small minority of scholars and academics who think that the status quo is rational have perverted philosophical propositions into explanations for economic and political phenomena. They even want to establish legal norms on the basis of this faulty reasoning, and write irrational phenomena into law. This is an extremely worrisome trend.

2. Can a Market Economy Engender Democracy?

Several different views on China’s democratic development process are worth discussing. Some people think that a market economy requires a concentration of power, and consequently that priority ought to be given to developing a market economy. In their view, once the market economy is mature, democratic politics can be developed. They argue that the reform strategy ought to “give priority to efficiency with due consideration to equity” and that once the market economy has reached a certain level of development, democratic politics can be developed to achieve social equity. According to another opinion, “The market economy is a form of economic democracy, a democratic method, and democratic arrangement of economic life. Given that politics is the concentrated expression of economics, economic democracy will, out of necessity, demand and eventually advance toward political democracy. That is to say, the socialist market economy is a real foundation for the construction of socialist democracy.”⁹

The point of view cited above might be called a sequential theory: first develop a market economy, and then develop political democracy. Another point of view is a cause-and-effect theory: a developed market economy “will of necessity demand for and eventually advance toward political democracy.” That the first theory is mistaken is self-evident, because it posits an artificial

separation between the market economy and political democracy, portraying the market economy as a natural economic mechanism that does not need the support of democracy. The second theory is deceptive. Those who hold this view think that as long as a market economy is developed, there will be an inevitable progression toward political democracy. This is simply a case of jumping to an unwarranted conclusion.

THE MARKET ECONOMY IS FORMED GRADUALLY THROUGH FREE COMPETITION WITH RESPECT FOR INDIVIDUAL PROPERTY RIGHTS

First of all, a market economy is formed gradually through free competition, based on respect for citizens’ private property rights. European history shows that if citizens’ private property rights had not been respected, and the king’s arbitrary powers not checked, the market economy could not have come into being. Democratic rights were therefore a precondition for a genuine market economy. In 1214, King John returned to England from France after he and his allies were defeated by King Philip of France. Because the crown coffers were being quickly depleted, the king demanded a tax from his barons. But his demand was met with vociferous opposition, and in 1215 the king was forced to put his

seal on the Magna Carta. This epochal constitutional charter stipulated that the king had no right to levy or raise taxes without the consent of the barons and ministers, and also prohibited him from arresting and imprisoning his subjects without due process of law. Struggles—sometimes violent—over property rights between the monarchy and noblemen, and later Parliament, ultimately lead to the establishment of the Bill of Rights in 1689, which stated that the people as represented by the Parliament had certain inviolable property, civil, and political rights. Clearly, the English nation paid a high price in the struggle for the property rights that made the establishment of the market economy possible in the first place. The market economy was able to flourish precisely because state property was separated from the king's property, while an elected parliament exercised control over state property and government expenditure. Had it not been for this struggle, the Magna Carta, and the Bill of Rights, the market economy would not have come into being. The assumption that the market economy promotes democracy is, therefore, a historical misconception. Without a democratic political system and a system of property rights protection, a genuinely free market economy cannot come into existence.

Secondly, a market economy is a system in which assets are distributed through the fluctuation of prices. In this system there exists an inherent flaw, namely that a minority of individuals can arbitrarily make decisions that affect many. Under market economy conditions, individuals have the freedom to dispose of their property as they see fit, but a minority of wealthy investors with controlling interests in companies can impose their will on large numbers of people. Although company laws in various countries underscore “corporate social responsibility” and define the reciprocal rights of management and labor, corporate voting systems give big investors ultimate control over the allocation of assets within companies. As a result, at the micro-structural level of the market economy—that is, within companies—there is no democracy. On the contrary, a small minority of major shareholders make all the decisions.

DEMOCRACY IS NOT AN INEVITABLE PRODUCT OF A MARKET ECONOMY

Economic history shows that a market economy can lead to a concentration of capital in the hands of a few and polarization of rich and poor. When all of society's resources are concentrated in the hands of a small minority, the market mechanism cannot function effectively and a market economy can degenerate from freely competitive capitalism into monopolistic capitalism. In a society operating under monopolistic capitalism, capital owners not only control the economic lifelines of the country, but also its political destiny. They buy presidential candidates with campaign contributions, exert control over the news media through advertising, set up and fund various non-governmental organizations to peddle their political ideologies, and even fund opposition organizations to change governments they do not like. Accordingly, once a market economy enters a monopolistic stage, a transition to democracy is not only unlikely, but in fact an *anti*-democratic trend is probable. Wealthy owners of capital fund opposition parties to subvert the political power of the state and even adopt a pseudo-democratic facade (establishing anti-government organizations and fomenting street demonstrations by opposition parties) to subvert a legally constituted government.

In and of itself, a market economy lacks the necessary elements to develop the sprouts of democracy. The small number of people who equate democratic decision-making within corporations with political democracy are confusing or lumping together political rights, social rights, and commercial rights. Because a market economy is vulnerable to corruption, countries that are developing a market economy must accelerate the construction of democratic politics in order to eliminate irrational factors inherent in the market economy and redress social problems brought about by them. For example, democracy gives constitutionally-guaranteed voting rights to disadvantaged groups that suffer from the effects of economic polarization and social marginalization, ensuring that political candidates will at least listen to their opinions and make a commitment to take practical measures to improve their living conditions. To win elections, political candidates must take their problems seriously and

formulate policies to reduce poverty and rising social inequality. Congressmen or Members of Parliament who wish to be reelected also have to propose laws to restrict monopolistic practices. All this helps reduce social problems and the gap between rich and poor. Taxes and various legislative measures can also be used to redistribute wealth.

Failing to understand the relationship between a market economy and democracy, and then expecting that democracy will follow on the heels of a developed market economy, is as futile as climbing a tree to catch a fish. A market economy certainly needs democracy, but democracy has never been a freebie that comes with the market economy. On the contrary, because a developing market economy is vulnerable to social dislocations, a major effort to foster a democracy that can redress its shortcomings is imperative.

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Of course, being part of the superstructure, democratic systems are subject to productive forces and production relations. The conditions of a country's economic development do, to a certain extent, exert an influence on the development of democracy. In a number of poor countries in Southeast Asia, electoral campaigns have become exchanges of favors for mutual gain: candidates obtain votes by giving away cows as an incentive to voters. This is naked money democracy, a type of vote-buying. But to local voters a cow is much better than big and empty political slogans. When politicians are elected to lead these countries, they routinely practice large-scale corruption and misuse public resources for private gain. However, when they do, the electorate votes them out of office, or resorts to extreme measures to depose them. Historically, all over the world, the paths to democracy were rough and uneven at first, but they became smoother as time progressed and democratic systems matured. Guns and money played a central role in the initial stage of the development of most democratic systems, but in modern democracies money and the political ads they buy play the critical role. Even

though money plays a less conspicuous function as modern democracies develop, the amounts spent are actually greater.

Democracy is fundamentally an exchange of benefits. In the process of building democracy, every country has to pay due regard to balancing the interests of different social strata and improving electoral processes to protect the interests of disadvantaged minorities. Both unicameral democracies and bicameral political systems are designed to safeguard citizens' fundamental constitutional rights. The market economy has no direct bearing on this. In other words, a market economy merely provides a material foundation for the development of democracy. Democracy follows its own rules and, based on the principle of "one vote per person," establishes the legal framework necessary for the effective functioning of a market economy.

A bad market economy not only brings about a concentration of capital resources in the hands of a small minority, but can also lead to a situation in which those resources are used to destroy the democratic system and establish a system of crony capitalism. When discussing the relationship between the market economy and democracy we should, therefore, not reverse cause and effect and take it as a given that the former engenders the latter. Neither, however, should we exaggerate the function of democracy. Under a democratic system, the market economy is still vulnerable to corruption. Although this is partly due to problems in the design of the institution, the moral and intellectual quality (*suzhi*)¹⁰ of a country's citizenry is a far more serious problem. If a country's citizens are of high quality, they will not give their votes out of immediate self-interest to opportunistic politicians. Rather, they will carefully examine candidates' political platforms and analyze whether their political proposals will benefit them. Having carefully weighed the costs and benefits of competing policy options, voters in free elections elect a candidate who pledges to stick to his political platform and who is not likely to betray his constituency. In this sense, open elections in modern democracies are not only living advertisements for political positions, but are also an indispensable mechanism of political accountability to the electorate. A candidate who makes a campaign promise to raise corporate taxes will win the support of



Chinese tax workers attend a ceremony to join the Communist Party. Photo credits: REUTERS/Guang Niu.

voters whose livelihood is threatened by monopolistic corporations. But if after the election the candidate turns out to have been two-faced, having said one thing and done another, voters will not vote for him again. Elections allow voters to change not only the country's political framework, but also the speed of the market economy and even the direction the market is taking.

DEVELOP DEMOCRACY AND IMPROVE THE MARKET ECONOMY

Office-holding politicians must actively build democracy and improve the market economy instead of passively expecting that once the market economy is developed, a

democratic system will be spontaneously produced.

The history of market economy development in China shows that, in terms of allocation of public resources in education, health, and housing, reforms have been invariably beset by a growing host of problems. The main reason for these problems is that during the process of developing a market economy, we have failed to build democracy and place effective restraints on the expansion of administrative power in these three areas. As a result, citizens' rights have been eroded and the market economy has been seriously disrupted. The key to solving these problems is not to develop the market economy but to develop democratic politics and guarantee the basic rights of citizens by placing restraints on administrative power—particularly on the power of administrative agencies to allocate educational resources, lease land, and allocate health care expenditures. The underlying cause of skyrocketing prices in China's housing market lies not so much in the market as in the lack of effective limits

on the power of local governments. In order to increase tax revenues, local governments routinely ignore central government directives and find ways to raise real estate prices. In fact, the solution to this problem is very simple: direct elections of top city officials in medium and large-sized cities would enable marginalized city residents, who are unable to afford exorbitant housing costs, to use the power of the ballot to force city officials to change course. City officials who raise housing prices to make their "political achievements" (*zhengji*) appear more outstanding would be knocked off their high horses. Unfortunately, skyrocketing housing prices are currently inducing many city residents to spend everything they own on buying a home or taking out a mortgage to speculate in

the real estate market. As such, future government efforts to implement real-estate macro-regulation at the local level may not only be obstructed by property developers, but may also come under pressure from home buyers. There is a real risk that macro-regulatory policies to curb the overheating real estate sector will become increasingly ineffective, and will ultimately prove completely useless. Therefore, unless the construction of a democratic political system is accelerated and democratic means are used to control unbridled real estate speculation, China's real estate market may well turn out to be the spark that lights the fuse of revolution.

Policymakers must not wait until social unrest ensues to carry out democratic reforms. If they do, calm and dispassionate debate is likely to give way to violent street protests, and all of society will pay a very heavy price.

In the past, there was much about democracy that we misunderstood. We thought that in a democracy the minority is subordinate to the majority, and failed to see that democracy follows its own laws. We anchored our hopes on the promotion of democratic reform through the market economy and failed to see democracy's corrective function vis-à-vis the market economy. Nor did we see the dialectical relationship between democratic politics and the market economy. A small number of policymakers have pinned their hopes on being able, on their own, to build a democracy by developing the market. In fact, however, the relationship between democracy and the market economy is neither a sequential relationship nor a simple cause-and-effect relationship. The effect of democratic politics is to lay a foundation for a market economy. To a certain extent, a market economy will also demand that democratic politics be developed to redress deficiencies in the market mechanism.

In a nutshell, we must leave to the market what belongs to the market and to democracy what belongs to democracy. A bad market economy can impede the development of democracy and a sound democratic system can to some degree stop the market economy

from running rampant. The plethora of problems China faces as it develops a market economy indicates that unless we pool our ideas and work together to develop democratic politics, China's market economy will in all likelihood become a bad market economy. And a bad market economy would inevitably hinder the development of democratic politics. Therefore, to prevent the Chinese economy from taking a wrong turn, we must accelerate the establishment of democratic politics. Only then will every member of society have a share of its wealth.

If policymakers attempt to rely on the market economy's self-regulatory function to achieve a balanced distribution of wealth, it will follow that as the market economy is developed, society's wealth will become increasingly concentrated in the hands of a few. Policymakers must not wait until social unrest ensues to carry out democratic reforms. If they do, calm and dispassionate debate is likely to give way to violent street protests, and all of society will pay a very heavy price. The market economy requires democracy, but democracy cannot emerge spontaneously from the market economy. Democracy has to be fought for by citizens, and requires a political consensus throughout society. This consensus then has to be translated into national legislation that protects citizens' property rights and places limits on the organs of state power.

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Notes

1. Translator's note: *Ducaï* has traditionally been translated as "dictatorship" or "despotism," but it is increasingly being translated by the less charged terms "authoritarian government" or "authoritarian regime." I translate Qiao Xincheng's use of *ducai* as "authoritarian regime(s)" or

- “authoritarian rule” because economists and political scientists who argue that strong-arm states such as Pinochet’s Chile, Marcos’ Philippines, and Suhartos Indonesia are best able to further the development of a market economy have generally avoided the term “dictatorship” in favor of “authoritarianism” and “authoritarian government.”
2. *Qiye gaizhi* (enterprise restructuring) is sometimes simply called *gaizhi*, a vague term that literally means “changing the system” and covers not only privatization but also listing on the stock market and the restructuring of internal and external governance. See Yang Yao, “Privatising the small SOEs,” in *China’s Third Economic Transformation: The Rise of the Private Economy*, ed. Ross Garnaut and Ligang Song (Routledge: 2004), 91.
 3. Law on Industrial Enterprises Owned by the Whole People of the People’s Republic of China [全民所有制工业企业法], issued by Order No. 3 of the President of the People’s Republic of China, promulgated April 13, 1988, and effective August 1, 1988, Art. 7. Article 7 states: “The enterprise shall implement a system whereby the factory director (manager) assumes overall responsibility for the work of the enterprise.” Available at: http://www.zyrm.com/com/fg/11_018.html.
 4. In his report to the 16th Party Congress in November 2002, Jiang Zemin said, “We should give priority to efficiency with due consideration to fairness, earnestly implementing the distribution policy while advocating the spirit of devotion and guarding against an excessive disparity in income while opposing equalitarianism.” An English translation is available at <http://russian.china.org.cn/english/features/49007.htm>.
 5. Sophie Röell argued a decade ago that in China, company listings in stock exchanges were cash-raising exercises with no real reduction in state authority or meaningful privatization. Although Chinese firms sold as much as 49 percent of their assets on the stock markets, the boards of directors usually remained in the hands of government officials, and companies’ annual financial statements were routinely falsified. Recently, Lowell Dittmer and Guoli Liu have argued that during the process of reforming state-owned enterprises, “opportunities become available for unsanctioned transfers of state assets into the private hands of government officials in charge of them.” This process, which Dittmer and Liu call “capital corruption,” differs from cash corruption in that it is “aimed at seizing production capital which will bring in more money, rather than merely spending money as cash corruption does.” Sophie Röell, “Breaking the Taboo,” *Euromoney* (February 1996): 80–83; Lowell Dittmer and Guoli Liu, *China’s Deep Reform: Domestic Politics in Transition* (Rowman & Littlefield, 2006), 453.
 6. People’s Republic of China Company Law [中华人民共和国公司法], promulgated October 27, 2005, effective January 1, 2006.
 7. Labor Law of the People’s Republic of China [中华人民共和国劳动法], issued at the Eighth Meeting of the Standing Committee of the Eighth National People’s Congress, promulgated July 5, 1994, and effective January 1, 1995.
 8. Labor Contract Law of the People’s Republic of China [中华人民共和国劳动合同法], issued at the 28th Session of the Standing Committee of the 10th National People’s Congress, promulgated June 29, 2007, and effective January 1, 2008.
 9. “Ren zhen tuijin Zhongguo tese shuihuizhuyi minzhu zhengzhi” [Earnestly Promote Socialist Democratic Politics With Chinese Characteristics], *Study Times* [Xuexi Shibao], September 11, 2007, published by the Central Party School.
 10. Andrew Kipnis and Vanessa Fong have argued that the multivalent and frequently used term *suzhi*, which is roughly equivalent to the English word “quality,” has become central to contemporary government and society in China. It represents a kind of ideal personhood associated with urban modernity and is used to justify all manner of social and political hierarchies, with people of high *suzhi* being seen as deserving more income, power, and status than people of low *suzhi*. See Andrew Kipnis, “Suzhi: A Keyword Approach,” *The China Quarterly* 186 (2006): 295–313; Vanessa Fong, “Morality, Cosmopolitanism, or Academic Attainment? Discourses on ‘Quality’ and Urban Chinese-Only-Children’s Claims to Ideal Personhood,” *City & Society* 19 No. 1 (June 2007): 86–113.