

Parties, State Capacity and Economic Development: the Changing Government-Market Relationship

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Abstract. Political parties, as political organisations, always represent and aim to achieve the interests of a particular class, base or group. The party system, as a legitimate way for political parties to assume, participate in and influence State power, exhibits rich diversity depending on the specific conditions of each country. Meanwhile, as an essential part of the national system, the ruling political Party and its party system play a central role in the country's economic development. In the current context, a single political party system and its economic policies can no longer adapt to the trends of political and economic globalisation and multipolarity, and the comparison of governing experiences and laws among political parties and the exploration of governing laws have become a top priority in the pursuit of national development. In this context, based on the fact that China and the United States which together have global influence, this paper first critically reviews the theoretical explanations of studies on China's economic development and some studies based on China's practical characteristics, and proposes the importance of political parties and state capacity. The paper then summarises and proposes that the institutional characteristics of political party organisations and their governing capacity are the institutional basis of state capacity to promote economic development and market formation and development, and explains the above ideas from the perspective of market formation and development, discussing future challenges and suggestions for improvement.

Keywords: Party; government - market relations; institutional formation.

1. Introduction

The close link between ruling political parties and economic development has been well-documented in historical studies. As Huntington points out, political parties are the main instrument of political institutionalisation and effective social mobilisation, i.e. the basis of state capacity [1].

In contrast to the problems of inadequate social mobilisation, weak bureaucracy and insufficient state capacity that prevail in most developing countries [2], China's sustained and rapid economic growth over the past 40 years of reform and opening up has resulted in remarkable achievements. In contrast to other transition economies, China's economic development has also benefited from solid state capacity, rooted in the continuation and strengthening of the party and state system. China's own scholars emphasise the party system as an essential source of institutional effectiveness, arguing that the combined effect of three systems - the economic system of market-based competition among different economic agents under state ownership of primary resources and multiple ownership, the institutional system of comprehensive leadership by the CPC, and the unitary centralised administrative system - has supported China's efficient and rapid development and guaranteed the demonstration of China's governance strengths [3]. In addition, unlike developed countries, China, as an economy in transition and a developing country, faces a series of challenges, such as how to reform the planned economic system and how to establish a market system, all of which cannot be achieved without the reforms and debugging of political parties and the State.

Scholars around the world have been exploring the reasons behind China's economic growth miracle, and have put forward different explanations from different theoretical perspectives. This paper tries to focus on political parties and party-driven market formation and development, take the "party-market" relationship in the United States as a reference point, reintegrate some of the existing



explanations, analyse how China handles the relationship between political parties and markets, and put forward some suggestions for the challenges that may be encountered in the future. It also offers some suggestions for possible future challenges.

2. Political Parties as a Foundational Institution

The functioning of markets requires a capable but constrained State. Neo-institutionalists emphasise the "small state", which requires minimal state intervention in the market beyond the protection of property rights and the provision of essential public services [4]. Meanwhile, the lack of state capacity can lead to corruption, predation or inaction on the part of government officials, as summarised by Barry R. Weingast as the fundamental political paradox of the economic system, whereby economic development requires a strong state capacity as a foundation. However, that capacity must be constrained so that it is not used to prey on society [5].

The United States uses a two-party system to constrain the ability of the ruling Party to use the State. Commitments to the electorate, interest group influence and ideological preferences make differences in economic policy between the two parties manageable, and the parties can fulfil most of their policy commitments. However, the differences between the two parties are not absolute. The fulfilment of more economic promises comes from the control of more institutions. Thus, unless the president's Party also controls at least one house of Congress, economic preferences are necessarily constrained by the other Party. Economic and budgetary issues, on the other hand, can provide impetus for potential policy solutions and reduce party differences [6].

In contrast, China's one-party dictatorship system enhances the efficiency and intensity of policy implementation while bringing with it demands for a greater degree of democratisation, institutionalisation and standardisation of the political system. Supervisory functions are more often realised within political parties, as Susan Shirk, in her study of the collective leadership of the CPC, suggests the existence of an institutional arrangement of mutual accountability between the leaders of the Politburo and its Standing Committee, and ordinary members of the Central Committee [7]. The selection and appointment of leaders, the differences and functional specialisation of institutions, and popular political participation have all been reformed and upgraded, strengthening the Party's legitimacy [8]. In addition, the structural transformation of cadres since the 1980s and the reform of the performance-oriented cadre appraisal system have been significant for economic development. Based on this institutional foundation, a virtuous relationship between the Government and the market has developed, with positive cooperation (investment in physical, human and social capital) driving economic development.

3. Market Formation and Development

In addition to the ability to promote economic development, conducting the transformation of the economic system also requires a strong national capacity, which is one of the critical governing capacities of a ruling party. The modern market system is not a natural phenomenon that arises spontaneously, but a complex system that must be created and maintained by the visible hand of the Government.

Starting from the liberal tradition of Adam Smith, new institutionalist economics stresses the incentives of private property rights for people's economic behaviour as the source of economic growth. Limited Government requires only the development of correct and incentivised economic institutions that enhance market incentives. The State is required only to protect private property rights and free market competition, to guarantee order, and to provide essential public services. The long-standing hegemony of the United States in the global political economy has made possible the continuation of neoliberalism, which has reinforced the dominance of the U.S. economy. However, neoliberalism's lack of financial regulation, along with rising trade deficits within and outside the U.S. economy, has led to several economic crises in the 21st century, accompanied by a tendency for economic globalisation to shrink [9].

Meanwhile, the two-party system's competition and divisions have resulted in polarised and volatile national economic policies. The polarisation of the elite class and the need to deliver on promises made to biased voters and interest groups have left the party system facing the crisis of an extreme populist leader coming to power [10]. The typical case is the aggressive trade protection policies pursued during Trump's inauguration, the combined result of an increase in the U.S. trade deficit and an anti-globalisation of the economy [11]. Biden's new foreign economic policy attempts to seek a cross-balance between Obama and Trump. However, more complex intra-party interest group conflicts and the impact of the 2020-2022 New Crown Epidemic perpetuate economic policy uncertainty [12,13]. Neoliberal crises have forced Governments to increase the power of the "visible hand" in the market.

As an economy in transition, China's market has emerged and grown out of the cracks of the planned economy, so there are challenges in establishing the market, including: (1) regulating the order of market competition, so that all types of market players have equal access to the market and factors of production; and (2) perfecting the market system to facilitate the flow of factors from low-efficiency sectors to high-efficiency sectors. (3) The reverse movement of the Government in the process of market expansion, the construction of the market supervision and regulation system. (4) Transformation of the limited functions of the Government, to prevent unclear powers and responsibilities, rent-seeking and corruption due to the excessive power of the Government and the confusion of the "central-local" market. Under the premise that the market mechanism plays a decisive role, and with the incentives and empowerment provided by such institutional features, a performance-oriented bureaucracy with a certain degree of cohesion, which is expected by both the new institutionalism and the developmental state theories, has been formed and is functioning effectively. The stable and orderly structure ensures a robust implementation of the reform and optimisation process and keeps the development of the market economy under government supervision.

4. Future Challenges

The precondition for modern economic development is a strong (public goods-providing, law-making and law-enforcing) State. However, the strong State itself may be the source of the problem: it uses its power to prey on the market rather than to preserve it. In the case of China, the relationship between the market and the Government includes two particularities. The first is that, as a developing country, China has undergone a process of rapid industrialisation from an agricultural to an industrial economy, and to a large extent, its marketisation process has been a transformation from a primitive bazaar to a market. Secondly, as a country with an economy in transition, China has experienced a rapid transition from a planned economy to a market economy. The market was created from scratch, bringing about a miracle of rapid economic development. However, the Government has always occupied a dominant position, and the development of any aspect of the market is highly dependent on the Government, but also subject to the Government's strict control, and very often the Government's policy changes can quickly change the development trend of an industry. On the one hand, the Government has a variety of powers in its hands, which leads to rent setting and rent-seeking, and lacks sufficient autonomy; on the other hand, enterprises have failed to become the natural main body of the market, and are subject to the Government in all aspects, and tend to seek sheltered relationships rather than equal collaborative relationships.

Therefore, it is crucial to balance the government-market relationship and promote institutionalisation. In contrast to the volatile economic policies of neoliberalism in the West (the U.S. as a typical example), where the party system is controlled by the will of capital under multi-party competition, China has the advantage of high party authority, manoeuvrability and implementation. The ruling party, representing the will of the state, should make a prudent grasp of the economic policy from the underlying logic. Under the premise of strong government, the system needs to provide reliable expectations for the ruling party to protect the fairness and adequacy of market competition when regulating macroeconomic operations by economic means. This issue is largely addressed by the

ruling party's claims of legitimacy and awareness of its performance, and institutional solutions need to be further strengthened.

5. Conclusion

How political parties, as a fundamental system, can use the state's ability to promote economic development in their governance, and how they can use the institutional system to make the government and the market present a mutually reinforcing role, is a theme worth exploring in the political economy of the country. The supervision and checks and balances embodied in the American party system and the use of neoliberalism in its economic policies are worth considering. The one-party dictatorship and political consultation system in the Chinese context bring strong state capacity and serve as the basis for the emergence and functioning of the market in the economic transformation. China has proposed a development strategy for a wide range of developing countries to learn how to build effective markets and responsive governments. Political parties, as a foundational institution, have strengthened oversight and virtuous cooperation with the market and facilitated the transition to limited Government while improving the market system. The crisis of neoliberalism signalled that a laissez-faire approach to the "invisible hand" was no longer feasible. However, excessive centralisation of Government would lead to inequality in the "government-market" relationship. Therefore, there is a need to position the economic role of Government in the context of reform and to lay the institutional foundations. In a sense, a limited government can be a strong government.

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