

# The curse of democracy as an instrument of reform in collapsed communist economies.

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I. DEFINING DEMOCRACY Democracy is a perennial hot topic. It was maybe ten years ago that I decided to read up about it. Before the 17th century, democracy was more or less universally regarded as a dirty word. Later on, and of course right now, anybody saying anything against democracy is likely to get into all kinds of trouble. However, you cannot help but come to the conclusion that it is difficult to know what "democracy" is. Scholars agree that voting is an essential characteristic of democracy, but for the purposes of a definition, voting is a narrow and possibly misleading meaning to assign. Other than voting, there is no agreement about what democracy is all about. After poring through pages and chapters and tomes of political science and philosophy, I came away with the impression that none of these pundits can say very much more. For want of anything better, therefore, "voting defines democracy" has become the generally accepted convention.

Is "democracy" a good thing? Most people nowadays would say it's good. But if you ask, "is voting a good thing?"--then it's not all that certain. Strange. If asked, "should a collapsed communist economy go for democracy?" a lot of people would probably say yes. My answer is a definite "no," and I'll explain why in what follows. Remember when I talk about democracy, I am following the traditional convention, that democracy means voting. Then the question becomes whether voting should dictate the course of reform for a collapsed communist economy. It is within this narrowly defined scope that my answer is "no."

II. TYRANNY OF THE MAJORITY AND PROTECTION OF THE INDIVIDUAL Let us therefore begin with the question, "should a collapsed communist economy go for voting?" I do not believe that voting in such a situation--without a well defined constitution--is going to work. The issues open to voting must be delimited. For example, "democrats" in a city can easily grab headlines by advocating a vote on rent control. If you vote on this in a place where there are more tenants than landlords, you are going to end up with rent control. In my view rent control is in clear violation of private property rights. If you wish to protect private property rights, then rent control is not a subject which should be voted on. More generally, without a well defined and well enforced constitution, voting would merely become a means of destroying the private property system. If you look at the things people in the so-called democratic countries are voting on, in the absence of a well-defined constitution, the core issues generally involve infringements of property rights, which in turn undermine the system of private enterprise.

Protection for private property is the central issue addressed in the Constitution of the United States, thanks--as we all know--to Thomas Jefferson. It is the finest constitution in the history of civilization, and yet we still have our fair share of problems. I remember in 1972 or 1973 when I was teaching at the University of Washington, there was a debate in Seattle about rent control and I was called upon to testify as an expert witness. I happened to have a good day, and convinced the committee that rent control violates the Constitution. Two weeks later the same issue came up in Santa Barbara, and rent control was voted in place. So, even with a constitution as well defined and well enforced as it is in the United States, democracy and voting can give rise to all kinds of problems.

For a transforming communist economy like China, introducing democracy at this stage of its reform would lead to tyranny of the majority without protection of the minority. A free society must be grounded on the premise of protecting the individual. I do not believe in sacrificing the minority in favor of the majority. If you allow a few individuals to be sacrificed for the good of more individuals, then eventually the majority will be sacrificed.

III. RENT SEEKING AND THE POLITICAL PROCESS IN DEMOCRACY The second point is a lesson I learned as I grew older. Politicians running for office promise to serve the public. Somewhere there may exist

a great man who holds such lofty intentions, but I have reached the conclusion that if there is one I have not met him. Everyone I know who is running for office, no matter what is said, is as a rule self serving. Completely disinterested men simply don't exist. If he did, then his behavior would be inconsistent with constrained maximization, and I don't think such a homo non-sapien was ever born.

Self serving politicians promise welfare programs to the poor to get elected, but all the while it is themselves who are getting richer. Poor people look for short term gain and they do not have a whole lot to lose; they are not naive, but they are disposed to favour short term promises. Politicians who do so all make out. I know some "Democrats" in some Asian countries, whose incomes are up 5, 6, 10 times with the introduction of democracy.

IV. DEMOCRACY ENCOURAGES MORE CORRUPTIONA third point to be made is that under democracy and voting, corruption is far more likely to flourish and perpetuate than (say) under dictatorship. Corruption is widespread in China. No doubt about it. But it is not as bad as in most of the "voting" countries in Asia. Corruption in China is pervasive for sons and daughters of some high cadres and some officials, but not among those on top. People on top want to maintain their hold on power, and corruption is one thing that will most likely destroy this. The cost of corruption is high for dictators. But if someone is elected into office, because power is transient there is an incentive to go on the take. In Taiwan, corruption under the previous dictatorship cannot hold a candle compared to now, under a democracy. India is famous for corruption under democracy, and so too, are South Korea, Thailand, and so on. My observations suggest that with dictatorship, corruption is from the bottom up, but with democracy, it is from the top down.

V. DEMOCRACY AS AN INSTRUMENT OF ECONOMIC REFORMThree systems are possible to assign rights in society. The rights to use resources may be assigned by hierarchical ranking. This is the rights structure under communism. On the opposite extreme, these rights are governed by private property. In between there is what I call the "India system," which is a system based upon the rights to corrupt as delineated by regulations.

Communism is not common property as such. It is not state ownership as such. Private property is not allowed, while the right to use resources is defined by hierarchical ranking. Party members are all ranked. Under hierarchical ranking, individual rights are not equal. Therefore, individuals cannot be equal before the law, which is why under Communism there is no point to talk about introducing a judicial system as a short-cut to reform. Rather, communism operates like an army, which is ruled by discipline and not law in the judicial sense. Democracy is incompatible with this way of doing things. If voting is introduced the hierarchical ranking will be reshuffled every so often, and that is something totally inconsistent with the modus operandi of the system.

Under communism, hierarchical ranking serves to reduce the dissipation of economic rent. Introduction of democratic voting destroys the hierarchical ranking, resulting in the massive dissipation of rent and disastrous economic consequences.

With private property, people's rights are defined by the individual's rights over assets, the right to the rents produced by the resources that they own. With a well-defined private property system based upon a well-defined constitution, introduction of voting would not be able to reshuffle property rights in any material way. In the India system, rights to corrupt are well defined. Corruption develops into an institution, in which the rights of officials are defined in terms of the regulations under their control.

The problem of reforming a communist economy is to move at least cost from a system where rights are defined in terms of hierarchy, to a system where rights are defined in terms of property. In between is something like the India system. The deo dignus is to pass through that stage without getting stuck.

My view is, if you try to introduce voting to reform communism, it cannot be done without serious economic consequences. The hierarchical ranking will be demolished, but instead of moving towards a private property ranking it will be replaced by voting as a means to distribute rent. If this type of "reform" occurs in the transition from communism, the result is the introduction of more and more regulations by politicians. You will end up with the India system. Democracy and voting, in my view, can only be safely introduced once the transition to private property is done. This requires private property rights to be all in place, with a well-defined constitution (or some other means) to guarantee that these rights are not easily attenuated with, or destroyed by voting and political forces.

That is why seven or eight years ago when people told me that Poland is going to go democratic, I replied Poland is finished. Russia has democracy now, but as far as economic reform is concerned, they see no light at the end of the tunnel. I thought China would take passage to India, but it did not happen. I was wondering

why, how on earth that China, even with the massive corruption it already had, did not develop into another India. Three years ago, I reached the conclusion that rights to corrupt are not well defined in China, because corruptive activities had not reached the top.

The conclusion is clear. The ultimate lesson is clear. We all know that unclaimed rent is not going to exist. If you take away one kind of right, another kind of right would have to emerge to fill the void. Somebody will claim the rent if not already dissipated, one way or the other. The communist system has its way of staking claims on resources by hierarchical ranking. Private property rights is another way. In between communism and private property, voting is a third way of distributing rights. In the transition from communism to private property, the risk is that the system will become mired in by corruption, particularly if voting is introduced prematurely. That is why I am against the introduction of so-called democracy for recently collapsed communist economies. I am of the very strong belief that, if you introduce voting into an economy in transition it would be a disaster: "things fall apart, the centre does not hold."

Added material.

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