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Disciplined Democracy and Market Socialism

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Table of Contents

‘Capitalism and socialism are two distinct patterns of social organization. Private control of the means of production and public control are contradictory notions and not merely contrary notions. There is no such thing as a mixed economy, a system that would stand midway between capitalism and socialism.’

-Ludwig von Mises, *The Anticapitalistic Mentality* (1956, pp. 64-65)
(The Ludwig von Mises Institute, 2014)

I. Abstract

The century-old debate between capitalism versus socialism, less government intervention or more state regulation, free enterprise or central planning, privately or state owned means of production, liberalism or statism, has not resulted in the prevalence of one over the other, as Mises implies. Instead, the international political and economic arena is currently witnessing the emergence of novel governance paradigms, which regard the two nodes as not mutually exclusive, but as tools that can be combined into engines for unprecedented growth. Specifically, two hybrid models, disciplined democracy and market socialism, effectively challenge neo-liberalism as the only solution for the economic problem and world prosperity.

II. Executive Summary

This scholarly research paper attempts to define the economic and state structures of disciplined democracy and market socialism after their transition from traditional communism. Through careful observation of case studies, Russia and China, one can analyze their method of government reform and economic development, then evaluate their effectiveness as viable contenders to the viewpoint of ‘one world, one market’, worth of emulation.

III. Introduction

Economic systems are man-designed frameworks for the attainment of material objectives. The central goal in all economic models is the organization of individual activities into a well-functioning unit for the provision of required goods and services, while their differences are limited to the means of production and distribution. The foundation of any governance paradigm for the maintenance of social order, ideological legitimacy and historic preservation (Economic Systems, 2014).

The two main economic systems in existence are command and market. The first, issues close directives and demands absolute obedience, which is ensured by employing threats or granting special favors. The latter is dictated by the invisible forces of competition between self-motivated entrepreneurs, which send price signals through the laws of supply and demand.

Yergin and Stanislaw (2002) timeline the recurrent shifts in dominance between the above two structures. The rise of socialism after the major events of World War I, II, and the Great Depression led to the expansion of the government mechanism. After the Oil Crisis of 1970s, the market was progressively set ‘free’ again, culminating with the collapse of the USSR in ’91. The new era of globalization spearheaded the elimination of distances and trade barriers, raised standards of living and technological breakthroughs. However, increased economic integration without proper regulation signals to market volatility; a reminder from the 2008 global financial crisis.

The international market is no longer a zero-sum game, but a spectrum of economic configurations. The BRICS (Brazil, Russia, India, China, S. Africa) and other emerging nations are re-shaping the geo-economic and governance landscape by exemplifying unprecedented financial performance and population boom. Their success threatens to surpass the leadership of democratic market fundamentalists: Washington Consensus (IMF, World Bank), institutions (WTO), and Triad Region (US, EU, Japan) (McNally, 2013).

IV. Theoretical Background

Disciplined Democracy and Market Socialism are political and economic hybridities, which do not constitute genuine democratic or free market transitions, but are instead designed and managed by the ruling power to safeguard its own primary interests. Usually, this is accomplished by manipulating the election process and restricting political dissent, while enacting layers of legislation to consolidate the agent's influence and role as head of state. In constitution, a true 'multiparty democracy with assemblies', guided by the principles of 'liberty, justice, and equality' (Bunte, 2011, p.16).

Similar to the above is patrimonial capitalism, which is a neo-patrimonialism type (Robinson, 2013). It is identified by Pikkety as "unequal capitalism", in which reforms are driven by self-interest of the state, while creating large economic gaps in the society (as seen in Hsu, 2014, March 1). Its features are summarized below:

1. Clash between formal and informal (more important) rules;
2. Weak rule of law, rights secured via personal connections;
3. Limited competition and trust laws;
4. High transaction costs due to lack of confidence in system;
5. Profitable economic sectors managed by elite group;
6. Pace and nature of reform serves elite interests;
7. Political leadership is not subject to democratic constraint.

(Robinson, 2013)

Hence, it is evident that neo-patrimonialism states conceal their interventionist and paternalistic character to control the economy and extend the public realm. In fact, they just adopt the structural adjustments necessary to be able to participate in the international markets. In general, the terminology associated with 'democracy' and 'capitalism', inherent to Western culture, is not applicable to the historical background of the developing world. At the same time, the majority of the population actively vouches for social welfare, financial security, and political stability, elements which are incompatible with change and openness, cutting government spending and deficits, and boosting competitiveness and efficiency in order to attract foreign direct investment (Igoe, pp. 577-9, 2004, Collier & Hoeffler, 2009, pp. 293-308).

V. Case Analysis

A. Russia

The Russian Federation, founding member of the former communist Soviet Union, is a federal semi-presidential republic (Appendix Figure 2) and the largest country in the world with a population of about 143.5 million (Russia, 2014). It ranks fifth in the category of largest world economies with an approximate value of 2100 billion US dollars in 2013, and its annual growth since its 1989 economic default stands out impressively among the rest of the G7 members (Russia GDP 1989-2014, 2014 & Appendix Figure 1).

Russia is one of the major exporters and producers of oil and natural gas. Its natural gas reserves are estimated at 1,680 trillion cubic feet or Tcf (Appendix Figure 3). In 2004, the gas production in Russia surpased 22.4 Tcf and exports accumulated to 7.1 Tcf., contributing around a quarter of the total GDP (Russia: A Critical Evaluation of its Natural Gas Resources, 2007).

Gazprom is the largest exporter and producer of oil and natural gas, after being transformed into a partly privatized monopolistic corporation from a fully state controlled industry in ‘89, and serves a ‘social obligation’ by providing low-cost energy to its domestic industries. An interesting comparison could be made between the whole sale price of gas for Russia and the E.U., $15.9 to $24.2 against from $159 to $735 for households. As a result, Gazprom suffers losses on its domestic front but compensates the difference by exporting.

After the collapse of the USSR, the newborn Russia remained inefficient. Some claimed that the regime was not independent and consolidated enough, something which would be more practical and suitable to Russian traditions, while others supported supported adherence to normative ideals and international practice, foreign for Russian people. Eventually, the first one prevailed and led to the gradual consolidation of the political order and infrastructure of governance, redefining the constitutional framework of the Russian Federation as sovereign democracy. “The Nationalization of the Future” introduced by Vladislav Surkov, deputy head of the presidential administration, explained this notion as a proper synonym for “political competitiveness.” Critics interpreted it as a statement of intolerance towards any outside criticism (Democracy: Russian Perspectives, 2011).

B. China

China, a country of approximately 1,350.2 million citizens (The Economist, 2014, October 10), operates under a political regime that has been characterised as ‘state capitalism’, or ‘state neoliberalism’ (Lim, 2014 & Appendix Figure 5), with Xi Jinping, as its President. According to Schmidt (2011), state capitalism can be defined as below:

> “Typically, in state capitalism, the interventionist state organizes cooperation among autonomous economic actors and directs their economic activities. In *market capitalism,* the liberal state allows economic actors to operate autonomously and to decide for themselves on the direction of their economic activity”.

The economic transformations and augmentation that occurred after the 1980s (Xing & Liu, 2014), were so radical that China was recently identified as the world’s largest economy by the IMF, based on purchasing power parity GDP (Fray, 2014, October 8 & Appendix Figure 6), which in 2013 reached $16,481.6 billions (The Economist, 2014, October 10).

Specifically, most reforms were targeted towards facilitating China’s competitiveness in the international market scene. Since the creation of the People’s Republic of China (PRC) in 1949, the country operated under a Soviet-based model with nationalisations and hasty industrialisation, and after the cultural revolution in the 1960s, the model focused on social welfare policies (Economic Landscape, 2014). However, starting with Deng Xiaoping, China's leader from the Communist Party (late 1970s to 1997), free-market economic policies were instilled in the regulatory framework (n.a., 2014), which led China to what Lim (2014, p.222) characterises as "socialism with Chinese characteristics".

Nonetheless, this aggressive adoption of going-global policies resulted in an uneven development within China, that brought wealth mostly to the urban coastal areas, leaving central and western China behind (Lim, 2014). When developmental policies brought high inflation and wealth gap, the PRC realised the need to centrally control the economy (Economic Landscape, 2014). The local business environment is thus characterised by a high degree of state and state-owned-enterprises (SOEs) inter-determination, whereby the latter are "the major economic actors within the Chinese economy" (Lim, 2014, p.231).

Reforms are still needed though in the Chinese economy, as the 12th five-year Regulatory Framework from the Chinese Communist Party proposes (Appendix Figure 4).

As China's leader, Xi Jinping stated in 2012:

> "In contemporary China, only socialism with Chinese characteristics can develop China, benefit people and revitalize the nation."

(Lim, 2014)

VI. Conclusions

Eric X. Li, in his TED Global talk in 2013, very eloquently summarizes why different economic systems are applicable to and efficient in some countries and not others, due to their deeply embedded historical, cultural, and political differences:

> "If they would spend just a little less time on trying to force their way onto others,and a little bit more on political reform at home, they might give their democracy a better chance. China's political model will never supplant electoral democracy, because unlike the latter, it doesn't pretend to be universal. It cannot be exported. But that is the point precisely. The

> significance of China's example is not that it provides an alternative, but the demonstration that alternatives exist. Let us draw to a close this era of meta-narratives. Communism and democracy may both be laudable ideals, but the era of their dogmatic universalism is over. Let us stop telling people and our children there's only one way to govern ourselves and a singular future towards which all societies must evolve. It is wrong. It is irresponsible.And worst of all, it is boring. Let universality make way for plurality."

It is yet to be determined how successful these systems will prove to be in future, and if they will continue to provide the same staggering financial indicators, while raising the standards of living of their enormous populations.

(Word Count: 1606)

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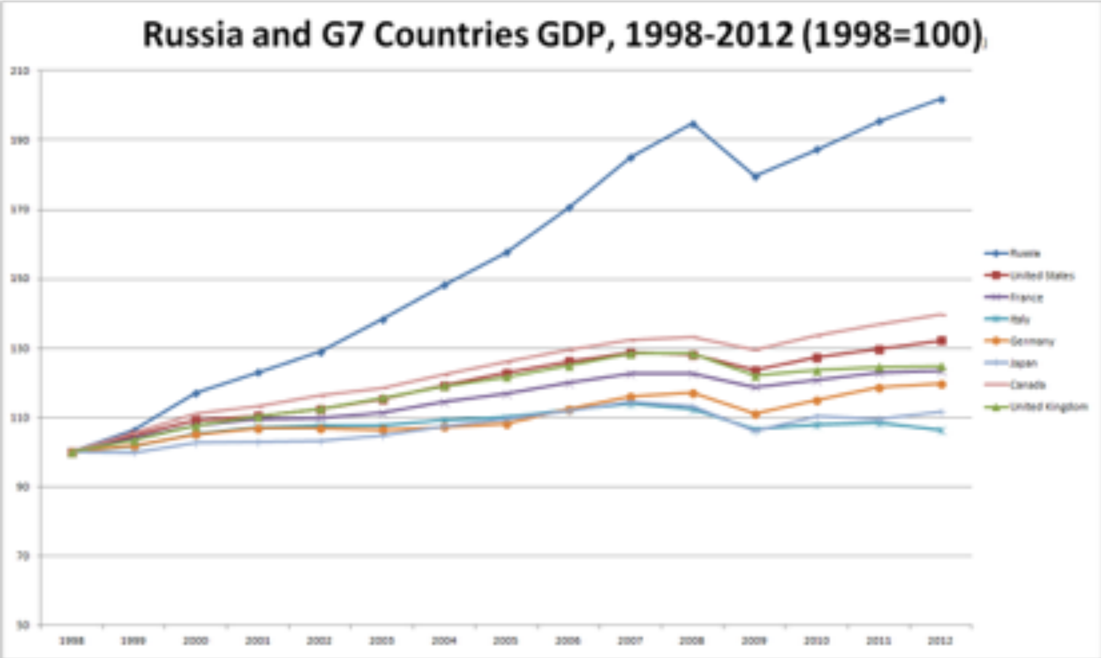
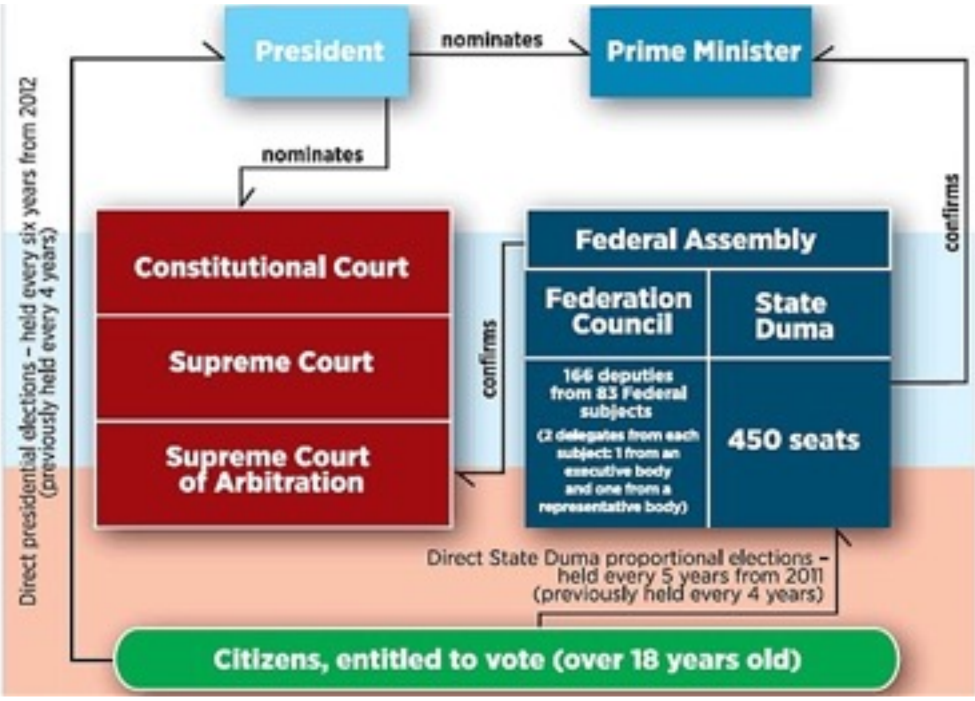
VIII. Appendices

Figure 1:



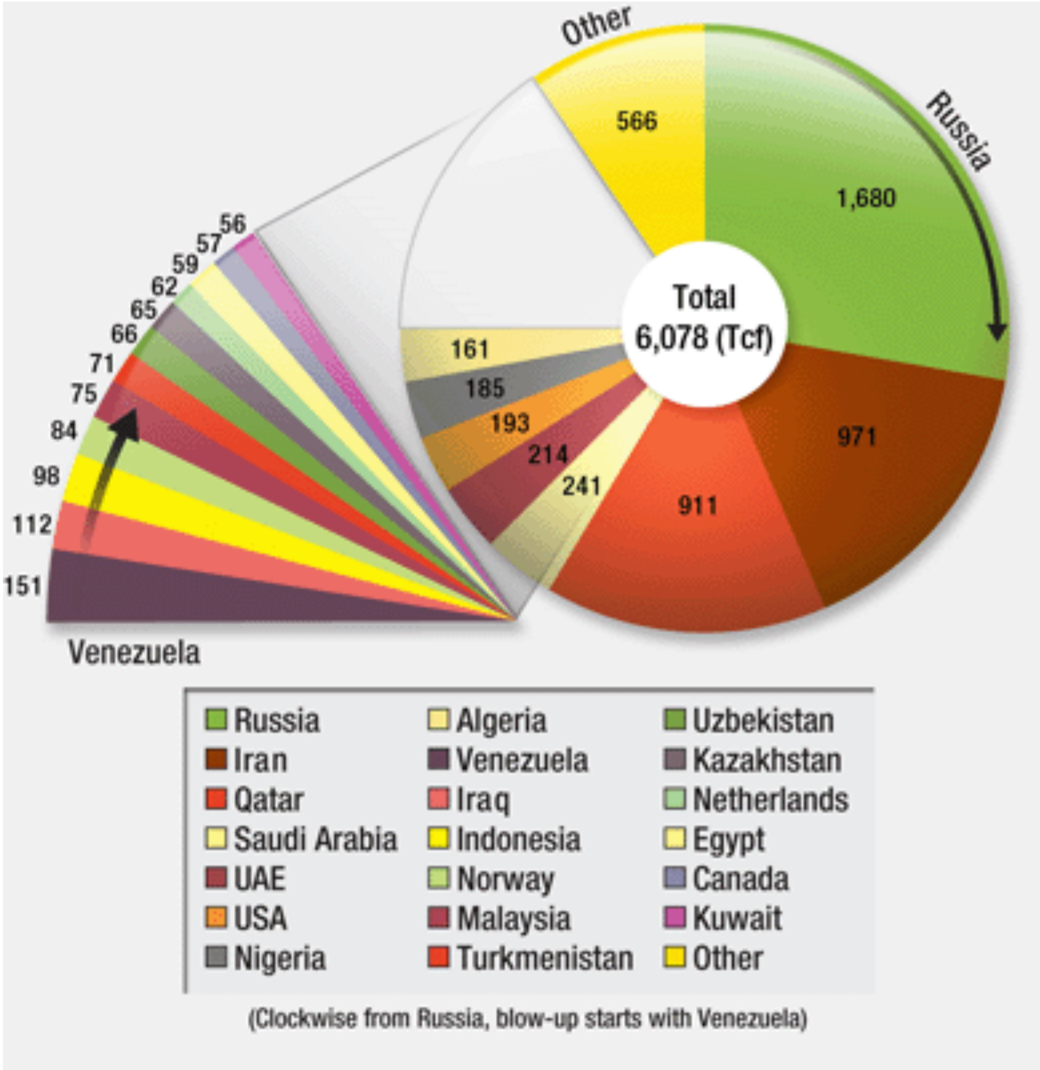
(Adomanis, 2012)

Figure 2:



(Explaining Russia’s Political System, 2011)

Figure 3:



(Russia: A Critical Evaluation of its Natural Gas Resources, 2007)

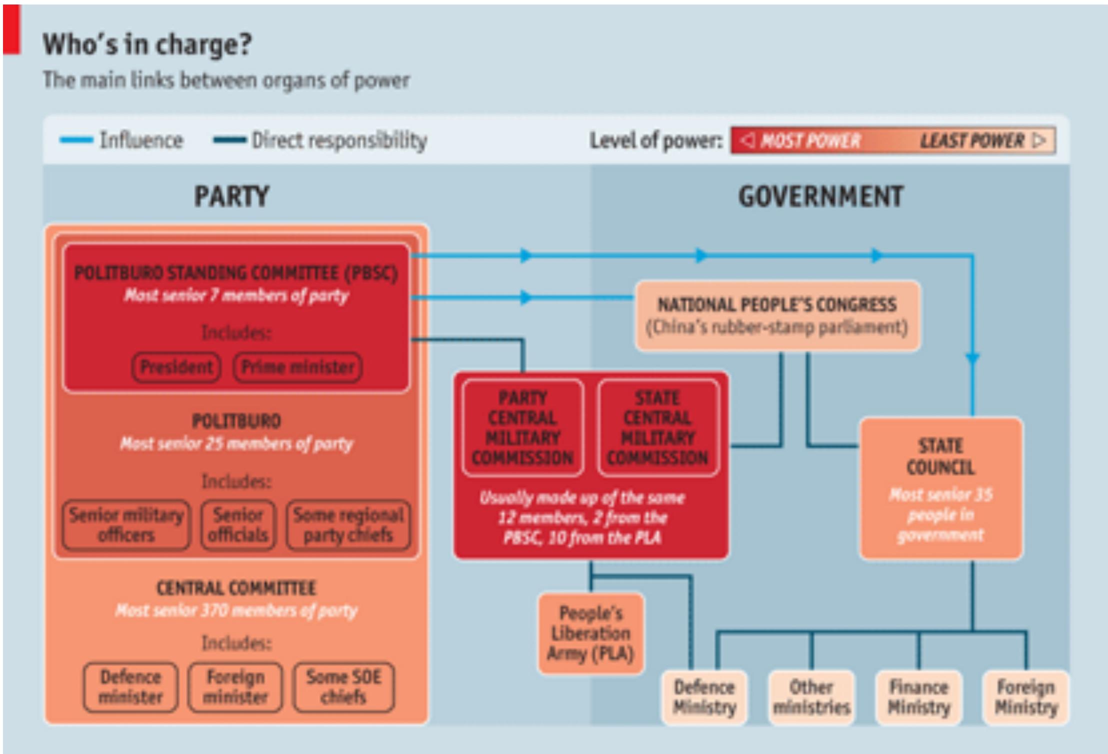
Figure 4:

Table 1. China's 10 economic challenges, identified in the proposal of the 12th Five-Year Plan.

Number	Economic challenge
1	Increasing constraints of resource environments
2	Relationship between investment and consumption is unbalanced
3	Income distribution gap widened
4	Scientific and technical innovation capacity remains weak
5	Asset structure is unsatisfactory
6	Thin and weak agricultural foundation
7	Lack of coordination in urban-rural development
8	Co-existence of contradictory economic structure and employment pressures
9	Apparent increase in social contradictions
10	Persistent structural and systemic obstacles to scientific development

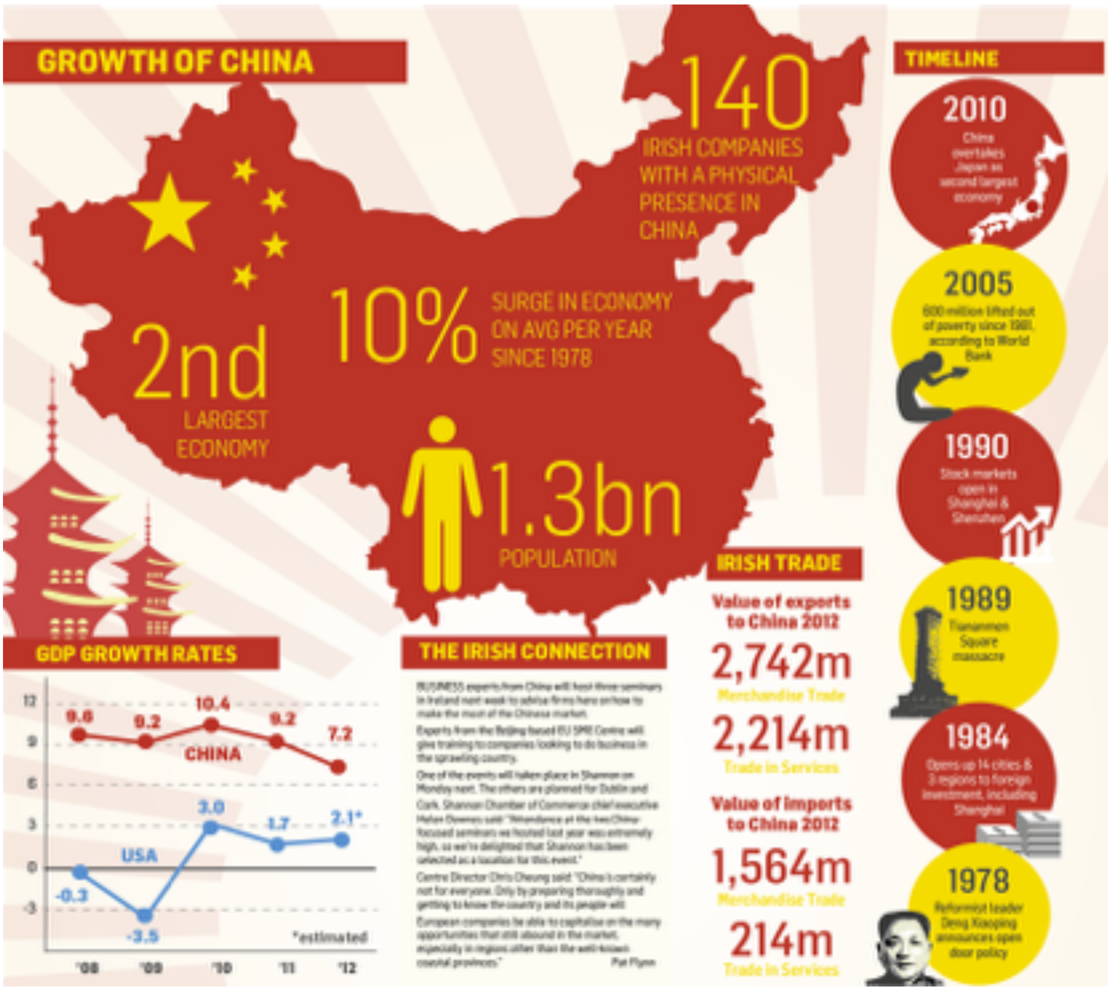
(Lim, 2014)

Figure 5:



(The nomenklatura: Vertical meets horizontal, 2013)

Figure 6:



(Growth of China, 2013)