

Political Parties in Business: Rent Seekers, Developmentalists, or Both?

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Why did socialist monoparties invariably shy away from owning business empires while a handful of monoparties in some transitioning market economies (such as Taiwan's KMT and Ethiopia's EPRDF) embraced it with gusto? This puzzling phenomenon of party-owned for-profit business (Parbus) is ultimately a result of the drive for the total "capture," by a vanguard party, of key societal institutions. A Parbus-based fusion of political power and economic power does not fit traditional conceptions of corruption, central planning, public enterprises, bona fide private enterprises, kleptocracy, or oligarchy. Party-state capitalism is a rather novel phenomenon which adds an important dimension to the debate on developmental states and neo-patrimonialism in Africa. At the extreme ends of economic and political governance, the Parbus can be a market-defying formalization of grand corruption or a market-facilitating strategy of shared growth. The *rent-seeking* interpretation is that the party-owned business group is an ingeniously disguised mechanism for tunneling public assets and for creating economic rent in resource-poor, post-conflict societies where the private sector is underdeveloped and the state is a big economic prize. The alternative, *developmental-vanguard*, interpretation is that party-owned business empires constitute an innovative "third way" for responding effectively to the double whammy of market failure and government failure. Parbuses can help solve coordination failures and informational failures (investment pooling and allocation, risk management, marketing, discovery of new products and markets, etc.) where the private sector itself engages in rent seeking as much as in profit seeking. The Parbus then affords the ruling party investable funds to underwrite shared prosperity thereby earning legitimacy and an augmented war-chest of patronage finance to ward off ever-present contestants for state power.

This paper makes a modest contribution to the scanty literature by offering a general theoretical framework that is buttressed by two analytical studies of canonical cases. It identifies key explanatory variables and outlines the conditions under which developmentalism or parasitism is likely to dominate. We argue that the net impact of Parbus on long-term wealth creation and distribution revolves around four empirically measurable variables: regime insecurity, organizational capacity, high-modernist ideology, and degree of centralization of inherited state. Interactions among these factors generate three possible paths of evolution: a paragonist path (KMT's Taiwan) favoring a competitive politico-economic system, a parasitic path toward a poverty-tyranny trap, or an unstable mutualist path of coexistence among state, party, and private actors (EPRDF's Ethiopia). Key words: Party-state capitalism, party-owned enterprises, developmentalist state, Ethiopia, Taiwan.