

## **Rent seeking and economic liberalization: why are China and Vietnam different from Eastern Europe?**

Qiangbing Chen

*Department of Economics and Finance, East Tennessee State University, USA*

Why did a gradualist transition approach achieve different performances among socialist economies in the 1980s? Why did some socialist economies never try a gradualist approach to economic liberalization? This paper develops a model to show that the liberalization of a socialist economy has two opposite effects on the rent captured by government. The initial economic condition determines the relative strength of the two effects, and consequently the transition path and performance. In addition, a gradualist reform strategy adopted by a rent-seeking government cannot finish the transition toward a complete market economy. To achieve that goal, a new constitutional order and the rule of law are necessary.

**Keywords:** economic liberalization; gradualism; rent seeking

**JEL Classification:** P3

### **Introduction**

The transition of former socialist economies towards the market is among the most important events in the twentieth century, and the transition is still under way. One of the long-lasting and hotly debated questions about this development is the relative merit of the alternative transition strategies. China, which adopted a gradualist approach to transition, has experienced rapid economic growth since 1978 when economic transition started. In contrast, many socialist economies in Eastern Europe (notably Russia), experienced significant decline in output under a Big Bang approach, and recovery growth has been achieved only recently. As a result, transition economists' favoring of a gradualist approach over a Big Bang approach is overwhelming (Roland 2000; Sachs and Woo 1997).

Some economists have observed that gradual reforms in the Soviet Union, Poland and Hungary in the 1980s failed because the reforms were not as 'comprehensive' and 'radical' as those of China (Qian 1999), and were 'half-hearted' (Kornai, 1990, p. 136). However, so far little is known about why this was so. The answer is important because the reform experience in the 1980s might have

---

Email: [chenq@etsu.edu](mailto:chenq@etsu.edu)

ISSN: 1354-7860 print / 1469-9648 online

© 2008 Taylor & Francis

DOI: 10.1080/13547860801923566

<http://www.tandf.co.uk/journals>

significant impact on the choice of later transition strategies. In addition, understanding the mechanism of gradualism may be helpful for re-examining the transition strategies of China and Vietnam, which are widely viewed as successes.

This paper contributes to the literature on transition economics. Based on a simple model, I attempt to investigate why gradual transition failed in Eastern Europe, while it was sustained in China and Vietnam (notably China). This paper also contributes to the literature of rent seeking. Conventional wisdom suggests that rent seeking is harmful to economic growth (Olson 1982). However, as this paper will show, under special circumstances, and in the short run, rent-seeking and economic growth may go hand in hand. However, the growth is not sustainable in the long run.

The study here is relevant to some influential studies on the comparison of different transition strategies, although this paper primarily focuses on the gradualist reform in the 1980s. Dewatripont and Roland (1995) investigate the relative advantage of gradualism and Big Bang from the perspective of macro uncertainty in implementing reform. According to them, gradualism is superior to Big Bang when the former is informative in the sense that the implementation of the first reform and the realization of the state tell whether to try the second reform or not. Qian *et al.* (1999) explain the success of China's transition from the perspective of organizational structure. According to them, the relative merits of Big Bang and gradualism for an M-form structure and a U-form structure depend on the relative size of communication cost and a particular learning cost.<sup>1</sup> China's decentralized political structure, which resembles an M-form organization, is more flexible than the highly centralized political structure in Eastern Europe, which resembles a U-form organization. As a result, China's transition is more successful. Laffont and Qian (1999) explain the advantage of gradualism over Big Bang from the perspective of commitment and liquidity constraints. Governments seek rent. To make economic reform proceed, people in power need to be bought out. Gradual reform is possible in the regions where vested interest is small and investment opportunity is large for private investors. With the accumulation of funds in the private sector, more regions could be bought out. Hence reform takes a gradual process as in China. Laffont and Qian's study is similar to mine in assuming a rent-seeking government.

Sachs and Woo (1994) and Sachs *et al.* (1999) mainly attribute the difference in reform performance between Eastern Europe and China to the difference in initial economic conditions. They suggest that China was an agricultural economy at the start of the reform. Hence China had greater potential than the more industrialized Eastern Europe to transfer labor from the agricultural sector to the industrial sector, and to develop a division of labor. As a result, China achieved faster growth. In contrast, state-owned enterprises in Eastern Europe hired more than 80% of their labor force that was heavily subsidized by the state. To finance the subsidy, private sector was heavily taxed. As a consequence, workers were unwilling to leave their subsidized jobs. There was also no labor reserve outside the SOE sector that could be hired by the more efficient non-state sector. In such a situation,

economic growth could not be achieved. The emphasis of these authors on the initial economic condition is insightful; however, the explanation is incomplete. If the government keeps subsidies to SOEs constant, or raises the subsidy at a slower pace than the growth of the private sector, the more efficient private sector will still be able to attract labor from the state sector, and economic growth will be sustainable (as is shown by Lau *et al.* 2000). Hence, to complete the explanation based on differences in initial economic conditions, we need to know why those Eastern Europe governments failed to create the conditions that would have made gradual reform viable, while governments in China and Vietnam succeeded. This paper aims to answer this question.

Here, I tell a story of government's dilemma in seeking rent. Following Kornai (1986), I distinguish two types of economic coordination: bureaucratic coordination and market coordination. Bureaucratic coordination features a vertical relation between the coordinating individuals or organizations and the coordinated individuals or organizations. Control is exerted through administrative coercion and legal sanctions. In contrast, market coordination features a horizontal relation between individuals or organizations.<sup>2</sup> Mutual and voluntary agreement is essential for a transaction. The market is dominant in a capitalist economy, and in a socialist economy bureaucratic coordination is overwhelming. As discussed above, bureaucratic coordination depends on administrative coercion and legal sanctions, which generate rents for bureaucrats (Shleifer & Vishny, 1992a).

I assume that the government's objective is to maximize its rent. In reality, there are governments of different agencies and regions and their interests may well be in conflict. For example, Young (2000) studies how regional governments in China set up interregional trade barriers while competing for rents. However, I would argue that as long as the central government has a final say on the reform agenda and appoints regional officials, the neglect of those inner-government interactions should not invalidate the assumption that the government as a whole is maximizing its rent.

Bureaucratic coordination is economically less efficient than market coordination, primarily due to two reasons. First, the former is more likely to distort incentives (Zhang, 1999). Second, resources are misallocated when the central planning agency is not able to process the large amount of information that is necessary for effective central planning (Mises, 1922). As a consequence, when the incentive and information problems are gradually alleviated in a transition from central planning to market, total output will increase.<sup>3</sup> The government's loss of control over economic activities undermines its ability to capture rent. As a consequence, the government loses some rent from the economic sectors where market coordination replaces bureaucratic coordination. I call this the Type I effect of economic liberalization. In addition, there is a second effect that is opposite to the Type I effect. When the market plays a larger role in economic coordination, output grows; the remaining control power becomes more valuable in a bigger economy, and this in turn tends to increase the rent for the government. I call this the Type II effect of economic liberalization. For example, with the opening up of

the auto industry, more households can afford to buy family cars. As a result, the national monopoly of the oil industry becomes more profitable.

Since economic liberalization has two opposite effects on rent, the rent-seeking government faces a dilemma. The government's problem is to choose an optimal level of economic liberalization that maximizes its rent. We show in a simple model that the government's optimal choice crucially depends on the initial economic condition. A gradualist approach is sustainable only when the Type II effect surpasses the Type I effect. Actually, the model shows that in this situation the rent and the total output increase hand in hand. In a relatively more developed socialist economy, the rent captured by the government is already relatively large. When the economy is liberalized, the Type I effect dominates the Type II effect. Gradual reform fails in this situation because further reform will reduce the government's rent. This analysis explains why gradual transitions are successful in China and Vietnam, but were not in the Soviet Union, Poland and Hungary, which all tried gradualist reforms in the 1980s.

Although gradualism could achieve economic growth in the short run, the model predicts that the path of a rent-induced gradualist transition cannot lead to a complete market economy. Instead, the transition will be 'stuck' in the middle where further liberalization will reduce the government's rent. To finish the transition, the creation of a new constitutional order and rule of law that are able to constrain the government from rent seeking is necessary.

The paper proceeds as follows. The next section presents the model and its basic implications. The third section uses the model to examine the transition process of China. The fourth section concludes the paper.

### **The model**

Define  $\alpha$  ( $0 \leq \alpha \leq 1$ ) as the share of economic activities coordinated through markets.  $\alpha$  is a measure of the degree of economic liberalization. When  $\alpha$  is equal to 0, all economic activities are coordinated by bureaucrats. Suppose, in such a 'pure' socialist economy ( $\alpha$  is equal to 0), output per capita is  $y$ . For historical reasons, socialist economies are different in  $y$ . When  $\alpha$  is greater, that is, when market plays a larger role in economic coordination, the output per capita should increase for the reasons discussed in the previous section.<sup>4</sup> To capture this idea in the model, I assume the output per capita is equal to  $y + \alpha f(y)$ . Function  $f(y)$  represents the potential of output growth when the economy is completely liberalized ( $\alpha$  is equal to 1). If a socialist economy is already 'well' managed through bureaucratic coordination, that is,  $y$  is large, the potential output growth through market coordination tends to be small, and vice versa. To capture the idea, we assume  $f(y)$  to be decreasing in  $y$ .

The government's objective is to maximize its rent.<sup>5</sup> As discussed in the previous section, the share of the output that the government can capture as rent is inversely associated with  $\alpha$ . To make the analysis simple, I assume that the share

of rent in total output is equal to  $\beta(1 - \alpha)$ .<sup>6</sup> Rent is given by

$$R = \beta(1 - \alpha)[y + \alpha f(y)] \quad (1)$$

The government's problem is to maximize its rent by choosing  $\alpha$ . The marginal rent of economic liberalization is

$$MR = \beta[-2\alpha f(y) + f(y) - y] \quad (2)$$

The first-order condition is

$$-2\alpha f(y) + f(y) - y = 0 \quad (3)$$

Under condition  $f(y) > y$ , the maximization problem takes an interior solution, which is

$$\alpha^* = \frac{f(y) - y}{2f(y)} \quad (4)$$

Under condition  $f(y) \leq y$ , the problem takes a corner solution, which is

$$\alpha^* = 0 \quad (5)$$

By condition (4),  $\alpha^*$  is less than 0.5. As a result,  $y + \alpha^* f(y)$  is less than  $y + f(y)$ , the output per capita under complete liberalization.

Whether the maximization problem takes a corner solution or interior solution depends on the difference between  $y$  and  $f(y)$ . The relation between  $y$  and  $f(y)$  is illustrated in Figure 1. When  $y$  is greater than  $y^*$ ,  $f(y)$  is less than  $y$  and the

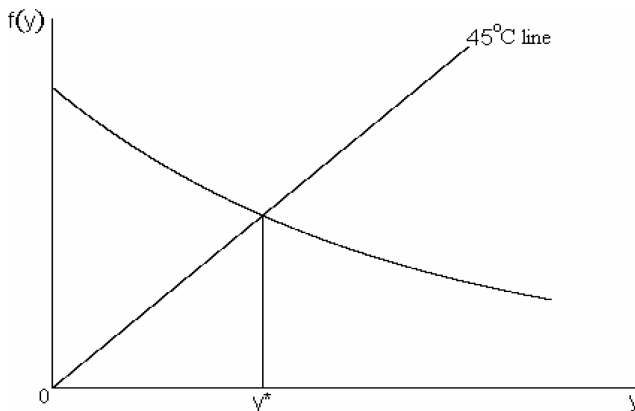


Figure 1. The critical value of  $y$ .

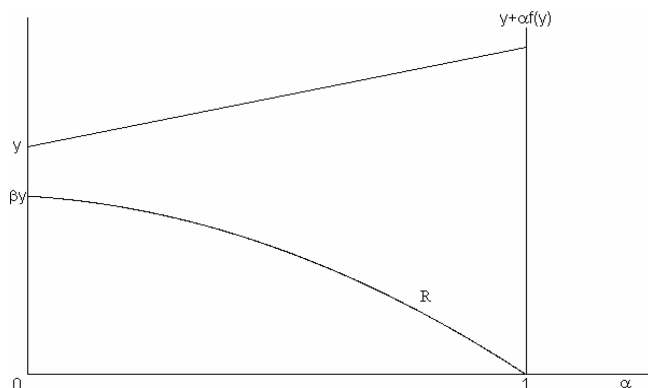


Figure 2. Failed gradualism.

optimization problem takes corner solution (5). Otherwise,  $f(y)$  is greater than  $y$ , and the optimization problem takes the interior solution given by equation (4). Now we are at a place to discuss why a gradual transition is successful in China and Vietnam, while not in the Soviet Union, Poland and Hungary. When  $y$  is greater than  $y^*$ , the marginal rent of economic liberalization is negative under the condition that  $\alpha$  is equal to zero. As shown by equation (5) and Figure 2, the optimization problem takes the corner solution 0. This implies that government has no incentive to liberalize the economy, although liberalization would increase the total output. In Figure 2, the upward-sloping straight line represents the relation between output per capita and economic liberalization. Curve  $R$  represents the total rent captured by the government. When market is prohibited ( $\alpha = 0$ ), government rent is  $\beta y$ . Notice that total rent is decreasing in the degree of economic liberalization. This possibly explains the transition experiences of Hungary, Poland and the former Soviet Union in the 1980s. Those industrialized socialist economies had much higher GDP per capita than the agricultural China and Vietnam. Reforms were unsustainable primarily because of the resistance of bureaucrats (Kornai 1990, p. 139). Gradual reform<sup>7</sup> was not viable in these Eastern Europe countries because those economies did too 'well' in bureaucratic coordination.

In contrast, China and Vietnam were agricultural economies at the start of their reforms. That is to say,  $y$  is less than the critical value  $y^*$  in the two countries. Consequently, the governments' existing rent was small, and the marginal rent of economic liberalization is positive in the range  $0 \leq \alpha \leq \alpha^*$ , as is shown in equation (4) and Figure 3. Within this range, the government's gain in rent is more than the loss. We may call this 'the advantage of backwardness.' In Figure 3, total rent is increasing in the initial stage of marketization. It reaches a peak at  $\alpha^*$ . After that point, further economic liberalization results in lower rent.

The model is also helpful to investigate the relation between political reform and economic reform. When  $y$  is less than  $y^*$ , economic reform is viable without

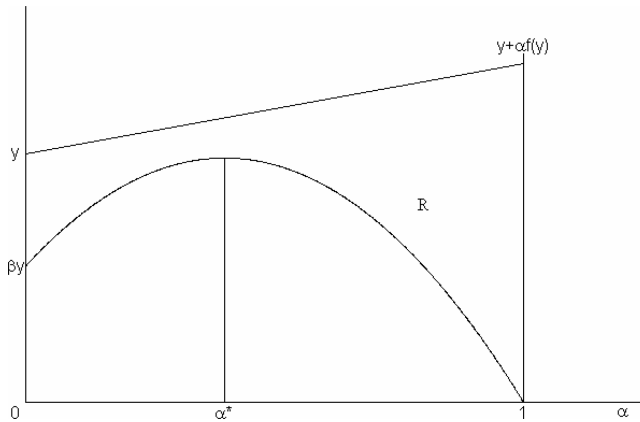


Figure 3. Successful gradualism.

political reform because it is in the bureaucrats' interest to liberalize the economy, as in China and Vietnam. On the other hand, if  $y$  is greater than  $y^*$ , liberalization would reduce the rent. To implement a sustainable market-oriented reform, political reform is necessary, as in Eastern Europe.

One question is why China did not liberalize its economy to the optimal degree overnight. Some highly respected transition economists, for example, Kornai (1990) and Qian (1999), suggest that economic transition should be better viewed as an evolutionary, spontaneous process. In the current model, for a transition process to take place, a rent-maximizing government needs only to explore the costs and benefits of economic liberalization at the margin through the method of trial and error (Hayek, 1947). It does not need to know the global optimization solution.<sup>8</sup> Induced by rent, the government gradually walks down a transition path toward a market economy. Although each tiny reform step was purposefully designed by a particular person or an agency, the overall transition process is not the design of any individuals or bureaucratic agency. However, the outcome seems like the government is making a choice based on ideas about 'global' maximization.

### Gradualism: its past and future in China

There is a long-lasting debate over the relative merits of gradualism versus Big Bang (Roland, 2000; Sachs & Woo 1997). So far, gradualism has gained more favor, largely inspired by China's impressive growth in the last two decades. However, Sachs *et al.* (1999) argue that the core of economic transition is a large-scale shift in constitutional rules, and economic transition is only a small part of the grander transition. In the current model, the value of  $\alpha^*$  is always less than 0.5 in the model. When a gradual transition process reaches  $\alpha^*$ , the government would realize that further reform would reduce its rent. Consequently, the government

rejects further reform, and the gradual transition will be stuck in the middle. On the other hand, for those economies that already undergo constitutional transition, disruption in coordination may make the output plunge in the early stage of reform (Blanchard and Kremer 1997), but economic growth may be more sustainable in the long run because constitutional rule is able to restrain the government from seeking rent and the transition process can be finished.

Compared with Big Bang, gradualist transition gives the government more time and resources to 'perfect' its rent-seeking institutions. Those institutions may include the system of rank-based rent allocation, mechanisms to compensate the losers, institutions for internal auditing, punishment, bureaucrats recruiting and promotion, and so on. In seeking rents, social elites can either join the government or cooperate with the government. In this scenario, the chance of establishing constitutional rules and the rule of law is low because no independent social forces outside the government are able and willing to push for such a change. In short, a country adopting the gradualist transition approach may very likely be stuck at state  $\alpha^*$ . In the long run, a Big-Bang approach may be likely to have superior performance over a gradualist approach.

Since China's transition is widely viewed as the most successful transition economy adopting a gradualist approach, and is major evidence in favor of gradualism over Big Bang, I will apply below the theoretical analysis above to analyze China's transition experience. At the start of China's reform in 1978, China was an agricultural economy. Bureaucrats controlled most of the economic activities, especially in the industrial sector. In such a poor economy, even members of the privileged groups had a poor life, although they were much better off than the average people. For a specific reform program, some bureaucratic agencies may become winners and some become losers. The losers tend to impede the reform. Here comes the key role played by a strong central government. The discipline and ideology of the communist party require each agency and each region to place the interests of the whole party at a higher priority than the 'local' interests (Gu Quan Da Ju). The ideology also requires bureaucrats to put collective interest above individual interest (Collectivism). As the same time, central government undertook the task of balancing the interests of different agencies and regions. Although officials of different levels and regions had considerable autonomy, the central government held absolute final say on the extent of this autonomy.

To boost the morale of the bureaucrats, as well as to keep the bureaucrats loyal to the central government, privilege and abuse of power are tolerated by the central government as long as they are within acceptable boundaries.<sup>9</sup> As a result, corruption is widespread. He (1997) documents in detail how bureaucrats in China accumulate large amounts of wealth through corruption. Nonetheless, the central government successfully integrated the whole Chinese bureaucratic system in pursuing its political and economic agenda. Through internal control, the central government helps alleviate the negative externalities exerted by one agency on another in their pursuit of rents (Blanchard & Shleifer 2001). In some sense, the whole bureaucratic system might be viewed as a huge corporation. Although

conflicts exist among different departments and units, the top management has the authority to set rules, align interests, punish those who violate the rules, and reward those who comply with the rules. As a result, the corporation is a coherent organization.

By the logic of the model in the second section, an economic sector providing little rent should more likely be liberalized because the loss of rent is relatively small. This is exactly the main characteristic of the reform experience in China. China started the reform in agriculture sector that was the poorest sector in the whole economy. The reform met little resistance from bureaucrats basically because the loss in rent was small. In addition, the reform of the agricultural sector was also carried out earlier in the poorest provinces (such as Anhui province) than in the relatively rich provinces (such as Jiangsu province).

The productivity of rent seeking depends on the rent seeking technique as well as the nature of production. In those industries featuring a high degree of increasing return to scale, rent seeking should be easier. For example, to seek rent through a national restaurant monopoly is less efficient than through a national banking monopoly because it is more costly to manage a restaurant monopoly, which has a very small minimum efficient production scale. As a result, private enterprises were gradually allowed to enter industries featuring a small efficient production scale and low capital intensity, while those industries featuring significant increasing return to scale and high capital-intensity were designated as 'key' industries<sup>10</sup> and the entry of private enterprises was effectively prohibited or seriously hindered. In these 'key' industries, government was the major rule maker, major player and referee. During the reform process, the Chinese government continued to invest heavily in those key industries (Lardy, 1998, pp. 53–57).

Giving up some control over the economy actually benefits the rent-seeking government because the remaining power to control becomes more valuable in a richer economy. By liberalizing most product markets, the Chinese economy grows rapidly. As a consequence, the government's control over those key industries and resources becomes more valuable. A recent study by Murdoch and Sicular (2000) revealed that the rent captured by the Chinese government bureaucrats grew steadily during the reform process. The key industries monopolized by government contain some of the most lucrative enterprises in China. The Chinese government also controls all the natural resources. In recent years, with a rapidly growing economy, the land market becomes a major revenue source for regional governments. Owing to the large amount of rent, government has little intention to open up those 'key' industries and privatize land ownership. China also made slow progress in the rule of law. The court system is virtually a branch of the government. As a result, courts cannot effectively enforce the law. The encroachment of private property is widespread. Protection from affiliated officials is the essence for the success of most private enterprises.

What is the future of Chinese-style gradualism? According to the model, China started its journey from the origin and is heading for  $\alpha^*$ , as in Figure 3. During the past two decades, the degree of economic liberalization, total output and rent have

all increased. However, when the transition process reaches  $\alpha^*$ , further economic liberalization will cause a divergence between output and rent: output would grow but rent would not. A rent seeking government may stop the liberalization process.

### **Conclusion**

Two conditions contributed to China and Vietnam's so far successful gradual transition to market economy. First, the two countries were low-income, agricultural economies at the start of the transition. By liberalizing the economy, although the government lost some rents, the total rent still grew because the remaining power to control became more valuable in a growing economy. Second, both China and Vietnam have strong central governments, which are able to alleviate the externalities caused by one bureaucracy on another in rent seeking. Without this control from the central government, agencies may have tried to extract rents from the private sector in a more abusive and arbitrary way, making it unprofitable to run private enterprise. As a result, gradual reform would not be able to generate economic growth. This is consistent with the view of Blanchard and Shleifer (2001) that political centralization is an important reason behind China's superior performance to Russia. Due to a lack of the second condition, gradual reform that was tried in some post-socialism countries (for example, Ukraine) also generated an unsatisfactory outcome. This paper suggests that rent-induced economic transition cannot reach a complete market economy because the transition will stop at a turning point where further loosening of government control will reduce the rent.

In the long run, the success of economic transition needs a foundation of constitutional rule, which is able to restrain government from seeking rent. The transition from arbitrary government control to constitutional rule may be more unpredictable and difficult than economic transitions. Old institutions may collapse suddenly and the new institutions may not have enough time to be established. For example, in Indonesia, corruption in the post-Suharto era has been more problematic for investors than it was before.<sup>11</sup> Further understanding of the institutional transition process may be necessary.

### **Acknowledgement**

Comments and suggestions from JAPE Referees, Professor Hongbin Cai, Jie Ma and other seminar participants at Guanghua School of Management of Peking University, and Dr Zhiyi Song are gratefully appreciated. Part of the research for this paper was conducted when the author was an assistant professor at Central University of Economics and Finance, People's Republic of China.

### **Notes**

1. Low communication costs give the U-form structure a comparative advantage over the M-form. Low learning cost (which these authors called setting up cost) gives an M-form structure a comparative advantage over a U-form structure.

2. Market coordination includes not only the price mechanism, but also a complementary system of institutions, such as property rights and contract enforcement mechanisms.
3. An additional condition should be that central planning does not collapse immediately in the transition process. For example, Lau *et al.* (2000) show how efficiency improvements are achieved under a dual-track price system.
4. The assumption requires the condition that, in a gradualist transition, bureaucratic coordination is replaced by market coordination in a smooth manner (see discussion in Note 3). Otherwise, there may be a coordination failure (Blanchard and Kremer, 1997) and output decreases. The strong positive correlation between economic freedom and per capita output is demonstrated by the project of the Index of Economic Freedom (for details, please visit website <http://www.heritage.org/index/>).
5. We assume the government cannot control the population. Hence the government's problem is to extract maximum rents from a representative resident.
6. The formulation is somewhat troublesome because, when  $\alpha$  equals zero, all economic output is captured as rent. To avoid this problem, the share of rent can be reformulated as  $\beta(1 - \alpha)$  in which  $\beta$  is a constant satisfying condition  $0 < \beta < 1$ . Countries may differ in their capability to capture rent. For example, the share of rent in total output may take the form  $\beta(1 - \alpha^2)$ . The rent-seeking technique should influence the optimal degree of economic liberalization and this may be another source of difference in transition experiences across countries. In this paper, for the sake of focus, that possibility is not studied.
7. A concern may be that, if government is rent seeking and marginal rent is negative, why did these governments initiate economic liberalization at the first place? To answer this question, we should realize that a socialist government comprises many members with different interests. As a result, government in the real world cannot function in exactly the same rational way as in the model. For example, a party leader may initiate an economic reform to improve the legitimacy of the communist party. However, the resistance from the bureaucratic system results in a failure of the reform. In this situation, the assumption of a rent seeking government is still valid, although it ignores the richness in the internal structure of a government.
8. Actually, that may be unknowable, as is reflected in the famous slogan 'crossing the river by touching the stones' by China's former political leader Xiaoping Deng.
9. Those boundaries are implicit, subtle and unstable. Hence, a bureaucrat needs continuing effort to detect and exploit the boundary.
10. In 1999, more than 30 industries were defined as 'key' industries, including banking, insurance, automobile, telecommunication, oil, and railroad (Sachs *et al.* 1999).
11. I thank a referee for this point.

## References

- Blanchard, Olivier, and Kremer, Michael, 1997. Disorganization. *The Quarterly Journal of Economics*, 112(4), 1091–1126.
- Blanchard, Olivier, and Shleifer, Andrei, 2001. Federalism with and without political centralization: China versus Russia. *IMF Staff Papers*, 48, Special Issue, 171–179.
- Dewatripont, Matrias, and Roland, Gerard, 1995. The design of reform packages under uncertainty. *The American Economic Review*, 85, 1207–1223.
- Hayek, F.A., 1947. *Individualism and Social Order*. University of Chicago Press.
- He, Qinglian, 1997. *The Primary Capital Accumulation in Contemporary China*. Hong Kong: Mirror Book.
- Kornai, Janos, 1986. The Hungarian economic reform process: visions, hopes, and reality. *Journal of Economic Literature*, 24(4), 1687–1737.

- Kornai, Janos, 1990. The affinity between ownership forms and coordination mechanisms: the common experience of reform in socialist countries. *Journal of Economic Perspectives*, 4(3), 131–147.
- Laffont, Jean-Jacques, and Qian, Yingyi, 1999. The dynamics of reform and development in China: a political economy perspective. *European Economic Review*, 43, 1085–1094.
- Lardy, Nicholas, 1998. *China's Unfinished Economic Revolution*. The Brookings Institution.
- Lau, Lawrence, Qian, Yingyi, and Roland, Gerard, 2000. Reform without losers: an interpretation of China's dual-track approach to transition. *The Journal of Political Economy*, 108(1), 120–143.
- Mises, Ludwig von, 1922. *Socialism: An Economic and Sociological Analysis*. Indianapolis: Liberty Classics, reprinted in 1981.
- Murdoch, Jonathan, and Sicular, Terry, 2000. Politics, growth, and inequality in rural China: does it pay to join the party? *Journal of Public Economics*, 77(3).
- Olson, Mancur, 1982. *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*. New Haven: Yale University Press.
- Qian, Yingyi, 1999. The institutional foundation of China's market transition. *Working Paper*.
- Qian, Yingyi, Gerard, Roland and Xu, Chenggang, 1999. Why is China different from Eastern Europe? Perspective from organization theory. *European Economic Review*, 43, 1085–1094.
- Roland, Gerard, 2000. *Politics, Markets and Firms: Transition and Economics*. Cambridge, MA: MIT Press.
- Sachs, Jeffery, and Woo, Wing Thye, 1994. Structural factors in the economic reforms of China, Eastern Europe, and the former Soviet Union. *Economic Policy*, 9(18), 101–145.
- Sachs, Jeffrey, and Woo, Wing Thye, 1997. Understanding China's economic performance. *NBER Working Paper*.
- Sachs, Jeffrey D., Woo, Wing Thye, and Yang, Xiaokai, 1999. Economic reforms and constitutional transition. *Annals of Economics and Finance*, 1 (November), 435–491.
- Shleifer, Andrei, and Vishny, Robert, 1992a. Pervasive shortages under socialism. *The Rand Journal of Economics*, 23(2), 237–246.
- Shleifer, Andrei, and Vishny, Robert, 1992b. Corruption. *The Quarterly Journal of Economics*, 108(3), 599–617.
- Young, Alwyn, 2000. The razor's edge: distortions and incremental reforms in the People's Republic of China. *The Quarterly Journal of Economics*, 115(4), 1091–1135.
- Zhang, Weiyang, 1999. *The Theory of the Firm and China's Enterprise Reforms*. Beijing: Peking University Press.