

certainly possible to read it with a half-full glass in mind.

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P Economic Systems

How China Escaped the Poverty Trap. By Yuen Yuen Ang. Cornell Studies in Political Economy. Ithaca and London: Cornell University Press, 2016. Pp. xvi, 326. \$27.95. ISBN 978–1–5017–0020–0, cloth. JEL 2017–0335

This book argues that China's stunning economic performance in the post-Mao era can be explained by the coevolution of China's bureaucracy and its markets. At the start of the reform in 1978, Deng Xiaoping inherited one of the most impoverished economies in the world and a poorly paid Maoist bureaucracy that stressed loyalty more than the competence oversaw the management of China's day to day business operations and investments. Arguably, the bureaucracy had incentives to impede a transition to a market-based economy because when formal public

wages are low, "civil servants are expected to steal, exert, or take petty bribes to finance themselves" (Ang 2016, p. 126).

Drawing on her own fieldwork and a wide array of sources, Ang argues that China has grown rapidly over the past thirty-five years because Deng and his colleagues, and their successors, found ways to give the bureaucracy incentives to attract investments and embrace an economy that has private property, capital markets, and openness to international trade and finance. Moreover, Ang provides evidence that China's bureaucrats were given incentives to attract investments that were aligned with the welfare of their local economy.

In broad brush strokes, the system worked as follows. All bureaucrats were expected to attract investments into their region. In addition, when they attracted substantial investment projects, they received bonuses; when they failed to meet investment targets they might be penalized. While bureaucratic salaries remained low, bonuses paid to bureaucrats who fulfilled investment targets have been much higher than administratively set wages. As the old Maoist bureaucrats began to retire, younger technocrats who were more equipped to deal with the complexities of modern capital markets and global trading entered the bureaucracy. The central government pushed reforms initially in the coastal regions, and here the bureaucrats attracted primarily foreign investments. Subsequently, reform moved to the interior provinces where bureaucrats gathered the bulk of their investments from the successful coastal regions.

This book provides a detailed account of the evolution of China's bureaucracy. Most of the scholarly work on the Chinese bureaucracy focuses on promotion and tenures of party secretaries and state chiefs. Ang draws on recent scholarship and fieldwork (including her own work) and provides a sharp description of the street bureaucrats who constitute about 99 percent of the bureaucracy. These street bureaucrats generally stay in their locality throughout their career and interact with citizens and firms on a daily basis. And it is these cadres who, as markets have evolved, can collect huge sums of money in exchange for providing investors "preferential access to emerging markets" (p. 113), such as industrial land that can be converted to commercial use.

Ang has some concerns about the growth of a form of corruption where investors and firms must “grease the wheels” and pay off bureaucrats in order to gain access to lucrative business deals in robust markets. Nevertheless, the overall message is that the case of China shows that corruption can be good for growth. Ang concludes that for the local bureaucrats, “the most lucrative stream of corruption comes . . . from greasing access to emerging and booming markets. Cozy state–business ties and collusive deals are often what it takes to assure entrepreneurs of their property rights and to entice investments.”

AQ 1

However, there is a growing body of evidence indicating that political connections between bureaucrats and firms in China may create some difficulties. State-owned enterprises (SOEs) are a case in point because they have many employees who previously worked or currently work as bureaucrats in the government or in the party; these employees use their political connections to obtain preferential access to finance from state banks, regulatory concessions, and government contracts for the SOEs that employ them. To deal with this issue, the central government in the mid-1990s enacted a set of reforms pressuring SOEs to become less dependent on the state for bailouts, regulatory concessions, etc. Small and unproductive SOEs were privatized or shutdown; larger and more productive SOEs were ordered to restructure. During the reform, SOE profitability grew rapidly. However, this profitability growth was driven by political factors such as declining political pressures on SOEs to hire surplus labor, and was only weakly related to indicators of efficiencies including productivity growth and convergence in product market markups (Berkowitz, Ma, and Nishioka forthcoming).

More generally, the reward of economic activities based on political connections rather than merit appears to be a growing issue in China. Because bureaucrats may have incentives to allocate lucrative land permits and business-entry permits and powerful jobs primarily on the basis of loyalty and/or family ties and secondarily on the basis of merit, economic resources can be misallocated which, in turn, can depress growth (see Lin et al. 2016). The Chinese press contains numerous accounts of how the children of powerful Communist leaders use their connections to

amass fortunes in sectors that have close ties to the state, including energy, finance, telecommunications, and security. Fisman and Wang (2015) document the welfare costs associated with political connections. Using a sample of publicly traded firms during 2008–13 they find that worker death rates in China are two to three times higher in companies that have political connections. In addition, they find that firms use their political connections to avoid mandated safety measures for protecting workers’ health and lives.

Ang’s book contains a very compelling account of how the Chinese bureaucracy has evolved in ways that promote growth during the past thirty-five years. However, it is not clear from reading this book just whether a system that encouraged “greasing the wheels” at all levels of the bureaucracy can continue to generate growth and stability going forward.

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Q Agricultural and Natural Resource Economics Environmental and Ecological Economics

Endangered Economies: How the Neglect of Nature Threatens Our Prosperity. By Geoffrey Heal. New York and Chichester: Columbia University Press, 2017. Pp. x, 227. \$35.00, cloth; \$34.99, e-book. ISBN 978–0–231–18084–9, cloth; 978–0–231–54328–6, e-book.

JEL 2017–0780

¹ Acknowledgement: I have benefitted from discussions with Iza Ding, Chen Lin, and Shuichiro Nishioka.

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