

*Chinese State Enterprises: A Regional Property Rights Analysis* by David Granick, Chicago and London, University of Chicago Press, 1990, x+347 pp.

This book is an attempt on the part of the author to extract from the results of a series of interview surveys the characteristic features of state-owned industrial enterprise behavior in China.

David Granick is a scholar with many years of research experience in the area of corporate behavior, especially the aspect of leadership, in the countries of Eastern Europe and the Soviet Union. The present book represents an attempt to apply what he has learned from his previous research on the socialist economic sphere to the Chinese case, by analyzing the data from a set of interviews carried out throughout the country by the World Bank and Chinese Academy of Social Sciences between December 1982 and the middle of 1985.

Granick's study focuses on the point that despite the fact of China adopting a planned economy based on the Soviet model introduced during the 1950s, what developed within the historical process that followed was an economic system far different in character from its counterparts in the Soviet Union or the countries of Eastern Europe. Within a framework of "principal-agent analysis" Granick emphasizes throughout his discussion the determining nature of differences that exist between China and the Soviet Union and Eastern Europe over local government's ability to control enterprise decision making.

Granick begins with an observation that state-owned enterprises in China are managed under "multiple principals," a characteristic that is unique when compared to the cases of the Soviet Union and Eastern Europe. He then proceeds to analyze what he considers to be the other factors that determine Chinese enterprise behavior—planning, resource distribution, prices, the incentive system, and the personnel management system—in order to discover the outstanding features of China's principal-agent relationships.

According to the existing research on the subject, it is possible to place central governments working under the Soviet model within the context of a "single principal" carrying out decision making and promoting desirable behavior among its agents through a system of rewards and punishments. In the case of China, however, not only the central government but also local governments on the provincial, municipal, and county levels act as principals in the affairs of state-owned enterprises located in each area, and possess property rights vis-à-vis these organizations. Each "principal" attempts to realize property rights through such means as directives and resource distribution. The property rights of local governments are created either by transfers of authority from the central government or direct investment by local governments.

In the case of multiple principals, enterprises may be faced with a situation in which joint authority is exercised by virtue of supervision being divided up among various government levels. Such a situation has often given rise to complex managerial problems, known in China as having "too many mothers-in-law," and is not observed anywhere within the economies of either the Soviet Union or Eastern Europe.

The transfer of authority from China's central government to its counterparts on the local level began to take place gradually at the end of the 1950s, then developed during the 1970s into what is today a full-blown joint authority system. Granick does not discuss in detail why China continued to divert from the Soviet model it completely embraced in the 1950s, but merely indicates in passing that historically China under the Ming and Qing dynasties was far more diffused in terms of governmental authority than highly centralized Czarist Russia.

As to the important characteristics of Chinese "central" planning, Granick points to the ease of realizing yearly plans and targets given to enterprises by their principals. In contrast to almost no cases of surpassing similar plans and targets in the Soviet Union and Eastern Europe, there are many cases in China where such goals have been exceeded many times over. This contrast certainly reflects differing systems of rewards and punishments related to success and failure, but it is also true that plans and targets themselves in China are not absolutely binding or mandatory in nature. For example, materials or products that cannot be procured through such plans are simply obtained in China through barter. Another point is that in China there are many forms of goods not subject to distribution by the central government, as indicated by the growing percentage of such goods remaining in the hands of local governments since the 1960s. It is these types of institutions and standards that have made the introduction of the market mechanism much easier in post-economic reform China than in the Soviet Union.

There are also great differences between China and the Soviet Union as to where authority over personnel lies regarding the enterprise managers and the Secretary of the Party Committee. In the Soviet Union authority over an enterprise and authority over that enterprise's personnel are separate; in China there are many cases in which they are joined into one. Property rights possessed by principals in China are guaranteed only when they are accompanied by authority in the area of personnel management.

Another unique aspect is that monetary incentives for individuals do not play a very important role in China. While in the Soviet Union rewards and punishments correspond to whether or not quantitatively determined targets are met, in China no relationship between performance and rewards is perceived. Nevertheless, since 1987 China has been introducing an incentive system for higher-level enterprise management.

China's employment picture is characterized by (1) very low labor mobility, (2) the prestigious position of "regular state employees" who have both lifetime-job tenure and the right to hand down their jobs to their offspring, (3) joint efforts on the part of both government and enterprises to create additional jobs for absorbing the unemployed, and (4) a multi-stratified employment structure made up of regular state employees, large-collective employees, small-collective employees, and temporary workers. These are features that have made limiting employment unfeasible (thus perpetuating low wages) and have caused failure in attempts to cut back consumption.

Granick is of the opinion that the above-mentioned characteristic features were already fully developed prior to the beginning of economic reform in China, and therefore argues that his analytical framework works for both the pre- and post-economic reform eras. Thus, he is able to say that the ineptness in material distribution under central planning was not a result of economic reform, but rather such ineptitude existed long before the reform began. Moreover, the low level of labor mobility and the absence of material incentives are also areas that have remained unchanged despite economic reform. On the other hand, what economic reform did bring about, according to Granick, was a change in local government priorities from wanting control over distributing goods to emphasizing fiscal profitability, a change that indicates growing localism.

Turning to the aspect of efficiency, how are we to evaluate the Chinese model in comparison with the Soviet model? Granick observes the tendency towards local self-sufficiency, the absence of labor markets, a multiple management system, the low level of planning coverage, and the existence of a multi-standard pricing system in China as factors tending to lower efficiency. However, he does give China superior

marks for its sufficient supply of goods in most cases, the relatively consistent nature of the information flowing from enterprises to government bureaus, and the absence of any undue pressure applied on enterprises by economic plans and targets. As for the transition to a market economy, Granick argues that China has incurred lower costs in its efforts than the Soviet Union due to the fact of abandoning from early on the concept of single principal distribution by the state.

Granick concludes his discussion with the prediction that the kind of economic system existing in China today may very well become the groundwork for political pluralism in that country.

*Chinese State Enterprises* is, to repeat, a treatise that empirically analyzes the decision-making process in Chinese enterprises within the framework of "principal-agent theory," and as such is the first treatment of this particular subject since the general study published by Barry M. Richman in 1969 under the title *Industrial Society in Communist China*, New York, Random House. It is only fitting therefore that the author has chosen for his time span not the post-economic reform 1980s but the period since the 1970s, a time during which he sees China diverting more and more from the Soviet model it adopted in the 1950s. The argument that he presents is both well-documented and quite persuasive. Economic pluralism centered around local government bureaus is becoming more and more established within the development of market economy in China. How to evaluate this phenomenon in terms of economic efficiency will certainly be one of the pressing issues to focus upon in the years to come.

(Midori Kizaki)