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INTRODUCTION

1 The Political Logic of Economic Reform

In the fall of 1991 I visited China and Russia. Urban economic conditions in the two countries presented a striking contrast. The streets of Chinese cities were bustling with commercial activity. Shoppers thronged private and collective shops displaying the latest Hong Kong fashions manufactured in China. Couples debated whether to spend their savings on microwave ovens or tape recorders. Doting parents purchased Japanese electronic keyboards for their children. Market counters displayed an abundance of vegetables, fruit, meat, and seafood. People said that nowadays there was more fresh produce available in winter than there used to be in summer. Black-market currency traders no longer prowled the streets because the Chinese *renminbi* had been gradually devalued almost to the market rate. Urbanites still went to work on bicycles or crowded buses; they still lived in tiny, dilapidated apartments; the newspapers still complained about the low efficiency of state-owned factories. But it was obvious that starting from a relatively low base, Chinese urban living standards had improved markedly during the past decade.

Conditions in Russian cities were much bleaker. Compared with China, the number of private or collective businesses was infinitesimal and their supply of consumer goods meager. People stood in line for hours, and when they finally made it inside the shops, they found little to buy. The shelves of state stores were even barer. Basic foods were in short supply, especially in Moscow. Sugar and cheese were impossible to find and eggs almost as scarce, even in private markets. Uncertainty about the political and economic future had driven the expected value of the ruble to almost zero. People waited in long lines outside hard-currency shops, the only steady supply of food and consumer goods. Some vegetable sellers in private markets demanded that their customers pay in U.S. dollars. Many mothers had quit their jobs because their ruble salaries were worthless and they had to forage for food. Russian émigrés arrived in the West with serious health and nutrition problems. Soviet living standards had started from a higher base than that of the Chinese, and Russian citizens still drove private cars and lived in more modern apartments than did their counterparts in China; nevertheless, the lack of food and everyday consumer goods meant that basic subsistence was now in doubt.

What paths brought China and the Soviet Union to such different economic outcomes? Both countries introduced economic reforms during the 1980s, but their reform strategies were completely different. Deng Xiaoping, the Chinese Communist Party (CCP) leader, attempted to carry out economic reforms without political reforms. By contrast, Mikhail Gorbachev, the Soviet Communist Party leader, decided that the only way to accomplish economic reforms was to introduce political reforms first.

By the end of the 1980s the Chinese strategy of economic reform without political reform appeared to have worked, at least in overall economic terms. The economy was growing, and people were living better. Real per capita gross national product increased 7.2 percent annually from 1978 to 1990 (McMillan and Naughton 1991, 3). The economy grew out of the plan so that more than half of all economic activity was governed by the market (Naughton forthcoming). Private, collective, and foreign joint venture enterprises produced more than half of national income. Despite these changes, progress toward a market economy was not smooth. At several times during the decade the reform drive appeared to have been derailed by economic problems and political conflicts. Economic overheating threatened to stall reforms and necessitate a return to central economic controls in 1981 and again in 1987–89. Over the course of the 1980s popular protests became more frequent (student demonstrations occurred in 1986, 1987, and 1989), and the conservative leaders in the party strengthened their hand. In 1989 Deng Xiaoping ordered the army to put down mass demonstrations in Beijing and more than eighty other cities. The violent repression, televised worldwide on CNN, tainted the CCP's international image as well as its domestic political legitimacy. After the Tiananmen crackdown, the CCP was split between a conservative leadership and a Central Committee that supported the reforms. With the party divided, the government bureaucracy was immobilized and economic policy was stuck. Despite the lack of new reform intiatives, the marketization of the Chinese economy expanded on its own momentum, and mass living standards continued to improve. Over the decade Chinese groups had acquired vested interests in the economic reforms, and no one suggested turning back to the command economy.

The Soviet strategy of political reform before economic reform produced political chaos and disintegration and a decline in living standards and growth rates.[1] Gorbachev dismantled the Communist Party's control over the government and the society and shifted authority to government institutions, including democratically elected legislatures. Despite radical political reforms, government officials continued to obstruct economic reform initiatives. After an abortive coup in August 1991 by conservative party and military leaders, the Communist Party was outlawed and the Soviet Union dissolved. The old centrally planned economy collapsed without a new economic system to take its place.

The overall economic success of the Chinese economic reform experience is surprising because we usually think of communist political institutions as rigid and hostile to innovation. We expect communist party and government officials to defend their vested interests in the command economy by blocking market reforms. Gorbachev's effort to change the political rules of the game before transforming the economic system accords with our views of communism better than Deng's strategy of economic reform without political reform does. Why, then, did China successfully achieve economic reform while the Soviet Union failed? How were the Chinese leaders able to introduce market reforms through communist political institutions?

In *The Political Logic of Economic Reform in China* I try to answer these questions by analyzing the political process of economic reform in China since 1979. The transformation of a Soviet-type centrally planned economy into a system of market socialism is an extremely complex and difficult task.[2] Most of the previous attempts

1. The United Nations estimated that Soviet economic output would decline by 15 percent in 1991 ("U.N. Calls" 1991).
2. Throughout this book I use the term *market reform* to describe the Chinese economic reforms. The Chinese version of market reform involved introducing the profit motive, competition, and managerial autonomy into a socialist state- and collectively owned economy, not substituting private

at economic reform—specifically, those in the Soviet Union in 1957 and 1965, Poland in 1956, Yugoslavia in 1952 and 1965, Hungary in 1968, Romania in 1967, and Czechoslovakia in 1968—failed, leading to no structural changes in the economy. Only in Yugoslavia did the decentralization of economic control proceed continuously to create a socialist economy with genuine markets.

We are right to believe that the limitations to economic reform in communist countries such as China exist more in the realm of politics than in the realm of economics. It is indeed extraordinarily difficult to introduce a market through a communist party-state bureaucracy. Yet communist political systems also have elements of flexibility and authority that offer opportunities for policy innovation. This book demonstrates that in some forms of communism, economic transformation can be achieved without changing the political rules of the game. Although communist political institutions are not in themselves insurmountable obstacles to economic reform, they do shape the economic reform policies that emerge from them.

The pattern of economic reform in China should be seen not merely as the trial-and-error attempts of Chinese leaders to find a formula that works or as the reflection of debates among economists over policy design. The real challenge of economic reforms was the political one. Every Chinese economist I've ever met believes that the path of reform reflects a political logic. As the Chinese economists put it, Deng Xiaoping and his reformist lieutenants, Zhao Ziyang and Hu Yaobang, pushed against the stone wall of the Chinese bureaucracy. Where they found loose stones, they pushed through; when stones would not move, they did not waste energy pushing. I try to make sense of Chinese economic reform policies by analyzing the construction of the "stone wall," that is, the institutional characteristics of the Chinese political system.

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ownership for public ownership. It also involved combining market exchange among economic units with government planning, not substituting the market for planning. In other words, the Chinese market reform was intended to improve the economic performance of socialism, not to replace it with capitalism. Until 1992, the Chinese themselves always used the term *socialist commodity economy* (*shehuizhuyi de shangpin jingji*) because it was politically more palatable than the term *market economy* (*shichang jingji*). As the well-known reformist economist Chen Yizi argued, a commodity economy *is* a market economy, but no one in China was ready to say it (Chen Yizi 1990, 69–70).

An Institutional Approach to Explaining Economic Policies

This book explores the distinctive features of communist political institutions in order to discover the opportunities and limits for economic reform in all communist regimes. My starting point is the unusual idea that we can study policy-making in communist countries much as we would in noncommunist countries: by looking at the patterns of competition among politicians who operate in an institutionalized political setting. Scholars who study policy-making in democracies look at the way electoral, legislative, and executive powers and procedures create political incentives for politicians and set the ground rules for collective decision-making. Different sets of institutional arrangements generate distinctive political incentives and decision-making rules and thereby lead to predictable policy outcomes. Some scholars, most notably Robert Bates (1981; 1983) and Barry Ames (1987), have used a similar institutional analysis to understand economic policy-making in non-democratic, authoritarian, less developed countries. I apply this kind of institutional analysis to the study of economic policy-making in communist countries.

Scholars of communist systems usually ignore the institutional framework of policy-making. They assume that institutional rules and lines of authority are irrelevant and that all decisions are made by one or a few individuals at the top of the nation's communist party.[3] And, depending on each scholar's perspective, they see communist leaders as choosing policies to solve the real problems confronting the country, to pursue their moral-ideological vision of the good society, or to defeat their rivals in factional power struggles.

My view is that policy-making in China has become a pluralistic process involving hundreds of officials from various Communist Party and government departments. And I believe that, although the informal power of a small number of Communist Party leaders such as Deng Xiaoping still influences the policy-making process, the formal and tacit rules of Chinese politics also shape policy out-

3. The most outstanding exceptions to this generalization are Jerry Hough's writings on "institutional pluralism" in the Soviet Union (especially 1969 and 1977), Philip Roeder's book (forthcoming) on the transformation of political institutions in the Soviet Union, and research on Chinese bureaucratic politics by Kenneth Lieberthal and Michel Oksenberg (especially their book, 1988) and by David Lampton (1987a).

comes. The authority to choose top party leaders granted by the CCP constitution to the Central Committee and the party's legal authority to appoint government officials set the context in which Chinese officials compete with one another to advance their careers and make economic policies.

Communist authoritarian regimes begin as revolutionary movements led by charismatic leaders. After Liberation these leaders continue to be the focus of loyalties, and personalistic authority dominates. As revolutionary regimes consolidate themselves and shift their attention from revolutionary transformation to economic modernization, their ruling parties begin to assert their collective authority, and political practices become regularized and institutionalized.

In China, Mao Zedong attempted to sustain his revolutionary charisma and stem the trend of institutionalization (disparagingly called "revisionism" by Mao) by launching mass campaigns such as the Great Leap Forward (1957–58) and the Cultural Revolution (1966–69). Thanks to Mao, China's evolution from personalistic rule to institutionalized authority was retarded.

China in the 1980s was far behind the Soviet Union in giving institutions and not personalities the authority to make decisions. The Central Committee of the Communist Party of the Soviet Union (CPSU) established once and for all its authority to choose party leaders in 1957 when it overruled the Politburo's firing of the party first secretary, Nikita Khrushchev; after defending Khrushchev in 1957, the Central Committee removed him from power in 1964 (Hough 1991, 95; Roeder forthcoming). Although the Chinese Central Committee has the same formal powers on paper (in the CCP constitution), its actual authority has not yet been definitively established. Whenever a party leader is selected, the Central Committee must share its role with other party elites, some of whom are retired elders who do not even hold official posts. The locus of authority is ambiguous because it is actually moving from an informal group of revolutionary elders to the collective institutions of the Communist Party; the pattern should be familiar to European historians who study political transitions from rule by royal courts to rule by parliaments.

Deng Xiaoping, who took over as China's preeminent leader in 1977, publicly declared his commitment to accelerating the long-delayed process of political institutionalization in China. In a landmark 1980 speech, "On the Reform of the System of Party and State

Leadership" (Deng Xiaoping 1980), Deng laid out a political reform agenda which, although falling far short of democratization, proposed a system governed by rules, clear lines of authority, and collective decision-making institutions to replace the overconcentration of power and patriarchal rule that had characterized China under Mao.

Not all the Maoist feudal, patriarchal ways criticized by Deng Xiaoping were actually eliminated, and the authority of institutions was not yet firmly established during the first decade of economic reform; nevertheless, Chinese officials themselves acted as if they believed that institutional rules now mattered more than they had before. In the history of economic reform policy decisions, communist politicians were obviously concerned as much with winning the support of the groups well represented in the CCP Central Committee, especially local officials, as with winning the approval of the retired elderly leaders who no longer had formal institutional positions.

Yet most observers of Chinese politics, not only foreign observers but also Chinese ones close to the action in Beijing, still view policy-making as a game played by only a few leading personalities. Because institutions such as the Central Committee almost never overrule the proposals of top leaders, the authority of such institutions is invisible to most observers.[4] Of course, Washington insiders have the same blindness to the role of institutions that Beijing insiders do; their stories about policy-making concentrate on the idiosyncrasies of the current president, the Speaker of the House, and key congressional leaders instead of the institutional relationships between the executive and legislative branches of

4. Hough (1991, 94) points out that the same blindness to institutions has characterized the views of foreign scholars and Soviet intellectuals on Soviet politics: "We have become extraordinarily insensitive to institutions in the Soviet Union. The Soviet unwritten constitution put decision-making power in the party Central Committee and Politburo. . . . The political stability under Leonid Brezhnev left little reason for scholars to think about the institutional mechanisms through which power was acquired or maintained during his long reign. And the Soviet intellectuals on whom we have come to rely have understood nothing about intraparty mechanisms. They have talked about the resistance of 'bureaucrats' or 'the Party apparatus' to Gorbachev and about his need to create democratic institutions to circumvent them, but they have had no detailed sense of how the bureaucracy and Party apparatus are organized and how they interrelate. One thing is absolutely certain: Gorbachev understood the mechanisms of power in the Soviet system extremely well, and he set out to gain control of them in a very determined and even ruthless way."

government, the committee structure within the legislature, or the different electoral incentives facing presidents and legislative representatives.

Although I do not deny the continuing influence of leadership personalities in Chinese politics, I propose to place Chinese economic reform policy-making in a broader institutional context and to make explicit the rules of the political game in China. Part 2 (chapters 3–8) of this book maps the basic contours of the Chinese institutional landscape:

Authority relations. Who are the leaders with ultimate responsibility over policy, and who carries out policy? In the Chinese case, the Communist Party has supreme authority but delegates the job of making and implementing economic policy to the government.

Leadership incentives. To whom are leaders accountable and how are they chosen? In China, Communist Party leaders are chosen by an elite "selectorate" consisting of the members of the Central Committee, the revolutionary elders, and top military leaders—fewer than five hundred people in all. Party, government, and military officials in the selectorate are appointed by top CCP leaders but also have the authority to choose top CCP leaders, creating a relationship of "reciprocal accountability."

Bargaining arena. What is the institutional setting of collective choice? In China, economic policies generally are made in the government bureaucracy, with virtually no role for the legislature or judiciary.

Enfranchised participants.[5] Which groups are represented in policy deliberations? (Another way to phrase this question is, Who gets to sit around the bargaining table?) In China, economic decisions are made by ministries organized by function (e.g., education) and sector (e.g., machinery), and by province.

Decision rules. What are the rules of collective choice? Chinese economic policy-making operates according to delegation by consensus. If lower-level bureaucrats agree, the policy is automatically ratified by the upper level. If some lower-level bureaucrats refuse to agree, effectively vetoing the policy, it is referred to the upper level for resolution or tabled indefinitely.

These five features of Chinese communist institutions shaped the behavior of the officials who made economic reform policies from

5. Whereas I use the term *enfranchised participants* to describe groups who participate in policy-making, Roeder (forthcoming) uses the term in a more limited way to describe groups in the selectorate.

1979 to 1989. Analysis of these institutional features provides a framework for understanding the political logic of the reform drive and the sequencing, form, and content of reform policies.

The Political Strategy of Economic Reform: Why Gorbachev Decided to Change the Political Rules of the Game, and Why Deng Xiaoping Decided to Keep Them

Political institutions are not static. Economic reforms in communist states often are accompanied by some reform of the political system. Changes in institutional rules can modify the context in which bargaining over economic reform policies occurs. Thus, political reforms can be important elements of the political strategy of economic reform conducted by political elites.

The practical challenge of reforming a communist economy is how to manage politically the major redistributions of funds and power involved in the transition from central planning to market competition. Reformist leaders need simultaneously (1) to mobilize groups who will benefit from economic reforms into an effective coalition of support for the reforms and (2) to win over or render ineffective the groups who will lose as a result of the reforms. Otherwise, reform policies will be blocked by the groups most threatened by them.

The classical form in which this issue confronts reformist leaders in communist states is how to create an effective political counterweight to the center, the central communist party and government bureaucracies. The center has a strong vested interest in perpetuating central planning because it has the most to lose from reforms; moreover, it dominates the policy-making process in communist states.

China clearly differs from the Soviet Union in institutional strategies designed to tackle this issue. In the Soviet Union, Gorbachev decided that the only way to create a counterweight was to open up the political arena to mass participation and political competition. Changing the political rules of the game was a high-risk gamble—one that eventually led to the dismantling of Communist Party rule—but he believed he had no other choice. As he said in 1987, "Restructuring will only spin its wheels unless the main actor—the people—is included in it in a thoroughgoing way. . . . In order to make restructuring irreversible and to prevent a repetition of what happened in the past, everything must be placed under the control—once again—of the people. There is only one way to accomplish these tasks—through the broad democratization of Soviet society" (Gorbachev 1987, 7).[6]

Although Deng Xiaoping never publicly articulated his political strategy of economic reform, his actions show a very different calculation. He opted to retain the traditional communist bureaucratic polity with only minor modifications. He apparently believed that he could use local officials as an effective counterweight to the center without changing the political rules of the game. As a consequence, the Chinese processed economic reforms through the old decision-making channels.

Why did Deng and his political allies decide to stick with the authoritarian, bureaucratic system? Obviously, the political status quo was less risky than was a process of political change that might go out of control and subvert communism. From the perspective of Deng Xiaoping and his elderly colleagues in the founding generation of the CCP, what they feared most was what actually occurred in 1991 in the Soviet Union, namely, the overthrow of communist party rule.[7]

Another reason that Deng's strategy of reform differed from Gorbachev's was that China and the Soviet Union, although structurally very similar, differed in one important respect: in China, political and economic authority was more decentralized and less institutionalized than it had been in the Soviet Union. Mao Zedong's previous deliberate efforts at decentralization had left the Chinese center a less formidable threat to economic reform than its counterpart was in the Soviet Union.

6. Gorbachev's decision to risk mobilizing groups outside the bureaucracy in support of economic reform was based on a negative assessment of previous Soviet attempts at economic reform without political reform. The prominent Soviet sociologist Tatyana Zaslavskaya explained the lack of success of previous efforts to reform economic relations by the lack of "a strategy that would simultaneously stimulate the activity of groups interested in changing present relations and block the actions of groups capable of obstructing this change" (1984, 98).

7. The difference in the strategies of the Chinese and Soviet leaders may derive from their different generational perspectives. Deng's cohort of leaders are first-generation founders of the communist revolution in China, whereas Gorbachev belonged to the fourth generation of communist leaders in the Soviet Union (Hough 1980). Hong Yung Lee (1991) argues that the political evolution of the People's Republic of China was shaped by the peasant origins and the low educational standard of the founder generation, which remained in power for more than forty years.

The Stalinist model of a centrally planned economy was transferred to China from the Soviet Union less than forty years ago and was less deeply rooted in China than in the land of its origin. Forty years is a brief stretch of time from the perspective of twenty-five hundred years of Chinese history. Moreover, during the brief period when the Soviet-style system reigned in China, central control over economic life was never as extensive or effective as it was in the USSR itself. Especially after Mao Zedong purposefully shifted economic power down to provinces and cities during the Great Leap Forward and the Cultural Revolution, local governments played a much stronger economic role than did their counterparts in the Soviet Union. Chinese central planning was also more primitive and less inclusive than Soviet central planning had been; even during periods with a relatively high degree of centralization, the Chinese central bureaucracy (planning commission and ministries) controlled the production and allocation of fewer than 600 products, whereas the Soviets had central control over as many as 5,500 products (the Chinese categories were coarser so the numbers are not strictly comparable; Wong 1985). Under China's version of the command economy, a substantial share of economic activity went on outside the national plan, and much of it was administered at the provincial level.

China also had the "benefit" of the Cultural Revolution, which weakened central institutions and created a constituency for economic reforms. The normal operations of central party and government bodies were severely disrupted during the period following the Cultural Revolution (1966–76), with thousands of officials transferred to lower-level jobs or sent to the countryside for reeducation. As a result, central party and state bureaucracies were less daunting opponents to economic reform than they were in the Soviet Union and other communist states where their reign had been uninterrupted. In fact, central bureaucracies were active proponents of some reforms that they believed would rationalize and preserve their limited domain.

During the Cultural Revolution decade, social life became highly politicized and unpredictable. Thousands of intellectuals, professionals, and officials were pilloried in public meetings, fired from their jobs, and imprisoned. Ordinary citizens had to worry about being criticized by their coworkers and neighbors. Political campaigns disrupted the economy so that living standards stagnated and China fell increasingly behind its East Asian neighbors. The Cultural Revolution had a genuinely traumatic effect on Chinese urban society, compared by some Chinese to the social trauma of fascism in Europe. Having experienced the irrationalities of the communist system in such an extreme form, Chinese leaders and citizens alike were ready to consider changing the system.

The comparison between China and the Soviet Union illuminates the logic of the Chinese political strategy of economic reform. In China, the central party-state bureaucracies were a less formidable obstacle to market reforms, and previous waves of administrative decentralization had created the possibility that provincial politicians could become the reformist counterweight to the more conservative center. Although these provincial politicians were appointed by the central party organization, they were expected not only to enforce central directives but also to articulate local interests. With the support of provincial politicians, Deng Xiaoping was able to push his reform program through the bureaucratic decision-making process and avoid the risks of changing the political rules of the game.

The Path of Chinese Economic Reforms

The ramifications of Deng Xiaoping's crucial decision to retain the traditional communist polity were momentous. Economic reform policies were processed through the same bureaucratic authoritarian institutions that had existed in China since the 1950s. Yet even without changing the political process, the Chinese were able to make considerable progress toward a competitive socialist market economy. Contests for leadership succession—during 1978–80 between Deng Xiaoping and Hua Guofeng, during 1980–87 between Hu Yaobang and Zhao Ziyang, and during 1987–89 between Zhao Ziyang and Li Peng—motivated contenders to propose innovative solutions to China's problems. Various early moves—for instance, to decollectivize agriculture, expand foreign trade and investment, encourage private and collective business, decentralize fiscal revenues to local governments, and allow state factories to keep a share of their own profits—changed the economic and career incentives of bureaucrats and managers to give them a real interest in promoting reform. The dynamic growth of the nonstate sector during the long period of transition taught state industry bureaucrats and managers the advantages of getting free of the plan.[8] Over the course of the decade the momentum of the reform drive was sustained despite periodic retrenchments caused by economic difficulties.

Certainly the persistence of the old communist political institutions made the task of winning approval for reform policies difficult. The Chinese government bureaucracy, where most economic policies are made, always made decisions by consensus and not by majority rule.[9] Consensus decision-making institutions tend to be conservative because radical departures from the status quo are blocked by vetoes from groups who stand to lose. In a hierarchical bureaucracy, moreover, subordinates are less willing to compromise to achieve consensus when they perceive their leaders to be divided. Intense political competition at the top makes it harder to obtain consensus below.

The trajectory of Chinese industrial reforms over the decade in question was shaped by consensus decision-making. Instead of sweeping out central planning in one bold stroke, elements of market competition were introduced gradually and tacked onto central planning, prolonging the period of transition from planned to market economy. A radical agricultural decollectivization, which did not threaten the industrial ministries or the Ministry of Finance, was introduced ahead of industrial reform, which would diminish the control and resources of these powerful central ministries. Because local (provincial and municipal) officials were a large bloc in the CCP Central Committee and a critical ingredient for achieving a policy consensus, funds and authority were decentralized more to local governments than to the enterprises themselves. A dual-track price system combining floating market prices with administratively set plan prices was implemented to avoid tackling the radical redistribution among raw material and manufacturing sectors implied by a comprehensive price liberalization. Instead of attacking the perquisites and powers of the central bureaucracies head-on, Deng Xiaoping decided to encircle the bureaucracies by

8. In China, the nonstate sector is defined as all business not owned by the government, including both collectively and privately owned businesses.
9. The collective bodies of the CCP, including the Party Congress, the Central Committee, the Politburo, and the Standing Committee of the Politburo, appear to make decisions by majority rule and not by consensus. But the government bureaucratic meetings where most economic policies are hammered out make decisions by consensus.

creating new forms of business exempt from normal state rules, such as private and collective firms and Special Economic Zones designed to attract foreign investment. The dynamic growth of this nonstate sector put competitive pressure on state-owned firms and the government bureaucrats responsible for them; soon state managers and bureaucrats were demanding the same market freedoms for their state-owned firms.

In the context of leadership competition and consensus decision-making, proposals for industrial reform that would have applied the same economic rules to all enterprises or all localities drew bureaucratic opposition and either were defeated or barely passed after being modified by compromises and side payments. Such proposals, which can be called "standardization reforms" (the most obvious examples were tax reform and price reform), drew bureaucratic opposition because they were inherently redistributive, threatening the economic benefits of industries and regions favored under the centrally planned economy.

But surprisingly, some reform initiatives were easily approved by communist bureaucrats. Reform proposals that applied different rules to each enterprise and locality were widely popular and sailed through the bureaucracy. These proposals, which I call "particularistic contracting," gave party and government officials at every level opportunities to earn political support from subordinates in exchange for granting them generous contract terms. Particularistic contracting was politically successful in the context of Chinese political institutions because it mimicked the familiar pattern by which production and supply quotas were bargained out and political support networks built under traditional central planning. Moreover, particularistic contracting reforms were embraced because they were not redistributive; enterprises and localities could preserve their vested interests while carrying out reforms.

Out of China's authoritarian, bureaucratic policy came a reform package that was surprisingly successful in political terms. "Chinese-style economic reform"—consisting of particularistic contracting, a dual-track system combining market and plan, decentralization to local governments, agricultural decollectivization, stimulation of the nonstate sector, and special zones for foreign investment—was a winning formula given the rules of Chinese politics. To put this conclusion in the terms of institutional analysis, Chinese-style economic reform was a policy equilibrium in the context of Chinese political institutions. Every time politicians or eco-