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978-0-521-58101-1 - The Political Economy of Property Rights: Institutional Change and Credibility in the Reform of Centrally Planned Economies

Edited by David L. Weimer

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The Political Economy of Property Rights reports on comparative research into the transformation of property rights in post-communist countries and China. Two important theoretical questions unify the contributions: What aspects of political systems give credibility to systems of property rights, and what can be learned about large-scale change of economic institutions from the transformation of property rights in post-communist countries? The contributors demonstrate the usefulness of the theoretical and empirical tools of modern political economy for answering these questions. They argue that the credibility of property rights arises from the strategic interaction of political and economic actors, and they apply this perspective and test its implications, using a variety of qualitative and quantitative methods. The empirical evidence forms a basis for testing theories of institutional change. Overall, the volume demonstrates the value of coordinated cross-national research by area specialists sharing a common focus on questions of political economy.

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*Institutional change and credibility in the
reform of centrally planned economies*

Edited by

DAVID L. WEIMER

University of Rochester



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In memory of William H. Riker –
teacher, scholar, colleague, friend

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Series editors' preface

The Cambridge Series on the Political Economy of Institutions and Decisions is built around attempts to answer two central questions: How do institutions evolve in response to individual incentives, strategies, and choices? and How do institutions affect the performance of political and economic systems? The scope of the series is comparative and historical rather than international or specifically American, and the focus is positive rather than normative.

The political and economic transformations under way in Eastern Europe, the former Soviet Union, and China provide an ideal “laboratory” for studying change in the institution of property rights. The authors in this volume both extend the theory of the political economy of property rights and apply that theory to analysis of the transformations going on in these transition economies.

This study is the result of a unique experiment by the late Bill Riker (to whom the volume is dedicated) and the editor to assemble a group of political scientists with country specializations, expose them to the methods and theories of political economy, and then engage them in a coordinated field-research project studying questions relevant to understanding the evolution of property rights. Specifically, the authors focus on political and economic factors determining the credibility of the newly created rights to private property and the path of transformation from state ownership to other forms of property holding.

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In the summer of 1990, William H. Riker and I began having conversations about the dramatic political liberalization taking place in Eastern Europe. The emerging political leaders of post-communist countries were professing a desire to accompany political reforms with transformations from socialist to market economies. Our discussions soon focused on the role of property rights in these transformations. We shared several beliefs: Property systems fundamentally affect economic performance; the effectiveness of market economies in achieving economic growth depends on extensive private ownership of the means of production; and private property generally contributes to maintenance of liberal political regimes, directly by creating a basis for opposition to governments and indirectly by contributing to the effectiveness of market economies. But we also had scholarly interests in property rights arising out of our prior research. Riker's arose most immediately from his research on the evolution of property rights to airport landing slots. Mine arose out of my research on U.S. petroleum regulation during the 1970s, which reduced the credibility of property rights in oil markets. It seemed to us that the events unfolding in Eastern Europe, the former Soviet Union, and even China provided an extraordinary "natural experiment" for comparative study on a grand scale of the political economy of property rights.

Yet we feared that compartmentalization of the social sciences might prevent this wonderful research opportunity from being fully exploited. While economists tend to dominate the theoretical side of political economy, they rarely invest in the detailed institutional knowledge that would be necessary to understand deeply the evolution of property rights. Country specialists in political science have exactly the knowledge of language, culture, history, and political institutions that allows them to observe the transformation closely, but they too often earn these capabilities at the expense of more general training in social science methods and theory. Further, investment in acquiring detailed contextual knowledge of one

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country or a few countries tends to isolate country specialists from one another so that, in the absence of common theoretical questions, empirical work tends not to cumulate comparatively. (Indeed, we quickly discovered what in our naïveté struck us as a surprisingly strong separation between Eastern European and Soviet specialists.)

We decided that we would make our contribution to the scholarly exploitation of the natural experiment by organizing the Comparative Property Rights Project. We would assemble political scientists with country specializations, expose them to the methods and theories of political economy, help them coordinate their empirical research around questions relevant to understanding the evolution of property rights, facilitate their field research, and prepare a volume in which to present their findings. Fortunately, a private foundation saw merit in our proposal and gave us a grant of sufficient size to begin the project. The newly created W. Allen Wallis Institute of Political Economy at the University of Rochester adopted the project as its own and added to our coffers.

In 1991 we began recruiting fellows for the program. We were pleased and reassured to receive applications from more than fifty qualified country specialists. From this field we enlisted four predoctoral fellows, three postdoctoral fellows, and a legal fellow. These fellows, joined by several Rochester graduate students in political science, two precocious undergraduates, and a visiting lawyer from Germany, spent the fall 1992 semester with us in a preparatory seminar. We provided exposure to neo-classical and neoinstitutional economics, especially as applied to property rights; social choice theory, especially as applied to constitutions; and game theory, especially as a basis for the theory of institutions. The fellows took the lead in providing the seminar participants with background on the political transformations in their countries of specialization: Czechoslovakia, China, Hungary, Poland, and Russia.

During the first few months of 1993 we collectively struggled with how to coordinate the fellows' field research. Our initial concern that the economic transformations would not be well documented was allayed by the systematic comparisons of privatization then being assembled by Roman Frydman, Andrzej Rapaczynski, and John S. Earle in a series of books that have since been published by the Central European University Press. So we felt free to move on to more general questions: What political and economic factors determine the credibility of the newly created formal rights to private property? What political and economic factors determine the path of transformation from state ownership to other forms of property holding? The first question derives from one of the most fundamental questions in political economy: How can governments powerful enough to establish rules convince economic actors that they will not arbitrarily change them? The second question falls within the

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larger debate over the nature of institutional change. These questions, along with a substantive focus on property rights, serve to unify the contributions to this volume.

Shortly after the fellows left to do their field research in the spring of 1993, Bill Riker entered the hospital to be treated for cancer. His death at the end of June was a great blow to me, the fellows, and my colleagues at the University of Rochester. Though not young in years, Bill possessed enormous intellect and energy. As all of us can attest, he had great intellectual enthusiasm that was contagious among those around him.

Bill's death was an especially great personal loss to me. Our association began in his political strategy course when I was an undergraduate. When I returned to Rochester to join the faculty, I found that he had very much more to teach me. He became my mentor and my friend. I miss him very much.

The Comparative Property Rights Project has undoubtedly suffered from his absence. Although I have done my best to bring the project to a successful conclusion, I am certain that Bill's participation in the last stages would have made the final product better.

Many people besides the authors and discussants have contributed to the project. In his capacity as director of the Wallis Institute for Political Economy, Eric Hanushek provided the project with its institutional home. Valerie Bunce, G. Bingham Powell, Jack Knight, John Mueller, and Jeff Burds visited seminars to share their insights, and Randall Calvert, Jeffrey Banks, and Melanie Manion provided valuable insights at various stages of the project. James Alt offered valuable advice on several points. Tamas Fellegi and Lydmilla Kareva, though prevented by circumstance from contributing to the volume, were full members of the project who enriched the seminars, as did Thomas M. Kruessman during his stay. Nikolai Mikhailov, an exceptionally capable and diligent research assistant throughout the project, became an important contributor to this volume. Roger James also did an excellent job as a research assistant. Pamm Ferguson cheerfully took on the extra administrative burden involved in the project and carried it expertly. I thank, in addition to these specific individuals, colleagues in the Political Science Department at the University of Rochester and elsewhere for many informal discussions that enriched the project. I would also like to thank the Faculty of Social Sciences at Lingnan College, Hong Kong, for encouragement and logistical support during preparation of this volume.