Book Review

The Private Sector in Public Office: Selective Property Rights in China
YUE HOU
Cambridge, UK: Cambridge University Press, 2019
204 pp. $99.99
ISBN 978-1-108-49815-9 doi:10.1017/S0305741020001265

How secure are the property rights of private enterprises in China? Yue Hou provides a parsimonious answer that focuses on the characteristics of individual owners and their firms. The key to security is the entrepreneur's ability to signal, by obtaining a seat in a people's congress, high political capital, understood as connections to party-state officials. In this study, secure property rights means the ability to resist burdensome fees (*tanpai*) – what Hou refers to as expropriation; she argues that high political capital, especially status as a people's congress deputy, affords effective protection against expropriation.

Hou offers a methodologically sophisticated analysis based on a range of data, including interviews with a convenience sample of entrepreneurs and officials, available survey data, and an original online audit experiment. The interviews enable Hou to generate hypotheses, which she tests through the statistical analysis of survey data. The audit experiment confirms that invoking the people's congress signals political capital. The main alternative argument that Hou controls for is that party membership provides political capital to protect entrepreneurs from expropriation.

The study, written for a political-science audience, makes a contribution to the understanding of private sector development in China by highlighting the role of informal bargaining between entrepreneurs and officials and the role of discretion on the part of tax collectors. There is much to like in this compact volume. It also prompts a few questions.

With her focus on the individual level of analysis, the institution that Hou engages theoretically and empirically is the people's congress. Other aspects of the institutional environment in which revenue extraction takes place receive less attention. Local bureaucrats appear as individuals but not as institutional actors. Hou's statistical analyses control for provincial context; however, the relevant institutional context is the county/district or prefecture/municipality, the levels of government that regulate and extract revenue from private firms. Importantly, extractive practices vary systematically at these sub-provincial levels. For example, prefectural and county-level governments are assigned targets for growth and quotas for tax collection that shape their governance practices. Indeed, the "corporate tax burden in China is usually lower than statutory tax rate, because China's tax law enforcement does not follow the principle of "collecting all receivable taxes" (Hongsheng Fang et al., "The Role of Tax Quotas and Growth Targets," *World Economy* 2020, p. 4). Rather, tax quotas, along with government strategies to promote growth and investment, drive tax collection effort. Furthermore, sub-provincial arrangements for tax-revenue sharing affect the fiscal health of local government and influence regulation, including the likelihood that a given government entity will provide tax breaks or conduct tax inspections of local firms.

Without controlling for these important institutional features, it is not clear from Hou's study how much of the variation in "expropriation" of China's roughly 15 million private enterprises is explained by institutions and how much by an individual's political capital. Bargaining between entrepreneurs and local officials occurs along many interrelated margins; all of these parameters, including not only informal exactions but also formal tax payments, tax deductions, and enterprise tax rebates, negotiated land prices, job training subsidies for enterprises, preferred access to bank loans, charitable donations, etc., are shaped systematically by sub-provincial institutions. (Hao et al., "Political Connection, Corporate Philanthropy, and Efficiency," *Journal of Comparative Economics* 2020).

Expropriation is a key concept for Hou, who defines it as "government bureaucrats forcefully and unlawfully confiscating or devaluing a firm's assets" (p. 4). To her credit, Hou acknowledges how voluntary/involuntary and legal/illegal extraction is difficult to identify conceptually and empirically. One example is ostensibly voluntary donations made by private entrepreneurs. Hou opens chapter four with a vignette about a "typical" successful entrepreneur who is a people's congress deputy at the prefectural level. This deputy "*showcases* donations his company has made in recent years" (p. 69, emphasis added). His manifesto (Figure 4.1, in Chinese) highlights his donations for education, health and alleviating poverty among the disabled (*jiaoyu, weisheng, fupin zhucan*). Hou presents these payments as an example of building political capital rather than expropriation. As she details later in the chapter, "In some cases, local governments are not financially able to deliver public goods projects, and they sometimes collect money from local entrepreneurs for non-personal purposes… *my interviews suggest that entrepreneur-legislators are more likely to donate* to these projects…" (pp. 84–85, emphasis added).

In chapter five, however, Hou raises the question of whether "*legislators' savings on expropriation* are *in*significant compared with their extra spending on… *involuntary donations*" (p. 110, emphasis added). As she notes, her qualitative data suggest a positive relationship between political status as a people's congress member and donations, including involuntary ones (p. 111). The quantitative data do not allow her to distinguish voluntary and involuntary donations, leaving open the question: Is political capital protective against expropriation?

A final question arises with respect to expropriation. While, in lay language, the term evokes images of physical confiscation of assets, legal analyses often contrast government regulation and taxation, on the one hand, with modes of revenue extraction that result in serious deprivation of an investment, on the other. Every element in Hou's measure of expropriation (*tanpai* as a share of taxes + fees + *tanpai* + public relations expenditures) has a margin for negotiation. Some elements of negotiation may favour entrepreneurs or public goods provision, while others may result in predation.

What is clear – and an important takeaway of this elegant study – is that both regulators and regulated operate in a system characterized by negotiation and discretion.

SUSAN H. WHITING
swhiting@uw.edu