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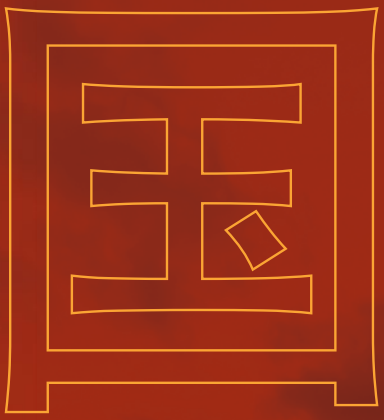
IN THE 21ST CENTURY



States, Intergovernmental Relations, and Market Development

Comparing Capitalist Growth in Contemporary China and 19th Century United States

Jinhua Cheng

Governing China in the 21st Century

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Governing China in the 21st Century
ISBN 978-1-137-59091-6 ISBN 978-1-137-58357-4 (eBook)
https://doi.org/10.1057/978-1-137-58357-4

Library of Congress Control Number: 2018936668

Cover Illustration: © shanghaiface / Getty Images

Printed on acid-free paper

This Palgrave Macmillan imprint is published by the registered company Nature America, Inc. part of Springer Nature.
The registered company address is: 1 New York Plaza, New York, NY 10004, U.S.A.

The original version of the book was revised: Series print and electronic ISSN has been updated. The erratum to the book is available at https://doi.org/10.1057/978-1-137-58357-4_7

I dedicate this book to my wife, Tang Xin, for her support, encouragement, and love, and to my daughters, Ruochong and Ruozhuo, for their love.

Preface

Thanks to my teachers. Because of them, I got a great opportunity to study at the Yale Law School to try to find an answer to a question that came to me about a decade ago. In the summer of 1995, as a freshman at a Chinese law school in Shanghai, I went back to my hometown—Guangfeng County, Jiangxi Province of China—to do an internship at the county's Public Security Bureau. During a campaign against local troublemakers, my mentor, a young division head of the Bureau told me: "we hope those guys to get out of Guangfeng to make money in other places, instead of staying and making troubles in our hometown, and if so, we would turn a blind eye to them." I was shocked by his comment, which bothered me for years.

Why would the police department in my home county dare to be so selfish as to "export" troublemakers to other localities? I asked myself. In theory, the Chinese central government has always mandated all local authorities to take care of troublemakers in their own jurisdictions, in order to keep public security for the whole nation. But, the practice of my home county government, like many others in China, did not follow this mandate from Beijing. Just like the Chinese saying tells: "the mountains are high and the emperor is far away." And, somehow, this selfish local practice even looks brilliant from the eyes of my fellow townsmen.

Something must be wrong regarding the disharmony between the mandate from the Chinese central government and the betrayed local practice. I kept looking for an answer to this puzzle and wrote an essay entitled "On Exporting Crimes by Local Governments in China" as my bachelor's degree thesis in 1998. However, I did this without recognizing

the contemporary wisdom on jurisdictional competition and economics of central-local relations. I thought I had done this, but I had not.

About a decade later, in New Haven, CT in the United States, I started thinking about this puzzle more systematically, chose this as the research subject of my JSD dissertation at Yale Law School, and extended my interest to a broader question: How can selfish behaviors of local governments in large nations, such as China, be good for the whole nation's welfare, particularly for their long-term economic growth? When making that research decision, I felt so amazing that I was still trying to get an answer to the same question that I had in my teenage years. The only explanation is that I was so curious about this and could not get rid of it.

At Yale, I learned a lot from my teachers and classmates. People at Yale, and other places as well, are thinking about similar questions like mine and have published enormous writings on this subject. But, I guess, they are doing this probably not because of their concern of the disharmonic practice of regulatory powers in Guangfeng, Guangdong, or Guangxi in China. At least, the majority of them have no such particular interest. Instead, most of them are doing this mainly because New Haven, New Jersey, or New York in the United States probably are in the same situation as my hometown in China.

Indeed, as two of the largest nations in the world, both China and the United States are facing many of the same problems. A particular one is how to design a good central-local framework for both the benefit of local residents and the commonwealth of the whole nation. This is one of those fundamental constitutional questions in the minds of great statesmen such as Alexander Hamilton of the United States and Chairman Mao of the People's Republic of China. Obviously, this is not an easy question to answer. But, it is a still meaningful question for conducting further research. Great thinkers, like Alexis de Tocqueville and Friedrich A. Hayek, have taught us a lot about intergovernmental design but haven't given a complete answer yet.

In this book, I try to give my own understanding through a historical comparison on the rise of domestic common markets in the nineteenth-century United States and contemporary China. Hopefully, in arguing a dual intergovernmental transformation for market development (or abbreviated as "the DITMD model"), I am successful in adding a small piece to the existing knowledge on state-market and central-local relations and their impacts on long-term economic growth. If so, I further hope this study will give some meaningful implications on China's future political transformation for its next stage of capitalist development.

This book is largely based on my JSD dissertation at the Yale Law School, with some significant updates though. In this regard, I would first like to give my most sincere thanks to all the following persons for their incredible help at Yale: Professor Susan Rose-Ackerman for her supervision, inspiration, and enormous support during the whole project, particularly her brilliant advice on me to "take the advantage of New Haven" when deciding my research subject; Professors Paul Gewirtz, Amy Chua, Robert Gordon, and Harry N. Scheiber for their generous encouragements and suggestions; Ms. Jamie Horsley, Mr. Jeffrey Prescott, Mr. Neysun Mahboubi, and Mr. Tom Kellogg for their warm friendships and broadening my intellectual horizon on both China and the United States; and Ms. Maria Dino and Ms. Tony Davis for their daily supports during my campus life in New Haven.

In addition, I would also like to thank the following persons for their help in my later development of this book: Professors Roberta Romano and Curtis Milhaupt for their critical and constructive comments on earlier drafts of the book; Professors Peixin Luo and Weidong Ji for all their administrative supports as my deans; Professors Jiangyu Wang, Andrew J. Harding, Omri Ben-Shahar, and Tom Ginsburg for their hosting my visits at the National University of Singapore and the University of Chicago respectively. Especially, I thank Professor Yijia Jing at Fudan University for his warmest invitation to me to have this book published in this Palgrave series on Governing China in the 21st Century.

The following institutions are also financially supportive to my work on this book: the Yale MacMillan Center for its financial aid to me to do fieldwork in China during the 2008–2009 year; the Ministry of Education of China for its financial grant under its "New Century Excellent Talents Program" (Grant No. NCET-13-0802); the Centre for Asian Legal Studies at the National University of Singapore Faculty of Law for hosting me as a Visiting Research Fellow in early 2016; and the Coase-Sandor Institute for Law and Economics at the University of Chicago for hosting me as a Visiting Professor of Law in the fall semester of 2016.

Finally, there is my family. My wife, Xin Tang, has always been my best friend in supporting my academic career. Without her full supports, both materially and mentally, I had no chance to be a scholar, about which I have been feeling lucky. Therefore, this book is specially for her. Our two daughters, Ruochong and Ruozhuo, have always been my angels whose smiles are the most beautiful inspiration for new ideas. In addition, my own parents and parents-in-law have been enormously supportive. They would enjoy reading this book, if they were able to read English. Thank you all!

Shanghai, China Jinhua Cheng

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CHAPTER 1

Introduction

This book is about institutional foundation of long-term economic growth from the perspective of state-market relations. In this regard, there is so much to talk about and people have talked so much about it.[1] To make this study new, the book focuses on a narrow question, that is, how to resolve the so-called fundamental state-market dilemma through intergovernmental transformation, and answers it with a detailed historical comparison on capitalist growth in the nineteenth-century United States and contemporary China. This introductory chapter will define the problem of the fundamental state-market dilemma, briefly describe existing solutions, present the book's major argument, say a little bit about the comparability of the two cases discussed, and outline the organization of the book.

1.1 The Fundamental State-Market Dilemma

To discover fundamental reasons for market development and economic growth in modern societies, a careful examination on the role of the state is necessary. With respect to the state-market relationship, there is a widely accepted recognition that (1) institutions matter in sustaining markets (North 1990; Weingast 1995; the World Bank 2002; Menard and Shirley 2005; Greif 2006; Acemoglu and Robinson 2012) and (2) the state

[1] About this subject, see a recent comprehensive review by Pranab Bardhan (2016).

J. Cheng, *States, Intergovernmental Relations, and Market Development*, Governing China in the 21st Century,
https://doi.org/10.1057/978-1-137-58357-4_1

matters in shaping institutions (North 1990; Olson 1993; the World Bank 1997; Barzel 2002; Fukuyama 2011 and 2014).

However, beyond this recognition, there is a puzzle in understanding the appropriate scope and strength of the state in safeguarding markets, as has been expressed by the following writers:

> One cannot have the productivity of an industrial society with political anarchy. But while such a state is a necessary condition for realizing the gains from trade, it obviously is not sufficient. A state becomes the inevitable source of struggle to take control of it in the interests of one of the parties… If you want to realize the potential of modern technology you cannot do with the state, but you cannot do without it either. (Douglass C. North 1984: 259–260)

> The fundamental political dilemma of an economic system is this: A government strong enough to protect property rights and enforce contracts is also strong enough to confiscate the wealth of its citizens. (Barry R. Weingast 1995: 1)

> But the mere fact of market failure, and other problems of inequality and insecurity, does not mean that only the state can – or should – resolve these problems. The state's coercive authority within its boundaries gives it unique strengths in seeking to address these concerns, but also unique weaknesses. (The World Bank 1997: 25)

> There is unfortunately no institutional guarantee that the system as designed will always check tyrannical power yet allow exercises of state authority when the need arises. (Francis Fukuyama 2011: 7)

> The state faces a delicate dilemma. It can facilitate institutional change and validate it through its political support and sanction. But its helping hand can easily become an iron fist of coercion and oppression when the institution it endorses works against the will of the people. (Ronald Coase and Ning Wang 2012: 52)

To develop markets and thus achieve long-term economic growth, the state shall be strong and active enough, but not too strong or active either. This is *the fundamental state-market dilemma*, which is the central question to be addressed in this book.

The fundamental state-market dilemma arises from the paradox that while the state is necessary to execute coercive powers in order to safe-

guard market transactions, the ruler of the state and its agents, like other players in the market place, are self-interested and tend to utilize these powers for their own interests either directly or ultimately.

On the one hand, markets are benefiting from the execution of the state's coercive powers in safeguarding economic transactions in that opportunistic behaviors are prevalent. For this reason, "the state is a response to the Hobbesian dilemma, that it is in every individual's interest both to make a contract and then, at the first advantageous opportunity, to break it" (Levi 1981: 435). In addition, the role of the state is particularly critical in developing economies, transitional economies, and common markets for their respective contextual specificities. In developing economies, market-friendly institutions either do not exist or are immature, and therefore, the state is necessary to play a creative role in building institutional infrastructures for market development. In transitional economies, certain economic institutions do exist but usually are not friendly to the market, and therefore, the state is even more imperative to play a destructively creative role in transforming the existing institutions to market-friendly institutions (Stiglitz 1996). In common markets, economic transactions tend to be more impersonalized, professionalized, and complicated than those in local markets, and therefore, the state is particularly mandated to play a role in enforcing contracts as a third-party enforcer (North 1981, 1990; Barzel 2002).

On the other hand, however, the ruler of the state is predatory in nature. Usually, there is a gap between the two types of welfare acquired from the execution of the state's coercive powers: (1) the revenues (and illegitimate rents) submitted to the ruler and (2) the total welfare surplus obtained. The difference between these two is the residual welfare, which is the seed for future investments and sustainable growth. When most of the residual welfare is returned to private actors and their investment incentives are guaranteed, accumulative growth is predictable. But, if most of the residual welfare is grabbed by the ruler, economic growth tends to be stagnant or even worse, at least in the long run.

As self-interested players, both the ruler and private actors are contending for a higher ratio of the residual welfare for themselves. Like other players, "all rulers are predatory in the sense that they, as much as they can, design property rights and policies meant to maximize their own personal power and wealth" (Levi 1981: 438). But, it is not a fair combat. The ruler holds a naturally advantageous position as a legitimate owner and enforcer of the state's coercive powers.

Obviously, the fundamental state-market dilemma significantly challenges the development of markets and thus economic growth in the long run. In some scenarios, the state is too weak to provide necessary institutions for development (Fukuyama 2004; Acemoglu and Robinson 2012). In other situations, the ruler grabs too much of the residual welfare and therefore future investments are significantly constrained (North 1990). In short, institutional solutions are required to balance the state's coercive powers in order to sustain market development. As Pranab Bardhan (2016: 866) remarks, it's time to "call for a strong but limited government."

1.2 Existing Solutions: Decentralization and Significant Others

Then the question is how to build up a strong but limited government. Theoretically, an intergovernmental transformation through decentralization could be a good institutional solution to overcome the aforementioned state-market dilemma. In particular, Barry Weingast and his colleagues develop the model of "market-preserving federalism" (MPF) to illustrate how MPF regimes are capable of limiting "the degree to which a political system can encroach on markets" (Montinola et al. 1995: 55; also see Weingast 1995, 2009; Qian and Weingast 1997).

Indeed, during the past four decades, there has been an intense interest in decentralization reforms around the world, particularly in developing and transitional countries (Rondinelli 1981; Cheema and Rondinelli 2007; Erk 2007; The World Bank Independent Evaluation Group 2008; Faguet 2014; Wunsch 2014).

The World Bank, for instance, has devoted an increasing share of its financing to support decentralization efforts in its client countries since the 1990s. According to an estimate by the World Bank Independent Evaluation Group (2008), during the fiscal years from 1990 to 2006, the World Bank lent out about $10.6 billion (about 2.7% of all of the bank's commitments during this period) to specially support decentralization reform in its more than 89 client countries.

With respect to the state-market relationship, decentralization has two principal features. First, the state *as a whole* is kept reasonably strong and active in order to provide institutional infrastructures and other public

goods for market development.[2] In this sense, the state can play a "helping hand" in sustaining markets (Stiglitz 1989; the World Bank 1997). This feature of decentralization also implies that "total government authority over society and economy imagined as fixed" (Rodden 2004: 482). Second, *within the "black box"* of the state organization, intergovernmental checks and balances are institutionalized so that the state's predatory rulings in markets can be significantly constrained (Weingast 1995). The second feature of decentralization differentiates "state" from "government" through highlighting the existence of many (central plus subnational) governments within a single state, at least in most nations. In this sense, the state's predatory rulings can be constrained because of "[the] *absence* of a single government with monopoly control over the economy" (Montinola et al. 1995: 80). This is particularly relevant to federal regimes in that "[w]hile a single sovereign might be tempted to abuse its authority, federalism provides a valuable protection by dividing power among multiple, competing sovereigns" (Rodden 2006: 5).

In short, as for the proponent of decentralization for market development, an ideal model of state-market relationship is that while the state as a whole is strong and active enough to help build markets, no single government within the state is capable of imposing predatory rulings because of institutionalized intergovernmental checks and balances. In this sense, the approach of decentralization holds that, for markets, the state is *"half angel and half devil."* This proposition distinguishes decentralization from three other major contemporary state-market frameworks: neo-liberalism, the "helping-hand" state, and the "grabbing-hand" state.

Neo-liberalism (e.g. the Washington Consensus) holds a philosophy of "the state *against* the market" and proposes to minimize the role of the state in markets. According to neo-liberalism, the state is necessary only if markets are failed; but, markets are usually not failed. Accordingly, typical policy suggestions from the neo-liberalist are trade liberalization, deregulation, and privatization (Williamson 1990).

The model of the helping-hand state has been developed in the past decades by students of developmental states, specially including East Asian states (Stiglitz 1998; Stiglitz and Yusuf 2001; Lin 2011). According to this model, not only is the state *complementary to* (instead of against) the

[2] Most studies of decentralization do not express explicitly whether the state as a whole shall be strong or weak. But, the literature of decentralization implies implicitly that the state shall have strong authority over markets.

market economy but also the markets are usually failed. Therefore, an active role of the state in markets shall be encouraged in order to correct market failures.[3]

Lastly, a few comparative political economists have recently developed the model of the grabbing-hand state to understand market transition in post-communist countries (Shleifer and Vishny 1998). According to the grabbing-hand state model, while the state is predatory in nature, state activism is necessary in helping market transitions from the positive perspective of state-market relations. But, such state activism is only desirable in the transitional period. While state activism is necessary to build political coalitions in support of reforms in the short run, it shall be demolished and be replaced by state minimalism in the long run.

The approach of decentralization for market development is distinguished from the above three state-market frameworks in the sense that while the state has to be active in sustaining markets in most cases, it is half helping and half predatory in nature. In fact, this is exactly what the fundamental state-market dilemma is about. Table 1.1 summarizes the major

Table 1.1 Approaches of state-market relationship

		The positive role of the state in markets	
		Minimal	**Active**
The normative role of the state in markets	**Predatory**	The neo-liberalism	The grabbing-hand state Decentralization for market development
	Helping		The helping-hand state

[3] But, of course, the helping-hand state is different from socialism. One profound distinction between these two is that while the proponent of the helping hand of the state holds a philosophy of "the state *plus* markets," socialism in principle does not acknowledge the fundamental virtue of markets.

differences among the abovementioned four general approaches of how to deal with state-market relations.

1.3 A Refined Framework: Dual Intergovernmental Transformation for Market Development

In this book, I accept the wisdom from the proponent of decentralization for market development that *a strong and active state with internal institutionalized checks* is strategically preferred both to a minimized state and to a strong and active state without checks in order to sustain markets, in particular for developing countries in the era of economic globalization. In theory, I also agree that decentralization is a good way to build up internal checks on the state. I believe that a strong but limited state could potentially be a "smart state" for long-term economic growth (Aghion and Roulet 2014).

In practice, however, as I will discuss later, whether decentralization is truly benefiting market development is open to debate. At least, to make decentralization work for market development depends on many other institutional and non-institutional preconditions (Bardhan 2002). In some situations, decentralization will decrease governmental efficiency instead of increasing it (Rodden and Rose-Ackerman 1997; Treisman 2007). As for the MPF model, while it provides a more realistic institutional framework than many other decentralization studies, it also suffers from some methodological and theoretical blind spots, which makes it inapplicable to the real world (Rodden and Rose-Ackerman 1997; Oates 1999; Wibbels 2005; Ong 2012). The failure in finding a solid mechanism linking decentralization with market development mandates a careful explanation.

In this book, I will offer an explanation of why decentralization, only by itself, does not necessarily lead to satisfied economic goals. My central argument is that decentralization usually leads to dual economic effects. On the one hand, decentralization of economic powers from the central government to subnational governments will increase the latter's incentive to preserve local markets, which is the bright side of decentralization. The principal rationale behind such a positive effect of decentralization is as follows: The higher proportion of the total value of a political (economic) asset a local decision-maker is empowered to obtain, the higher incentive

the local decision-maker has to maximize the total value of the political (economic) asset. In the case of decentralization, the local decision-maker gets more political and economic assets from the central government. This rationale has its intellectual origin in the contemporary literature on property rights in modern societies (Demsetz 2002; Alchian 2008).

On the other hand, decentralization will inevitably increase transaction costs in the market place since it usually contractualizes intergovernmental relations, provokes local opportunism, and weakens the role of the central government as a third-party enforcer. This is the dark side of decentralization. I will describe such a negative effect of decentralization through resorting to the contemporary literature on transaction costs developed by the New Institutional Economics (Coase 1937, 1960; Williamson 1979, 1985, 1996; North 1984, 1990). Among all costs incurred by decentralization, local economic protectionism is one of the most notorious. The dark side of decentralization significantly impedes market development, in particular the development of common markets.

The preceding conceptualization of "dual economic effects" of decentralization provides us a useful theoretical tool to understand why the answer to whether decentralization is truly benefiting market development is inconclusive. Working in different contexts, decentralization might lead to the following three contrasting scenarios, that is, the total economic benefit brought about by the bright side of decentralization is *significantly larger than*, *roughly equal to*, or *significantly smaller than* the total transaction cost incurred by the dark side of decentralization simultaneously. Obviously, these three scenarios imply different overall economic results of decentralization.

While it is very hard to measure either the total economic benefit of decentralization or its total cost precisely, the above understanding of "dual economic effects" is also illuminating for us to develop a new solution to the fundamental state-market dilemma. Here, I offer a refined intergovernmental framework, based on the approach of decentralization for market development. This refined framework is supposed to enhance the bright-side effect of decentralization and minimize the dark-side effect of decentralization simultaneously. To achieve this aggressive goal, the refined solution suggests an institutional design of dual intergovernmental transformation, that is, decentralizing certain functions of the state to enhance local governmental incentives to preserve markets and centralizing other functions of the state to minimize the transaction costs incurred

at the same time. I conceptualize such an institutional design as *dual intergovernmental transformation for market development* (or DITMD).

To make the DITMD model work, I also dimensionalize the economic role of the state in markets into three characters: the state as *a player in* markets, the state as *a sponsor of* markets, and the state as *a referee for* markets. In principle, a good DITMD design means decentralization of the sponsoring functions of the state and centralization of its refereeing functions, leaving the playing functions of the state minimized.

1.4 The Comparative Study

To make sense of the normative framework of the DITMD model, this book is also going to testify it with a historical comparison of the United States in the nineteenth century and the People's Republic of China (PRC) during the market transition period (roughly from 1978 to the present). The comparative study focuses on how the two nations in the said periods have, more or less successfully, developed their own domestic corporate markets through similar intergovernmental settings. While the two cases look so different at first glance, several factors make sense of the comparability.

First of all, both nations have outstanding economic performances during the aforementioned periods mainly because of the growth of their own domestic market economies. In the nineteenth century, US real GDP per capital (in year 2009 US dollars) increased totally by four times, from $1509 in 1800 to $6004 in 1900. As for China, its real GDP per capita during the last four decades has increased totally by more than 20 times, from $260 in 1976 to $6416 in 2015 (in year 2010 US dollars). Both cases are among the fastest growing in human history. More importantly, the United States at the end of the nineteenth century and China now have almost the same GDP per capita (see Fig. 1.1).

But, it seems a puzzle to understand China's economic success in the past four decades, as opposed to the American experience. On the one hand, while the nineteenth-century United States saw a typical way of economic development through building market-friendly institutions to protect property rights and enforce contracts (Davis and North 1971; North 1990), the Chinese experience in the reform era has shown a different way of developing markets with ill-defined property rights (Oi and Walder 1999; Clarke 2003) and informal contracting institutions such as *guanxi* (Davies et al. 1995; Trebilock and Leng 2006). Largely for this

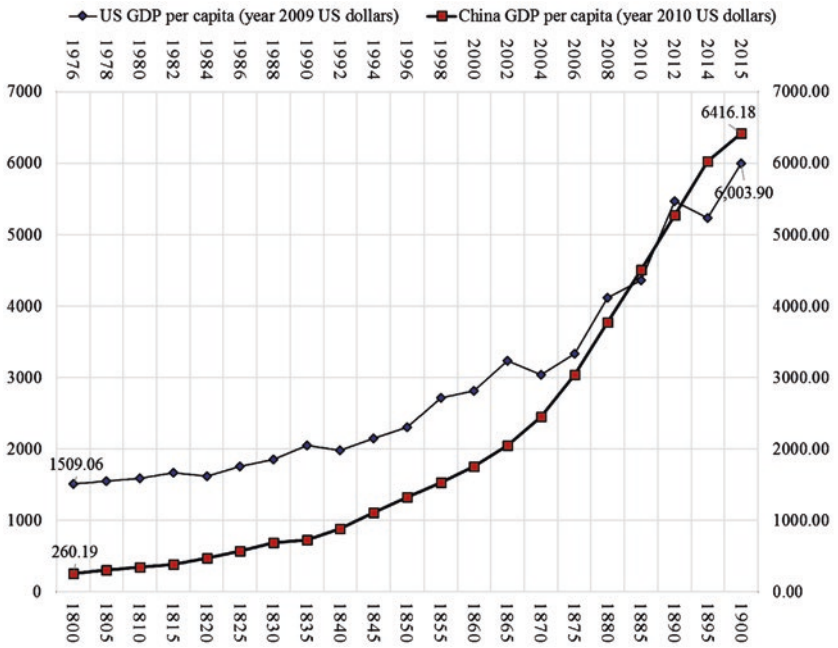

Fig. 1.1 Economic growth in the nineteenth-century United States and contemporary China. (US data source: Louis Johnston and Samuel H. Williamson, "What Was the U.S. GDP Then?" MeasuringWorth, 2016, online available at www.measuringworth.com/usgdp/. China data source: The World Bank, "GDP per capita (constant 2010 US$)," online available at http://data.worldbank.org/indicator/NY.GDP.PCAP.KD)

difference, some generalize a so-called China Model of development (see, for instance, Pan 2009; Zhao et al. 2010; Chen and Goodman 2012; Wan 2014). According to the China Model, the Chinese way of development is unique and far different from that of the developed Western nations, including the United States (Kennedy and Stiglitz 2013).

On the other hand, however, others look for the same institutional foundations, on which economic growth the United States and China are based. In particular, as I have mentioned previously, a group of political economists contend that market developments in the nineteenth-century United States and contemporary China are both benefiting from a similar intergovernmental framework, that is, the MPF model (Montinola et al.

1995; Qian and Weingast 1996, 1997; Cao et al. 1999; Jin et al. 2005). Consider the following comment on the political foundation of China's economic growth during the transitional period by Weingast and his colleagues (Montinola et al. 1995: 52): "In our view, these changes have resulted in a new political system that we characterize as *federalism, Chinese style*. This system, in turn, provides considerable political protection for China's reform, including limits on the central government…Viewed from the perspective of the political relationships among the different levels of government, China's political decentralization shares much in common with Western federalisms."

Clearly, the thesis of "federalism, Chinese style" is an understanding of *convergent* development of markets in contemporary China and many other developed countries. This understanding is far from the China Model of development, which holds markets have developed in *divergent* ways. Obviously, there is a controversy in understanding the "myth" of China's economic growth in the transitional period. A detailed comparison between China and the United States is meaningful for us to broaden our intellectual horizon on the convergent-divergent debate.

Second, like all other large nations in their early stage of capitalist development, both the United States and China in the aforementioned periods face the same concern of building a sustained domestic common market in the following contexts: (1) a large and increasing population, (2) a huge territory with plenty of local economic systems, (3) an increasing demand of mobility of economic factors and interregional commerce among localities, and (4) governing the common market through a multilevel-government structure. Indeed, how to design an applicable intergovernmental system was the same fundamental question faced by both founders of the United States (Hamilton et al. 2001) and the People's Republic of China (Mao 1999).

In addition, both the nineteenth-century United States and contemporary China are in their early stage of capitalism, that is, during the process of industrialization and modernization. Nevertheless, while the further consolidation of the American domestic common market after the turn of the twentieth century proved the success of the Americans in the nineteenth century, the future of China's market development is still uncertain at this moment. There is much for the Chinese to learn from the economic history of the United Sates.

Therefore, a systematic examination of the two cases might not only have a theoretical contribution to the studies of state-market relations,

decentralization, and economic federalism but also may bring about policy implications to sustaining markets in both China and other developing countries.

To make the comparative study feasible, I won't discuss all functions of the state in sustaining market development. Instead, the book narrows its empirical examination on the state's role in qualifying business organizations and fostering corporate economy. The principal reason for such a focus is that corporate economy is the foundation of modern market economy in all nations. In modern societies, no nation has developed a sustained market economy without sustaining its corporate economy. In particular, it is crucial for the state to act appropriately when a nation's corporate economy is in its fledging stage. As a matter of fact, the corporate economies in both the nineteenth-century United States and contemporary China are in their own fledgling stages.

Materials used in this book are mostly second-hand, with some minor field interviews conducted by the author in China during 2007–2010.

1.5 Organization of the Book

The book is organized as follows. Chapter 2 gives a critical review of the current literature on decentralization and economic growth and provides the conceptual foundation for later research. The major finding from this review is that whether decentralization is truly benefiting economic growth is inconclusive. Based on this review, Chap. 3 presents my own understanding of the reason why decentralization by itself will not necessarily lead to good economic performance. That is, decentralization has both its bright and dark sides and usually leads to double economic effects. As a response to these double effects, the DITMD model is introduced in Chap. 3, normatively. Subsequently, Chaps. 4 and 5 apply this normative framework to the cases of nineteenth-century United States and contemporary China respectively. While examining different nations, both case studies focus on the impact of central-local relations on the rise of domestic corporate economy. After the case studies, Chap. 6 gives a summarized discussion, highlighting why the DITMD model is superior to the MPF model in explaining the two nations' successful economic performances in the said periods. In particular, the book emphasizes that the DITMD model is very powerful in explaining the Chinese case, both as a descriptive and a prescriptive model. In addition, the concluding chapter gives policy implications of this study to future political reforms in China and other developing countries as well.