

**Comment:
Stability in Instability. China's TVEs and the Evolution
of Property Rights**

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The astonishingly rapid economic development of China's Township Village Enterprises (TVEs) has been a focus of research in economics and economic sociology for more than a decade. A review of the literature however, does not leave one with the impression that the issue has been exhaustively explored. Even more important is the pervasive feeling that important lessons can be taken from TVE-development in China, which have not yet been fully grasped, nor have possible repercussions of standard property rights theory been systematically developed.

The research project initiated by Markus Taube seeks to fill this gap and aims to improve broader understanding of the role of TVEs and its implications for property rights theory. Two basic assumptions shape the project outline. First, the evolution of TVEs is understood to be a best-practice solution in a world of high transaction costs. That is, stakeholders intentionally chose TVEs as an organizational form characterized by unclear property rights in order to maximize welfare. Second, although the observed superiority of TVEs as a hybrid organizational form with diluted property rights seemingly conflicts with what property rights theory would suggest, validity of the conventional property rights theory is not rejected.

The apparent contradiction between the two assumptions is easily resolved. Property rights theory in its current formulation is developed for a model-world, which implicitly assumes the existence of perfect markets, independent and impartial legal systems guaranteeing the de-facto implementation of de-jure rights and which is free from network-based behaviour on the part of individual actors. Obviously, none of these assumptions is fulfilled within transition economies like China. From this perspective it is clear that the prognostic ability of arguments based on the ratio of property-rights theory are not necessarily valid. The exceptional development of TVEs could indeed hardly challenge property rights theory, since China's real world is far from the model world, conceptualized by Coase, Alchian, and Demsetz as the early founders of the property rights school.

In the absence of mutual exclusivity and inconsistency between the observed phenomenon and current theoretical understanding, the way forward, according to Taube, is to extend the boundaries of standard property rights theory. A closer analysis of the institutional environment and individual incentive situation for stakeholders is urgently needed in order to develop the prognostic capacity of property rights theory for hybrid, non-market systems. Closely connected to the extended

applicability of property rights theory would be the identification of dynamic development processes. The important question to resolve is at what point exclusive property rights arrangements offer superior solutions to collective organisational forms. A deeper understanding of the interplay between property arrangements and institutional environment would not only boost our theoretical understanding. Equally important are the pragmatic lessons to be learned by policy advisors and reformers. Examples of theory-driven, hastily designed privatisation programs with little economic success are abundant. A possible reason might lie in the insufficient knowledge of minimum institutional requirements for successful private property regimes.

Taube's research project may very well lead to major contributions in this area. Field research in China will particularly benefit from the fact that development and maturity of the institutional environment vary significantly between different regions. Different institutional arrangements and corresponding organisational forms will shed light on mutual complementarities and dynamic development trends. Findings in this context will be much more reliable than results from country comparisons for instance, which are inevitably flawed by diverging cultural, political, and historical contexts and the resulting paths of development.

The first assumption of the project should be treated carefully and needs convincing evidence to back it up. The project follows the common, though not unchallenged assumption, that institutional change is determined by rational, efficiency-enhancing choices from the stakeholders involved. In this sense, institutional change occurs, if transaction costs involved are covered by expected benefits from institutional changes. The existence and persistence of highly inefficient institutions gives a glaring example that such a rational choice-based approach may be overoptimistic. Powerful interest groups may well be able to impede superior institutional arrangements. The existence of TVEs and non-private ownership forms at a certain development stage cannot automatically be treated as evidence of their economic superiority in the current institutional environment. It would be equally as likely that government officials intentionally choose inefficient institutional arrangements in order to pursue their own self-interest. As long as this aspect is not verified satisfactorily, findings of the research project could be easily challenged and would find little support as extensions of standard property rights theory. From this viewpoint it seems advisable to explicitly incorporate the verification of the leading assumption's validity into the study.