



## Soaring Dragon, Stumbling Bear: China's Rise in a New Context

By Mark Harrison

In May 1989 the Soviet President Mikhail Gorbachev visited China's leader Deng Xiaoping in Beijing. China had begun to rise but was still among the world's poorest countries. The Soviet Union was still a global superpower. Just fourteen years later, in March 2013, China's new president Xi Jinping visited Russian President Putin in Moscow. How things have changed! Now China is the rising power in the East, while Russia has declined.

Today, in a historic reversal of fortunes, China is overtaking the territory of the former Soviet Union in GDP per capita. This reversal has important lessons, but they are not the lessons commonly drawn. It is often said that China's advantage was to carry out economic reforms while postponing political reforms. This cannot be the whole story: in fact, the Soviet Union did the same as China, but without the same success.

Sustained economic development requires continuous policy reform, including the will to persist in the face of vested interests. China's

rise has reflected a successful course of continuous policy reform, driven by 'regionally decentralized authoritarianism'.

Under regionally decentralized authoritarianism, responsibility for the economy is decentralized to the provinces. Only the economy is decentralized, and the centre has retained tight political control. Relative performance evaluation of the provinces by the centre is an essential element of the model.



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In the late 1950s, after Stalin's death, the Soviet Union tried out a similar model. The experiment failed. The Soviet Union's reform was poorly designed, with provinces that were too many, too small, and insufficiently self-contained. The Soviet Union also lacked other initial conditions and supporting traditions that made reforms work in China. Soviet history also shows many other reforms similar to China's, but reform measures were typically half-hearted and lacked persistence.

This comparison shows that China's favourable outcomes up to the present owe much to unique circumstances: the great opportunities of initial poverty, exceptional economic size, and leaders' commitment to reforms, supported by longstanding historical traditions. At the same time, obstacles to further progress are visibly accumulating. *Continued on p8*

## Congratulations to...

### Kim Scharf

**Kim Scharf is Professor of Economics at the University of Warwick and has recently been appointed Theme Leader for CAGE. Kim's particular focus at CAGE is to guide researchers in looking at an important research question: 'when does succeeding in the global economy translate into reduced deprivation and enhanced general well-being?'**



Kim is an applied theoretical public economist who has a longstanding interest in issues that concern public policy, the economics of information, social networks, public goods, charity and property rights. She is particularly interested in understanding more about how public policy should be directed towards the social economy and how competitive forces shape the sector.

Kim's recent research has been on the structure of social groups, information transmission and private provision of public goods. Other recent projects - theoretical and applied - relate to the effects of social group structures and information transmission on the behaviour of individuals and groups, motives for giving, competition in the third sector, and analysis of various public policy prescriptions relating to the private provision of public goods. Kim's research activities have been funded by the ESRC, the Social Sciences and Research Council of Canada, the British Academy, the European Research Council (Marie Curie program), HM Treasury and HM Revenue and Customs.

Kim is an elected member of Council of the Royal Economic Society and a mentor for the Royal Economic Society's Women's Committee. She has served on the editorial boards for the *Journal of Public Economics and Fiscal Studies*, and is currently serving on the editorial board of *International Tax and Public Finance*.

## Welcome to...



**Tetsuji Okazaki** from the Faculty of Economics at the University of Tokyo is visiting CAGE from 22 – 25 April. Professor Okazaki's research field is Japanese Economic History. During his stay he will be working with Bishnu Gupta on a comparison of the Indian and Japanese cotton textile industry in the early 20th Century.



**Liam Halligan** will be visiting CAGE from 28th to 30th May. Liam is an Economist, with degrees from the University of Warwick and Oxford. He writes a column for the Telegraph which focuses on the key issues facing the British and global economy. He is also Chief Economist at Prosperity Capital Management, an asset management firm, and is a member of the CAGE Advisory Board.



**Alan Wheatley** is the Global Economics Correspondent for Reuters News based in London. He has reported from more than 40 countries over 30 years and has had postings in Frankfurt, New York, Washington, Paris, London, Tokyo, Singapore and Beijing. Alan will be visiting us in June to find out more about the research undertaken at CAGE.



**Price Fishback**, Professor of Economics at the University of Arizona, will be visiting CAGE from 21-22 May. During his stay he will be presenting his latest research and he will also give a public lecture. Professor Fishback is involved in a long-term study of the political economy of Roosevelt's New Deal during the 1930s that examines both the determinants of New Deal spending and loans and their impact on local economies throughout the U.S.



**Anand Swamy**, Professor of Economics at Williams College, will be visiting CAGE at the end of June. Professor Swamy's research interests are the economics of institutions in developing countries and land, labour and credit markets in developing countries. During his stay he will be working with Bishnu Gupta on research on the migration of labour to tea plantations.



## CAGE Brussels Podium Opportunities and challenges in fostering growth in the EU

**This event saw Professors Crafts, Troeger and Becker present their research findings to a Brussels audience. Attendees included officials from various Directorates of the EU Commission as well as members from national representations in Brussels.**

The discussion was moderated by Richard Tuffs, the Director of the European Regions Research and Innovation Network.

The panel discussion was composed of the three speakers as well as MEP Malcolm Harbour (Chairman of the Internal Market and Consumer Protection Committee), Mr Vasco Cal (Economic Adviser, Bureau of European Policy Advisers (BEPA), European Commission), Mr Olivier Debande (Senior Economist - European Investment Bank), and Mr Daniel Mouque (Evaluation and European Semester Unit, DG for Regional and Urban Policy, European Commission).

Prof. Nicholas Crafts discussed the long-term growth prospects in Europe with a particular focus on the question what difference the ongoing crisis makes. He reflected on policy responses to the 1930s crisis and whether and how they are of relevance today.

Prof. Sascha O. Becker provided a critical look at EU Regional Policy. Given the substantial amounts of money spent on the EU's Structural Funds, an important question is whether they do generate more growth. He pointed out weaknesses in current structure of EU Regional Policy and suggested avenues for reform.

Prof. Vera Troeger presented research on tax competition and the myth of the 'Race to the Bottom'. If a race to the bottom was a correct description of reality, governments should no longer be able to tax capital. She pointed out that attractive conditions for a highly skilled work force are key not only to attract workers but also firms employing these workers, i.e. taxes are not the only relevant dimension.

**The CAGE Policy Podium was held on 23rd April at the British Embassy in Brussels.**

## Spring Vacation School *National and International Perspectives on Generosity and Well-being: A View through the Lens of the Third Sector*

**Tuesday 9th April to Thursday 11th April 2013, University of Warwick**



**A collaboration between CAGE and CMPO. Sponsored by the ESRC.**

Vacation Schools are an important activity for young researchers and CAGE was happy to be able to continue this tradition again this year.

The theme of this year's school was generosity and well-being and sought to gain insights into the sources, origins and manifestations of generosity through a better understanding of how it affects the well-being of individuals and groups on the national and international stage.

The school was a multidisciplinary event, drawing on an international pool of participants from economics, political science and social policy. We welcomed 25 PhD students and post-doctoral researchers, from the UK and overseas, all of whom are working on questions that address various dimensions of generosity and well-being.

The programme was organised by Kim Scharf, Professor of Economics at the University of Warwick and a Theme Leader at CAGE, and Sarah Smith, Professor of Economics at Bristol University and a Research Associate at the Institute for Fiscal Studies (IFS).



## Re-thinking the Economics of Pensions: Is there a Crisis of Pensions or of Pensions Governance and Regulation?

21st - 22nd March 2013  
Royal Statistical Society, London

Organised by Dennis Leech,  
University of Warwick

Con Keating, Brighton Rock Group

Christopher Sier,  
Financial Services Knowledge Transfer Group

**Organised by CAGE and the Financial Services Knowledge Transfer Network, this exciting and provocative 2-day conference examined the future of finance with a particular focus on structure, innovation and ethics. The conference brought together leading academics, practitioners and policy-makers to discuss, debate and challenge the future of banking and finance.**

The sessions addressed financial regulation; the perverse consequences of regulation; the financial system as a complex system; modelling the financial system; alternative and radical structures for financial services; the shadow banking industry; risk culture in financial organisations; the role of human behaviour; innovations in the industry and a showcase of new ideas for banking and financial services.

The event concluded with a lively debate in the historic debating chamber at the Oxford Union.

## CAGE Seminar Series

CAGE holds a weekly Tuesday seminar in the Department of Economics at the University of Warwick.

External speakers are invited to give a seminar focusing on an applied microeconomics topic.

Seminar speakers for the Summer Term are:

### Week 1 • 23rd April 2013

Danielle Li, Assistant Professor of Management and Strategy, Kellogg School of Management, Northwestern University. *'Expertise vs. Bias in Evaluation: Evidence from the US National Institutes of Health'*.

### Week 2 • 30th April 2013

Ariel Rubinstein, Professor of Economics, Tel Aviv University and New York University. *'Thoughts on experimental economics: the general lotto game'*.

### Week 4 • 14th May 2013

Luigi Pascoli, Assistant Professor, Pompeu Fabra University and Barcelona Graduate School of Economics.

### Week 5 • 21st May 2013

Price Fishback, Professor of Economics, University of Arizona.

### Week 6 • 28th May 2013

Dean Karlan, Professor of Economics, Yale University.



# CAGE Migration Policy Podium

*Thursday 11<sup>th</sup> April  
Bloomsbury Theatre, London*

**This Migration Policy Podium, sponsored by CAGE, saw international migration policymakers and experts address the question “How Should Governments Best Address Trends in Migration?”, a discussion chaired by the BBC’s Home Editor Mark Easton and enjoyed by several hundred migration experts from all over the world, who filled the Bloomsbury Theatre in London.**



Prof Christian Dustmann (UCL) began by highlighting the large and continuing rises in global migration flows. Echoing a recent CAGE Policy Paper by Prof Sharun Mukand, Dustmann noted that migration brings net benefits to receiving countries – but the benefits are not equally shared. Migrants benefit most from their migration, some natives benefit more than others, and some natives might even lose out.

The UN Special Representative for Migration, Sir Peter Sutherland stated up front his personal starting point: rejection of nationalism, belief in human equality and right of free movement. He acknowledged apparent popular fear of immigration, and warned that if politicians simply respond to this fear

and do nothing to counter it, that one day Europe risks looking for immigrants and finding they are heading elsewhere – for example, to a more welcoming reception in countries further south. Sutherland hoped that politicians will recognise that, in fact, voters are less opposed to immigrants than to the failure to develop a workable system to manage it.

The Spanish Secretary-General for Migration, Marina del Corral Téllez, spoke about the efforts Spain has made to eliminate discrimination against migrants, but noted that migrants have suffered particularly in the recent downturn, experiencing an unemployment rate around 35%. Del Corral Téllez also highlighted the need for cooperation at European level to counter the migration-related difficulties associated with differing benefits systems across Europe.

Charles Clarke, former Home Secretary, agreed that with a single European labour market it becomes increasingly important to deal with migration issues at a European level. He also emphasised that clarity and openness over immigration criteria and confidence in enforcement is the only way to counter a xenophobic political minority. In relation to clarity, he reminded the audience that his first priority on becoming UK Home Secretary was to establish a transparent Points Based System to regulate the quality and numbers of immigrants in the UK. And then, he argued, it is essential to have a fair and sustainable governance system, to credibly convince the populace that all immigrants they encounter are here legally and with good reason. Furthermore, he advocated further investment via policies designed to enhance the integration of immigrants.

**The CAGE Policy Podium was held on 11th April at the Bloomsbury Theatre, London.**

**It formed part of a multidisciplinary conference on “Migration: Global Development, New Frontiers” held 9th to 13th April 2013 at UCL, held under the auspices of NORFACE and CReAM.**

# New CAGE - Chatham House Policy Briefings

We have recently added several new papers to our policy paper series which is published in partnership with Chatham House. The series aims to advance key policy debate issues of global significance. Two of these papers are detailed below. To see more in the series please visit our website.



# Africa's Growth Prospects in a European Mirror: A Historical Perspective

Stephen Broadberry and Leigh Gardner, February 2013

The relatively rapid growth rates achieved by many African countries in the last decade have raised hopes that the continent is finally on a path to economic convergence with Asia and Latin America, but history suggests that such optimism could be misplaced.

Previous periods of rapid growth across Africa have often been followed by phases of economic decline which have erased many of the gains countries have achieved in per capita income. The continent's transition to modern economic growth will thus require a break in the boom-and-bust pattern which has characterized its economic performance during much of the 20th century.

European experience since the Middle Ages suggests that the pattern of growth based on increasing demand for export staples, followed by economic reversals, has often resulted in limited overall gains in per capita income. This pattern was only broken following the introduction of significant institutional change.

Placing Africa's recent economic performance in a wider historical perspective highlights the fact that the continent's level of per capita income is comparable to pre-industrial Europe and that the institutional changes needed to ensure sustained economic growth have yet to take place. Growth reversals remain a serious threat to Africa's future prosperity, and therefore it is incumbent on policy-makers to focus a great deal more on the introduction of measures that can encourage the development of a robust civil society.



## Tax Competition and the Myth of the 'Race-to-the-Bottom': Why Governments Still Tax Capital

Vera Troeger, February 2013

**The majority of OECD countries have only experienced minor effects of capital market integration and capital tax competition since the mid-1980s. There have undoubtedly been some winners, mainly capital owners in larger liberal market economies, and some losers, especially large continental European welfare states**

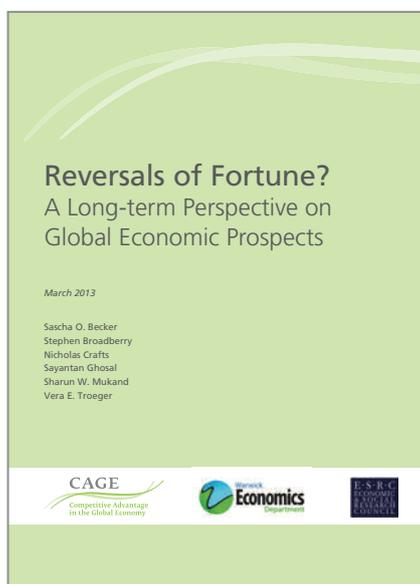
Not only have the dire predictions of the early doom theories not materialized; they have failed. Therefore, there is much to be gained in making the key assumptions underlying traditional tax competition models much more realistic, particularly in terms of predicting the impact of globalization on Western democracies.

Tax competition affects countries differently and does not lead to a 'race to the bottom' since capital remains incompletely mobile. The competitiveness of a country determines fiscal adjustment strategies by others. Cutting capital taxes, therefore, will not necessarily generate more capital inflows.

Tax competition and taxation have broader implications for the fiscal responses of countries to globalization and their redistribution efforts. Given that tax competition affects countries differently, governments will choose diverse strategies to cope with these international pressures. Competition will more negatively affect income inequality in countries that predominantly redistribute via the tax system than in those that historically set up a welfare state by redistributing via social transfers.

# CAGE Policy Report

Tuesday 7th May University of Warwick



*How does the current crisis affect the prospects of Western economies to stay ahead of developing countries?*

*How does globalisation affect social cohesion and welfare state policies?*

*How likely is it that China (and India) overtake the West in per-capita GDP any time soon?*

*Is money the only response to help alleviate poverty in developing countries?*

These are some of the issues that will be discussed on 7th May at the launch of CAGE's first major Policy Report.

The report, *'Reversals of Fortune? A Long-term Perspective on Global Economic Prospects'*, takes on the challenge of providing a fresh long-run perspective on global economic prospects.

The authors of the Report - Nick Crafts, Stephen Broadberry, Sascha Becker, Sayantan Ghosal, Sharun Mukand and Vera Troeger - all Professors at CAGE will each give a presentation addressing diverse aspects of global long-term growth. The event will be chaired by Professor Abhinay Muthoo.

## CAGE Conference

Tuesday 28th - Friday 31st May  
University of Warwick

**CAGE will welcome academics from all around the globe to this 4 day conference at the University of Warwick. Each day will cover a different theme of CAGE's research.**

**Tuesday 28 May 2013**

*'Accounting for the Great Divergence'*, chaired by Professor Stephen Broadberry

**Wednesday 29 May 2013**

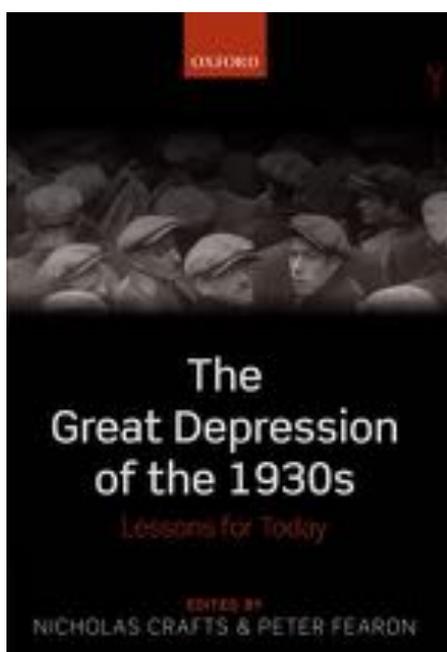
*'The Role of Cultural and Political Factors in Institutional Change and Development'*, chaired by Professor Sharun Mukand and Professor Sascha Becker

**Thursday 30 May 2013**

*'The Political Economy of Redistribution and Income Inequality in Developed Democracies'*, chaired by Professor Vera Troeger and Professor Kimberley Scharf

**Friday 31 May 2013**

*'Poverty and Welfare'*, chaired by Professor Sayantan Ghosal



## The Great Depression of the 1930s: Lessons for Today

**This new book, edited by Professor Nicholas Crafts and Professor Peter Fearon and published by Oxford University Press, was launched on 4th March 2013, 5.30-7pm, at The British Academy.**

The book contains 14 papers with expert reviews of what modern scholarship tells us about the 1930s which have been written to highlight lessons relevant to the current crisis and recovery from it.

Our guest speaker was Dave Ramsden, Chief Economic Advisor to HM Treasury.

Continued from p1

Current risks to the continuation of China's economic modernization include a complacency trap and a conflict trap. In the complacency trap, early gains from reform may blunt the determination to persist as resistance grows. In the conflict trap, external confrontation may offer a tempting alternative to reform when domestic difficulties accumulate.

These risks may become increasingly difficult to manage unless China strengthens the rule of law and enforcing governmental accountability.

This article draws on a recent CAGE-Chatham House Policy Briefing Paper, **'Soaring Dragon, Stumbling Bear: China's Rise in a New Context'**, written by Mark Harrison, Professor of Economics at the University of Warwick and Director for Impact at CAGE, and Debin Ma, Lecturer in Economic History at the LSE.



The briefing paper was launched at Chatham House in March and can be found on our website.

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## Working Papers

CAGE publishes a series of working papers which are available online at: [go.warwick.ac.uk/cage](http://go.warwick.ac.uk/cage)

Recent papers include:

### DO ENTREPRENEURS MATTER?

*Authors: Sascha O. Becker  
and Hans K. Hvide • No. 109/2013*

In the large literature on firm performance, economists have given little attention to entrepreneurs. The authors use deaths of more than 500 entrepreneurs as a source of exogenous variation, and ask whether this variation can explain shifts in firm performance. Using longitudinal data, they find large and sustained effects of entrepreneurs at all levels of the performance distribution. Entrepreneurs strongly affect firm growth patterns of both very young firms and for firms that have begun to mature. The study did not find significant differences between small and larger firms, family and non-family firms, nor between firms located in urban and rural areas, but did find stronger effects for founders with high human capital. Overall, the results suggest that an often overlooked factor - individual entrepreneurs - plays a large role in affecting firm performance.

### HAPPINESS AND PRODUCTIVITY

*Authors:  
Andrew J. Oswald, Eugenio Proto,  
and Daniel Sgroi • No. 108/2013*

Some firms say they care about the happiness and 'well-being' of their employees. But are such claims hype? Or might they be scientific good sense? This study provides evidence that happiness makes people more productive. The authors examine fundamental real-world shocks (bereavement and family illness) imposed by Nature. They show that lower happiness is associated with lower productivity. Second, within the laboratory, the authors employ two randomized controlled trials. Some individuals are deliberately made happier, while those in a control group are not. The treated individuals have 10-12% greater productivity than those in the control group. These complementary kinds of evidence, with their different strengths and weaknesses, point to a consistent pattern. They suggest that happiness raises human performance.

### THE UNTOLD STANDARDS OF LIVING STORY: THE GDP VALUE OF TWENTIETH CENTURY HEALTH IMPROVEMENTS IN DEVELOPED ECONOMIES

*Author: Kerry Hickson • No. 105/2012*

Economists are aware that conventional measures of national income do not capture everything that is important to individuals. In particular, the value of huge improvements in health over the twentieth century has gone uncalculated. Usher (1980) and Nordhaus (2002) have emphasised the virtues of including mortality improvements in some form of extended national income measure. This paper therefore sets out a methodology that can be used to calculate the value of mortality and morbidity improvements. The results indicate that health improvements in developed economies have been worth at least \$1 trillion. As such not accounting for historical health gains leads to a significant underestimate of improvements in standards of living and economic development.

### COMMUNISM AND ECONOMIC MODERNISATION

*Author: Mark Harrison • No. 92/2012*

The paper examines the range of national experiences of communist rule in terms of the aspiration to 'overtake and outstrip the advanced countries economically'. It reviews the causal beliefs of the rulers, the rise and fall of their economies (or, in the case of China, its continued rise), the core institutions of communist rule and their evolution, and other outcomes. The process of overcoming a development lag so as to approach the global technological frontier has required continual institutional change and policy reform in the face of resistance from established interests. So far, China is the only country where communist rule has been able to meet this requirement, enabled by a new deal with political and economic stakeholders. The paper places the "China Deal" on a spectrum previously limited to the Soviet Big and Little Deals.