

Preface

To understand China, it is necessary to parse China's reform of social institution.

The great changes in politic and economy of contemporary China, for more than 30 years, not only have the empirical significance of the Chinese context but also become an important event in the history of modern human civilization. Different from the violent revolution process of traditional centralized politics, nor the democratic election process of traditional western politics, she began with the practice consciousness of pure Chinese local meaning, but has owned the core connotation of western civilization sense with the outstanding achievements in social transformation. Despite the controversial opinions since its appearance, she has been developing according to her own logic, in which the political economic principle involve the academic debates between the radical reform of the new Classical Liberalism "Washington consensus" and the gradual reform of the Chinese model, and connect with the practice direction and path selection of China's reform as well.

Adhering to the academic tradition of the thought of classical political economics since Adam Smith, the book tries to regard the institution change as the non-violent process of bargaining game for continuous adjustment and agreement of social contract by related participants so as to give a unified logic based on the bargaining theory around the institution phenomenon of gradual reform since China's "reform and opening up".

All the spontaneous folk behaviors, such as the household contract management in Xiaogang Village, township enterprise development in Wenzhou, and even early exploration of Shenzhen Special Zone since the beginning of the reform,¹ are taken as some kinds of the objectively strategic acts of the generalized bargaining, and thus the related policy changes of government as the results of game equilibria of bargaining between two forces of the market economy and planned system. For this

¹We take the practice process of Shenzhen Special Zone as an evolutionary process rather than a simple planning decision of the central government, which is consistent with its founding process. The related discussion can be found in the memories and records of Hu Yaobang, Xi Zhongxun and Ren Zhongyi.

purpose, the book will argue that the inherent logic of bargaining game requires that two parties with contradiction not only reach the cooperation of compromising transaction in reform plans but also play a bargaining game on the expected return of the reform, so as to make the institution reform balanced the cooperation efficiency with the fair values of confrontation.² This kind of reform of “priority to efficiency with due consideration to fairness”, namely the reform principle of Chinese characteristics, gives China reform two key connotations of practice: firstly, it liberates the institutional constraints through the institution adjustment of non-violent bargaining which is required for developing the market economy system; secondly, it preliminarily realizes the reform goal of Washington consensus through the market-oriented economic restructuring—complete competition in the economy, resource allocation by the market, and effective protection of the property.

That is, the theme of the book is the pure institution reform theory. By the method of combining the bargaining theory in K. Binmore’s sense with the utilitarianism from J. Bucanann, it works at the scientific and rational analysis involving both economy and politics, and examines how the social institution reform occurs and forms in the process of the generalized transaction of people’s social bargaining behaviors. Since the bargaining institution reform consistent its inherent logic with the mass line of “seeking truth from facts” and the political practice of the CPC³ which corresponds to the real social life in contemporary China, it possesses a unique practical value and the fundamental connotation. Of course, the bargaining institution reform is not the whole story of social institution change in China. In reality, the latter is more like a mixed institution change process which shows an interaction between upper and lower, linkage between left and right and even a wandering of internal repetition. However, the book plans to show that the core for the social and economic development in contemporary China is exactly the bargaining mechanism of institutional reform that we argued. Thus, the general social reform program of bargaining is the main reason for the relative success of China’s institution reform, as well as the social process of political democracy in an endogenous sense under the oriental context. In other words, if the efforts of the book are appropriate, it will prove the following conclusions.

First of all, the bargaining institution reform is of efficiency. Its economic logic lies in that the transaction equilibrium of bargaining has the efficiency mechanism of Pareto improvement: “it can improve the utility level of at least one person while not reducing the social welfare of any other members”. Here, the best evidence is

²The theoretical difference of the duality of cooperation-conflict of the bargaining game from the traditional games can be found in Tong Yilun’s specific review (the Review of New Political Economy, 2008, total No.10). The unpopular statement of the book is based on the generalization of the related review.

³According to Deng Xiaoping, “the essences of Mao Tsetung thought are seeking truth from facts and the mass line” (see the related content discussion in Selected Works of Deng Xiaoping, P231). This is the core of the book which may give a mathematical logic of game theory to the good traditions of the CPC on those two principles.

that the real practice of economic institution reform in China and specially the sustained economic growth for over past 30 years.

Secondly, the bargaining institution reform is a fair play. It is determined by the compromise logic of equilibrium between confrontation and cooperation in bargaining game. Thus, the book will present institutionally and analyze deeply around the bargaining theory in Binmore's sense (including generalized transaction political theory of J. Buchanan).

Thirdly, as an important way to realize democratic politics, the bargaining institution reform has the logic of democratic politics. Bargaining game contains the basic principle that conflict is inevitable but compromise is valuable, which is different from neither the absolute division between confrontation and cooperation by the traditional game theory, nor the simplified logic of politics that democratic is equates to the vote selection. Instead, it fully embodies the essence of civilization politics of the rational dialogue in the human society so that the reform practice of contemporary China has the theoretical connotation of the traditional democratic of the politics, which may be an innovation of the book as well as the core of it in deepening the bargaining theory in Binmore's sense.

More vulgarly speaking, if the bargaining institution reform mechanism of contemporary China with democratic connotation is taken as the core footnote and the logic interpretation of the CPC's adhering to "the mass line", the mass line is actually a political symbol of the bargaining logic. And the bargaining game theory is the abstract expression and mathematical explanation of the reform process of "the mass line", namely, "from the masses, to the masses" with the Chinese political characteristics. It also indicates that the key to the success in the political and economic institution reform of China is whether the reform process adheres to the basic principle of seeking truth from facts, and that the only effective way to seek truth from facts is that all parties involved in the reform can truly insist on the mass line: "from the masses, to the masses" so as to achieve an equilibrium of non-violent bargaining.

In essence, it is just that the CPC adheres to the mass line of "from the masses, to the masses" rather than the design of elitism alone, so that China can make the great progress and has the so-called Chinese model. For instance, the success of the rural reform stems from the mass practice of the household contract behavior in Xiaogang Village. The development of private economy is attributed to Eight Speculation Events in Wenzhou, which reflected and summarized at the private economic behaviors. The special economic zone is the response to the voice of masses like Shenzhen borders' escape to Hong Kong and foreign investment demand... All key points in the process of China's reform and opening up are the results of the CPC's adhering to the mass line of such "from the masses, to the masses". Deng Xiaoping always emphasized to respect the masses' pioneering spirit: we should believe that there lies huge creativity among the masses of people, that they can create a variety of methods to fight for their own interests." Obviously, the democratic and scientific natures implied in "the mass line" (i.e., the bargaining game logic) provide the political guarantee with Chinese characteristics for the market economy, and the combination of the mass line and the market economy is

the true story of Chinese model. Conversely speaking, this book completes the scientific explanation of contemporary China's institutional reform and its social practice through the analysis of bargaining game theory in the sense of the mass line of the CPC's political theory.

Thus, the book is different from the development strategy theory (Lin Yifu et al.), social choice theory (Fan Gang), dual structure growth theory (Sachs and Woo et al.), national centralized optimal macro-control theory (Stiglitz), the national capitalism catching-up model (Kurlantzick et al.), and the theory of new-institution economics (Zhou Qiren et al.). The interpretation of the economic phenomena and institution reform of the book on China attempt to conform to China's political and economic reform practice for 30 years and at the same time to own the thought inheritance and academic legitimacy as well. Actually, the dispute of traditional theories on the institution reform progress with different forms is not the essential difference between the radical reform and gradual reform. In the context of the book, gradual reform is just an external characteristic of the bargaining equilibrium, which has the same internal logic with the radical reform in term of the bargaining game. The core is that the bargaining mechanism contains the objective demands of different interest participants, which is manifested by the characteristic of China's reform practice with the name of induced or mandatory reform showing the form of "government leading and people participation". Thus, the book differs from the theory of traditional mode about China's social transformation but contains the logical parts of the above theories. It may provide a unified and legal theoretical foundation for clarifying the theoretical prejudice in international academic circles against China's social transformation as well as clearing up the misunderstandings of China's reform phenomenon.

Detailed address, Chap. 1 of the book gives an introduction of overall arrangement and logical structure on the transaction properties and equilibrium classification of the institution reform. Chapter 2 tries to answer why the core of China's institution reform is a social process of bargaining based on summaries of China's system reform. Chapter 3 expounds the social scientific value of the bargaining theory and the logical legitimacy of its application in institution reform through tracing theories of political philosophy. Chapter 4 gives a textbook-style presentation around three classic solution concepts of the bargaining game. Chapter 5 discusses an institution expression in the economic sense, which is the premise to analyze the structure of the game deeply in institution reform. Chapter 6 discusses the premise and condition of the bargaining logic of the general institution system reform game. Chapter 7 discusses the solution concept and mathematical structure of the non-violent bargaining in the context of China. Chapter 8 presents the core model and five bargaining solution concepts of the book's argument. Chapter 9 gives the solution of "the mass line" based on the bargaining equilibrium and discusses the cases in practice of China's bargaining institution reform which is the natural deduction of the model, including the specific demonstrations of three conclusions above. Chapter 10 discusses three main theoretical defects of China's reform logic. Chapter 11 presents the methodology and tries to give a theoretical

sublimation of the naturalistic philosophy around the bargaining logic and the practice process of China's institution reform.

Although some research conclusions and logical deductions of the book has been published in the related journals or debated openly at the academic conferences, the theoretical statement of the intrinsic logic and overall framework of the bargaining institution reform, especially the basic clarification of the bargaining logic and the meaning of its democratic politics, should be the task of the book. Here, I'd like to express my thanks to Prof. K. Binmore in University College London for his patient teaching. The overall research topic and the trace of the philosophic and economic theories are attributed to the guidance and care of Prof. Wang Dingding (Peking University), Prof. Li Weisen (Fudan University) and Prof. Ye Hang (Zhejiang University). At the same time, my thanks should be given to Prof. Fan Gang for his encouragement and criticism upon the draft of the book and to Tong Siyuan for his "one sentence understanding" of the book as "trying only to uncover Rawls' 'veil of ignorance' a little and calculating it by the bargaining logic with China's situation as an example". Of course, all possible errors of the book are responsibilities of myself.

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Parse of China

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