



Dr. Drs Sriyono, MM &lt;sriyono@umsida.ac.id&gt;

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## JKEC: Reviewer Invitation for Avoiding the dangers created by institutional change in China

1 message

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**Pantelis C. Kostis** <em@editorialmanager.com>  
Reply-To: "Pantelis C. Kostis" <pkostis@econ.uoa.gr>  
To: Sriyono - Sriyono <sriyono@umsida.ac.id>

Thu, Apr 13, 2023 at 9:08 PM

CC: [pkostis@econ.uoa.gr](mailto:pkostis@econ.uoa.gr)

Dear Dr Sriyono,

As the Editor of the journal Journal of the Knowledge Economy I want to ask you if you could review the article "Avoiding the dangers created by institutional change in China" for a possible publication in our journal.

This is the abstract:

Institutions are effective means by which human societies resolve conflicts over the use of scarce resources and maintain social stability. To find suitable principles to guide institutional evolution, we reviewed examples of recent institutional evolution in China to seek guidance for the evolution of other modern institutions. China's experience demonstrates that a neutral policymaker capable of limiting the government's power to decide who will benefit from policy changes, as was done by China's successful State Commission for Restructuring the Economic Systems from 1982 to 1997, is crucial for successful institutional design. To cope with the complexities of policy development and institutional change, China's central government should re-establish a neutral policymaker whose goal is to balance the benefits among all stakeholders. In the constantly changing modern economic environment, a country's ability to implement institutional reforms is crucial to maintain economic growth and promote the welfare of its citizens.

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With kind regards

Dr. Pantelis C. Kostis  
Associate Editor

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**Journal of the Knowledge Economy**  
**Avoiding the dangers created by institutional change in China**  
--Manuscript Draft--

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<b>Article Type:</b>	Original Paper
<b>Abstract:</b>	<p>Institutions are effective means by which human societies resolve conflicts over the use of scarce resources and maintain social stability. To find suitable principles to guide institutional evolution, we reviewed examples of recent institutional evolution in China to seek guidance for the evolution of other modern institutions. China's experience demonstrates that a neutral policymaker capable of limiting the government's power to decide who will benefit from policy changes, as was done by China's successful State Commission for Restructuring the Economic Systems from 1982 to 1997, is crucial for successful institutional design. To cope with the complexities of policy development and institutional change, China's central government should re-establish a neutral policymaker whose goal is to balance the benefits among all stakeholders. In the constantly changing modern economic environment, a country's ability to implement institutional reforms is crucial to maintain economic growth and promote the welfare of its citizens.</p>

## How can a Country be Governed by Its People?

Shixiong CAO<sup>1\*</sup>, Zhexi LIU<sup>2</sup>, Weiming LI<sup>1</sup>

1 School of Economics, Minzu University of China, No. 27 Zhongguancun South Street,  
Haidian District, Beijing 100081, P.R. China

2 Academy of Social Sciences, Tsinghua University, No. 30 Shuangqing Road, Haidian  
District, Beijing, 100084, P. R. China

3 College of Humanities and Development Studies, China Agricultural University, China  
Eco-compensation Policy Research Center, No. 2 Yuanmingyuan West Road, Malianwa  
Street, Haidian District, Beijing 100193, PR China

\* Corresponding author: E-mail: shixiongcao@126.com

Tel.: 86-10-6233-7038; Fax: 86-10-6233-7674

**Author contributions:** S. Cao designed the research; S. Cao, Z. Liu and W. Li performed the  
data analysis and wrote the manuscript.

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The authors declare no conflicts of interest. The manuscript has not been previously  
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**Abstract:** A country that includes People’s Republic in its name nominally belongs to its people, but because states cannot spontaneously self-govern, governance must be implemented by government agents who are capable of resisting the temptation to abuse their power. It is therefore necessary to find ways to limit selfish behavior by government officials and reduce the gap between the rich rulers and their partners and the ordinary people to a tolerable degree, thereby allowing the governors to provide social stability and to stimulate social and economic development. China’s experience demonstrates the crucial importance for successful institutional design of a neutral policymaker that is capable of limiting the government’s power to decide who will benefit from policy changes, as was done by China’s successful *State Commission for Restructuring the Economic Systems* from 1982 to 1997. In addition, governments must promote innovation, both economic and scientific, for their country and people to prosper. Lessons learned from this period will help China to restore social equity and will be of interest to countries that want to learn from China’s experience.

**Key Words:** Governance; Institutional change; Neutral department; Poverty; State agents.

1 **Introduction**

2 Nations are self-governed, independent territories in which the people, the corporations,  
3 and public wealth are protected by a complex combination of formal and informal institutions  
4 (Cao 2015). A country with People’s Republic in its name nominally belongs to its people, a  
5 belief that has been recognized by historical figures as different as Jean-Jacques Rousseau,  
6 Confucius, and Mao Zedong. However, states are complex systems that cannot spontaneously  
7 self-govern, so governance must be implemented by government agents. For a fair and  
8 equitable system, these agents must be capable of resisting the temptation to abuse their  
9 power, and this is only possible if leaders can expect to receive greater long-term rewards  
10 from good service than from corruption (Myerson 2011). This is particularly true because  
11 government agents can obtain a monopoly by exercising military power or by controlling  
12 elected officials, who face the challenge of balancing the needs of the public with the  
13 demands of one or a few groups and alliances that form what many political philosophers and  
14 economists, including Karl Marx and Max Weber, referred to as a "ruling class" (Olson 1993,  
15 Myerson 2011, Stovel et al. 2011).

16 Government represents the means by which a state exercises its power to protect its  
17 citizens, enforce the laws that ensure social stability, and collect and spend tax revenues.  
18 Given the flaws in human nature, property rights cannot be effectively implemented without  
19 a government or some similar body that provides guidelines for the creation and preservation  
20 of these rights, and that enforces the guidelines in an equitable manner. However, there is an  
21 economic incentive for those who form the government to exploit their power, including their  
22 information advantage over non-members of the government, for private gain, resulting in  
23 economically inefficient outcomes (Stovel et al. 2011). Hence, governments throughout  
24 history have frequently failed to provide an efficient structure capable of supporting stable  
25 economic development. Instead of acting as a service organization whose primary goal is to

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26 protect the public interest, governments have often behaved more like organized criminals  
27 (North 1990, Olson 1993).

28 Governments, whether autocratic or democratic, tend to operate based on short time  
29 horizons, both because of the short lifespan of most dictatorships and because of the short  
30 terms of elected officials (e.g., a maximum of 8 years for an American president). As a result,  
31 government officials must often accomplish their personal goals within a short time, and  
32 those who confiscate private goods, repudiate loans, debase their country's currency, and  
33 create unmanageable levels of debt or inflation have historically been too numerous to count  
34 (Olson 1993). Because of this bad behavior, critics in the news media, philosophers,  
35 economists, and even scientists must repeatedly remind their governors that governments  
36 should exist to serve the people. Despite the countless historical examples of bad outcomes  
37 for corrupt governments, which should provide a lesson to modern governments, it is still  
38 difficult to find mechanisms that guarantee functional and egalitarian legal and monetary  
39 systems that support a vigorous economy (North 1990).

40 Although violence and torture have traditionally characterized many autocratic  
41 governments (Bhattacharjee 2007, Stone 2009, Schulz 2016), these crimes have a different  
42 nature in more democratic governments; the nature of governmental robberies from the  
43 governed people tends to be based on more indirect instrumentalities. How a country can be  
44 governed by its people in a way that will minimize these abuses is still an issue that must be  
45 solved by the current society. To provide insights to guide the development of an acceptable  
46 strategy, we reviewed the actions of China's government since China's opening to the west in  
47 1978 because western examples are familiar to most readers. These examples reveal the  
48 factors that seem to be common to all cultures and some aspects that are unique to China's  
49 culture.

50 **The bumpy road to governance in China**

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51 To promote economic development, China has implemented a series of economic reforms  
52 since 1978, when Deng Xiaoping hosted an economic reform conference. After this  
53 conference, the central government tried to establish a “supervised” market economy to  
54 replace the centrally planned economy that had existed since the establishment of the  
55 People’s Republic of China in 1949 (Wu 2007). The reform was designed to be gradual, with  
56 the goal of ensuring social stability. As part of the reform process, the central government  
57 gradually gave local governments certain powers, such as taxation and land sales to provide  
58 revenues that would support local development, rather than continuing its former total control  
59 of the economy (Zheng et al. 2014). The reform, which has been referred to as  
60 “decentralization”, represented a continuous bargaining process in an attempt to reach a  
61 compromise (Shah et al. 2010) that would minimize the damage caused to powerful  
62 stakeholders within the government or the Chinese Communist Party who might otherwise  
63 try to block the reforms. Balancing the interests of the governments and people has been a  
64 key component of the economic reforms.

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65 In the 1980s, Deng Xiaoping established the *State Commission for Restructuring the*  
66 *Economic Systems* (SCRES) to coordinate the actions of local stakeholders with those of the  
67 central government and thereby promote the reforms. This department was responsible for  
68 policy development, but had no executive power; its mission was to draw up the overall  
69 design for reform of the national economic system, guide the relevant departments and  
70 regions to develop their own reform plans in accordance with the overall design, promote the  
71 reforms, and implement pilot projects to test and demonstrate the proposed reforms. As an  
72 independent policy-making department, SCRES played a relatively neutral role; rather than  
73 favoring any one stakeholder, its goal was to balance the government’s ambitions (economic  
74 development) with the needs of the people (improvement of livelihoods and quality of life).

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75 During this period, governments emphasized improvement of livelihoods to ensure that



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76 this goal received equal priority to economic development *per se*. As a result, policies more  
77 favorable to citizens were introduced more often. These included the introduction of a  
78 minimum purchase price policy for crops (to protect farmers), testing of a rural pension  
79 insurance system (to provide rural residents with an income when they were no longer able to  
80 work), and a strategy for rejuvenating the country through improved education and a greater  
81 investment in scientific research (Cao 2016). Because of these policies, government revenues  
82 had increased to 7.6 times their 1978 level by 1997, versus an increase of 23.0 times for  
83 citizens. The ratio of governmental to civilian revenues decreased from 0.57 in 1978 to 0.23  
84 in 1997 (China Statistics 1978-2021).

85 China's socioeconomic growth under the new system was spectacular (Wu and Yao 2015).  
86 Unfortunately, SCRES was terminated in 1997 after Deng Xiaoping died, and China's  
87 reforms transitioned into another phase that emphasized economic development, and  
88 especially improvements in GDP, without explicitly accounting for the needs of citizens to  
89 earn a living. In the absence of effective supervision from that point forward, government  
90 officials were unable to resist the temptation to exhibit predatory behavior that increased the  
91 government's share of society's total income. Because of the loss of the neutral role served  
92 by SCRES, every department of the central government and local governments accelerated  
93 the decentralization process in an effort to develop their own plans and exercise their own  
94 powers (Zheng et al. 2014). Policy makers received little monitoring because there was no  
95 replacement for SCRES that could recommend a better balance in how the benefits of  
96 development were divided between the government and the people. Instead, there was a  
97 strong economic incentive for members of the government to exploit their power, including  
98 their information advantage over citizens who did not work within the government or have  
99 strong government ties, for private gain, resulting in economically inefficient outcomes  
100 (Stovel et al. 2011).

101 It is not too strong a statement to say that some governments or government officials  
102 behaved more like organized criminals than like protectors of the people (North 1990) as a  
103 result of the people's loss of power to monitor their activities (Shang et al. 2019). This has  
104 led to a series of undesirable consequences that couldn't be ignored. As shown in Figure 1a,  
105 the Government of China's proportion of total income was lowest in 1997, but sloped rapidly  
106 upwards thereafter until Xi Jinping became China's president in 2012. This finding was  
107 supported by the rapid growth in China's GDP and its M2 money supply since 1997. After  
108 accounting for inflation, China's actual GDP in 2020 equaled 11.7 times the 1997 value, and  
109 M2 increased to 23.0 times the 1997 value (China Statistics 1998-2021). This behavior, in  
110 which the government maximized its own benefits through taxation and the creation of more  
111 currency; unfortunately, per capita net urban and rural income increased at a much slower  
112 rate (Fig. 1a).

### 113 **Undesirable consequences**

#### 114 *—Corruption of government officials*

115 Governments tend to exhibit a certain form of predatory behavior (Olson 1993). Their  
116 primary goal is to take control of the state and guide the economy to increase their share of  
117 revenue (North 1990). To maximize their interests and conceal any unethical behavior,  
118 governments can expend copious amounts of money on infrastructure construction or  
119 implement a mix of monetary and fiscal rules that control the exchange of valuable resources,  
120 reform educational and healthcare systems, and even lower tax rates (McCabe et al. 2017,  
121 Stovel et al. 2011). These investments motivate citizens to work harder and invest their  
122 money in the economy (North and Thomas 1971, Ogilvie and Carus 2014), which results in a  
123 more vigorous economy and higher tax revenues for the government over time (North 1990).  
124 This may not be a problem when the tax burden is shared equitably by all members of society  
125 and when the government's goal is to benefit society as a whole. Unfortunately, this is not

126 always the case. In many cases, policies evolve to create exchanges primarily between the  
127 government and rich taxpayers, with the latter benefiting disproportionately from the exchange  
128 (North 1990, Cao 2015). To gain more revenue from taxpayers, governments stress the  
129 economic aspects of development, which primarily benefit the rich, rather than the aspects  
130 that focus on improving human welfare and that primarily benefit the poor.

131 When government power isn't constrained, there's a risk that members of the government  
132 or the civil service bureaucracy will apply their powers in ways that benefit themselves or  
133 their colleagues, and that fail to protect the people who should be protected by the  
134 government; in effect, they neglect the state to benefit the government. This approach sends  
135 the wrong message about government ethics, and this can lead citizens to believe that such  
136 inappropriate behavior is the norm and is officially sanctioned. For example, policies, laws,  
137 and regulations that combat environmental pollution or improve food security can be difficult  
138 to implement because they reduce the potential profits of rich industrialists (Luo et al. 2013).  
139 As a result, government officials are corrupted by wealthy industrialists who provide bribes  
140 designed to perpetuate their industry's economic advantage, causing both these enterprises  
141 and the government to lose the confidence of the public (Shang et al. 2019). Because of the  
142 perceptions of a huge potential benefit from becoming a government official, an average of  
143 more than 59 candidates have applied for each government job in China since 2003. In  
144 contrast, an estimated shortage of 2 million laborers in Guangdong Province means that 85%  
145 of enterprises in this province cannot operate at their full capacity (Cao et al. 2009).

146 During China's ongoing reform process and its opening up to the West, the central  
147 government gradually implemented "decentralization" (Wang and Ma 2014), which provided  
148 local governments with the right to independently make certain decisions and manage their  
149 local economy to primarily promote economic development (Sheng and Webber 2017).  
150 Although this strategy greatly stimulated economic growth, abuse of this power led to the

151 creation of abnormally rich or powerful stakeholders (Wu and Wang 2013, Zhao 2006).

152 Moreover, the personal wealth of certain officials is frankly astonishing. For example, Zhou

153 Yongkang, a former senior leader of the Communist Party, took advantage of his position to

154 get more than 1 billion RMB to himself (Branigan 2015). The current income gap between

155 social groups such as urban and rural residents (Fig. 1) is the result of such unethical wealth

156 redistribution. In 2019, government officials violated the Central Committee's Eight Rules of

157 Conduct 136,307 times, which equals 5.6 times the 2013 level (China Statistics 1979-2021).

### 158 —*Social insecurity*

159 Since 1997, local governments have been allowed to retain some tax revenues to fund their

160 operations (instead of sending all revenues to the central government), and tax revenues have

161 grown faster than GDP. From 1997 to 2012, government revenues increased to 13.6 times the

162 1997 level, versus only 5.9 times for all citizens net income (Fig. 1). As a result of the

163 government's monopolization of land sales, land-transfer fees grew to 76% of the total

164 income of regional governments in 2017 (Cai et al. 2019). Unfortunately, local governments

165 have had a strong incentive to focus on urban areas (which have larger and more powerful

166 economies than rural areas) and to ignore side-effects of development such as rural poverty

167 because the national economic reforms emphasized GDP growth (Cao et al., 2009). The gap

168 in net per capita income between urban and rural populations has increased sharply, from

169 209.8 RMB per year in 1978 to 26,703 RMB in 2020. China's Gini coefficient crossed a

170 warning threshold of 0.4 in 1994, reaching 0.49 in 2001 and 0.47 in 2020 (Fig. 1). It was

171 much higher than the corresponding values in most other countries. If the gap is allowed to

172 continue growing, it may have serious negative consequences.

173 Because public tolerance for income inequality is very fragile (Fukuyama 2011), the

174 widening gap between the rich and poor will have a negative impact on social stability that

175 may block social and economic progress (Cuttillo and Ceccarelli 2012). This may, in turn,

176 lead to crime, social unrest, possibly violent conflict (Cao 2016), social insecurity, and even  
177 environmental or economic crises, including famine (Bowles 2012). One useful proxy for the  
178 level of social insecurity is the relationship between various socioeconomic parameters and  
179 the crime rate. Through correlation analysis, we found that the proportion of total income  
180 accounted for by government income was significantly negatively correlated with the crime  
181 rate ( $R^2 = -0.75$ ), the Gini coefficient ( $R^2 = -0.84$ ), and the M2/GDP ratio ( $R^2 = -0.91$ ) between  
182 1978 and 1997, during a period when SCRES played a relatively neutral role in China. This  
183 showed that during this period, the government acted more strongly on behalf of the interests  
184 of its people. After 1997, however, the correlations between the proportion of the total  
185 income accounted for by government income and the crime rate increased and changed from  
186 negative to positive ( $R^2 = 0.98$ ), with similar changes for the Gini coefficient ( $r = 0.72$ ), and the  
187 M2/GDP ratio ( $R^2 = 0.85$ ) (Fig. 2), which indicated that the behavior of the government  
188 promoted social instability and national insecurity during this period.

189 Although correlation does not prove causality, Chinese history suggests that when crime  
190 rates rise to a certain level, accompanied by growing conflicts between different components  
191 of society (e.g., rural vs. urban residents, the rich vs. the poor), this may lead to increased  
192 violence and even civil war because poverty reaches such an extreme level that the poor feel  
193 that they have nothing left to lose (Hou and Hou 2002, Cao 2015). When these problems are  
194 accompanied by additional stresses such as climate change or invasions by other nations (or  
195 the modern equivalent, rapid influxes of refugees), the resulting serious social problems can  
196 lead to wars, famine, and even the sudden collapse of a regime or a civilization (Feng et al.  
197 2019). The historical record contains abundant evidence of such collapses from prehistoric to  
198 modern times (Weiss and Bradley 2001, Zhang et al. 2007, Barnosky et al. 2017). Such  
199 disruptions lead to unnecessary suffering, tragedies, and a tremendous waste of human and  
200 material resources (Wang et al. 2010, Bowles 2012). Not surprisingly, capital often leaves

1 201 countries in search of more stable countries when faced with continuing or recurring  
2 202 dictatorships; this is true even when these countries have relatively little capital and thus the  
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4 203 potential for a high return on investment of this capital, and when the more stable countries  
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6 204 are already relatively well supplied with capital and thus offer only modest rates of return  
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9 205 (Olson 1993).

11 206 —*A lack of scientific innovation*

14 207 Scientific innovation is well known to promote economic growth and improve the quality  
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16 208 of life. However, scientific innovation in China has lagged behind that in Western countries.  
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18 209 Because of the command and control system that China has implemented since 1949, science  
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20 210 in China has, like most other aspects of society, been centrally controlled, which greatly  
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22 211 impedes innovation. This includes the educational curriculum and the research agenda for  
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24 212 university professors. The problem is exacerbated by China's weak attention to science and  
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26 213 lack of respect for scientific research. For example, China's government makes no clear  
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28 214 distinction between science and technology. Almost all scientific research projects in China  
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30 215 require researchers to meet the government's defined needs for the country rather than  
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32 216 prioritizing the interests of researchers, and this has led to overemphasis of technology and a  
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34 217 lack of attention to science. Unfortunately, a purely scientific interpretation of natural and  
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36 218 social phenomena cannot account for the goals of government departments that focus on  
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38 219 human concerns. Although science represents a powerful tool for seeking truth, it must find  
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40 220 ways to adopt a human-centered perspective; at the same time, China must include that  
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42 221 perspective in their approach. China has repeatedly emphasized harmonious development and  
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44 222 has opposed voices that contradict the official position, and this has hindered scientific  
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46 223 development, which (at least in the Western model) thrives on the conflict between ideas and  
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48 224 on resolution of this conflict as the available knowledge improves. Because such conflict is  
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50 225 opposed by China's central government when it appears to undermine social harmony, and  
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1 226 because different voices can be politicized, Chinese scholars have been reluctant to adopt the  
2 227 Western model. Therefore, despite China's important achievements in technology, Chinese  
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4 228 researchers have not been recognized internationally for their scientific innovation.  
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7 229 China's higher education is an extension of the administrative governance system for  
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9 230 universities (Lagrotteria and Besescheck 2012). The structure of this governance system, and  
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11 231 the content of the courses that are offered, is determined almost exclusively by China's  
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13 232 Ministry of Education. Thus, the approach resembles a command and control system, in  
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15 233 which almost all essential decisions are made by the Chinese government instead of by the  
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17 234 universities themselves (Garda 2008). There are few chances for teachers and students to  
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19 235 propose or participate in innovative activities, and this prevents students from developing a  
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21 236 desire to innovate or the skills to do so. This has created a problem: without any training in  
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23 237 innovation and the relevant skills, many Chinese university graduates lack the ability to think  
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25 238 critically and to innovate despite their university education (Loyalka et al. 2021). Despite  
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27 239 China's splendid achievements in terms of the number of educated citizens, many problems  
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29 240 have emerged and come to the attention of the public (Garda 2008). For example, improving  
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31 241 China's international competitiveness requires innovative ideas by highly trained workers  
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33 242 who can fill key positions in the industries that are driving China's growth (Zhong 2011,  
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35 243 Lagrotteria and Besescheck 2012).  
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44 244 Once students leave university to seek employment, there is an opportunity to correct this  
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46 245 problem. China's government has aggressively promoted economic and industrial  
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48 246 development, including by means such as giving private enterprise considerable freedom  
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50 247 from centralized control. As a result, enterprises can offer their employees powerful  
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52 248 incentives to innovate. For example, a new institution named *shared property* emerged in  
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54 249 Shenzhen City in 1994 (Cao et al. 2022). Under this institution, knowledge workers  
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56 250 participate in developing the enterprise's policies and in return, receive a share of an  
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251 enterprise's profits, which provides a powerful incentive to develop innovations that will  
252 improve those profits. It can also promote the desire to remain an employee, since workers  
253 lose their share of the enterprise's profits when they leave; this has the additional benefit of  
254 increasing retention of essential knowledge by the enterprise. In addition, China's  
255 government declared Shenzhen a special economic zone, in which enterprises received  
256 considerable freedom to innovate and test the safety of embracing an economic model closer  
257 to that of Western cities. As a result of these innovations, Shenzhen has become one of the  
258 world's most innovative cities, with dramatic effects on its economic development.  
259 Shenzhen's GDP increased to 43.6 times its 1994 level ( $63.5 \times 10^9$ ) to  $2767.0 \times 10^9$  RMB in  
260 2020, versus only 31.4 times for Beijing (from  $115.0 \times 10^9$  to  $3610.3 \times 10^9$ ) during the same  
261 period (China Statistics 1979-2021). Although the shared property rights institution has  
262 proven to be effective in promoting technological innovation, it has not been directly adopted  
263 in Chinese scientific research or in university education departments because it has not been  
264 proven to work in those contexts in China, and because some government officials worry  
265 they might lose their right to control Chinese scholars. However, given that most Western  
266 universities succeed both economically and in producing innovative graduates, and given that  
267 many have successfully implemented a form of profit sharing (i.e., through university-  
268 industry cooperation), it's clear that China should apply the lessons of Shenzhen to Chinese  
269 education.

## 270 **How China could be governed better by its people**

271 Government represents the means by which a state exercises its power to protect its  
272 citizens, enforces the laws that ensure social stability, and collects and spends tax revenues,  
273 but governments have frequently failed to provide an efficient structure capable of supporting  
274 both stable economic development and a safe and productive environment for their citizens  
275 (Cao 2015). In theory, if not always in practice, any country with "People's Republic" in its



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276 name belongs to its people and not to its government. Preserving this relationship requires the  
277 development and protection of institutions that treat everyone equally and fairly. To achieve  
278 this, governments must remember that they serve the people, and the people must have means  
279 to ensure that their government honors this commitment. In the context of this paper, there  
280 are several things China can do to achieve this goal: constrain the government’s power by  
281 implementing a neutral policymaker, permit monitoring by the people, and provide much  
282 more freedom to universities and their scientific researchers. In the rest of this paper, we will  
283 discuss how these suggestions can improve China’s situation, thereby providing examples  
284 that other developing countries can follow.

285 —*Neutral policymaker*

286 To constrain local governments and reduce corruption, China is testing an approach to  
287 federalism that they hope will be more diverse and flexible than the Western example (Ip and  
288 Law 2011). As in the case of American federalism, which has been described as “a laboratory  
289 of the states”, Chinese provincial governments are free to experiment with innovative  
290 solutions to their local problems (Roland 2004). However, what is missing from this  
291 laboratory is government oversight to ensure that the needs of all stakeholders are met, and  
292 particularly the needs of citizens, who have been given insufficient priority in recent decades.  
293 To provide this oversight, China should promote supervision of its institutions by the people,  
294 but without eliminating the central government’s role, which would stimulate resistance from  
295 government officials. To accomplish this will require a compromise solution that  
296 simultaneously solves the problem of corruption in local governments (through monitoring  
297 by the people), achieves a balance between centralization and decentralization in a way that  
298 protects citizen rights, and maintains the country’s political stability.

299 To accomplish this, we recommend the restoration of SCRES or an equivalent department  
300 that is independent of the State Department, which is responsible for policy implementation

301 (Fig. 3). As in the past, this neutral policymaker can formulate but not implement policies.  
302 The institutional changes that they promote should ensure that everyone benefits, not just  
303 some people (e.g., the government, rich and powerful citizens). To accomplish this, it will be  
304 necessary for SCRES or its replacement to listen to the advice of sociologists and other  
305 experts to ensure that the consequences of social policy choices will be clear. In this  
306 consultation process, policy-makers must understand that different stakeholders require  
307 different forms of persuasion to participate in a new institution. It may not be possible to  
308 achieve an optimal solution, but it may be possible to achieve a win–win solution in which all  
309 stakeholders believe that they will share at least some of the benefits (Cao 2016).

310 This approach should support decentralization, so that local institutions can evolve in  
311 response to unique local constraints, while ensuring ongoing monitoring to prevent abuses by  
312 local governments. The central government can then focus on coordinating the efforts of  
313 local governments (i.e., to ensure that they do not ignore national priorities defined by the  
314 central government and that they think about the consequences of their actions outside their  
315 local boundaries) and on international affairs that affect the nation as a whole. Furthermore,  
316 small-scale demonstration projects such as the Shenzhen special economic zone must be used  
317 to follow Deng Xiaoping’s policy that practice, not ideology, is the only way to determine  
318 whether an approach can work. Successful demonstrations can reassure stakeholders that a  
319 new approach is both safe and feasible, and that managers in charge of its implementation  
320 elsewhere will have flexibility to adapt the approach to local conditions and needs. In  
321 contrast, if a project fails, the failure will only affect a small project area, and the adverse  
322 consequences can be fixed more easily than if the project had been implemented nationally,  
323 thereby affecting the whole population.

324 —*Monitoring by the people*

325 Monitoring is an effective means to sustain pro-social behavior. This is because the fear of

1 326 having one's bad behavior revealed is a powerful incentive to behave in a more pro-social  
2 327 manner (Bshary and Grutter 2006, Milinski and Rockenbach 2007). However, supervision is  
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4 328 necessary to control the human tendency to become greedy (Bshary and Grutter 2006). When  
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7 329 one's reputation is at stake, both animals and humans can switch from selfish to altruistic  
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10 330 behavior, because only altruism is socially rewarded (Milinski and Rockenbach 2007).  
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12 331 Therefore, a government must first build a reputation for reliably rewarding ethical behavior  
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14 332 by government officials (Myerson 2011), and must act in a way that gains the support of the  
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16 333 majority of the population, not just a privileged few. Once this approach has been  
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19 334 established, it becomes an inherently self-sustaining process because it is clearly in the self-  
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22 335 interest of the government and its officials (Dreher et al. 2015). Administrative supervision  
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24 336 makes officials aware of the risk of exposure of their selfish behavior and subsequent  
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26 337 punishment, and this awareness can restrain their selfish thoughts and prevent their abuse of  
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29 338 power. Supervision can also improve the administrative efficiency of the government and  
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32 339 reduce or prevent errors. This monitoring is most effective when government operations are  
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34 340 transparent, so that the public can see and understand these operations. Therefore, it is crucial  
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36 341 to strengthen public scrutiny of government workers and improve supervision of government  
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39 342 departments and officials. As in a healthy ecosystem, there must be checks and balances, as  
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41 343 described by the Chinese saying that "the more birds there are, the less damage insects  
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43 344 cause".

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46 345 As in the case in some Western democratic regimes, Chinese government officials often  
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49 346 see themselves as being above the law, so supervision by the central government can be  
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51 347 difficult. If thousands of citizens acquire the ability to monitor government operations,  
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53 348 unethical behavior is more likely to be detected, thereby preventing or greatly reducing  
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56 349 corruption. To improve the effectiveness of supervision, one option would be to increase the  
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58 350 rewards for ethical behavior and for reporting corrupt activities. This revised approach should  
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1 351 work because it both discourages corrupt behavior (due to a higher risk of being caught) and  
2 352 encourages virtuous behavior (by rewarding such behavior). To accomplish this, it will be  
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4 353 necessary to create a new institution in which government officials are rewarded for earning  
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7 354 the respect and trust of the people they serve and thereby reinforcing the belief that the  
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9 355 people are the true masters of the nation.  
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12 356 —*Promoting scientific innovation*  
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14 357 Civilization grows and improves by growing and improving the body of knowledge on  
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17 358 which it relies. During the past century, scientific research and its application through  
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19 359 technology have been major drivers of human and economic progress. However,  
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22 360 governments have sometimes had a hostile relationship with science and technology, since  
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24 361 both can undermine a government’s authority, even though both can also solve problems such  
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26 362 as climate change that threaten the government and the people it serves. Science is seen as  
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29 363 particularly disruptive, since it challenges government ideologies and, by revealing problems  
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32 364 with those ideologies, threatens the power of individual government officials. This can lead  
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34 365 to government distrust of science and the implementation of measures to restrain its ability to  
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36 366 innovate in ways that improve human lives, but that are perceived as undermining the  
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39 367 government (i.e., that are seen as disruptive). This is also why universities are distrusted: they  
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41 368 are seen as breeding grounds for disruptive ideas, both in the “hard” sciences and in the  
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44 369 social sciences. To prevent disruption and maintain social stability, governments therefore  
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46 370 strongly constrain the subjects that university researchers can study and take measures to  
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49 371 limit innovation, particularly if an innovation might disrupt the status quo; government  
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51 372 resistance to research is particularly strong when the research reveals the government’s  
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54 373 errors, leading to embarrassment for the officials who were responsible for the errors. Rather  
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56 374 than working together to solve society’s problems, this approach limits the ability of  
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58 375 researchers to innovate. This has been true in China since the Communist Party came to  
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1 376 power. For example, before Mao Zedong became the leader of modern China, he showed  
2 377 considerable respect for science, believing that "only science can save China" and  
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4 378 encouraging his colleagues in the Communist Party to embrace the innovations offered by  
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7 379 science. However, once he came to power, it became apparent that scientists would often  
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9 380 contradict him and reveal problems with his plans. To protect his power, he implemented  
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11 381 policies that gave his ideological claims more weight than scientific evidence, culminating in  
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13 382 widespread repression and violence against university researchers. Mao's legacy continues  
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16 383 today, where it can be seen in the central government's tight control over scientific research.  
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19 384 However, scientific and technological change are dominant factors in modern life and play  
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21 385 a pivotal role in the growth and development of society, with scientific research essential  
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23 386 both to understand our world and to determine how society will or should respond to our  
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25 387 changing world. Research results provide crucial support for policy development by allowing  
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27 388 governments to examine the impacts of policy proposals before they are implemented to  
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29 389 prevent problems from arising, then monitoring the consequences of implementation to detect  
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31 390 any flaws in new and existing institutions that must be fixed to achieve a policy's goals.  
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34 391 Scientific research is like wandering through a forest at night: it requires courage, a  
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36 392 willingness to navigate around obstacles, and a willingness to be flexible, including returning  
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38 393 to the start of one's journey and trying again when one fails to reach the desired destination.  
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40 394 Research is not inevitably successful, particularly when it is conducted to provide solutions to  
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42 395 future problems that are, themselves, unclear. One important solution is to give scientists  
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44 396 freedom to follow their desires and instincts to see where they lead; some will not find a  
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46 397 solution to the problem they set out to solve, but at least some will, and their successes will  
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48 398 improve society. Even failures can have beneficial consequences; as famous American  
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50 399 inventor Thomas Edison once said about his initial failure to invent a working lightbulb, "I  
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52 400 have not failed 10,000 times—I've successfully found 10,000 ways that will not work."  
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1 401 Another advantage of scientific freedom is that it can, as in the case of global climate change,  
2 402 identify serious problems sufficiently early that solutions can be found. Thus, governments  
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4 403 must support scientific freedom even the results it will sometimes challenge their beliefs and  
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7 404 disrupt society.

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10 405 In addition to encouraging universities to engage in more innovative research,  
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12 406 governments must encourage them to train students in innovative thinking. Following the  
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14 407 same path each time will not lead to a different destination, no matter how many people  
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17 408 follow that path. Universities and the government officials who control them should learn  
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19 409 from the examples of Shenzhen and the shared property institution to (respectively) provide  
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22 410 freedom to experiment and an incentive to innovate.

#### 23 24 411 **Perspective**

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26 412 The government must understand that it is only an agent for the state, rather than the state  
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29 413 itself. Governments must therefore create an environment in which the people who generate a  
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32 414 nation's wealth, both the owners of companies and their workers, are protected and have an  
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34 415 incentive to work hard to improve their situation. This cannot happen when these people feel  
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36 416 that governments exist primarily to constrain their activities and rob them of their profits.  
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39 417 Because of human nature, the political power awarded to those who manage a state makes it  
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41 418 difficult for governors to resist the temptation to abuse this power. This is particularly true  
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44 419 when the short-term gains from this abuse seem to outweigh the long-term risks. Instead of  
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46 420 acting as a service organization whose goal is to protect the public interest, governments that  
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49 421 engage in such short-term thinking essentially behave more like irrational thieves who do not  
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51 422 believe they will be punished than rational caretakers whose goal is to profit in the long-term  
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54 423 by protecting the people they should serve. The periodic rise and fall of governments and  
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56 424 even nations that have occurred throughout history have many causes, but a government that  
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58 425 is perceived as existing primarily to benefit its members at the expense of society is more  
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426 vulnerable to such collapses.

427 Political advertising is widely used to sway the populace during elections in democratic  
428 nations. For example, Beddoe et al. (2009) found that political candidates in the United States  
429 can receive one vote for approximately every \$10 they spend; this creates a system in which  
430 elections are won by the richest candidates, which they considered to be the definition of a  
431 plutocracy rather than a democracy. Where such spending is the rule rather than the  
432 exception, and where the identity of the people who contribute this money is not easy to  
433 discern, elected officials can use their information advantage over the general public to be  
434 elected; in return for the monetary contributions that allowed them to be elected, the officials  
435 are expected to repay their patrons, leading to covert abuse of power. In the modern era of an  
436 educated population, increased involvement in social movements, and elevated cultural  
437 standards, legitimacy derives primarily from a perception that the government has a nation's  
438 best interests in mind, shares a common mindset with the governed population, and has a  
439 political track record that inspires confidence. All of these things require transparency so that  
440 the people believe they understand what is happening and can trust their elected officials  
441 because they are monitoring the behavior of these representatives. This implies the existence  
442 of feedback mechanisms by which the population can control the government and prevent  
443 them from profiting by abusing their power. This power can strengthen the social contract  
444 between a government and its people. Following this logic, a rational government that  
445 behaves in its own self-interest must do so by providing opportunities for economic  
446 development without sacrificing the needs of the people who the government represents and  
447 by increasing public confidence that anyone who strives to participate in this development  
448 will be protected by their government, thereby allowing them to improve their welfare  
449 through their own efforts.

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Figure 1. The changes in the Gini coefficient, in the government proportion of total revenues, in government and civilian revenues, in per capita net urban and net rural income, and in currency (M2) from 1978 to 2020. Source: China Statistics.

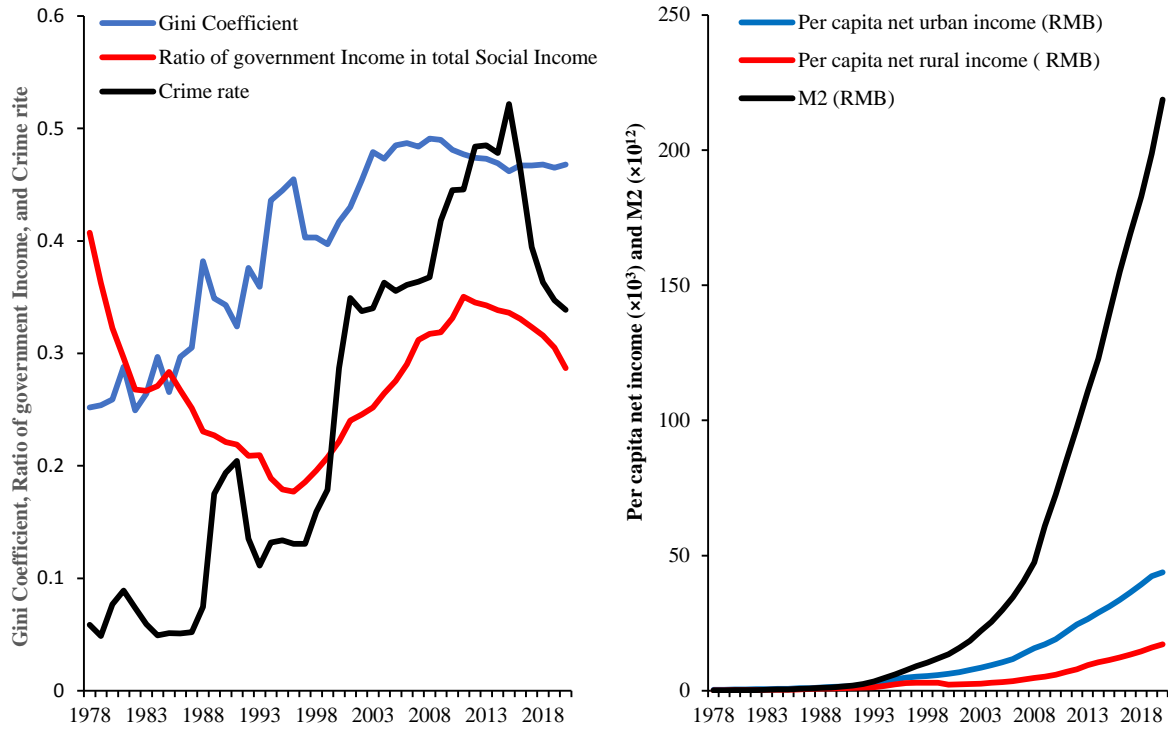
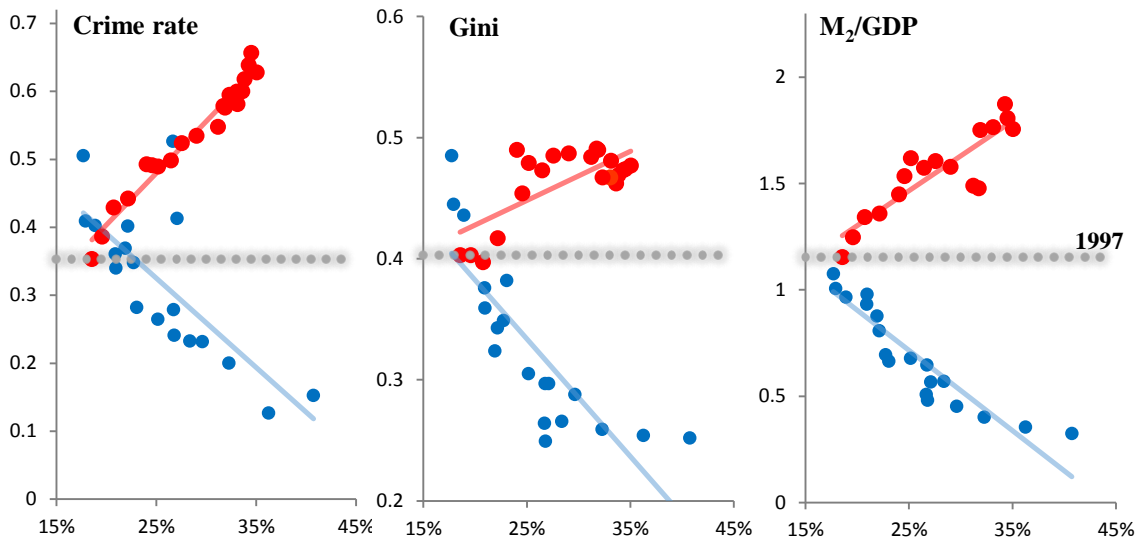
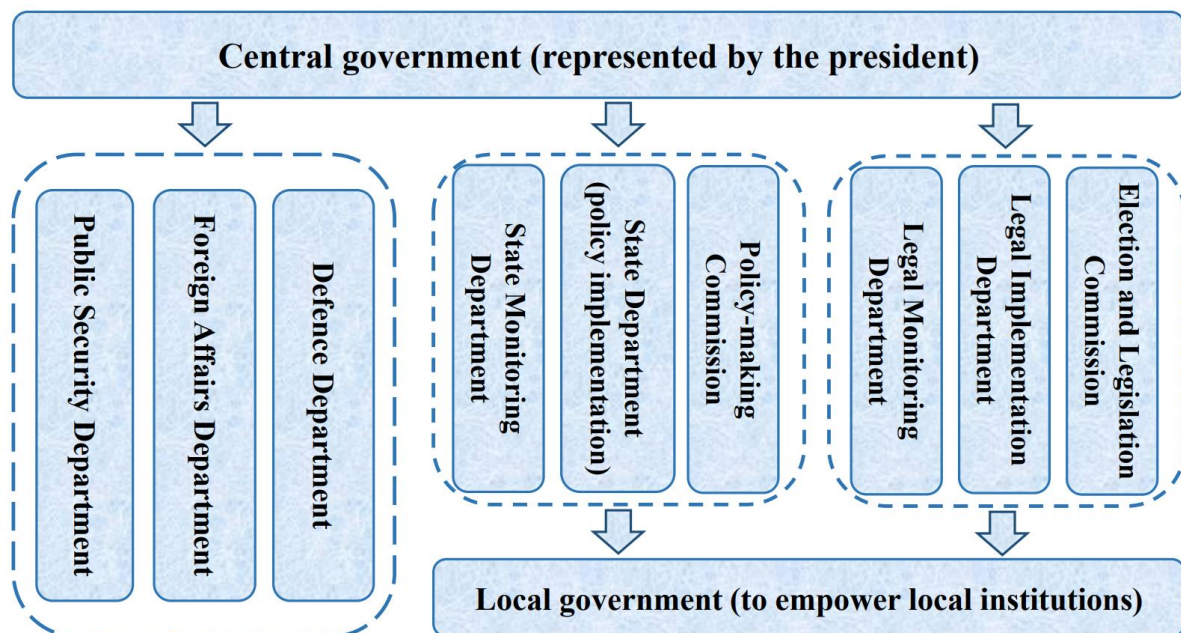


Figure 2. The change of the relationship between the proportion of total income accounted for by the government and the crime rate, the Gini coefficient, and GDP/M2 ratio. The shape of the dots represents different time periods: the blue dots denotes 1978 to 1996 and the red dots denotes 1997 to 2017. Source: China Statistics (1979-2021).



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Figure 3. Illustration of a proposed institutional framework to support decentralization of power to empower local institutions, with the goal of promoting economic development, but with monitoring by the central government to mitigate corruption. This monitoring should be performed by a neutral authority (in this framework, the “Policy-making Commission”) such as the *State Commission for Restructuring the Economic Systems*, whose primary goal is to balance the benefits among all stakeholders.





Dr. Drs Sriyono, MM &lt;sriyono@umsida.ac.id&gt;

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**JKEC: Thank you for agreeing to review**

1 message

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**Pantelis C. Kostis** <em@editorialmanager.com>  
Reply-To: "Pantelis C. Kostis" <pkostis@econ.uoa.gr>  
To: Sriyono - Sriyono <sriyono@umsida.ac.id>

Fri, Apr 14, 2023 at 1:39 PM

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1 message

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Reply-To: "Pantelis C. Kostis" <pkostis@econ.uoa.gr>  
To: Sriyono - Sriyono <sriyono@umsida.ac.id>

Tue, May 9, 2023 at 9:08 PM

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Journal of the Knowledge Economy

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To.  
Dr. Pantelis C. Kostis  
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Journal of the Knowledge Economy

## REVIEW RESULTS ON JKE ARTICLE JKEC-D-21-00671

This paper is a free paper or an opinion on how to avoid the dangers posed by institutional changes in China over several periods without any basis for validation Strong data from both literacy studies and empirical evidence. In addition, the components of a scientific article that must be published in a journal are not clear, for example:

### **1. Introduction.**

In the introduction, this article does not explain the problems that are being faced or want to be researched. In addition, you are not writing this made so that this paper will not contribute but only give a personal opinion about the dangers of a condition A country run by a government that is not responsible to country.

### **2. State of Art And Novelty**

The state of art of the article written is also unclear and too minimal references are used. This paper will be an ordinary free story script without any empirical fact support . The novelty of this paper when compared to previous similar studies is unclear.

### **3. Methodology**

The methodology used in this article is also unusual and worthy of use in a scientific paper. Is the type of research quantitative or qualitative because each article needs to be validated by the data both quantitative and qualitative research so that the articles written are scientifically correct. Without a clear methodology, the quality of the article becomes biased, whether the article is included in the group of writing scientific articles or free articles that are not bound by the form of a scientific article.

### **4. Discussion**

Because the type of writing is not in the field of scientific writing, the discussion is also not carried out structurally on the problems and impacts caused.

### **5. Conclusion**

Based on these reasons, this article is not in accordance with the scope of this journal. It is recommended that the author look again at the scope and writing guidelines that have been determined

Regard, 17 April 2023

A handwritten signature in black ink, appearing to read 'Sriyono', with a long horizontal line extending to the left.

Dr. Sriyono, Drs, MM., CIQnR., CSA

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