

**Paper Prepared for 2013 Summer School Student Colloquium
University of Chicago Law School**

Retirement Age and Corruption in China

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Abstract

Institutional design is often cited as the major cause of corruption. From the unique observation angle of age, we try to analyze how rational public servants in China calculate the corruption timing in order to maximize the utility. As the mandatory retirement age for most Chinese public servants is 60 with few highest positions at 70, the typical corrupt period falls between 44 years old and 49 when being discovered. The older public officials start being corrupt, the larger illegal income they could get, when controlling the length of being corrupt and other variables. Meanwhile the inconsistent severity of punishment diminishes the effect of the anti-corruption measures.

Retirement Age and Corruption in China

Institutional design is often cited as the major cause of corruption. Since the mandatory retirement age for most Chinese public servants is 60 with the highest positions at 70, we try to analyze, from the unique observation angle of age, how rational public servants in China calculate the corruption timing in order to maximize the utility. By analyzing the empirical data of corruption cases, we also try to identify how monitoring and punishment affect corruption.

In the first part, we review the literature on rent-seeking and corruption. The second part presents the institutional background information and a theoretical model of corruption decision making. The third part tests empirically the effects of age, monitoring and punishment. It is followed by discussing the policy implication at the end.

I. Literature Review

As Anne Krueger argued in her path breaking article “the Political Economy of the Rent-Seeking Society” (1974) that the natural monopoly power of governmental gives rise to the competition of rents. Social resources which could be employed in the production sector now are redirected into the artificial scarcity created by the government interventions to obtain the rent and hence it lowers social welfare. Buchanan defines the rent as “that part of payment to an owner of resources over and above that which those resources could command in any alternative use. Rent is receipt in excess of opportunity cost.”(1980). Another direction of research is concerning the rent-seeking activity related to government employment.

Tullock (1980) considers the selling of government positions, which can just be another type of corruption, to be a pure transfer of assets which is not equivalent to waste, since the money

increases utility or production elsewhere. Krueger (1974) suggested that bribes create rents for government officials and that a wasteful competition for public jobs may thus develop.

Corruption is viewed as a particular type of rent-seeking activity. This viewpoint has gained wide recognition (Rose-Ackerman, 1999). Anderson and Tollison (1988) compared government and criminal sector for in both cases wealth transfers are supplied to demanders by means of coercion. The most fundamental analytical difference between government and the criminal sector is that the former controls the institutions of law (rendering the latter illegal). Government extracts resources from taxpayers and redistributes them to interest groups. An extension of the argument would be that when that rent is retained by individual bureaucrat without the consent of the government, it becomes corruption. Corruption has a worse welfare implication than the alternative rent-seeking activities. (Lambsdorff, 2002)

Patterns of corruption are distinct in different political regimes. Bardhan (1997) discussed about “what is astonishing is the extremely small size of the usual bribe compared to the rent collected...Most such anecdotes are from democratic polities. On the other hand, there are anecdotes of corrupt income running to billions of dollars for authoritarian rulers in much poorer countries, like Mobutu sese Seko in Zaire or Ferdinand Marcos in the Philippines.” As Karklins(2005) argues the corruption in post-communist countries, it is “the system made me do it.”

By comparing the corruption control in mainland China and Hongkong, Manion(2004) indicates that “some institutional designs promote clean government, while others generate and sustain corruption.” She examines the campaign enforcement model of anti-corruption in

mainland China, and thus peak enforcements have often gone along with amnesty and reduce penalties. Hence, public servants' rent seeking activities is more the consequence of congenial allowance by the political institutions rather than pure individual behavior. "Bureaucrats had considerable discretion to transform the economy without worrying too much about laws and regulations which were either inadequate or nonexistent. At the same time, low-paid officials were managing assets and making decisions involving hundreds of millions of *yuan*" (Cheng, 2000). Leadership of the Communist Party of China increasingly depends on its authority to make appointments at all levels. In order to encourage younger generation replacing the old and to create within-party competition, retirement age thresholds are established for different level of public officials (Manion 1993). Retirement age is fixed for most lower -level public servants: 60 for men and 55 for women. Recent trend is that officials are encouraged to retire five years early taking incentive package. Only for exceptional high level officials, usually vice-provincial level public servants and above, will remain in positions with substantial power until 70 , which is the cutting line. Hence, rational public officials behave under the incentives and disincentives designed by the institutions. The question is how the retirement age factors in to the individual officials' corruption decision?

The public servants are infrequently monitored, and the severity of punishment varies from time to time. As Manion(2004)provides detailed descriptions about the waves in the Chinese history of mass anti-corruption movement. Although at the upper level, massive movement has no more in effect recently, the long-term and consistent anti-corruption system has yet been used in practice. (Zhao, 2013)

II. Some Explanation about Salary and Theoretical Models of Corruption Decision Making

Susan Rose-Ackerman (1978) described a model of legislator facing tradeoff between income and votes when making the decision of accepting bribe from interest group. While votes are irrelevant as in the political system such as Chinese, public servants face tradeoff only between income and the future promotion opportunities. However, if the promotion opportunity seems obsolete, then the cost-benefit calculation lies between the income and punishment.

1. Some explanation about salary

From the public available information, the annual base salary is about 12,000 *yuan* for entry level bureaucrats, 36,000*yuan* for city level officials, and about 80,000 *yuan* for the top officials. These are very small figure compared to the bribe offered. Moreover, the income increases at a relatively low speed.

Official income, however, include other items which changes all the time. For most public servants in China, they won't know their annual income unless they keep noting down the amount every time they got paid¹. Categories of official income varied with levels and areas. These payments could include cell phone subsidy, taxi subsidy, bus subsidy, kids-attending-school subsidy, remote area subsidy, hot/cold weather subsidy, winter heating subsidy, holiday payment etc. For higher level officials, to encourage purchasing private car, there is car purchasing subsidy which can be almost the price of a car. Housing subsidy can

¹ On the internet, some people voluntarily (and anonymously) disclose their monthly income.

be huge as public officials could purchase houses with only 20% of the market price; even the right to purchase can be cashed out mounted to millions.

Compared with salary, the bribe offered could vary dramatically in accordance with power associated with the positions officials hold. Generally speaking, seniority leads to a position with more substantial power and higher bribe offer. Because of the retirement age rule, all the privileges and bribe opportunity will end completely at or even prior to the retirement age. A joke is that the birthday of 60 years old is usually not a happy birthday.

Salary after retirement is trivia in the reality for public servants in China, since only the base salary will remain and it also pegged with the level at retirement. In their calculating of future income, public servants usually consider the salary after the official retirement irrelevant.

2. Theoretical Models of Corruption Decision Making

I construct the decision making model of two stages of public servants, ambitious and no-more- ambitious. Ambitious people look into the future. They understand more bribe opportunities with larger size of bribe are at the top of the political hierarchy. They believe that they can move up further so they remain corruption-free. They are ambitious in the sense of stretching to reach the maximum level of income. On the contrary, no-more-ambitious officials are satisfied with current position in the bureaucratic hierarchy or close to retirement age and see little chance for further promotion, hence further rent seeking opportunities. They are risk neutral, and probably a little risk lover. Thus, if they face once in the life chance of taking bribe, they just calculate whether it is worthwhile at that moment and make decision upon it. In other words, they don't care about future.

a) No-more-ambitious Public servants

For the no-more-ambitious public servants, the future is discounted with little present value. They take bribe when they see the benefit of taking bribe exceeds the possible punishment, as the latter is determined by both the severity of punishment and the possibility of being caught.

$$U_0 = B_0 - P_0 * p_0 \quad (1)$$

Where, U_0 = utility of a bribe at $t=0$

B_0 =the amount of a bribe offered at $t=0$

P_0 =the punishment faced by the bureaucrat when detected at $t=0$

p_0 =the probability being detected and punished at $t=0$, $0 \leq p \leq 1$

P_0 as punishment for the deterrence effect has to be greater than the amount of bribe itself and could be in forms of fine and, more likely, the time in jail and since time could be equivalent to certain amount of fine (Becker 1968). P_0 can be presented as a ratio to B_0 , so $P_0 = a * B_0$, where a represents the severity of punishment and it is greater than the origin amount of bribe, $a > 1$.

Thus, (1) can be rewritten as

$$U_0 = B_0(1 - a * p_0), \quad a > 1 \quad 0 \leq p_0 \leq 1 \quad (2)$$

A bureaucrat will take the bribe once $U_0 > 0$. He is not future oriented, only consider current situation. As long as, he sees a positive return of accepting the bribe after weighing the probability of being punished, he will take it. But an ambitious bureaucrat would compare it with possible promotion or greater rent opportunity in the future. If the latter is greater, he would remain clean at current time.

b) Ambitious Public Servants

A future oriented public servant who is ambitious in his career development will try to maximize his utility when taking into consideration of future income as he makes decision whether to take the bribe. The opportunity cost for him to take bribe today would be the expected utility of future income, which includes his discounted future wage income plus the highest possible bribe in the future when he would take it.

$$E_n = \sum_{k=0}^n \rho^k W_k + \rho^n U_n \quad (5)$$

Where, E_n = the expected utility of cumulated income and potential bribe from $t=0$ to $t=n$,

ρ = the discount rate, which is exogenous

W_k = the legal income of all the subsequent year from $t=0$ to $t=n$

Note that n refers to the period from current time to the retirement time. This is because only the working wage is relevant if being caught while the pension will not forfeit due to being in jail. Although the law vaguely requiring suspending pension after conviction, the implementation is very weak. Most people retain the pension they have and in extreme cases, convicted officials continue receiving current position wages.

Thus, for an ambitious bureaucrat, he will not take bribe, unless $U_0 \geq E_n$, i.e. he will accept the bribe only if he find the utility of this one time income would be greater than the future income stream. This also addresses officials who seek bribe multiple times. He does not perceive the probability of being caught increases since each time is independent for the same logic as sunk cost, although at the policing side the probability increases as bribes have been taken multiple times.

Substituting (2) and (5) into $U_0 \geq E_n$

$$B_0(1 - a * p_0) \geq \sum_{k=0}^n \rho^k W_k + \rho^n U_n \quad (6)$$

$$B_0(1 - a * p_0) \geq \sum_{t=0}^n \rho^t W_t + \rho^n B_n(1 - a * p_n) \quad (7)$$

When both sides divided by B_0 , we have

$$1 - a * p_0 \geq \frac{1}{B_0} \sum_{t=0}^n \rho^t W_t + \frac{B_n}{B_0} \rho^n (1 - a * p_n) \quad (8)$$

Note that in (1), B_t is the bribe amount offered to a bureaucrat at time t. The amount of bribe (B) is highly correlated with the position, with the characteristics of substantial power in making decision, locality, etc. For a particular bureaucrat, he would move up along the bureaucratic ladder and hence exposed to more opportunity to larger bribe. However, after certain point in his career, he would stop being promoted and the size of the bribe offered would not increase dramatically. Thus, B_0 is positively associated with time but the slope would be level off gradually.

$$\frac{\partial B}{\partial t} > 0, \quad \frac{\partial^2 B}{\partial t^2} < 0 \quad (9)$$

Similarly, W_t is also positively associated with time but the coefficients would be smaller than B_t .

$$\frac{\partial W}{\partial t} > 0, \quad \frac{\partial^2 W}{\partial t^2} < 0, \quad (10)$$

$$\frac{\partial W}{\partial t} < \frac{\partial B}{\partial t}, \quad \frac{\partial^2 W}{\partial t^2} < \frac{\partial^2 B}{\partial t^2} \quad (11)$$

Thus, three propositions might be withdrawn from the formula (8) are that

- (1) If B_0 is sufficiently large, the bureaucrat will take it, since it will dwarf the effect of wage and future bribe on the right hand side of the equation. Or, put in other words, the less the wage and the future bribe size compared to the bribe today, the greater likely he would take the bribe. Assuming at time T, he will retire and the pension

income is negligibly small. The only relevant wage will be the wage before retirement. The expected sum of wage before retirement would decrease as the time approaching retirement. But the size of bribe being offered, tens and hundreds times of annual wage, will increase dramatically when officials approaching retirement age and reach the peak plateau of their career. But bribe vanishes immediately when officials leave the position due to retirement. Thus, sometime before the retirement age is the best time for a public servant to become corrupt.

(2) If the parameter a on the left side is large enough, which makes the left side being negative and hence failed the equation, public officials are less likely to take the bribe. That is, the greater the degree of severity in punishment, the less likely public officials would take bribe.

(3) If B_n is sufficiently larger than B_0 , or wage is relatively large than B_0 , then it is unlikely for the equation to be true. This indicates that public servants are less likely to take bribe at their early stage of their career; rather, they will take the bribe around plateau stage of their career. In other words, when they foresee a chance of promotion and hence bigger room for the improvement of bribe size, they would refrain from bribe. Or, if the income stream is large enough to make the bribe less attractive, it would be another stopper to the bribe taking.

III. Empirical Test

To investigate the impact of the Communist Party of China (CPC) on public servants' corrupt behavior, the data on corruption cases reported on the China Supreme Court public website between July 2007 and March 2008 are analyzed here. The data are in the descriptive

news format reported in the corruption subcategory of case bank on Chinacourt.org. The website is under the supervision of the Supreme Court of China and managed by the People's Court Press. We transcribe the descriptive data into the numerical variable data, with birthday, starting bribe taking, end bribe taking years from online news. There are total 219 corrupt person-cases after deleting cases where corporate employees bribing government officials. All the cases are reported with final stage during the period while some cases, which were sentenced earlier but because of the complication (such as appeal process, criminals escaping to abroad), are also included in this period. Also, four outlier cases are eliminated from the statistics analysis, due to the amounts of bribe in these cases are RMB 3.86 trillion, 400million, 133.3million, and 130 million *yuan* respectively. These are well above the 5.5million *yuan* which is the bribe size for the next case along the line.

1. Dependent variables

Dependent variable *BRIBE* is constructed with three sorts of illegal income disclosed in cases, including the bribe offered by corporations, embezzlement of public funds for personal use, and personal assets with unknown source. Public servants in these cases include personnel from national, provincial, and local bureaus, as well as employees of state-owned enterprises and banks. The common character for these people is that they are able to exchange the privilege associated with their positions for illegal income. The unit for *BRIBE* is RMB 10,000 (*wan yuan*), which is equivalent to USD 1,465.

2. Independent Variable

Variable *DISTANCE* is to measure how much control of the political leadership at Beijing over the 22 provinces, 5 autonomous regions, and 4 municipalities. It is the distance

in kilometer from Beijing to the capital city of each province. 26 out of the total 31 provinces have cases reported. Distance between Beijing and the local area reflects the cost of policing the bureaucracy. Since the political system works in the way that chief officers such as the Party Chief and governors at the provincial level are designated by Beijing, they are the agents for the central CPC leaders at Beijing. The monitoring cost increases while the distance increases. Agents also feel less under control as the distance is getting larger.

Another cost for the central government monitoring is the language barrier. The official language in China is mandarin, which is based on the dialect of Beijing. As it is getting further and further from Beijing, the dialect is very different from mandarin. For most southern provinces, dialects are completely different such that people live 50 kilometers apart cannot understand each other at all. This also established barrier for the monitoring local officials.

The variable of *INITIAL AGE* indicates the age when the bureaucrat begins taking bribe. This variable can help us find the age pattern when public servants started taking bribe and how it is related to the final total amount of bribe they take. Graph 1 shows the relation, with three outlier cases deleted where the bribe amount exceeds 100million RMB. The age expands from 27 to 61 years, with only one case at 61. This is because laws only allow public servants to work until 60 years with very small exceptions to small numbers of officials at very high level. There are only 112 cases with information available about this variable.

The variable of *END AGE* indicates the age when the public servant stops being corrupt. They stop seeking resulting from being caught, escaping to foreign country, and

leaving the position with rent-extracting opportunities. When explicit information is not available, I use the age at the trial year minus 1 for the variable value. This variable can help us find relation between when officials stopped taking bribe and the size of bribe they take. The age expands from 27 to 65 years, with mean at 49. Graph 2 has shown the relationship between age and the amount of bribe.

3. Control Variables

The *LOGGDP* variable takes 2007 provincial GDP data from the National Statistics Bureau of China. The original GDP data before the logarithm operation is measured at the unit of RMB 100million, with maximum of Guangdong Province 31,084.4 and the minimum of Gansu Province 2702.4. It is predicted that the higher the GDP the greater base for public servants to exert bribe. Hence there should be positive relationship between GDP and the size of the bribe.

The *LOGGDPPER* variable takes 2007 provincial GDP per capita data from the National Statistics Bureau of China. It measures the individual wealth level of each province. It serves an indication of public ability to participate in politics and their ability and willingness to monitor the public servants. It is predicted that the ability of the general public should not affect the amount of bribe extracted by the public officials.

The dummy variable of *AUTOREGION* is to control for the region's autonomous administration ability. The five autonomous regions in China were designed to allow for ethnic minorities administration. They are under less surveillance and control of CPC and the central government. Thus, the cases there are predicted to have less amount of bribe due to

the self-policing function of the region. Only three autonomous regions have cases reported in the dataset.

The variable of *BRIBE PERIOD* is to control the length of the period a bureaucrat can take bribe in terms of years. This variable is constructed as the difference between the initial year and the end year of taking bribe. It ranges from 0 to 18 years with mean of 5.3 years.

Table1 has the descriptive information of variable

4. Results

Model 1 estimates the impact of distance on the bribe extracted by individuals in each case. As the policing cost increases with the distance, a positive relationship is predicted for further away from Beijing the larger the bribe is. The dummy variable of the autonomous region is used to predict if more regional control would supplement the central government's control over public servants. And thus, in autonomous regions, bribe would be observed to be less.

In Model 2, two age indicators have been included to test when bureaucrat will take bribe. The initial age and the end age are used to investigate how is the span of bribe-taking period associated with the size of the bribe. Model 3 only differs from Model 2 in replacing the *END AGE* with *BRIBE PERIOD*.

The results for the two models are reported in Table2 .

Table 1 Descriptive Statistics of Variables

	N	Minimum	Maximum	Mean	Std. Deviation	Measurement
<i>BRIBE</i>	215	1.00	5496.00	267.01	731.50	10,000 RMB <i>yuan</i>
<i>INITIAL AGE</i>	112	27	61	43.64	7.79	year
<i>END AGE</i>	112	27	65	48.98	8.42	year
<i>DISTANCE</i>	221	0.00	3185.00	1092.57	735.10	km
<i>LOGGDP</i>	221	3.09	4.41	3.96	0.21	
<i>LOGGDPPER</i>	221	3.84	4.82	4.31	0.27	
<i>AUTOREGION</i>	221	0	1	0.07	0.26	dummy
<i>BRIBE PERIOD</i>	111	0	18	5.32	3.91	year
Valid N	111					

Table 2 The Determinants of the Size of the Bribe

Variables	Model 1	Model 2	Model 3
<i>INITIAL AGE</i>		-55.84 *** (-2.64)	16.18 * (1.70)
<i>END AGE</i>		72.02 *** (3.697)	
<i>DISTANCE</i>	0.192 ** (2.06)	0.391 *** (2.75)	0.391 *** (2.75)
<i>LOGGDP</i>	-598.72 ** (-2.16)	-796.075 * (1.975)	-796.075 * (1.975)
<i>LOGGDPPER</i>	294.67 (1.32)	587.64 * (1.75)	587.64 * (1.75)
<i>AUTOREGION</i>	-587.04 (0.93)	-856.88 ** (-2.18)	-856.88 ** (-2.18)
<i>BRIBEPERIOD</i>			72.02 *** (3.70)
Constant	1205.05 (0.934)	-429.54 (-0.207)	-429.54 (-0.207)
No. of observations	215	111	111
R- square	0.054	0.253	0.253
adjusted R-square	0.036	0.210	0.210

t- statistics are reported in the parentheses below coefficients.

*** denotes $p < 0.01$, ** denotes $p < 0.05$, * denotes $p < 0.1$.

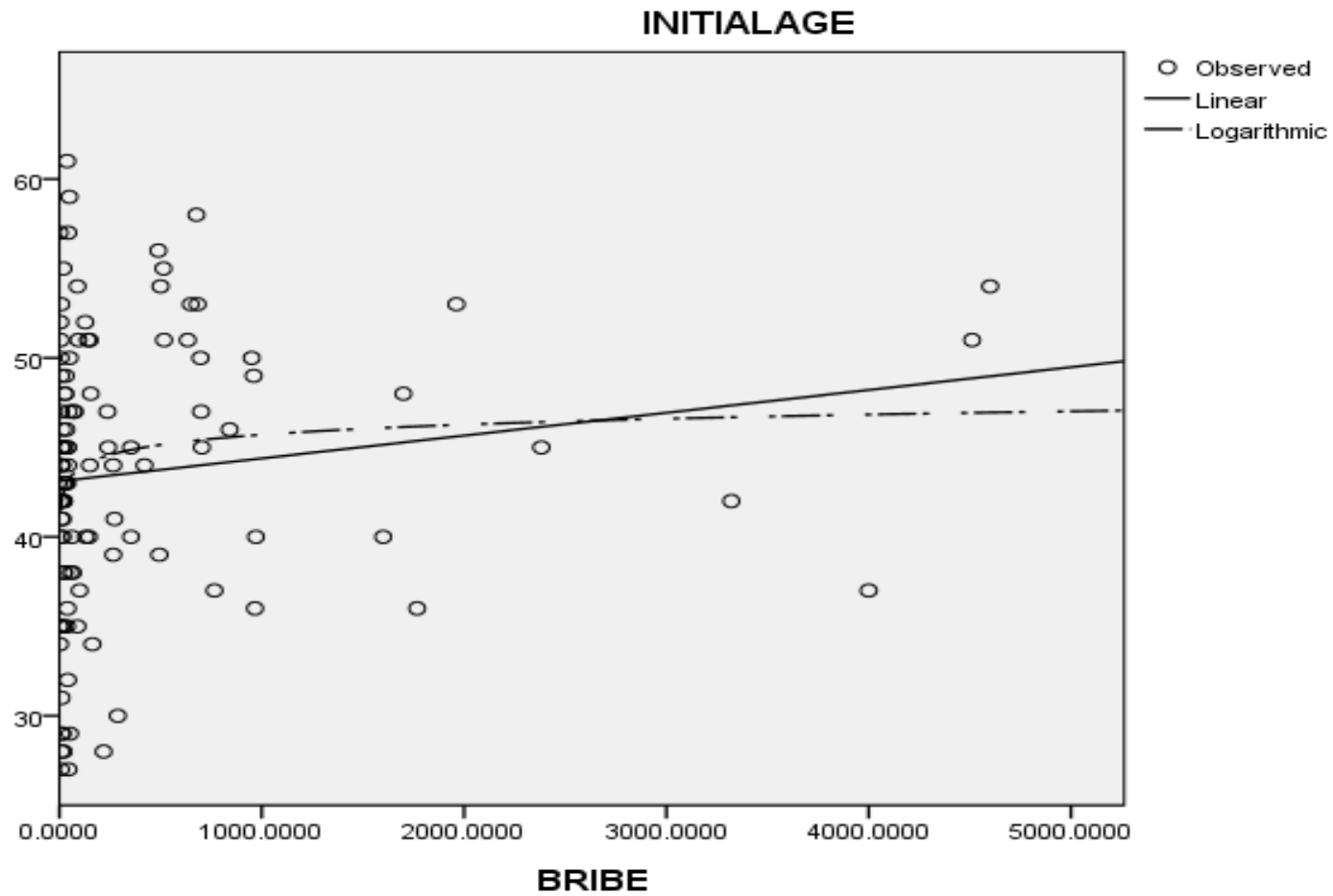
The regression results confirm the prediction that the further away from Beijing, the capital city and the center of the CPC control, the larger amount of bribe would be extracted by corrupt officials. The coefficient indicates that as the location

of the official is further away from Beijing, a corrupted bureaucrat would obtain more bribe. The results strongly signal that the increased controlling cost due to the distance and other factors associated with distance such as language barrier significantly weakened the ability of controlling political party to policing the officials' behavior. Hence agency loss problem is severer as the public servants are at the further reaching end by the principals, holding other factors constant.

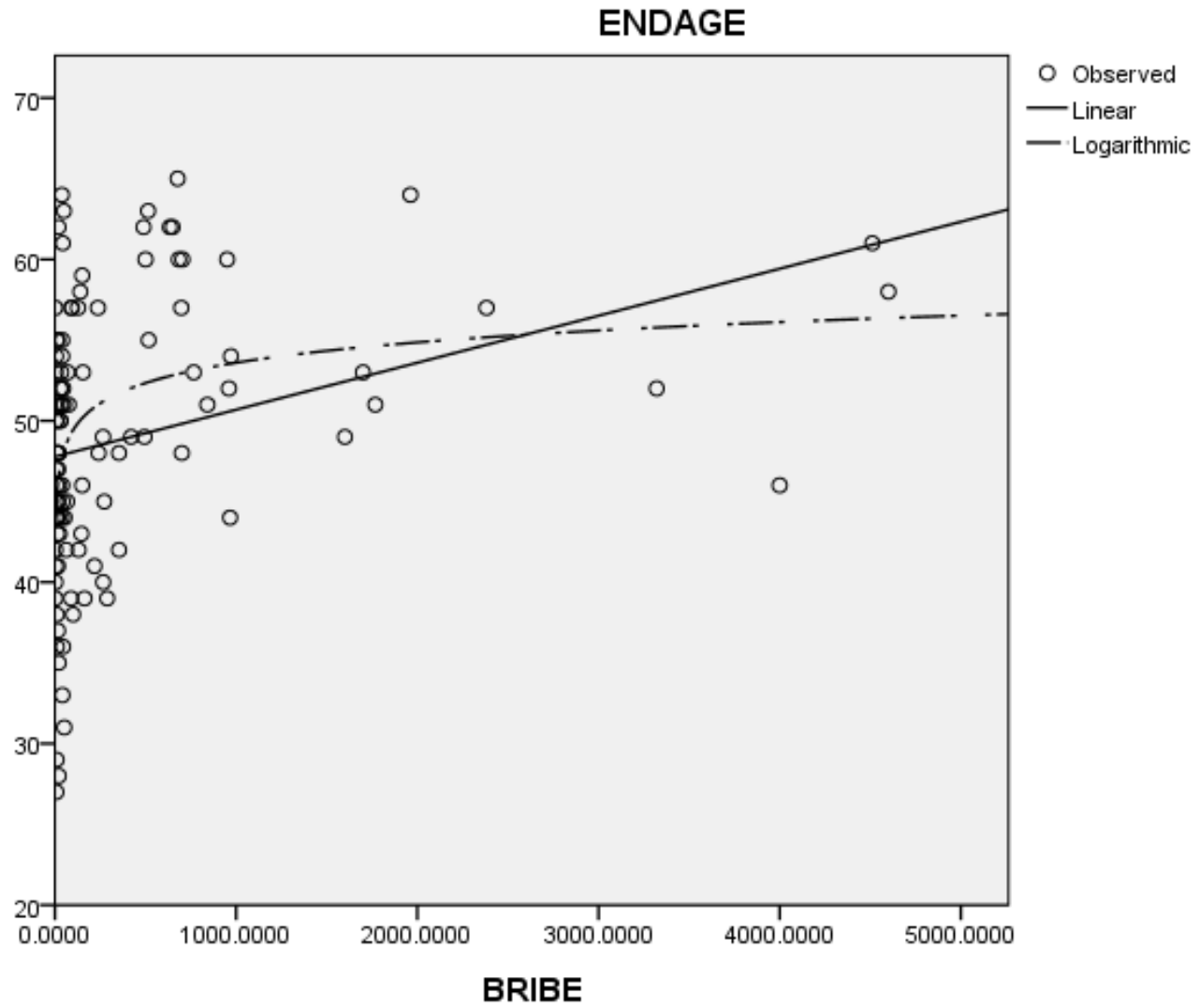
Model 2 shows that the initial age and end age are both at significance level of $p < 0.01$. Interestingly, they have opposite relations associated with the bribe size. Given the end age of seeking bribe, the earlier a bureaucrat started, the larger the size is; and given the initial year, the later he is discovered, the larger the bribe is. This is actually because the longer the period he is able to take bribe deceives the fact that officials do not really start early in their career to seek it.

Model 3 shows that when controlling the duration of bribe taking, public servants started later in their career to seek rent will have more illegal income. Averagely speaking, a public official started taking bribe at age of 44 and is discovered at age of 49. And the longer the period being corrupt, the more illegal income. Specifically, one year later being discovered is associated with RMB161,800 *yuan* more bribe taken, *ceteris paribus*. When ambitious officials reach their career plateau, being "safe" in those positions yet with little hope of promotion, they become no-more-ambitious and become corrupt. This can be clearly seen from the fitted linear and logarithmic model for relation between ages and the bribe size (Graph 1 and 2).

Graph 1 INITIAL AGE against BRIBE



Graph 2 *END AGE* against *BRIBE*



The results about controlling variables are also worth attention. The bribe size is negatively associated with provincial GDP a bureaucrat resides. This probably because in a wealthier province, more resources can be devoted to deterring and detecting corruption and hence smaller amount of bribe would be offered to a corrupt official.

For the autonomous region, the direction of the coefficient signals that being allowed greater degree of autonomy in local management would significantly reduce the amount of bribe seeking behavior of public servants even controlling the regional GDP level. Since only three of the five autonomous regions have cases and only 17 total cases included in the dataset, it is hoped that larger data set would provide a clearer picture.

5. Results about punishment

The severity of punishment can remedy the small probability of being caught in deterring rent-seeking behavior. Usually, the punishment for corruption is time in jail and fine; implicitly also the consumption and leisure lost due to the loss of freedom.

(Becker,1968) Unless the relationship between a crime and penalty is consistent, clearly stated, and diligently implemented, would the deterrence effect be severely diminished.

However, as the graph 3 shows that the jail time is not so consistently associated with the amount of bribe the bureaucrat took. On average, the term sentence goes no more than 15 years in prison. The logarithmic model actually fit better than the linear model, as shown in graph 3.

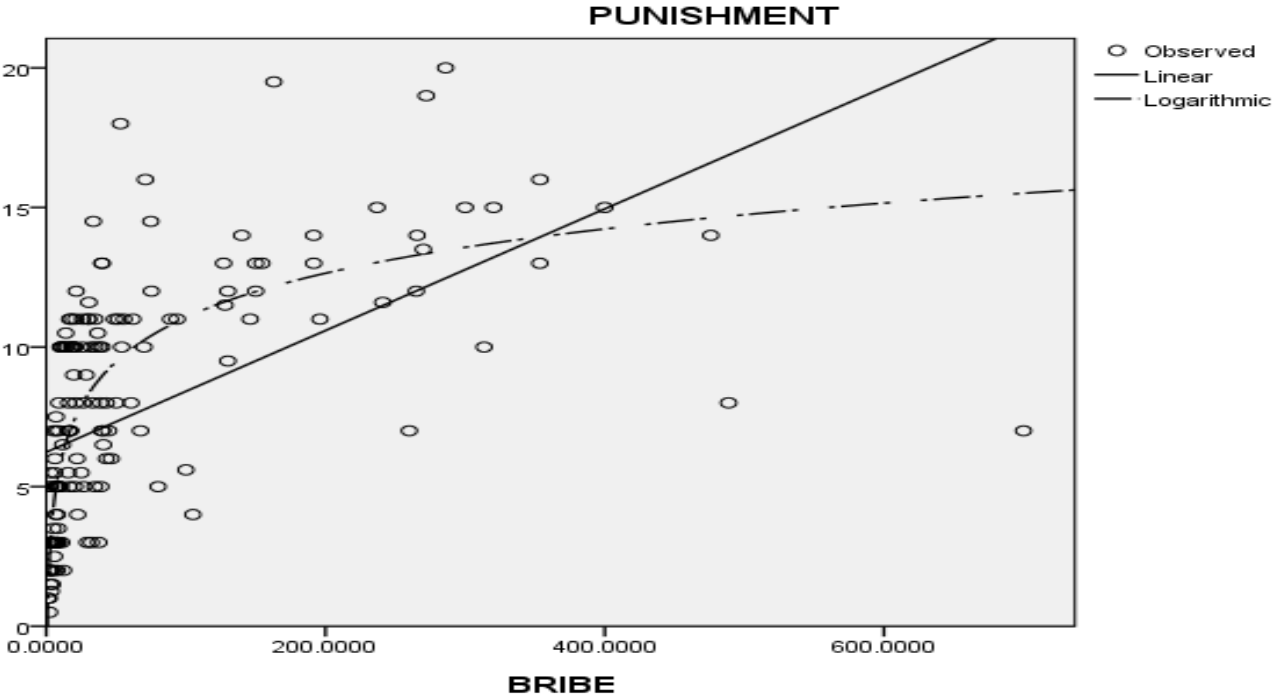
For life sentence and death sentence, the amount of bribe also varies in a wide range, which is shown in graph 4. The capital punishment is coded with 999, while the life sentence coded with 99. For the lesser three cases among the four outlier cases removed with

bribe amounted 400million,133 million, and 130million respectively, to one's surprise, all the public servants in these cases receive life sentence rather than capital punishment.

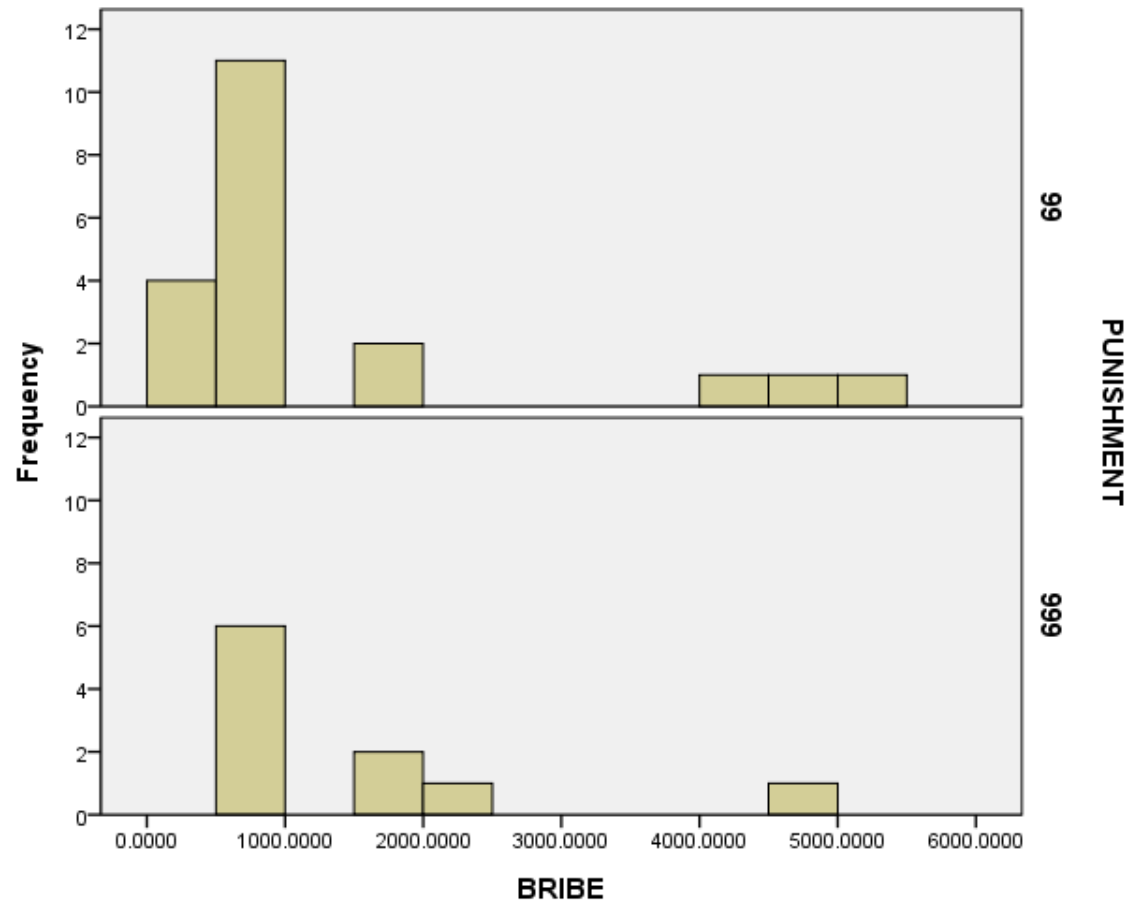
In the extreme outlier case with bribe over 3.85billion *yuan*, the corrupt official only received 12 years of jail time sentence. It is due to the fact that US court ruling intervened and the Chinese court can no more rule independently. When the public official escaped to the US and treated as international criminal returned to the original country, a condition to return the criminal to China, the US court ruled that no more than 12 jail time should imposed upon the criminal.

Thus, when the punishment is not linearly linked with bribe-size, especially when options exist to lessen the punishment such as escaping to foreign country, the deterrence effect of punishment is dramatically diminished.

Graph 3 Punishment Against the Size of Bribe



Graph 4 The frequencies of Life Sentence(coded 99) and Capital Punishment (coded 999) against the Bribe size



V. Discussion

Public servants in China faces more congenial environment to corruption—low opportunity cost of being corrupt. There is little election-related incentive for monitoring. The probability of being caught varies over time and the punishment can be low. To maximize the bribe income, they could stay further away geographically for monitoring and control, and when reaching the plateau stage of career development around 44, they could start seeking bribe and take a nice size of bribe.

Without normative debate regarding the degree of democracy incorporating general public in political decision and policing bureaucrat, a government trying to minimize corruption needs to incorporate more public monitoring mechanism and more consistent punishment. To save the cost of monitoring and surveillance, anti-corruption and prevention measures should focus on a narrowly-defined target group with age between 44 and 49.

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