

Stability and Commercial Information – An Economic Approach and a Look at China

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Stability and information are prominent topics of economic research. Unfortunately though, research concerning the influence of the information system on economic and social stability is scarce. In contrast, Chinese politics argue with the importance of social and economic stability to limit freedom in information flows. The article summarizes theoretical attempts in economic research to grasp questions concerning the relationship between stability, information, and economic performance, thus describing a new research programme. The central thesis is that analysing institutions and institutional change within the Chinese information system might be the best starting point to explain the impact of the information system on economic performance and stability.

Stability and information are concepts with a prominent place in economics literature. The use of both concepts in a theoretical context is however, rare. In contrast to this situation, the Chinese government regularly draws a connection between information, the dissemination of information and stability. Information which can be assumed to trigger dissatisfaction or unrest among the general public or a part thereof should not, if possible, be made broadly available. This is especially clear in Chinese media politics. Just recently, such a directive of this sort was made: "The media should not report anything that is going to affect stability, however fair and objective the report may be".¹

The position of the Chinese government stands in contrast to the internal Chinese discussion about the "Knowledge Society" (Dahlman/Aubert 2001), to efforts to erect and/or expand a modern information infrastructure (Zhou/Wang 2001: 2-7) and to further open China's economy.² The contribution which follows summaries evidence from economic research on stability and information, their economic meaning and possible relationships. Theses about the relationship between stability and information policies in the Chinese context follow. This contribution represents the early stage of a DFG supported research project. Through further theoretical development and empirical research hopefully it will be possible to examine and support the theses and conclusions presented here.

¹ *Hong Kong Ming Bao*, 23.02.03, cited by the Foreign Broadcast Information Service, <http://wnc.fedworld.gov>, document no. FBIS-CHI-2002-0223, downloaded on May 6, 2002.

² Because information positively affects the creation of added social value and contributes to building trust, it can be assumed that a positive relationship also exists between information policies or transparency on the one hand, and the attractiveness of markets or investments in these markets. See Fisman/Khanna 1999 on the relationship between "trust" and information.

1 Stability as an object of economic research

1.1 The concept of stability in economic policy

Stability is not clearly defined in economic and social-scientific research. Stability policy or stabilization policy, in both scientific fields, point first to the attempt to stabilize a social system. If the social system is divided into sub-systems, the economic sub-system can be generally distinguished from the political-administrative and socio-cultural systems. Imbalances in the individual sub-systems can contribute to instability of the whole system (Wagner 1998: 5, Wolff 1990). The economic policy approach focusses on the possibilities for improving or establishing the stability of an economic system.

The goal of stabilization policy is to prevent the situation "that relevant imbalances in the economic system arise or persist" (Wagner 1998: 6, author's translation). More specifically, guaranteeing the maintenance or re-establishment of one or more pre-defined stability goals is what is at issue (Cassel/Thieme 1999: 365). Various views about which economic areas could serve the goals of stability policy, which instruments are available for these goals and to what extent goal conflicts could arise have led to alternating theoretical and practical approaches over the last decade (Vines 1991: 464).

Information, in the traditional approach to economic stability, appears only in the form of prices. Prices for products, capital, and labor present information about the relative scarcity of these factors in the ideal world of classical equilibrium models. Price fluctuations are expressions and causes of adaptations or changes in the supply and demand for the particular factors, and thus carriers of information. In this regard, the problems with which stabilization policies have to deal are strong price fluctuations and protracted adaptation processes. Research on the relationship between media reports about macro-economic indicators and the development of rates of currency exchange show of course, that the development of prices are themselves influenced by information (Galati/Ho 2001: 2-4).

In addition to the issue of prices as carriers of information, stabilization theory is also concerned with questions of incomplete information, rational expectations, and asymmetrical information of market actors. These approaches are distinguished by the attention they give to the question of how market actors ideally behave in certain situations where they do not have complete information. Game theory approaches examine under what conditions information leads to the behaviors predicted by the economy for economic subjects (Wagner 1998: 64).

Although not usually thematized, a related question concerns the consequences for the behaviors of market actors and economic stability when economic indicators are distorted or when optimism or pessimism in relation to such information is artificially created in the media. To what extent can the manipulation or the teleological representation of economic data, quasi in the sense of a "self-fulfilling prophecy", influence the development of an economy? In as far as such an influence appears possible, connections arise between economic stability and stabilization policy on the one hand, and the information infrastructure and information policy on the other.

1.2 The Concept of Stability in the New Institutional Economics

The "new institutional economics" is based on various theoretical approaches originating mainly in a distancing from or expansion on neo-classical economic theory (Furubotn/Richter 1991). The common point of departure for these approaches is the assumption that institutions, understood as informal and formal rules (North 1989) are relevant for economic development because they regulate the social behavior of individuals (Furubotn/Richter 1991). The acknowledgement of the meaning of institutions is based in part, in the realization that economic action is tied to transaction costs (Williamson 1975), the amount of which are influenced by types of available institutions.

In the context of the new institutionalist economics, stability is thematized as the stability of institutional arrangements. "A basic function of institutions is to provide stability and continuity by dampening the effects of relative price changes" (North 1997: 6). Institutions are understood as rules and norms, created by people and which serve to circumvent social and communicative uncertainty (Goodin 1998: 22-23). A particular challenge to the explanatory power of institutional theory in economics is posed by economic development: while institutions create stability, they also at the same time are changeable (Erlei, Leschke, Sauerland 1999). Institutional change can contribute to the perception of stability by actors. Thus, important questions concerning how to understand economic development and stability must be posed in relation to the problem of how institutional change can be designed as continual change and which factors are meaning for this.

1.3 Economic stability as an amendment to other concepts of stability

The concept of stability in stability policy opens the possibility for measuring instability as the deviation from goals and targets. Instability measures are indicators and warning signs which can be understood as demands on economic policy to act against such developments.

A comprehensive concept of stability brings with it the problem of measuring instability. In relation to this, the example of the PR China shows how difficult it is to diagnose stability and predict stability crises. Ever since the beginning of the reform process, the failure of the reform course or even the collapse of China has been predicted again and again (e.g. Chang 2001). Is China in this sense stable, because the tensions have not lead (yet) to a collapse of political and economic institutions, or is China unstable, in reference, for example, to the infiltration of formal institutions by informal ones (weak administration of justice, corruption)? Should a revolution take place in the future, does that mean that China is already unstable today? At what point in time is a clear situation of instability visible or measurable? Due to the measurement problem, political scientists often rely on observations of domestic unrest (protests, violent demonstrations, etc.) as indicators of political instability (Wolff 1990: 75).

2 Information as an object of economic research

Information forms the basis of human decision behaviors. This insight is a central theme of micro-economic theory. The models developed by the classical micro-economics originate in the assumption that all economic actors are in possession of complete information as well as the correct decision models in order to make rational decisions. If this unrealistic assumption is abandoned, the question immediately arises as to how information behaviors can be integrated into the economic calculations of economic actors (Arrow 1984; Molho 1997). Recent economic approaches assume that full information cannot be available to decision-makers (Simon 1992). Nonetheless, it is still typically assumed that economic actors, on the basis of restricted information are still in the situation to make rational decisions (Wessling 1991). Micro-economic analysis also abstracts from the origins or quality of information.

From the perspective of the national economy, information is rarely considered directly (except Porat 1977; Kaminsky 1977), but rather indirectly in relation to competition issues in the media sector (e.g. Balle 1999). The interest of competition theory is in the peculiarities of the market for information, which at least are partly granted the characteristic of a public good (Wildmann 1998: 3). The threat of market failures and the necessity for government intervention derive from this situation. Government intervention also has to do with political necessities. While in totalitarian regimes government interventions in the information sector are conditioned by the desire of rulers to control information contents, in democratic systems a regulation of the media market is explained by the fact that certain criteria must guide the dissemination of information by the mass media. Factors which such regulations seek to protect are, for example, variety (of opinions and channels) and balance.

The growing importance of the "new media" has raised the issue of the meaning of information and information technology for national economic development. Keywords like "new economy" and information society call to attention the extent to which growth and employment are related to technological progress and the new possibilities of information procurement, dissemination, and networking (e.g. Castells 1996, Shapiro, Varian 1999). Quick access of many economic actors to ever more information has become an economic and growth factor (Lamberton 1998). The assumption that future growth is especially dependent on information technology, knowledge, and the economics of information means that industrial policy perspectives in this context, are easily accepted.

From the perspective of institutional economics the question of the economic meaning of information moves closer to communications policies and the economics of the media (Lamberton 1998). Which rules determine the collection, processing, dissemination and possibly the manipulation of information? Which organisational form of communication arise as a result of these rules? In what sense does the institutional arrangement of information systems influence the transaction costs of those who supply and demand information? What influence does the institutional arrangement of information systems exert on the economic order and the stability thereof (Heinrich 1999)?

These considerations are the point of departure for further issues about China and for the investigation which will be undertaken in relation to the research agenda presented here. The thesis is that the institutional arrangement of economic information is meaningful for economic and political stability. This thesis is based on the assumption that information which is produced and published can seldom be understood as objective data. Information has always involved an element of selection and processing. The selection and processing of information through the information system is itself influenced by the institutional frameworks and arrangements (Williamson 1990) upon which the information system is built. For an understanding of the economic meaning of information for a national economy, an analysis is necessary of the entire information and knowledge percolation system:

[...] the attempt to create a new, more encompassing, economics of information and knowledge activities would benefit from the adoption of a 'communication perspective' [...] Adoption of a 'communication perspective' would lead to the explicit recognition of the three *interrelated* aspects involved in the knowledge communication process, i.e. knowledge creation, knowledge transmission, and knowledge absorption. (emphasis in original, Engelbrecht 1998: 359-360)

In order to reduce complexity, three steps of a "knowledge communication system" can be identified: the statistical system, the system of economic research, and the media system.

3 China's information policy – hurdle or secret recipe for stabilization policy

Reforms have not only brought China a phase of economic development, but also a phase of economic stability in the sense that radical political changes have failed to materialize. Nonetheless, this picture of stability seems deceptive for the following reasons:

- Economic development is diagnosed as usual in reference to various indicators of growth and the increase in the standard of living. Discontent over the appropriateness of these indicators for reflecting stability is the product of doubts about the quality of statistics³ on the one hand, and concerns about growing disparity in the standard of living documented in these statistics (Khan/Riskin 2001).
- Doubts about economic stability further result from the concern that a potential for instability is hidden behind the incomplete reforms of state-owned firms and the financial sector. These problems will become more acute with the entry into the WTO (Fischer 2001b). Regular reports about local unrest and protests already contradict the impression of stability.
- It is hard to discern the extent to which perceived stability is a product of repression or resignation (Tang 2001: 907).

³ See for example Rawski/Xiao 2001: 298-302, and the thematic focus in *China Perspectives* (2001, Nr. 35, May/June).

- The most important argument showing that there is reason to doubt social stability is the clear fear of instability on the part of the Chinese government. This is expressed in repeated declarations of the importance of stability and in the fact that the goal of stability is placed above all other objectives.

The close relationship between stability and information produced by the Chinese government is reflected above all in media policy. The current examples from media policy mentioned at the beginning show the priorities of the Chinese government. To overstate the point, the Chinese government prefers to channel or steer institutional change necessary for market-economic and technical reasons in order to prevent themselves from losing control over selected information and communication (Chan 1993). While they support change on the one hand, they also restrict it, first by withholding information and where necessary, falsifying information and second, by restricting access to information and the foundation of institutions which attempt to organize information flows in accordance with private-sector rules, all on the grounds that preserving stability in relevant areas is necessary (White 1998). Examples of such claims to control are the banning of private-sector news production (Xinwen Chubanshu 1999), the censoring of science and the attempt to regulate the use of the internet (Drake, Kalathil, Boas 2000).

The claim to control stands against policies, which attempt to release economic actors from the planning economy, encouraging responsibility and, freed from public support, allowing them to move more efficiently in a market economy (Billeter 2000). These policies also recognize that economic actors need more information and communication (White 1998). New forms of communication and institutions for creating information (private economic research institutions, new media, etc.) are opened by economic liberalization, and seem appropriate for reducing the dependence on state information (Goldman 1999). Although the point of departure of new institutional theory ("institutions matter") is now well acknowledged, these aspects have been ignored in work on China's information sector.

In relation to the publication of statistics about China, institutional changes are one of many arguments which could explain doubts about the quality of Chinese statistics. For example, references are made to the incentive structure for (mainly) local civil servants (e.g. Qiong 1998: 11). A more systematic examination of the institutional framework of the statistical system and its changes, e.g. questions of financing such a system, are missing until now.

An institutional economic analysis of the economic research about China, as far as the author knows, does not exist. Thus we know very little about private research institutions and their relation to the traditional state unities. Critical assessment from abroad or in China have not yet been made of how the new organisation of economic research and the access of researchers to information influence the procedures of information processing and with these the availability of economic research results to the general public. The interest of institutional economics is strongest in the arena of information transmission by the mass media: surely the research interests of political science and media science are also great, yet investigations now consider that the market-economic pressure in this arena has initiated institutional change (Zhao 1998, Chen 1998, Fischer 2001a).

A recent study is not available which undertakes an integrated examination of institutional changes in the areas mentioned as aspects of the Chinese information system. The study undertaken by Maurer (1990) attempting a survey of Chinese information and communications in the first half of the 80s, remained a descriptive approach. The discrepancy between market principles in economic policy on the one hand and an unchanged political order on the other hand has grown larger. The policy of state control of information stands in contradiction to the required freedom of decision of information producers, necessary for such producers to be economically successful in their supplying of information. Further, claims to control information contradict the goal of building macro-economic governance mechanisms fitting a market economy. The latter is only possible on the basis of market signals. The distortion of market signals through information restrictions reduce the effectiveness of macro-economic governance. In as far as a functional relationship between the economic order and institutional arrangements of the information system can be assumed, in the Chinese case, either a clearly dysfunctional situation should be evident or there must be a change in the institutions of information, which would also be an indicator of change in political culture.

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Comment:
Stability and Commercial Information –
An Economic Approach and a Look at China

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China's transition to a market economy is accompanied by an unprecedented economic growth. However, due to structural problems the economic dynamism seems to have been running out of steam since the late 1990s. In its recent report "China in the World Economy. The Domestic Policy Challenges", the OECD attributes the structural problems to a lack of integration in factor markets, among business segments, and among regions. The OECD report is comprised of an impressive number of sector studies and analyses of economy-wide issues. It is based on the commonly available set of Chinese government data without questioning whether we can rely on this official version of reality. In contrast, the question of the quality of official information has been frequently picked up in many press reports and by a number of economists over the past years.

Since 1997, doubts about the accuracy of officially published statistics seem to have been supported by discrepancies between the growth of key expansion indicators such as power consumption and freight traffic and GDP growth. In its publication "World Economic Outlook" of December 1998, the International Monetary Fund acknowledged the scepticism and tried to explain these discrepancies. It raised doubts as to whether statistical data are entirely reliable and concluded that "... the quality of Chinese statistics remains a major difficulty for both policymakers and outside analysts, both in the national accounts and in other areas". In his article "What's Happening to China's GDP Statistics" of September 2001 Thomas Rawski raised new strong objections to the reliability of Chinese official economic information. Comparing China to other Asian economies he doubted whether China has been able to achieve high growth together with rising unemployment, sluggish demand, large excess capacity, mild deflation, and low expectations after 1998.

The deficiencies in China's statistical system renders the assessment of the Chinese economy a challenging task. We should be suspicious that the use of official data to interpret the outcome of economic reform might lead to wrong conclusions. However, shall we be confined with the fact that official economic information has quite a limited reliability, expressed in the popular quip among Beijing taxi drivers that the only truth in the *Renmin Ribao* (People's Daily) is the date? An academic way out of this dilemma might be offered by Doris Fischer in her research project on the relationship between the information system and the economic performance and stability in China. Fischer is going to analyse the impact of information on the econ-

omy from the perspectives of the new institutional economics (NIE). This approach seems to be very promising, knowing that the quality of statistical data largely depends on the circumstances in which they are constructed. We know that for the collection, use, and dissemination of statistics a complex system of norms and institutions governing the behaviour of those doing the statistical work is required. Thus, Fischer focuses on the institutional setting, on norms and regulations for the selection, processing, dissemination, and manipulation of information as well as on the types of organisations emerging from these norms and regulations.

In contrast to the assumptions of the neoclassical economic theory, the NIE accepts a world of non-zero transaction costs, incomplete information and limited rationality and is based on methodological individualism. According to Douglas North, in this different world institutions matter, they constantly interact with each other and with organisations in a competitive manner bringing about institutional change. Competition requires organisations to invest in knowledge, which shapes evolving perceptions about opportunities and choices that will incrementally alter institutions; the institutional setting determines the type and orientation of knowledge received by individuals and organisations. Contrary to the neoclassical rationality assumption, perception depends on individual or collective mental constructs used to reduce complexity. Institutional change is mostly incremental and path-dependent, related to the economies of scope, complementarities, and network externalities of the institutional matrix. Starting off with these basic propositions of institutional change, Fischer might be able to find answers as to how the institutional arrangement of the information system influences the transaction costs of those demanding and supplying information. Her research might also provide further results on the way the institutional arrangement induces changes to the economic system, and influences economic and social stability.

Fischer hypothesizes that the institutional arrangement of the information system matters and that it has an effect on economic and social stability. She bases her assumption on the fact that processed and published information are not purely objective data but biased due to pre-selection and pre-processing. In order to reveal the economic role the information system plays, Fischer adds the communication perspective to the NIE approach, that is the analysis of the creation, transmission, and absorption of knowledge. In order to reduce the complexity of the knowledge environment, she concentrates her research on three sub-systems of information, that is the statistical system, the economic research system and the media system. Looking at one of the latest publications on the relationship between economic development and knowledge such as the World Bank Institute's report *China and the Knowledge Economy*, the relevance of Fischer's approach to integrate the perspective of communication into research on information and stability becomes obvious. There is an urgent need for a critical analysis of how knowledge is created, transmitted and absorbed in China.

Moreover, Fischer's research on China might serve to gain a better understanding of the relationship between the information system and the economic system in other transition countries. It might as well broaden our comprehension of the interaction of information processing and policy and the concept of stability. However, in order

to come to more general conclusions on the nature of this interaction in different countries, Fischer might have to consider the question whether and how a cultural perspective reflected in mental models and perceptions (for example North, 1993; Eggertson, 1993) has to be added to her research approach.

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