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The Allocation of Entrepreneurial Efforts in a Rent-Seeking Society:

Evidence from China

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Abstract

This paper considers four types of entrepreneurial efforts: productive activities, aggressive rent seeking, defense against rent extraction, and leisure. It examines how entrepreneurs allocate efforts when facing dual-dealing relationships with politicians in a rent-seeking society: entrepreneurs not only pursue additional benefits through rent seeking, but also try to avoid extortions by politicians. Using unique city-level and firm-level data across China, we demonstrate that Chinese entrepreneurs survive in a twisted world: ordinary entrepreneurs would desire better institutional environment, but if institutional improvement is not available, they would prefer political connections which are often preoccupied by special interest groups and/or large-sized firms.

Keywords: Entrepreneurship, Rent Extraction, Rent Seeking

JEL Classifications: D72, L26, P26

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