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## The peasant's rescue from the cadre? An institutional analysis of China's rural tax and fee reform

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**The Peasant's Rescue from the Cadre?  
An Institutional Analysis of China's  
Rural Tax and Fee Reform**

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The Peasant's Rescue from the Cadre?  
An Institutional Analysis of China's Rural Tax and Fee Reform

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Zusammenfassung/Abstract:

Applying a historical institutionalist perspective, this paper examines the genesis, implementation process and impact of the recent Rural Tax and Fee Reform (RTFR) in China. It is posited that the RTFR represents a serious, although inconsistent, attempt to shift the balance of central-local relations toward the centre via stricter regulation of county and subcounty politics. It is further argued that this attempt to restructure the polity is not matched by the adjustment of the policy process. As the former is pushed towards significant change in the realm of central-local relations, the latter remains unchanged. More concretely, the centre has taken a results-oriented view of central-local relations, a path that has begun with the implementation of a planned economy, and not occupied itself with the formal regulation of the policy processes that are supposed to create these results. At the same time, local politics is path-dependent in the sense that Reform and Opening gave local governments the incentive to create informal institutions to pursue their own economic and policy goals. With central and county politics running along these two divergent paths, trying to change the polity in a way that benefits only one of the players becomes impossible if the centre is not prepared to apply massive coercion. Not only do such tactics fail to reduce social tension, but they also produce additional political tension. These elements do not bode well for sustained burden reduction.

Schlagworte/Keywords:

Rural Tax and Fee Reform, Peasant burden, Anhui province, Historical Institutionalism, Path dependence, Central-local relations

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## I. Introduction

Displays of political will to tackle excessive peasant burdens have been a recurrent feature in China's past. In the view of some authors, fiscal extraction has even been the driving force of Chinese history. A new dynasty, this view holds, begins with good relations between those governing and those governed. Gradually, however, the administrative apparatus grows. More and more funds are needed to sustain it, stifling productivity and hindering economic growth. In order to satisfy its ever-increasing needs, the bloated bureaucracy then applies predatory measures to extract funds from the (predominantly rural) populace, eventually leading to the large-scale popular uprisings that characterize dynastic decline (Zhang 2001: 36-37). The dynasty that follows drastically simplifies the fiscal system and starts the same process all over again. The central leadership is well aware of this circle, so the rising number of rural protests, petitions and large-scale riots which have taken place since the 1990s and were caused by excessive extraction and illegal farmland seizures are taken very seriously. Efforts are made to reduce the peasant burden, improve local governance and close the ever-increasing wealth gap by developing the countryside<sup>1</sup>. The Rural Tax and Fee Reform (RTFR) has been the latest of these efforts, and the name belies the scope of institutional change it has come to entail. Besides reducing peasant burden by implementing a standardized tax system, substantial local-level institutional change is the major policy aim. So far, the RTFR has proceeded in three stages.

First, a multitude of regular and irregular fees was rescinded at the price of a raised agricultural tax. This policy was first implemented in Anhui province in the year 2000, then extended to trial counties all over China and realized nation-wide in 2003. According to official figures, peasant burden was reduced an average 30 to 40 percent during this stage. Because the reform bore serious flaws, however, in many places and for many individuals actual burden reduction was far below this percentage, local economic development being the major intervening variable (Bernstein/Lü 2003: 8). This prompted policy-makers to announce grain subsidies and the gradual phasing out of the agricultural tax and the agricultural special products tax in early 2004. Burden was further reduced, but so was local revenue. In order to compensate the loss, the third step was to force the implementation of the so-called "complementary reforms" (*peitao gaige*), which entailed, among others, personnel reduction, and administrative and functional restructuring at the local level.

As the 28 percent- increase in the number of "mass incidents" between 2003 and 2004<sup>2</sup> indicates, the RTFR did at first not pacify the farmers, but might instead have

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<sup>1</sup> China's Gini index climbed from 38.6 in 1988 to 44.7 in 2001, which marks high inequality in income distribution (Riskin, Zhao and Li (eds.) 2000: 75; World Bank 2005). The Gini index subtracts the share of GDP of a population's poorest quintile from that of its richest quintile. China's Gini index is higher than that of the United States (40.8) and at par with most Latin American states. Although a significant wealth gap exists within cities as well, the difference between rural and urban areas is more prominent. According to official statistics, urban average per capita income was 3.2 times higher than that in rural areas in 2003 (own calculations from ZTNJ 2004). As Chinese income statistics tend to be "polished" (see Zhao 1999), the gaps in both overall urban and rural wealth distribution are probably more serious than these figures suggest.

<sup>2</sup> Minister of Public Security Zhou Yongkang stated on July 6, 2005 that mass incidents, which had numbered only around 10.000 in 1994, increased to 74.000 in 2004 (Wang 2005 "Quntixing shijian duo fa jidai guanzhu " (Rising Mass protests Cause Urgent Concern ), Ta Kung Pao, 06.07.2005, ). According to the official *Outlook Weekly*, Zhou had put the number of incidents for 2003 at 58.000, marking a 6.6 percent- increase over 2002, the year the reforms were implemented nation-wide. Again,



heightened peasant expectations and have caused disappointment when the promised reductions did not materialize. Furthermore, the central government has alienated local authorities, because the “main reform” caused them fiscal losses, and the “complementary reforms” promise to severely limit their autonomy. To sum up, the reforms had come at great cost, but had achieved little before the agricultural taxes were completely rescinded in 2005 and 2006.

This chapter attempts the double task of providing a description of a very significant, though heretofore under-researched policy, its implementation and its impact, and of putting it into an institutionalist perspective. It focuses primarily on the first and second steps of reform implementation and seeks to provide reasons why the initial policy was basically given up when the scrapping of the agricultural tax was hastily decided in 2004.<sup>3</sup> It is posited that the RTFR represent a serious, though inconsistent, attempt to shift the balance of central-local relations toward the centre by stricter regulation of county politics. It is further posited that this attempt to restructure the polity is not matched by the adjustment of the institutions that shape politics. As the former is pushed towards significant change in the realm of central-local relations, the latter remains unchanged. More concretely, the centre has taken a result-oriented view of central-local relations, a path that has begun with the implementation of a planned economy, and not busied itself with the formal regulation of the policy processes that are supposed to create these results. At the same time, local politics is path-dependent in the sense that Reform and Opening gave local governments the incentive to create informal institutions to pursue their own economic and policy goals<sup>4</sup>, leading to “regionalism” and communalism” (Heberer/Taubmann 1998: 261-267 and 300-301). Bargaining processes between the administrative levels, policy coordination between county-level governments, the blurring of party, state, business and individual interests, patron-client relationships and *guanxi* are all parts of these informal arrangements, though only the latter two will be discussed here in detail. With central and county politics running along these two divergent paths, trying to change the polity in a way that benefits only one of the players is impossible without applying massive coercion. Not only is social tension not reduced, but in addition, political tension is created. This does not bode well for sustained burden reduction.

Subsequently, the institutional background before which the RTFR has been implemented will be outlined and its policies introduced. Then, my hypothesis will be illustrated by outlining reform implementation in Anhui, the province that has served as the main testing ground for the reforms, and by analyzing their impact on peasant

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there is evidence that the real figures are much higher (see Solinger 2005, 21 (fn 2)). Not all of these incidents took place in the countryside or involved peasants, so the growth rate of burden-related protests might even be higher.

<sup>3</sup> As of now, it is too early to properly assess the impact of this policy alteration. First impressions derived from the author’s fieldwork in Northern Anhui in early 2006 suggest that peasant burden was indeed significantly reduced, but at the price of reduced service provision and stagnated local-level infrastructure building. The tug-of-war between the centre and the localities described in this chapter continues. It is reflected in the problems faced with implementing the “complementary reforms” and the question of who will shoulder the costs of the latest ambitious program, the “Socialist New Countryside” (*shehui zhuyi xin nongcun*) (Zhongfa (2006), No. 1).

<sup>4</sup> As both central command-style politics and local informalism were prominent features of governance in the Imperial era, historical analysis might reveal that both were rather resurrected than newly instituted. Indeed, superficial comparison yields many similarities, as has been pointed out by various authors (see for example Duara 1988: 254-255, Yang 2003, 45-46 and Yu 2001: 438-446 who, without naming it so, focuses on the path dependence of institutional change). Unfortunately, it is outside the scope of this chapter to pursue this hypothesis further.

income, local government revenue, rural service provision, and central-local relations. A conclusion rounds off the chapter.

## II. The Background: Rising Peasant Burden under Conditional Autonomy

One question that has puzzled analysts of China's central-local relation is how much autonomy local government enjoys. This question is difficult to answer, because "local government" consists of five levels, if one also counts village administration. Moreover, informal arrangements are at least as important as formal regulations, which further complicates research. Finally, central-local relations is a concept that manifests itself in various dimensions. In reality, we find elements of both central control and local autonomy, which in an authoritarian polity can be assessed by means of four major variables:

1. Functional division of labour. Are local governments merely "field offices" for the centre, or are they granted discretionary powers?
2. Recruitment rules. How much say do local governments have in choosing their own staff and personnel?
3. Financial rules. Can local governments raise and spend their own revenue, or is it primarily allocated from above?
4. Territorial structure. How many levels, how many local entities exist? It is assumed that the more entities exist, the harder they are to supervise, so the more autonomy they can exert (adapted from Takao 1999: 8-13).

As the RTFR were geared towards changing the institutional structures at the county- and sub-county levels, these will be the focus on this study. Reform and Opening gave the county (*xian*) substantive autonomy in conducting its affairs, raising its revenue and hiring its personnel, but always subject to indirect central government intervention. This position might be best described as "conditional autonomy". The role of the province, which is not only the catalyst for central policies, but seeks to realize its own incentives in the course, warrants another study and cannot be explored here in detail.

### *Functional division of labour*

With regards to the functional division of labour, the county and its subordinate governments are much more than merely "field offices". Because of economic decentralization, the county level gained substantive autonomy in developing economic policies such as industrialization schemes, investment incentives, and tax breaks (see Oi 1999). In addition, the welfare responsibilities local government had to shoulder are formidable. As a recent World Bank study points out, local governments are responsible for almost 90 percent of all expenditures for social services such as education, health, culture and science, and have to bear 99 percent of all welfare expenditures (World Bank 2002: 30). Most of these services were, until the RTFR, provided and financed at the county and township (*xiangzhen*) levels. For example, these two levels bore around 70 percent of all expenditures for education and 55-60 percent of those for health (Ibid: 35). No detailed regulations existed on who had to provide which services, and how. The centre only formulated abstract target figures (*zhibiao*) for certain policy areas and passed them down, but generally did not busy itself with the methods local governments used to achieve, or more often pretended to achieve, these targets (Edin 2003).

Of course, if the methods employed caused major local disturbances or even international protests, as in the case of violence related to birth control, the centre would intervene. However, it would only formulate another “target” demanding the cessation of, say, violence related to tax collection, birth control or assertion of villagers’ rights, but not remove the incentives for the use of violence. As one former county chief told the author, Hebei province (and probably the other provinces as well) prepare “birth control rankings” of all counties for internal distribution. It is not only a loss of face to be at the end of the list, but often enough means demotion.<sup>5</sup> Rural cadres find this highly unfair. One agitated township Party secretary complained: “How am I supposed to reach the target if I cannot punish people? If I deal with violations according to the law, they will get a fine, but cannot pay it. So what is the risk for them to ignore the regulations?”<sup>6</sup>

### *Personnel recruitment rules*

As for personnel recruitment rules, a distinction must be made between the recruitment of leading cadres and all other government employees. Promotion and demotion of leading cadres (such as the Party secretary and the head of government at each level) has remained one of the few control mechanisms for the centre after regime ideology has been watered down and the central economic planning system vanished (Yang 2003: 61). However, as a consequence of China’s bureaucratic system of integrated hierarchies, the centre’s reach is only limited. This is as true for appointment as it is for supervision. According to law, key government cadres (heads and vice- heads of government, bureau chiefs) are elected by the People’s congress at the same level, key Party cadres (Party secretaries and their deputies) by the respective Party congress. In reality, however, they are selected through negotiations of key party personnel at the corresponding and higher level, and professionalism is not always the criterion for selection. Patron-client relationships are equally if not more important<sup>7</sup>. Also, the centre cannot constantly supervise all counties, nor can it directly demote, say, a county Party secretary. Because of the system of integrated hierarchies, orders have to be handed down via the provincial and the prefecture level governments. This is the major systemic reason why cadre control takes the form of evaluation criteria passed down and quantifiable “results” passed back up. For the county- and township- level governments, economic achievement became

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<sup>5</sup> Author’s interview, Hebei, 28 September 2004.

<sup>6</sup> Author’s interview, Shandong, 9 September 2004. In the context of another marginalized group, China’s urban poor, Dorothy Solinger even implicates that the centre’s interest lies more in retaining than in changing such discriminatory structures which are primarily geared towards producing economic rent. Unrest is quelled not by institutional change, but by the application of “weapons of the state”, an amalgam of alliances, propaganda, forged statistics and coercion (Solinger 2005: 9-19). In my opinion, the centre is more cautious with applying these “weapons” on peasants, but the observation that the centre faces conflicts of interest between producing revenue, pacifying local agents and creating social stability hold equally true for rural China. The centre’s intervention in the June 2005 Dingzhou riots, and its non-intervention in the Taishi-incident, which started in August 2005, illustrates this ambivalence. In Henan’s Dingzhou city, an electricity company hired 300 thugs to expel farmers from their land, which was illegally sold by local authorities and had subsequently been occupied by farmers for two years (!). The Party secretary and the mayor of Dingzhou were recalled after the riots, which killed six farmers (Pan 2005). In Guangdong’s Taishi village, peasants recalled the head of the village committee, but withdrew their motion after intimidation by hired thugs. Road-blocks barred access to the village, and journalists, both Chinese and foreign, were beaten up by thugs (Luard 2005). In spite of international indignation, the centre justified these actions as “legal” (Ministry of Foreign Affairs, 11.10.2005: Foreign Ministry Spokesperson Kong Quan’s Press Conference on 11 October 2005, <http://www.fmprc.gov.cn/eng/xwfw/s2510/t216357.htm>).

<sup>7</sup> For the complex processes and mechanisms of cadre recruitment, see Heberer/Taubmann 1998: 267-269 and Yang 2003: 105-119.

the single most important goal. Most of the 18 criteria formulated in the national evaluation guidelines are based on economic performance such as increased GNP, higher industrial, agricultural and collective enterprise output (see Whiting 2001: 102-110). Needless to say that this creates heavy pressure on subordinate cadres to meet the formulated targets, but also creates incentives for cheating and forgery.

All other employees are hired almost at will. In order to enhance their ability to engage in local economic development and fulfil their political tasks, hiring personnel above the quotas set by the centre had been tolerated in the beginning of the reform period, leading to a hiring spree by county and township-level governments. According to Thomas Heberer and Wolfgang Taubmann, the average number of town cadres (not including other employees) in Sichuan and Guizhou doubled between 1991 and 1992 (Heberer/Taubmann 1998: 272 and 276-279). A regulation to limit township-level employment was passed in 1992, but the number of employees kept increasing.<sup>8</sup> Moreover, local cadres are supposed to be recruited through public examinations (Provisionary Regulations for Government Employees (Guojia gongwuyuan zhanxing tiaoli), §13 and §18), but according to a leading county cadre, "much more than half" of all jobs on the township-level payroll were the result of county-level patronage<sup>9</sup>.

#### *Financial rules*

This begs the question how local services and personnel at the sub-prefectoral levels are financed and brings us to the dimension of fiscal rules. Already during the Mao era, local governments had been responsible for the provision of local services, but at that time, the expenditures were borne by the central level (World Bank 2002: 7). Since reform and opening, county- and township-level governments have received a share of all taxes and became responsible for financing these services themselves. Until 1994, there existed a "tax-sharing system", in which each level collected nationally set taxes and engaged in a contract with the next higher level on how much revenue to submit. The costs for local service provision were an important determinant of the contracted revenue: local governments subtracted their expenditures from their revenues and transferred the surplus to the next higher level (Hauff 2003: 46-59). Those governments whose expenditures surpassed revenue were eligible for limited subsidies.

Apart from budgetary revenues (such as from taxes), non-budgetary revenues (such as revenue from fees) were created at all levels of government. Non-budgetary revenues are, as the name implies, not part of an administrative entity's official budget, but local governments listed them in special accounts. Although this gives them an air of transparency, administration of extra-budgetary revenue was very slack. Besides budgetary and non-budgetary revenues, so-called "extra-systemic revenues" (*zhidu wai shouru*) existed, i.e. income mainly generated by state-owned or collective enterprises. The latter have been extraordinarily important for township and village development. In 1996, such off-budget and extra-systemic revenue made up more than half of national income (54.2 percent), with the overwhelming part of

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<sup>8</sup> "Jigou jingjian kaizhi zengjia - Zhongguo xiangzhen gaige mianlin jiannan xuanze" 2005 (Simplification of the Organisational Structure or Increasing Expenses - The Reform of China's Township-level Governments Faces Difficult Choices), Zhongguo Jingying Bao, 19.02.2005, <http://finance.sina.com.cn/review/20050219/09571368307.shtml> .

<sup>9</sup> Author's interview, Beijing, 10 October 2004.

off-budget revenue (1997: 94.1 percent) being produced at the local level (Lu 1998: 56 and ZTNJ 1998).

To sum up, county-level government has enjoyed “conditional autonomy”. It was given targets to achieve, but enjoyed much freedom in revenue raising, policy implementation, and in economic policy formulation. It could raise its own resources and hire its own personnel. However, by means of ad-hoc-regulations, the centre could selectively curtail this autonomy.<sup>10</sup> Sometimes local governments complied with these regulations. More often they were ignored, as was the case with the ceiling on the number of grassroots government employees, or only partly implemented. With county politics geared mostly towards economic development, party, state and economic actors have become inseparable, and they have developed their own preferences which more often than not deviate from those of the centre (Heberer 2003: 42-44). Party discipline and ideology have been replaced by informal networks that pursue their own agendas. The centre increasingly lost control to influence politics at the county level and below, resulting in the creation of “dukedom economies” (*zhuhou jingji*) and “independent kingdoms”.

This loss of control manifested itself in a number of phenomena such as the overstaffing of local governments (Du 2003) and the blurring of party, government and entrepreneurs (Oi 1999), but also a decline of the centre’s share of overall budgetary revenue (Hauff 2003: 96-97), astronomical debts accumulating at the county- and township levels (Zhongguo shekeyuan caimaosuo ketizu 2004), and grassroots government inefficiency (Zhou Xianbo 2004). These phenomena had built up gradually, which made their potential to create systemic instability not immediately visible. In the early 1990s, however, it became increasingly clear that local government, most of all at sub-prefectoral levels, squandered precious resources that stood in no relationship to their achievements (*ibid.*).

The centre tried to tip the balance in its favour by passing new tax regulations. The “tax-sharing system” was replaced by a “tax separation system”. From 1994 on, a distinction was made between “central taxes”, which were turned over to the central government, and local taxes, which were pooled and redistributed by the provincial governments. The regulation underlying the reform (see Guofa (1993), No. 85) made no mention about the redistribution of local taxes, and in most places, the previous “tax sharing system” was kept (World Bank 2002: 55)<sup>11</sup>. However, with the province concentrating local tax revenue in its hands now, “tax sharing” was turned “downside up”. Whereas resources were levied at the grassroots level and contracted upwards before, they were now allocated downwards. Before, the revenue shortage affected primarily the central government, now it affected the grassroots levels. As expenditure responsibilities were not adjusted, expenditures now began to surpass budgetary revenues. Despite decreased revenue, however, grassroots governments had to attain increasing collection and construction targets (Zhou Tianyong 2004: 73). Naturally, governments at the county and township levels tried to make up this

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<sup>10</sup> This system benefited from the fact that the structure of central-local relations was not mainly laid down in laws, but took the form of “regular documents” (*guifan wenjian*) handed down by Party central or government ministries. These documents were not subject to bargaining processes between centre and localities or within parliament, and they were often followed by other documents addressing the shortcomings of the documents before. For example, more than 100 central- and provincial level documents make up the base of Anhui Province’s RTFR in mid-2003 (Anhui Nongcun Shuifei Gaige Lingdao Xiaozu Bangongshi 2003).

<sup>11</sup> For an excellent political-economic analysis of the 1994 reforms, see Hauff 2003.

shortage by increasing their off-budget and, where available, extra-systemic revenue, and by borrowing money where still possible (Zhou Xianbo 2004). As townships and towns were the tax-collecting agencies of the counties, they bore the brunt of the 1994 reform. Those that did not have collective enterprises had to rely on fees, levies and other extra-budgetary revenue (Bernstein/Lü 2003: 68-72), most of which were collected at the village level. Thus, the reforms significantly contributed to the problem of irregular and incommensurate extractions from China's farmers, as it did to the illegal seizing of farmland for commercial purposes. In this way, they speeded up the process in which the lack of central control led to local-level instability. Also, the systemic problems outlined above combined with rapidly falling prices for non-cash crops with China's accession to the WTO to drastically reduce the peasants' incentive to plant and harvest grains. Grain output has dropped from 508.4 million tons in 1999 to 430.7 million tons in 2003 (ZTNJ 2000, 2004). With the gap between production and consumption rising since 2000, the country's policy of food security was in danger of being undermined in the long run.<sup>12</sup> The RTFR were to tackle these problems.

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<sup>12</sup> "China maintains food supply despite falling grain output", Xinhua online, 17.07.2005, [http://www2.chinadaily.com.cn/en/doc/2003-09/23/content\\_266735.htm](http://www2.chinadaily.com.cn/en/doc/2003-09/23/content_266735.htm) .

### III. The Rural Tax and Fee Reform

The RTFR contain regulations to reduce burden, but also address the systemic problems outlined above. Because of this, they are not a minor policy aimed merely at reducing farmers' financial burden by standardizing fiscal extraction<sup>13</sup>. This is only one component of the reform, the "main reform" (*zhuti gaige*), which is accompanied by several "complementary reforms" (*peitao gaige*)<sup>14</sup> designed to ensure the former's long-term sustainability. Yet again, implementation corresponded to the model outlined in this chapter's introduction: goals and targets were passed down without providing either guidelines or incentives for policy implementation.

#### *The Main Reform*

As is often the case with reform programs in China, the RTFR are handily summarized in three words, stating abstract and concrete aims of the reform as well as principles of their implementation. The overall aims are the "reduction" (*jianjing*) of farmers' burdens, the "standardization" (*guifan*) of the collection and administration of taxes, fees and levies, and the "stabilization" (*wending*) of tax and fee levels (Guofa (2003), No. 12). Before the concrete measures of the Main Reform can be introduced, it is first important to understand the nature of these "burdens".

First of all, many central and local taxes were collected at the village and township levels, among them the personal income tax, the stamp tax, the animal husbandry tax, the agricultural tax, the special agricultural product tax, the farmland-use tax, the land value-added tax, the banquet tax and the slaughter tax (Oi 1999: 217). However, as almost all tax revenue had to be turned over to the county and provincial governments, most of the infrastructural and administrative needs of village and township had to be financed by means of levies, both regular and irregular. The major regular levies were the "village retention" (*cun tiliu*) and the "township comprehensive fee" (*xiang tongchou*). The former financed three items: collective investments at the village level such as streets, bridges and schools; social welfare; cadre salaries. The latter was levied to finance five items: schools; the expenses for family planning; material and immaterial support for veterans; expenses for maintaining a local militia; road construction and maintenance. These levies, collectively known as the "three retentions and the five unifications" (*santi wutong*), should, by law, not exceed five percent of the preceding year's peasant income. The salaries of village school teachers were not included in these levies, so villagers had to make additional payments into a village education fund<sup>15</sup>.

Apart from that, villagers had to donate a certain amount of labour for construction and flood prevention each year. However, it has become common practice to have villagers meet their labour obligations by financial means, which created yet another fee. Finally, villagers were plagued by a host of irregular and ad-hoc fees and funds,

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<sup>13</sup> Unless otherwise indicated, I follow the practice of the national and provincial statistical yearbooks and use one term for the agricultural tax and the special products tax. Whereas the yearbooks speak of "agricultural and related revenue taxes", for stylistic reasons I prefer the term "agricultural taxes". The difference between the two taxes is that the special products tax is significantly higher and levied on cash crops, whereas the agricultural tax applies to all other produce. In reality, however, either tax was used quite indiscriminately, and sometimes both taxes were raised for the same product. In fact, only in 2000 did a regulation explicitly specify which goods belonged to the "special products-" category (see Caishuizi (2000), No. 67).

<sup>14</sup> See Zhongfa (2000), No. 7. This distinction is kept up throughout all relevant RTFR- documents.

<sup>15</sup> For a detailed discussion of these and other items see Bernstein/ Lü 2003: 50 f.

and the magazine and newspaper subscriptions that were demanded of the village Party branch were also apportioned among the villagers. Last but not least, additional revenue was extracted by wantonly fining villagers for absurd or made-up offences (Bernstein/Lü 2003: 50 f., see also Li 2004).

In order to significantly lighten the aforementioned burdens, “three scrappings, one gradual scrapping, two adjustments and one reform” (*yige quxiao, yige zhubu quxiao, liange tiaozheng, yi tao gaige*) were demanded by “document number seven” (*qi hao wenjian*), which initiated the reform in 2000 (see Zhongfa (2000), No. 7). Along with the township comprehensive fee and the irregular fees, funds, allotments and fines just mentioned, the slaughter tax was rescinded. The latter has been a source of peasant discontent because it was levied on a per capita basis regardless of the amount of animals actually slaughtered by a person. The “gradual scrapping” refers to compulsory labour (in whatever form), which was to be phased out within three years. The agricultural and agricultural special products taxes (ASPT) were to be adjusted (Zhang 2001: 66). The agricultural tax rate before the reforms amounted to 15 percent of the average yield in the three years after the “Agricultural Tax Regulations of the People’s Republic of China” (*Zhonghua Renmin Gongheguo nongye shui tiaoli*) came into effect in 1958. As the rate was not adjusted to the rising yields of the subsequent years, in the 1980s it amounted to only about 3 percent of the actual output (Bernstein/Lü 2003: 51). The RTFR set the rate at 7 percent of the average harvest in a locality between 1993 and 1998, and the animal husbandry tax was to be lowered to a level below that of the agricultural tax. The ASPT, which had been much higher than the agricultural tax (it averaged 35 percent) was to be standardized as well, although no tax rate was prescribed. Instead, standardization referred to the regulation of when in the production and sales process the tax could be levied, and for which products. Finally, collection of the village retention was to be changed. It would not be levied anymore at the village level, but be collected as a surcharge to the agricultural tax. This surcharge, which could not exceed 20 percent of the agricultural tax, was to be “administered by the township and used by the village” (*xiang guan cun yong*). Additional money and labour needed for village-level construction were to be collected from the farmers after democratic approval of each project (*yi shi yi yi*). However, the maximum yearly per capita amount could not exceed 15 Yuan. The collection and administration of these funds was to be made transparent, subjected to the villagers’ supervision and township-level auditing (Zhongfa (2000), No. 7).

The designers of the reforms probably foresaw that the implementation of the Main Reform had the potential to plunge grassroots governments into severe financial difficulties, further endangering local service provision. This awareness is summed up in the slogan of the “three guarantees” (*san ge quebao*), which serve as guiding principles to the reforms. Apart from the significant and sustained reduction of peasant burden, the smooth working of village administration and township-level governments and the availability of sufficient funds for rural compulsory education had to be guaranteed (Guobanfa (2002), No. 25). Whereas the Main Reform was designed to reduce peasant burden, the Complementary Reforms were to address the other issues.

#### *The Complementary Reforms*

The slogan underlying the complementary policies was that local government at the county level and below should change its role from “managing” or “administering”



(*guanli*) to serving (*fuwu*) its constituency, and their rationality was making it more effective, more transparent and less costly. Abstract principles that had been put forward at the beginning of the reform and opening period by Deng Xiaoping like “separating the Party from the state” (*dangzheng fenkai*) gained renewed currency. The Party was merely to play a leading function and not meddle in day-to-day politics, and the executive should concentrate on its administrative tasks (Du 2003). As the RTFR progressed, documents began to stress the necessity to “transform government functions” (*zhuanxing zhengfu zhineng*) (Zhongfa (2000), No. 7), meaning separation not only from the Party, but also from business. An official commentary suggested disenfranchising townships and towns from their collective enterprises (*xiangzheng qiye*) and to outsource functions that can be better performed by private service suppliers (Du 2003). This would reduce the reliance on extrabudgetary revenues which, as has been noted, derived mainly from fees and levies. The final aim was to totally abandon the extra-budgetary and extra-systemic revenues and have all revenues and expenses run through the regular budget (Ibid.). Combined with a fiscal transfer system (*zhuanyi zhifu zhidu*), the now existing gap between administrative responsibilities and fiscal resources available would be closed. In the same vein, the setting of achievement targets, an important standard on which to evaluate cadres and a principal source of township indebtedness, would be ceased (Zhongfa (2000), No. 7). Existing township- and village- level liabilities were to be cleared up. A first step taken to reduce the expenditure burden of township-level governments was to transfer their de-facto responsibility for rural compulsory education to the county (Guofa (2001), No. 5). The two points that were to become the core issues of the complementary reform, however, were the substantive reduction of personnel (*jingjian renwu*) and administrative departments (*jingjian jigou*) at the county level and below (Zhongfa (2000), No. 7) to be discussed later.

Regarded through the lens of the four dimensions of central-local relations above, it is not difficult to see that these measures, if successful, would significantly tip the balance of central-local relations towards the centre. First of all, the functions of the county-, and more so the township- and village-level administrations are being more clearly delineated by the centre, and their internal structure has become subject to central regulations as well. Second, increasingly strict ceilings have been formulated for the number of personnel on local government payrolls. Detailed and strict criteria for cadre hiring, evaluation, remuneration and promotion have been passed down as well (Zhu et al. 2003: 11). Third, even before the agricultural tax was abandoned, the counties, especially those in agricultural regions, had become increasingly reliant on financial transfer payments from the centre. Whereas in 1999, county governments’ expenditures on average had amounted to 1.3 times their local revenue, this rate doubled within merely four years (own calculations, ATNJ 2000-2004). The province’s dependence on transfer payments and credits has increased simultaneously, indicating that it did not shoulder the reform costs itself. As credits make up only a minor part of provincial revenue, it is mainly the centre’s transfer payments that are responsible for this increase (Table 1).

**Table 1: Transfer payments from the central government to Anhui province, 1999-2003**

Year	1999	2000	2001	2002	2003
Transfer payments, increase rate ( percent)	3,6	4,8	5,1	24,8	30,8
Transfer payments as percent of total budget	37,9	38,5	37,9	42,2	46,5

(Source: Own calculations from Anhui Statistical Yearbooks 2000-2004)

Fourth, the complementary reforms contain two policies that combine to further restrict sub-provincial autonomy. Reducing the number of territorial units and increasing fiscal supervision combined with the “transition of government functions” mentioned above structure a polity with not only less territorial entities, but also less administrative levels. With the agricultural tax being phased out and the administration of compulsory education turned over to the counties, the township level has lost the principle sources of both its revenue and its expenditure. Townships and towns are reduced to service provision centres without a relevant budget.<sup>16</sup> Similarly, the village authorities lost most of their revenue when the agricultural tax was scrapped, and with it the surcharge that had replaced the income from the village levy. Grassroots infrastructure projects will be either paid by the villagers themselves or financed by the township. Moreover, a new system of fiscal management and supervision was put in place. The little budget left at the village level (now mainly the money raised by the villagers themselves) is managed by the township (*cuncai xiang guan cunyong*). In turn, the latter’s finances are made subject to management by the county (*xiangcai xianguan*) (Guononggaiban (2002), No. 30). A more recent policy closes the chain: in the future, the county budget shall be supervised directly by the provinces, bypassing the prefectures (*sheng guan xian*). It has been probed since 2002 in Zhejiang, Guangdong, Henan, Liaoning and Hubei provinces (Xu 2005).

#### **IV. Reform Implementation in Anhui**

Not only because of its status as trial province can Anhui be called the birthplace of the RTFR. Experiments with “tax-for-fee”-programs<sup>17</sup> had been conducted in individual counties since 1993 (He/Sun 2000), and in 1999, the provincial government had implemented the RTFR in four counties even before the centre moulded them into a policy document. An examination of the implementation process there nicely illustrates the central point of this chapter’s hypothesis: the centre’s attempts to change the polity were not matched by a change of conduct of local politics. It formulated targets, but left it to the local levels to achieve them.

On May 16, 2000, 23 days after Anhui province was granted trial status by the State Council, the provincial Party Committee and government handed down nine

<sup>16</sup> “Zhongguo baixing lanpishu: san nong (2)” (Whitebook of China’s common people: the Three Rural Problems (2), Xinhuaawang, 09.09.2002, [http://news.xinhuanet.com/newscenter/2002-09/09/content\\_554355.htm](http://news.xinhuanet.com/newscenter/2002-09/09/content_554355.htm) .

<sup>17</sup> Although “Tax for Fees” (*fei gai shui*) and “Rural Tax and Fee Reform” are often used synonymously, they are far from being the same, as Zhu Weimin, bureau chief of Anhui’s RTFR Leading Small Group points out. Whereas the “Tax for Fees” programme was simply aimed at standardizing tax and fee collection by levying a comprehensive sum once or twice a year and abandoning ad-hoc levies, the RTFR go far beyond that, as the previous section has shown (Author’s interview, Anhui, 17 August 2004).

supplementary documents regulating the following items: (1) financial system reform of township-level governments, (2) and (3) agricultural and special products tax collection, (4) integration of expenditure items formerly financed by the township “comprehensive fee” into the township budget, (5) village-level money and labour pooling for village infrastructure projects, (6) administration of village-level finances, (7) standardization of village administration and village-level institution building, (8) tax administration, and (9) dealing with policy violators (Wanbanfa (2000), No. 11). All these documents were rather vague in content, and basic problems had not even been tackled. Most important, despite the foreseeable loss of revenues to the counties and townships, there were no regulations concerning subsidies, neither were there concrete regulations for staff reductions. The documents merely stated that the policies were to be implemented according to “local circumstances”, echoing the centre’s regulations. In other words, the centre’s commands were simply handed down as before, making the pressure bear at the lowest levels.

About seven months later, the General Offices of the CCP and the State Council decreed that “administrative personnel in the city, county and township bureaucracies” were to be reduced by 20 percent, within three years, with concrete arrangements again to be decided by the provinces “according to local circumstances” (Zhongbanfa (2000), No. 30). Three months before, however, the Anhui provincial government had already passed its own rules concerning personnel reduction, demanding the reduction of only 10 percent of township/town level administrative personnel (Wanfa (2000), No. 15) and making no mention of reforms at the county and city/ prefecture levels. Despite passage of the central document mentioned above, the percentage was not corrected, and reductions attempted only in individual localities, such as Wuhe County (see next section). The same central document demanded that the localities continue paying the salaries of demoted personnel for another three years. Temporary employees, if authorized by the higher level, were to be paid a severance; all the others would get nothing. The document stated that the centre would jump in for these expenses if localities were in financial straits (which almost all of them were), but there were no transfer payments specifically earmarked for personnel costs (Zhou Xianbo 2004). The transfer payments the province did receive were too little (see below) and in many cases did not reach their destination (Bernstein 2004; Zhu et al. 2003: 21).

Naturally, township- and county-level cadres were reluctant to fire employees, many of which held their position as a result of personal relationships. Accordingly expenditure was not reduced at all (see ATNJ 2000-2003), and the question of how to deal with the loss of revenue became a central issue. For 35 of 61 counties, the agricultural and special product taxes, the village levy, the township comprehensive fee and education levies had amounted to a sum of more than 50 percent their budgetary revenue<sup>18</sup>. Although the reform caused severe shortages for more than half of all counties, the central government was slow to react, probably hoping that Anhui would be able to cope with the situation by itself. In a way, it did. During his field-trip to Anhui’s Suixi County, Chinese researcher Gao Xinjun found that six out of 24 towns were forced to continue collecting irregular fees already in the first reform year because they could not make ends meet (Gao 2001). Five months after the reform was launched, the Ministry of Finance decreed that a “standardized subvention system” was “gradually” to be put in place (Caiyu (2000), No. 134), but it

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<sup>18</sup> Own calculations based on ATNJ 2000 and figures supplied by Anhui Province, Office of the Leading Group for the Rural Tax and Fee Reform.

took the Ministry two years to lay the foundation for such a system (Caiyu (2002), No. 468). Burden reduction had been going on for two-and-a-half years before standardized measures dealt with the losses to local government, wreaking havoc on county finance and making the counties highly dependent on financial infusions from above and remittances from below.

With these basic problems not solved, the RTFR encountered great difficulties in 2001. Already at the end of 2000, Anhui's Party committee and government had passed two "urgent notifications" which implicated that tax and fee collection was getting out of hand and that there were severe problems with rural service provision (Wanbanfa (2000), No. 21; Wanzhengmingdian (2000), No. 35). On the central level, the General Office of the State Council had even ordered the temporary cessation of trial area expansion (though not of the work in the existing trial areas) in April 2001<sup>19</sup>. Either the central government had run out of money (Bernstein 2004), or, more likely, it had to decide if the reforms were worth the cost. The belated transfer payments discussed below indicate that it had probably not expected to get so deeply involved. With both the foreign and the national media predicting the failure of the "third rural revolution", the pressure on Anhui province (and the centre!) was tremendous. Although Zhu Weimin, bureau chief of Anhui's RTFR Leading Small Group claimed that the success of the reforms had never been in danger, he also made clear that Party and government used a heavy hand to ensure the success of the policy<sup>20</sup>:

*"We dealt with them [cadres violating the RTFR policies] severely. Single cases involved more than ten, twenty, several dozen people. If we have to punish (chuli) them, we will punish them. The main aim is to ensure the continuity of the policy. [...] We were able to improve some cadres' conduct\_by ways of educating them. We do all we can to not have to punish people."*

Most cases occurred in 2000 and 2001. In 2003, 822 cases were investigated and 224 people were punished, most of them township-level cadres. By 2004, according to Zhu, both the number of such cases and the number of people who petitioned the provincial government because of irregular fees had gone back drastically. "That year, there basically were no cases". This might very well be possible, but should not be equalled with the success of the reform, at least not as it was originally intended. First of all, the Anhui provincial government used a heavy hand to discipline cadres. In itself, this did not solve the problem, but merely contain it until the government would reduce vigilance. Second, and more importantly, the centre had declared in March that year that the agricultural tax would be scrapped within six years, the special products tax even faster. Probably, the peasants chose to wait and see. Finally, transfer payments from the centre had picked up.

Increased transfer payments and abandoning the tax after having implemented it nation-wide just two years before were not in the original design of the RTFR. As the next sections will show, the increase of transfer payments and the scrapping of the tax are indicators that the original reform has failed.

As for the transfer payments, there seems to have been considerable disagreement on who was to shoulder the substantial costs of the reform. According to Zhu Weimin,

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<sup>19</sup> It is however not true that the reforms stalled completely in 2001. Jiangsu implemented the RTFR that year, though on a self-financed base.

<sup>20</sup> Author's interview, Anhui, 17 August 2004.

its “initial costs” came to 5.4 billion Yuan for the whole province.<sup>21</sup> The loss of income because of burden reduction came to more than two billion Yuan alone, and subsidies to townships and villages amounted to another 1.2 billion Yuan<sup>22</sup>. Also, a substantive part of local government revenue had come from irregular extractions, which now were illegal: at the fourth plenary session of the 9<sup>th</sup> NPC then-premier Zhu Rongji had estimated overall farmer’s burden to be at 120 billion Yuan RMB “and even more”, 30 billion Yuan of which he accounted to irregular fees.<sup>23</sup> Add to that the cost for severance payments, the renovation of rural schools, and the belated payment of salaries, the sum of 5.4 billion Yuan is not far-fetched.

There were reform-related central subsidies from 2000 on, though not very large in scale. That year, the central government transferred 1.1 billion Yuan RMB. With Anhui provincial government adding another 100 million yuan, only 1.2 billion yuan were transferred “downwards” (Zhang 2001: 128). After Jiang Zemin, Zhu Rongji and other top-level leaders had come to the province and personally witnessed how “difficult” implementation had become, transfer payments from the centre gradually picked up.<sup>24</sup> This strongly suggests that both the centre and the province were waiting for pressure to build up, and that the province had won the struggle.<sup>25</sup> Instead of local government bearing the reform costs by itself, as initially expected, they had to be shouldered by the centre. Except for a few promising counties where they were probed, the “complementary reforms” remained unimplemented.

Nevertheless, the reform was claimed a success and on March 27, 2003 became national policy. Almost exactly one year later, however, premier Wen Jiabao announced that the agricultural tax would be “gradually phased out” within five years, which amounted to a radical policy change<sup>26</sup>. Another year later, in the government work report to the third session of the 10<sup>th</sup> National People’s Congress in March 2005, Wen announced that the agricultural tax would be totally rescinded by 2006, two years ahead of schedule.<sup>27</sup> Already in 2005, 26 provincial-level governments had scrapped the tax, leaving only the provinces of Hebei, Shandong, Yunnan and Gansu charging a reduced rate of 2 percent for one more year.<sup>28</sup>

### *The Failure of the Original Reform Design*

The RTFR so far has claimed impressive results. Officially, Anhui has achieved a 37.5 percent burden reduction already after the first reform stage<sup>29</sup>, and burden reduction in all 20 provincial-level entities that had implemented the reforms averaged 45.8 percent (Zhu et al. 2003: 10). As these figures do not account for the

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<sup>21</sup> Author’s interview, Anhui, 17 August 2004.

<sup>22</sup> Figures supplied by Anhui Province, Office of the Leading Group for the Rural Tax and Fee Reform.

<sup>23</sup> “Zhongguo baixing lanpishu: san nong (2)” (Whitebook of China’s common people: the Three Rural Problems (2)), Xinhuaawang, 09.09.2002, [http://news.xinhuanet.com/newscenter/2002-09/09/content\\_554355.htm](http://news.xinhuanet.com/newscenter/2002-09/09/content_554355.htm) .

<sup>24</sup> Author’s interview, Anhui, 17 August 2004.

<sup>25</sup> A veteran reform protagonist in one of Anhui’s trial counties confirmed this hypothesis in an interview with the author. He justified the counties’ refusal to implement the complimentary reforms by them being “unreasonable” and not being rooted in practice. As he put it: “it is the centre’s reform, so the centre should pay” (Author’s interview, Anhui, March 8, 2006).

<sup>26</sup> “Chinese farmers to bid farewell to agricultural tax”, Xinhua News Agency, 08.03.2004, [http://www2.chinadaily.com.cn/chinagate/doc/2004-03/08/content\\_312773.htm](http://www2.chinadaily.com.cn/chinagate/doc/2004-03/08/content_312773.htm) .

<sup>27</sup> State Council General Office 2005: Report on the Work of Government.

<sup>28</sup> “All Agricultural Taxes to Be Scrapped in 2006”, Chinanet, 05.03.2005, <http://www.china.org.cn/english/China/121852.htm> .

<sup>29</sup> Figure supplied by Anhui Province, Office of the Leading Group for the Rural Tax and Fee Reform.

illegal fees and levies that had supposedly been abandoned, the percentage should be much higher. However, according to Anhui's official statistics, peasant income increased merely 1.43 percent during the first two reform years (ATNJ 1999-2002). Besides the high transaction costs of collecting a tax many were unwilling to pay, this was probably the major reason why the tax was completely rescinded. The failure of the Main Reform to pacify China's farmers can be attributed to the combination of two factors which clearly illustrate the pitfalls of "conditional autonomy".

First, due to unclear regulations, the new agricultural tax proved to be highly unfair and subject to manipulation. This was again rooted in the way the tax was administered: The township reported to the county the amount of farmland distributed to the peasants in the second contract phase and the average yields between 1993 and 1998. The county then calculated on the basis of market prices how much each township had to deliver. This sum was divided by the actual acreage, and each farmer had to pay a fixed amount for each *mu* of his contracted land, regardless of the yield and the grain planted. However, due to several factors like land requisitioning for public projects and overreporting, the amount of land thus reported was always higher than the real acreage. Accordingly, the farmers had to pay more than they were supposed to. Also, not being progressive, the tax hit poorer farmers harder than richer ones. As some refused, were not able to or exempt from paying the tax, or, in the case of migrant workers, were simply not there, it was impossible to raise the full sum. However, as delivering the full amount was one of the cadre evaluation criteria outlined above, the missing amount was apportioned among the tax payers, which again raised the peasants' obligations. Often, the village had to use its "part" of the tax, the 20 percent- supplement, to meet its obligations. Village-level service provision thus stagnated in many places (Gao 2001; Zhu et al. 2003: 14-16).

Second, revenue reduction and the unwillingness to restructure local government forced sub-prefectoral cadres to devise new ways of creating revenue and/or continue illegal levies. As noted above, the centre had miscalculated when it thought that local governments would start by themselves to fire people and restructure local government once they were pressed for money. "The central cadres sit in their office and make plans, that's all. They don't know anything about rural realities", one cadre complained:

*"We would do anything but fire people. How should we decide who to fire? Everyone in the township line offices has relationships with someone at the county level. This would lead to a major conflict".<sup>30</sup>*

Accordingly, the best strategy was not personnel reduction, but reducing the provision of services and taking more fees. "Basically, we have stopped building roads", the same cadre remarked. Accordingly, the reform has led to a reduction of rural infrastructure projects such as the building of roads, the sanitation of school buildings so dilapidated they are declared "dangerous", and the maintenance of waterways and dams. The reform has thus contributed to widening the gap between countryside and city even further (Gao 2001; Yu 2003; Jia 2002).

A study of four provinces (Jiangsu, Anhui, Heilongjiang, Guizhou) by three researchers of the Agricultural Ministry's Office for Rural Reform Experimental

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<sup>30</sup> Author's interview, Beijing, 10 October 2004.

Districts (*Nongyebu nongcun gaige shiyanqu bangongshi*), illustrates this point. Due to unclear regulations, for example, villagers were made to pay not only for roads built within a village, but also for those connecting villages and even townships. In many places, peasants working in factories are required to pay for their absence, as are migrant workers. "Voluntary donations" by parents to their children's schools replacing the now illegal study fees are equally common (Zhu et al. 2003: 16-18). The new regulations allowing townships to manage village funds and counties to manage township funds did not improve the situation. On the contrary, with counties handing down unrealistic, though perfectly legal achievement targets for tax collection, township-level governments are more than ever forced to squeeze their subordinate villages. Village cadres in turn have no choice but to increase the peasant burden. Before the agricultural tax was scrapped, the "tax enforcement phenomenon" (*bi shui xianxiang*) (Zhang 2003, 2004) was a common occurrence: village cadres pushed peasants to pay their taxes, if they had money or not. Again, this was not illegal before a central level document prohibited the practice in 2002 (Guonongfa (2002), No. 10). Besides these semi-legal extractions, illegal ones simply continued in many places due to sheer necessity and lack of supervision.

#### *Going Ahead with the Complementary Reforms*

At this stage of the reform, the result sheet for implementation of the complementary reforms had been bleak. The county level had not been affected by even a single one of these policies. Significant strides had only been made with the merger of townships and villages in individual provinces and counties. A national reduction of 10 percent of townships and 3.82 percent of villages was, for example, matched by a 29.3 percent reduction in the number of townships in Hubei, and 36.5 percent in Shandong. Anhui's Wuhe county merged 49 percent of its villages (Zhu et al. 2003: 5). Changes in the (township/town) administrative structure had remained cosmetic, and personnel were rather moved than reduced (Zhu et al. 2003: 20-21). Again, rather than qualitative targets, quantifiable one proved the easiest to realize. Anhui had the idea to combine personnel reduction and local development, so it put 9,000 former township cadres into branch secretary position<sup>31</sup>. Strictly speaking, this was illegal, as the branch secretary has to be elected by the village Party members. The aforementioned report states that staffing paid village positions with township cadres became an avenue for other provinces as well (Zhu et al. 2003: 14).

As reductions were not forthcoming, the centre has since late 2003 again increased the pressure. Among others, Hubei, Liaoning, and Jiangsu provinces have, on a trial basis, started to implement township-level personnel cuts ranging from one half to two thirds in selected counties or county-level cities and radically restructured township-level administration. According to official figures, in Hubei's trial townships and towns, for example, the Political Consultative Conference is being abolished, and each Party committee reduced to a maximum of 9 persons, with the Party secretary concurrently serving as head of government. Township-level offices are reduced from 15 to three, and service provision reduced to primary and middle schools, hospitals and finance offices. The number of persons on government payroll is reduced to 37-45 from about 100. In 2004, also according to official figures, Jiangsu province had reduced the number of township-level employees by 40,000, the targeted figure being 100,000. Of the 17,000 service units it plans to reduce, 7,000 have supposedly been merged with other units (Li 2005). Anhui's Wuhe county even claims to have

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<sup>31</sup> Author's interviews, Anhui, 14 August and 17 August 2004.

reduced 65 percent of its village-level government employees (Zhu et al. 2003: 5). In late 2004, Hubei's Gan'an district, Jianli county, Honghu City and Macheng City reported equally impressive results (see Table 2):

**Table 2: Personnel and structural reductions in four county-level entities, Hubei province, 2004**

Reductions	Administrative entities	Government and Party group personnel	Administrative employees
Gan'an district	-68.7 percent	-61,2 percent	-71 percent
Jianli county	-40 percent	-38 percent	-44 percent
Honghu City	-40 percent	-51 percent	-35 percent
Macheng City	n.A.	-48 percent	-59 percent

(Source: Li 2005)

As is the case with all official statistics, these figures need to be treated with care. The author's interviews with township officials of one of these model counties revealed quite a different picture. According to the leader of the Organization Department, the number of payroll positions was indeed reduced, but by far not as substantively as the above figures suggest.<sup>32</sup> A cadre dispatched from the city Fiscal Bureau to work in the township confirmed this and added that the same applied to personnel not on the payroll (*chaobian renyuan*).

"They pose a much larger burden on the diminished township finances than the payroll personnel, as the township receives no funds from above to remunerate them. In order to pay them, the government must sell public property like real estate and abandoned schools", the official confided. Due to scarcity of such resources, this cannot be a long term-strategy, but the local cadres see no alternative. When asked what the township will do when all the property is sold, the official answered "we'll see then" (*dao shihou zai shuo*).<sup>33</sup>

This illustrates a well-known problem and merits scepticism about the sustainability of these measures: a job on the government payroll is the only means of employment in many underdeveloped regions (Chang 2005). As State Council Development Research Centre researcher Zhao Shukai put it:<sup>34</sup>

*"social stability now is a major constraint for township and town structural reforms. One situation that governments at every level do not want to incur is that a petition-army of township and town cadres adds itself to the already existing petition-armies of the unemployed and the peasants".*

<sup>32</sup> Author's interviews, Anhui, 17 March 2006.

<sup>33</sup> Author's interviews, Anhui, 17 March 2006.

<sup>34</sup> "Jigou jingjian kaizhi zengjia - Zhongguo xiangzhen gaige mianlin jiannan xuanze" (Simplification of the Organisational Structure or Increasing Expenses - The Reform of China's Township-level Governments Faces Difficult Choices), Zhongguo Jingying Bao, 19.02.2005, <http://finance.sina.com.cn/review/20050219/09571368307.shtml>.



## V. Conclusion

As this chapter has shown, the RTFR did not go according to plan. In its first two stages, burden reduction did not significantly increase peasant income, and the reforms did not end the practice of illegal levies. Very likely, this prompted increasing transfer payments from the centre and the decision to abandon the original policy. Moreover, the provision of local services has suffered gravely. Most of the complementary policies were not tackled; reductions in entities, structures and personnel did not reach the county level, and it remains to be seen how successful they were at the township level. The reforms suffered from a lack of synchronization, and in addition to the peasants, local politicians were alienated as well, especially at the township and village levels. Moreover, they run the danger of rendering avenues of public participation, such as elections for villager's committees and party branch secretaries,<sup>35</sup> meaningless. If villages and townships are reduced to county field offices and lose their administrative discretion, what is there to participate in?

In the previous sections, I have attempted to lay out the institutional foundations of these flaws. It was posited that the centre has taken a result-oriented, but not process-oriented view of central-local relations, which is clearly a heritage of the planned economy. On the other hand, local politics is path-dependent in the sense that Reform and Opening gave local governments the incentive to create (or resurrect, see fn 3) informal institutions to pursue their own economic and policy goals. Before the RTFR, central and local politics were largely compatible, though bearing high costs on efficiency, fairness and public resources. In order to improve the situation, the centre sought to curtail local power by implementing the RTFR. But again, it conducted politics by setting targets, not by regulating processes. Neither did the centre provide concrete regulations on local policy implementation (which would be difficult, given the differences in local circumstances in this vast country), nor did it provide incentives for local authorities to change their style of policy-making. The outcome amounted to a tug-of-war. The counties felt the pressure, but resisted adaptation. As the case of Anhui has shown, subsidies and township-level remittances enabled counties to maintain and even increase their expenses.

The situation so created is extremely difficult. Central-level politics with regard to the local level is path dependent, as is local-level policy making. The RTFR edifice can be likened to a palace whose construction is required of architects only knowing how to set up bamboo huts. The centre reasons that once the palace is built, the architects will have learned how to build it. But neither does it provide the material, nor does it provide the knowledge for such an undertaking, because it itself does not know how to build a palace. This bearing is very reminiscent of Mao Zedong's view that human beings can achieve everything if they really want, and the results equal those of Maoist policies: the architects continue to build bamboo huts, but report that they are making good progress with the palace.

Both paths continue into different directions though they are supposed to merge. Yet right now, neither leads to the polity desired. As long as this situation continues, the peasant will only temporarily be rescued from the cadre, and at great cost for the

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<sup>35</sup> The elections for village party branch secretaries are not public in the strict sense of the word, as only the local party members are allowed to vote. As opposed to the public and inclusive elections for the villager's committees, the elections for party secretaries are highly exclusive, as they are confined to a very small segment of the electorate.

centre. So far, the RTFR has not provided the institutional setting to put peasant burden reduction on a sustainable base, and it remains to be seen if the “socialist new countryside” can do better.

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