Working for the Peasants? - Strategic Interactions and Unintended Consequences in the Chinese Rural Tax Reform*

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Abstract
Recent policy developments and budgetary decisions suggest that the current Chinese leadership is placing more emphasis on social harmony and sustainable development. Rural tax reforms, with the official objective to relieve extractions on peasants, have been widely cited as a forerunner of this trend. This paper cautions against an interpretation of the rural tax reform as a coordinated “central project” intentionally reaching out to work for the peasants. Drawing from fieldwork and archival research, the paper describes dimensions of reform processes from both the top and bottom ends of the state hierarchy and argues that the reform outcomes—reduced burden levels and increased central-provincial inputs to rural services—emerged unintentionally out of strategic interactions between central and local state actors, each embedded in considerations more mundane than caring for the peasants.
Introduction

How should we interpret such recent rural policy developments as reforms to reduce peasant tax burden, initiatives to build “Socialist New Villages”, or the quest to the search for a “Green GDP” index?¹ Official rhetoric inside China has

* Hong Kong Research Grant Council funds the research (RGC reference: CityU 1064/02H) from which this paper draws. Fieldwork was conducted between 2002-06 in Hubei, Anhui and Guangdong provinces, and in Beijing. My stay at the University of California, Berkeley, as Fulbright Scholar in fall 2005 provided the perfect space for drafting an earlier version of this paper, with supportive staff at the Center for Chinese Studies and receptive friends at my warm and tranquil Milvia home. An early version of this paper was presented at the Research Seminar Series at the Center for Chinese Studies, University of California, Berkeley, and at the Conference on “Continuing Transformation in Public Administration”, City University of Hong Kong. The paper has benefited from comments received therein, and also from advice and suggestions from anonymous reviewers and the editors of this Journal. Research assistance was provided by Kin-on Li and Yamin Xu.

¹ The “building the socialist new village” (jianshe shehui zhuyi xin nongcui) campaign was first endorsed by the CCP central plenum in November 2005, and by National People’s Congress in March 2006 (http://news.qq.com/a/20060310/001383.htm accessed on 14 March 2006). Borrowing the idea from a similarly-named campaign in South Korea (in Chinese, xin cun (New Village) yundong) in the 1970s and 1980s, this initiative aims at enhancing rural development and improving rural welfare in the Chinese countryside. Ten provinces and municipalities started piloting the “green GDP” notion in their development in 2005 (see http://finance.sina.com.cn/g/20050301/04291391079.shtml accessed on 6 April 2006), and three (Guangdong, Zhejiang and Guizhou) had “green GDP” formally written in provincial 5-year plans in 2006 (See http://www.gdepb.gov.cn/hjgl/lsgd/zxdt/t20051101_18812.htm,}
depicted them as a succession of coordinated central measures with coherent objectives, namely social harmony and sustainable development. This paper cautions against such an interpretation. Focusing my analysis on the rural tax reform, arguably the beginning of this policy shift, I contend that it is misleading to see the burden-reduction reform as a “central project” intentionally reaching out to help the once neglected rural population. I argue that subsequent developments were more the unintended consequences of strategic interactions between central and local state actors. The story is more nuanced and complex than the official account admits.

National policy on peasant burden reduction was engineered around 1998, when the views of then Party Secretary General and State President Jiang Zemin and then Premier Zhu Rongji converged on the need to tighten controls on local extraction. Six years later, Premier Wen Jiabao described the ongoing burden


reduction reform as a two-phase process, “a result of central government’s planning”. The first phase, from the release of the original reform package in 2000 to its implementation in 2003, involved the reduction of fiscal burden and the rationalization of the rural tax regime. The extensive range of local fees charged to peasants at the township level, with many imposed by the county level and above, was placed under tight scrutiny and many items were abolished, whilst the tax rate of the formerly nominal Agricultural Tax was raised to partly compensate townships for the lost income. Then, with the release of the Central Document No. 1 (2004), the reform entered the second stage, in which the burden was further reduced through the progressive abolition of Agricultural Taxes, while measures were introduced to raise peasants’ income, for example through direct subsidies to grain-growing peasants. As the Chinese economy develops and the national financial situation improves, the central government has gained a

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4 This was part of a speech Wen gave during a work conference on rural tax reform in July 2004. See http://www.ccrs/org.cn, accessed on 20 August 2004.


larger capacity to address the needs of the rural population, and considerable resources have been allocated to these regards.\(^7\)

Numerous studies have elucidated the historical and institutional embeddedness of the “peasant burden” problem. The consensus is that fees proliferated out of historically grounded institutional mismatches, in particular between the growing needs of local bureaucracies and their limited ability to finance themselves through existing fiscal channels, and not exclusively because of local corruption. The fiscal system had incrementally evolved as the country edged away from central planning. During this process, necessary local (and rural) services were left largely unfunded whilst the size of township administration snowballed, partly as a result of policies, regulations, appointments and actions of higher levels of government, and partly as a by-product of lackluster economic

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development and thus shortage of non-farming job opportunities. Locally-imposed fees proliferated to fill the gap. Heavy local extraction on the peasants was, therefore, institutionally embedded and rooted in national policies and practices, and its correction required more than a focus on the local levels.

This paper is based on multi-year in-depth fieldwork, mainly in five townships across three provinces (Hubei, Anhui and Guangdong). From 2002 to 2006 I made 19 trips to the research sites to conduct interviews, group discussions, elite surveys, and field observations during various stages of the reform process. This paper focuses on data from Hubei and Anhui because Anhui was the site of pioneering tax-for-fee reforms during the 1990s, and because Hubei endured a number of highly publicized cases of heavy peasant burden leading to tension between peasants and local cadres. Both are central agricultural provinces. In Hubei, research was conducted in the Yichang District of Yichang Municipality and the Xian’an District of Xianning Municipality. Yichang is a mountainous county where the Three Gorges Main Dam is located, and where local fiscal rationalization experiments in the late 1990s had some

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9 In another paper, “Path Creation: Processes and Networks. How the Chinese Rural Tax Reform Began”, *Policy and Society*, July 2006, I tell the story of how the reform started in Anhui and made its way to Beijing. Hubei was the background of the widely circulated book on the plight of peasants and the rural crisis, by former Party Secretary of Qipan Township, Li Changping, *Wo dui zongli shuo shihua* (Telling the truth to the Premier) (Beijing: Guangming publishing, 2002), which for a time had a substantial influence on official discourse on rural policy.
national influence,\textsuperscript{10} whilst Xian’an is known for its pioneering local government reforms before and during the rural tax reforms.\textsuperscript{11} The Anhui localities we visited were more “average” and less “glamorous” in terms of local initiatives. They include an agricultural town in mountainous Qianshan County in south-west Anhui, a better-off town with some industrial activities in Shucheng County, a nationally designated “poor county”, and the pioneer site of 1978 rural reform in Feixi County, not far away from the provincial capital.

Our research team conducted over 150 interviews with some 105 respondents. About eighty percent of these were local officials in Anhui and Hubei involved in the implementation of reform, and the rest were officials and researchers in Beijing close to the reform formulation and analysis process.

\textbf{The Design of Tax Reform}

When it came to the design of reform at the national level, the social contexts of rural governance were conspicuously lost. Elsewhere I have noticed the policymakers’ narrow focus on reducing extraction, and a limited attention to institutional issues such as the imbalance of fiscal resources between urban and rural sectors, or between levels of government.\textsuperscript{12} Whilst a range of “supplementary measures” were set up with the purported objective to \textit{keep}


\textsuperscript{12} Linda Chelian Li, ‘Differentiated actors’, p. 157.
extraction low, they invariably targeted the local implementers, whether through a tightening up of local expenditure (acting on the demand side for more state extraction) or forbidding new revenue items (acting on the supply side). The remedy prescribed for an earlier failure of control was, therefore, yet more control, though it was not clear how it could possibly work better this time. In the formulation of a national reform policy, a complex issue was reduced to a simple logic: peasant burden had become excessive because top-down control had slackened, and townships had “overstaffed”. No reference was made to the otherwise established knowledge that townships, and public goods in rural societies, had long been grossly under-funded in the state budget. Similarly no

13 These include, “stop all local fund-raising activities, ban all expenditures geared to raising ‘standards’ or reaching ‘benchmarks’, establish transparent tax-fee collection and monitoring mechanisms, adjust and improve fiscal relations between county and township levels, and promulgate laws to protect better the rights of peasants”. See Ren Bo, “Nongcun shuifei zhi bian” (How the (reform on) rural taxes and fees have evolved), Caijing (Beijing), No. 8 (6 August, 2002), pp. 49-64.

14 The supplementary reform measures did include one item (“adjust and improve fiscal relations between county and township levels”) that addressed the broader fiscal institutional context, but was limited to the county-township interface only.

15 Also of relevance to the simplification process discussed here is James Scott’s notion of “state legibility project”, in his Seeing like a State: How certain schemes to improve the human condition have failed (New haven: Yale University Press, 1998), pp. 2-3, which refers to attempts by the state, through measures such as the imposition of permanent surnames to communities, to simplify artificially social diversities and thus enhance its control capacity.
questions were raised about why townships became “overstaffed” in the first place.

The reforms soon ran into difficulties, and studies blossomed to evaluate their implementation,¹⁶ sustainability,¹⁷ and impact on the “hollowing out” of township-level governments in the central and western provinces.¹⁸ Townships of average to low income were so deprived of fiscal resources that they could hardly

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¹⁶ See for instance papers in the edited volume Xiang Jingquan, Zouchu “Huang Zhongxi dinglune” di guaiquan: Zhongguo nongcun shuifei gaige di diaocha yu yanjiu (Investigation and research on China’s fee-for-tax reform), Linda Chelan Li and Wu Licai, “Daobi haishi fandaobi? Nongcun shuifei gaige qianhou zhongyang yu difang zijian di hudong” (Pressure for changes: Central-Local interactions in Rural Tax-for-fee Reform), Sociological Research (Beijing), No. 4 (July 2005), pp. 44-63.
¹⁷ Linda Chelan Li, “Embedded Institutionalization”.
carry out their “normal” activities as government. In some places, education, road building and other basic government services were severely diminished. Views were highly polarized. Many scholars suggested cutting bureaucracy by making the township a branch office of the county government, whilst others fiercely disagreed. Questions were raised as to whether the central government

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19 Some scholars argue against portraying townships as the culprits of excessive burdens, pointing out that despite some waste and misuse, fee incomes have supported important public goods provision including education and village roads. One example is Wu Licai, “Nongcun shuifei gaige dui xiangzhen caizheng de yingxiang ji qi houguo: yi Anhui weil” (Impacts and consequences of the rural tax reforms on township fiscal finance: the case of Anhui Province), in Xiang Jingquan, Zouchu “Huang Zhongxi dinglun” de guaiquan: Zhongguo nongcun shuifei gaige de diaocha yu yanjiu (Investigation and research on China’s tax-for-fee reform), pp. 271-2.

20 For a collection of major views in the Chinese debate, see Li Changping and Liu-ming Dong, Shuifei gaige beijingxia de xiangzhen tizhi yanjiu (Studies on township government system in the context of rural tax-for-fee reforms), (Wuhan: Hubei renmin chubanshe, 2004). For an analytical review of the literature, see Wu Licai, “Shuifei gaigezhong “xiangzhen” gaige di lujiang xuanche”, (Options for township government system reforms in the context of rural tax-for-fee reform”, in Xiang Jingquan, Zouchu “Huang Zhongxi dinglune” de guaiquan: Zhongguo nongcun shuifei gaige di diaocha yu yanjiu (Investigation and research on China’s fee-for-tax reform), pp. 307-23. In the English-languaged literature, Kennedy’s "Death of a Township" promotes a brief account of two strands of opinions, featuring Xu Yong, Director of Center for Chinese Rural Studies (CCRS) at Central Normal University, Wuhan, in favour of making townships a branch of county government (see Xu Yong, “Xianzheng, xiangbai, cunzhi: Xiangcun zhilide jiegouxing zhujuan” (Country government, township branch and village self-rule: The structural transformation of rural governance), Zhongguo Shiji (China Century), no. 771 (2004), retrieved
had intentionally weakened the township or even pre-planned the demise of township government from the beginning of the rural tax reforms, as part of a “master plan” to eliminate a major cause of excessive extraction. 21 An affirmative answer would be in line with a “top-down” conception of the reform process.

There are prima facie indications of a top-down “central project” to weed out the townships. Ongoing reforms designed to contain extra-budgetary and off-budget local revenues, for example, have tightened up fiscal monitoring from above. In some provinces the salaries of state-workers, such as school teachers, had already become a county responsibility prior to the rural tax reform. 22 Various components in the public finance reforms, such as centralizing local government accounting services, also seemed to have contributed to the

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21 See John James Kennedy, “Death of a Township”.

weakening of the township as a level of government.\textsuperscript{23} The tax-for-fee reforms—by capping extraction and eventually erasing the majority of fees, deprived many agricultural townships of their historically central function—to collect taxes and fees.\textsuperscript{24}

This picture, however, is less neat and tidy if the agency of local actors is considered. Rather than dictating the reform, the central government failed to act at critical junctures, and relied on provinces and localities to fill the gap. Whatever effects the rural tax reform had on rural services, these were a product,

\textsuperscript{23} Like other tax reform measures, the practice of “xiangcai xianguan” (county governments managing township budgets) started in Anhui Province in 2003. The major objective was to tighten up oversight and improve efficiency in fiscal management. See Anhui Provincial Government Directive No. 13 (2004), “On fully implementing the Township Fiscal Management System”, 12 July 2004. Earlier on, accounting at the subtownship agencies had been centralized at the township fiscal bureau in a pioneering reform in Yichang County of Hubei Province in 1998. A crucial control measure was prohibiting agencies from holding independent bank accounts, hence giving the name of the reform, “zero-bank-account initiative”. On this last point, see my “Understanding Institutional Change”.

\textsuperscript{24} Fu Guangming, “Chexiao xiangzhen: Gaige xianxing xiangzhen zhuzhi he caizheng tizhi yunxing moshi de tantao” (Abolish the township level: Exploring the reform of the mode of operation of township administration and fiscal system) argues that tax extraction was always the main activity undertaken in sub-county administrative units throughout Chinese history. To contain their growth and save costs, these units had been kept from developing into full-fledged administration units until 1984.
somewhat unintended, of strategic interactions between central and local state actors.

**Top-Down Pressures**

While petty state functionaries at the grassroots-level are sometimes seen as embodying the “state” by local populations, central leaders find it useful to their legitimacy to distinguish between themselves and their local agents. In the search for scapegoats, they often reinforce or even generate perceptions that blame policy failures on implementation details and front-line state workers, rather than on inadequacies of policy design. A process of this kind took place in relation to peasant fiscal burden. The centre suggested that predatory and inefficient local officials had caused excessive burdens. This attribution of blame fit well with the popular perception that the central government had promulgated all kinds of good policies, only to have them distorted or ignored by local implementers. In a 2004 survey, Lianjiang Li found that the lower one goes down the state hierarchy, the lower the trust rural residents give officials. Attributing blame to local officials has worked to the benefit of the central government,

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26 Lianjiang Li, “Political Trust in Rural China”, *Modern China*, Vol. 30, No. 2 (April 2004), pp. 228-58. At the same time, one should also say that while malpractices can be common at each level of government, local officials’ malpractices are easier to spot. So this “perception” is not entirely the result of “active” scapegoatism.
allowing it additional space to review and correct failing policies. Ironically, the central government needs the independence of local cadres for this process to work. Local cadres implement risky policies so that the centre can claim these that work and scapegoat lower levels when they fail.

This policy process was not simply a matter of a wicked centre wishing to abandon its responsibility. It also reflected policy contention at the highest levels. A veteran provincial level official involved in the reform process offered the following observation:

“We in the provinces know very well—that the tax-for-fee reform is merely the starting point, a window from which to gradually dismantle the multi-faceted institutional and policy constraints against the peasants. But the reform process was first complicated by power struggles amongst the top leaders (in particular between Party General Secretary Jiang Zemin and Premier Zhu Rongji), and then caught up in bureaucratic meddling and departmental interests. The Ministry of Finance, in charge of the reform since 1998, had, for instance, little expertise nor interest in rural governance and the peasantry. They had thus adopted a pedantic approach to the issue of reducing the peasant burden, seeing it narrowly as a question of improving fiscal implementation and rationalization. They
had not taken the broader picture of the national fiscal system and rural-
urban resource allocation into consideration.”

One notable indication of this gross neglect at the centre was the needless policy reversals that resulted from too much haste in the implementation process. On 15 February 2001, the official Xinhua news agency issued a press release which immediately made the headlines: the central government was about to extend the reform to the whole country by 2002. Two days after the announcement, a national agricultural work conference was held in Hefei, capital of Anhui Province. Amongst the participants were some 48 provincial/ministerial-level officials from twenty provinces. The meeting served to strengthen the message sent initially by the Xinhua release: a major rural reform was imminent. However, it then became clear that the necessary groundwork had not been laid. During the Hefei meeting, Finance Minister Xiang Huaizheng said nothing new, apart from reiterating the Xinhua announcement, and requiring the provinces to provide cost calculations. The latter suggests that

27 This respondent is a provincial-level official in Anhui and has played a critical role in the gestation stage of the reform leading to its adoption as national policy.
the central government had imposed a timeframe of reform before provincial leaders were consulted and costs calculated. Moreover, in early March, before provincial leaders returned their cost calculations, then Premier Zhu Rongji announced the reform to people’s deputies and the press during the annual meeting of the National People’s Congress. Zhu went on record saying that the central government planned to allocate 20-30 billion yuan annually from the central coffers to cover the reduced income caused by the rural tax reform, or more if necessary. When questioned whether this was sufficient, Zhu was ambivalent: “I may be able to be more specific at next year’s (post-NPC) press conference.”

It is surprising that the central government should declare a major policy in such an authoritative and open forum as the National People’s Congress Annual Plenum, with the presence of national and international media, without proper preparation. As if to confirm these oral commitments, the State Council issued a directive nine days after Zhu’s press conference in which provincial governments were allowed “to decide for themselves” whether to implement the rural tax reform, subject to the approval of the State Council. Despite the soft wording, the directive was widely perceived as a signal to launch reforms quickly.

30 Http://www.people.com.cn/GB/shizheng/16/20010316/418508.html, accessed on 14 October 2005. The “sloppiness” in Zhu’s answer on the rural tax reform was also the impression of many respondents in Author’s field interviews.

At this point, however, provincial governments had not yet finished with their cost calculations. Had the central leaders waited a little longer and seen the provincial estimates first, they might have avoided the subsequent embarrassment of having to reverse the March directive with a new one in April. One possible reason is that central leaders had underestimated the complexity of the issues involved, thinking that provincial calculations – when they came - would only make changes at the margin. The central government was apparently too confident of its own estimate (20-30 billion yuan), made by central fiscal officials largely in-house and drawing on, by and large, official statistics of agricultural tax revenues and the centrally endorsed township and village fees only. There was no intention to include in the calculation all the other miscellaneous local fees which, being unauthorized, were to be simply abolished. Local governments were expected to absorb the forgone revenues from these “illegitimate” fees by cutting “unnecessary” expenditure – for instance, by downsizing local bureaucracies. The gap between these expectations and the practical situations in many townships was wide, and as noted previously, the actual situation in the townships was in fact well known amongst segments of intelligentsia and policy circles. The Ministry of Finance had relatively limited knowledge in the complex

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33 See also Ren Bo, “How the (reform on) rural taxes and fees have evolved”, which notes central policy makers’ intention to use the revenue “deficit” to force the hands of township governments to downsize.
details of rural affairs, as rural affairs had traditionally not been in its portfolio.\textsuperscript{34} The ministry’s “blind spot” was ignored and existing knowledge elsewhere was not solicited despite the fact that a major policy was at stake.

The considerable elite competition and tension between Jiang Zemin and Zhu Rongji might have contributed to this oversight.\textsuperscript{35} After nearly a decade of local experimentation with at most lukewarm support from the centre, tax reforms had finally secured a heavy push from Jiang Zemin in September 1998, when Jiang spoke in favour of continuing the reform experiments in a high-profile visit to Anhui Province. Jiang’s explicit support at that juncture was critical since local reform experiments in Hebei and other provinces had been suspended a few months earlier due to incompatibility with a new national policy on the circulation of agricultural products backed by Zhu Rongji.\textsuperscript{36} After Jiang’s

\textsuperscript{34} Rural affairs, including those of a fiscal nature, fell under the jurisdiction of the Ministry of Agriculture, whilst Ministry of Civil Affairs was in charge of developing grassroots-level rural administration. Agricultural taxes and fees, until the onset of rural tax reforms, were collected by a township agency under the leadership of Ministry of Agriculture. Township fiscal departments, which come under the Ministry of Finance, have remained underdeveloped despite townships nominally having their own budget.

\textsuperscript{35} The tension between Jiang and Zhu, was well documented in a book reportedly by a former aide of Zhu (Zong Hairen, Zhu Rongji zai 1999 (Zhu Rongji in 1999), (Hong Kong: Mirror Books, 2001).

\textsuperscript{36} Liangshi shougou tiaoli (Regulation on the state purchase of grains) passed in June 1998. The new law prohibited the deduction of tax and fees from the prices paid to peasants at the time of state procurement, which ran against the practice of tax collection in the tax-for-fee reform
new stand on the tax reform, Zhu swiftly became a stout supporter. At the Party Central Committee Plenum of October 1998, rural tax reform was officially endorsed as national policy, and a three man team was formed within the State Council to formulate a detailed reform package. Since then, Zhu repeatedly urged the team to adjust their planning schedules and speed up implementation. When the team proposed a 3-stage work plan (proposals, consultation, and pilot implementation) and suggested full implementation by 2002, Zhu responded that “the three phases can proceed simultaneously rather than consecutively, and why wait until 2002? We should aim at starting reform in several provinces by next year [1999]!”


38 The three members were Finance and Agriculture Ministers and the head of the central leading group on economics and finance.

When provinces returned their calculations in April 2001, two months after the Hefei conference, the total annual bill that the central government was asked to foot amounted to 100 billion yuan.40 With the impact of the Asian Financial Crisis,41 this amount exceeded the Centre’s capacity, and led to an embarrassing slowdown: a new State Council directive was issued abruptly on 25 April, exactly one month after the 24 March Directive, to announce a “temporary halt to reform extension”. For a while, the international media abounded with reports that the Chinese burden-reduction reforms had been aborted.42

40 Author’s interviews, Anhui, 2004

41 Whilst the Chinese securities market was relatively cushioned during the Asian Financial Crisis as a result of the non-convertibility of renminbi (yuan) internationally, the Crisis indirectly triggered the collapse of major investment corporations such as Guangdong International Trust and Investment Corporation, exposing the huge fiscal risk local governments across the country had taken when underwriting loans of state-owned banks and enterprises. The central government eventually lent Guangdong Provincial Government several hundreds of billion yuan to help it through the crisis (Author’s interviews, Guangzhou, 2003; see also Wu Jiesi, Yue hai chong zu shi lu (A record of the restructuring of Guangdong International Trust and Investment Corporation), (Hong Kong: Hong Kong Commercial Press, 2002).

42 State Council Document, “A notice on issues on the work on rural tax-for-fee reform pilots in 2001”, 25 April 2001. For international coverage on the “abortion” of the reform, see a report in Wall Street Journal, 19 July 2001, p. 3, entitled, “China’s farmer-tax overhaul stalls”, and reports in South China Morning Post (Hong Kong), 8 June 2001 (“Zhu reveals slowdown of reforms), and 23 July 2001 (“Premier’s rural tax reform falters”). See also Ren Bo, “How the (reform of) rural taxes and fees have evolved”, which quotes a deputy bureau chief of State Council Rural Tax Reform Work Leading Group, Yang Shuizhou, citing these same two reasons of the
Elite competition and bureaucratic boundaries worked against proper reform preparation at the central level, despite a long gestation at the local levels and availability of better knowledge elsewhere. The resulting reform package reflected a very partial, and lopsided, understanding of the issues involved, and aimed at making local governments absorb most of the costs of reform. Provincial governments were naturally opposed to this and therefore lobbied hard for central transfers.

Local Reactions

Central-provincial bargaining over reform costs delayed implementation of reform for more than a year. Momentum was regained in 2002. Twenty provinces had implemented the reform by the end of 2002 and by late 2003 virtually all 30 had done so. In 2002 new central subsidies allocated for the “tax-for-fee” reform amounted to 24.5 billion yuan. This rose to 30.5 billion and 52.4 billion yuan in 2003 and 2004. By Spring 2002 tax reform seemed worthwhile to many provincial governments. As one provincial official explained:

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suspension decision in April 2001: (1) inaccurate initial calculation of reform costs, and (2) the perceived need to conserve for the financial crisis.

43 See budget speeches by Finance Minister delivered to National People’s Congress during 2003-5.
“It is pretty simple why we started. The central government promised us additional subsidies to kick-start the reform. Why not snap the new monies? Reform or not, these new resources will add to the local coffers. The provincial government cannot lose out one way or another by joining.”

Once reform appeared inevitable, provincial governments set their eyes on maximizing their gains. In any event, the bulk of actual reform costs could be pushed further downwards, to counties and townships, and the province could even profit by “taxing” central subsidies.44

Branded as inefficient, corrupt and unruly, officials at township and village levels became the “object” of burden-reduction measures, whilst also bearing the blunt of responsibility for implementing the reforms. The reforms obtained a skeptical reception amongst county and township officials. Provincial leaders in Hubei, for instance, publicly acknowledged that local cadres were “confused” about the need for this reform, and early starters in 2002 had run into considerable difficulties.45 County and township officials lacked a sense of

44 Taxing of transfers by intermediary layers appears to be an endemic practice. In both Hubei counties (Yichang and Xian-an), for instance, county officials complained of “taxes” by superiors at the prefectural level when provincial and central funds earmarked for the localities passed through the prefectural hands.

45 See “Executive Vice Provincial Governor and Deputy Party Secretary of Hubei Province Deng Daoquan speaking to the press, 28 June 2002”, in http://nxb.cnhubei.com, accessed on 6 January
urgency, it was argued, and during preparatory work were interested more in calculating costs—and bargaining for more fiscal compensation from above—than in working out expenditure cuts.\textsuperscript{46}

It quickly became clear to county and township officials, however, that resisting implementation was out of the question. Heimer describes how higher levels use the cadre responsibility system to make township officials implement reform measures that are against their interests.\textsuperscript{47} Essentially, this involves placing mandatory requirements in the “performance contracts” county governments sign with the townships. In 2003, there requirements included meeting specific tax reduction benchmarks and avoiding overt conflicts arising

\textsuperscript{46} These were the themes raised in a Provincial Tele-conference on Rural Tax-for-Fee Reform Pilot-runs, as reported in \textit{Hubei Daily} 25 June 2002, accessed at \url{http://ncxb.cnhubei.com}, on 6 January 2004.

\textsuperscript{47} Maria Heimer (Edin), “Taking an Aspirin: Implementing Tax and Fee Reform at the Grassroots”, presented at the Grassroots Political Reform in Contemporary China Conference October 29-31, 2004, Fairbank Center, Harvard University. The paper identifies three “must not happen” situations of social unrest rising from peasant burdens that township officials are subjected to: 1) tensions leading to major use of force, with serious injury or death of peasants, 2) clashes with peasants resulting in major roads/train lines being blocked or governments being attacked; 3) situations wherein force was used to collect taxes, or where peasants committed suicides.
from the implementation process. Provinces also stepped up their monitoring of reform implementation. In the agricultural heartlands, where levies were known to be high, provincial inspection teams were dispatched to all counties. The teams would normally stay in a county for a week to visit households and grassroots cadres across townships and villages. Information was collected first-hand on as many as 45 benchmarks, ranging from the degree of burden reduction, methods of implementation, imposition of new fees, and township administrative structuring and downsizing. One county in Hubei was, for instance, criticized for failing a number of performance indicators as a result of provincial

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48 In Hubei as of 2003, the main benchmarks were 1) burden per acre of farmland had to go under 100 yuan; 2) the level of burden after reform for any household must not exceed the level of burden before reform (Author’s interviews, Guangzhou and Wuhan, 2004). Anhui Province in a 2002 directive (“On penalizing administrative behaviour in contravention with the rural tax-for-fee reform policy”, 30 November 2002, accessed at http://www.ah.gov.cn on 10 March 2005) lists 12 circumstances which may lead to the firing an official and more for demotions.

49 Both Anhui and Hubei, where I conducted fieldwork, set up inspection teams. In Hubei, each team was headed by a senior official of a deputy bureau chief level with members temporarily seconded from other provincial bureaus. A special inspection office was established inside the Provincial Fiscal Bureau to provide secretarial and logistical support (Author’s interviews, 2004). See “The speech by Zhang Ping at the Provincial Tax-for-Fee Reform Inspection Work Meeting, 20 June 2002, accessed at http://www.ah.gov.cn on 5 March 2005, for announcement of inspection teams in Anhui.

50 The author had interviews, during 2003 and 2004, with both members in these inspection teams as well as county officials receiving the teams.
inspections in early 2003. These indicators included reducing the tax burden to a level below both the 2001 level and 100 yuan per acre. The county was relatively well-off and county fiscal officials attributed their failure to insufficient consideration of local conditions in the central reform requirements and resistance from local (township and village) cadres.\textsuperscript{51}

Such stepped-up vigilance served to convey a clear message: that county and township officials had to treat the reform seriously and meet the required targets. As provinces competed to outperform the centrally-prescribed benchmarks, the collection of local fees declined nationwide.\textsuperscript{52} In all the townships and counties we visited during the course of our fieldwork, fiscal burden appeared to have dropped considerably, notwithstanding problems over the quality of reports and statistics.\textsuperscript{53}

How did county and township officials manage to meet the target, given the entrenched nature of the burden problem documented extensively in the

\textsuperscript{51} Author’s interviews, 2003 and 2004.

\textsuperscript{52} The highest reduction rate in 2003 was achieved by Guangdong (74%), whilst all provinces exceeded the 20% required by the central government. See Linda Chelan Li, “Differentiated Actors”, p. 158.

\textsuperscript{53} A provincial source once commented that the most difficult part in reform implementation was to know \textit{exactly} how much had been taken from peasants pre-reform, since “illegal”, or “extra-system”, items were rarely carefully recorded. Nevertheless, he also agreed that due to the stepped-up post-reform monitoring, by and large peasant burden had been placed under control. This view was widely shared by our interviewees across provinces.
literature? Mostly by simply reducing the services provided by local governments.

A leading cadre in a moderately industrialized town in Anhui Province said,

“Well, we could only do what our means allow us to. The burden level must go down, and we are left with much less than what we need even just to maintain the basic operation of government. Despite the increase in transfers, these cannot compensate for what we lost from fees. With less disposable resources we can only do much less.”

This town is the site of the only foreign joint-venture in Shucheng County of Anhui, and had good access to inter-provincial roads. It was thus better-off than neighbouring towns, so that the county had recently increased fiscal extractions from the town. But even in this “better off” town, the entire annual budget of 1.7 million yuan, including incoming fiscal subsidies, was sufficient only to pay for staff salaries and basic social security payments.

54 This town had an average annual rural income of 2249 yuan (2002), slightly lower than the national average of 2476 yuan (Author’s interviews, 2002; China Statistical Yearbook 2003). It has industries in bamboo handicraft, building and construction materials, and food processing, and a robust wholesale market in bamboo products, generating a total profit and tax income of some 40 million yuan in 2004. The foreign joint venture, with a Hong Kong partner, is in the food processing industry. The town was merged with another well-off town in the county in a consolidation exercise in late 2004.

55 Information from interviews with town officials, May 2004. This was less than half of the fiscal revenue in 2002 (3.9 million yuan), when the burden-reduction reforms had yet to have an impact.
local economy further would have required new investments in roads and farmland irrigation. When monies were tight development was simply out of question. “The farthest we can set our sight on these days are minor projects of a ‘remedial’ nature, said the Party secretary. The officials elaborated that they had planned minor public works valued some 0.6-0.7 million yuan (over a year), but as a result of the reduced income they could only afford a third of them.

Such was the situation in a town with some industrial income and foreign investment, that was seen by the county as a “milk cow”. In townships more dependent on agriculture, the “minimalist” approach to public expenditure often meant despair and resignation. In another town in a hilly region of Anhui Province, town leaders were preoccupied not with choosing which public

The basic social security payments refer to those paid to the most vulnerable groups of rural residents, e.g. orphans, elderly without children, and disabled, in accordance with the “Regulation on providing for the 5-guarantees for the needy”. Before the reform these payments were financed by a fee collected by the town government. The fee was abolished along with others as a result of the tax reform, and the payments had to come from the town budget coffers.

This town is in Qianshan County, southwest Anhui. It had an average annual rural income of 1486 yuan in 2002, 40% below the national average. Annual local fiscal income in 2001, a year after rural tax-for-fee reform was implemented, was around 1.3 million yuan, whilst expenditure was 2.7 million yuan, the balance financed by fiscal subsidies from above. The town was mostly dependent on agriculture and remittance income from outgoing migrant workers, though there was also some revenue from local trade, being in the middle of a “catchment” of neighboring towns (Author’s interviews, 2002). See also Wu Licai and Linda Chelan Li, “Xiangzhen caizheng
projects they could afford but with meeting the basic expenses that the routine operation of a government office would have taken for granted.

“Now we have even less for local use than before [the tax-for-fee reform], since the payments from above are less than what we used to collect from below. Moreover, previously we would decide how much to collect from the peasants based on how much we needed to spend. Now everything is fixed above and we have had less revenue. How does this affect us? First, there is the historical debt accumulated from previous projects, education and other items. I don’t know how we can possibly repay it. Second, we are running into new debts, as sometimes we are forced to borrow money to pay for tasks that must be done as a matter of necessity, despite the post-reform dire fiscal situation. Third, we have numerous funding “gaps” in the day-to-day running of government offices, including staff salary, operation costs such as transport expenses, telephone and internet connection fees, and reception expenses. These are major concerns to us since they recur on a daily basis.”

In this town, some components of staff salary had historically relied on extrabudgetary income. As extrabudgetary fees were prohibited under the reform,
the town became heavily reliant on incoming transfers, which amounted to over half of its total outlay. Fiscal dependence appeared to have made township cadres more receptive towards further centralizing measures.

“I heard that the county-level will soon take over the payroll management of all township cadres. Last year they did that to our teachers. Well, is it good? Yes, even though this will signal the substantive “death” of township as a level of fiscal finance, if not in name. The township has never been an independent level (of finance) in the past anyway! The biggest benefit of this change is the prospect of evening out cadres’ salaries across different townships. The long-standing inequity of differential pay levels between richer and poorer townships would then be rectified. This is fairer and good for morale.”

This attitude of welcoming the “demise” of one’s level of government was not peculiar to this town, or specific individuals. The Party Secretary of another average-income, and until recently largely agricultural, township in Anhui Province sent a similar, and stronger, message when I asked him to comment on the impact of the tax reform, 57

57 This town in Feixi County. Annual rural per capita income was 2950 yuan as of 2005, Compared to a national average of 3255 yuan (Author’s interviews, 2005; http://www.stats.gov.cn/tjfx/ztfx/tjgbjd/t20060302_402308142.htm, accessed 10 August 2006.).
“The current situation in our country is that the upper levels (central and provincial) are flooded with resources, whilst the local levels are left to struggle. The lower in the state hierarchy you go, the more difficult the situation is. We at the township level have the most to do, but the least to spend. This is irresponsible, as I see it. The result? - numerous tasks are left undone. It is futile for us even to protest. Nobody will listen. What makes it worse is that if anything within our township goes wrong, superiors will *not* examine why and how. They do not care whether we have done our duties properly. *They will just hold us responsible* – because things under our jurisdiction go wrong! This is what we call the “leadership responsibility system”. Nobody would seriously care to find out if we have the resources or power to perform the assigned duties to start with. We are just to take the blame, we are the scape-goat…What could we in the township do to make our lives easier? Not much, really. Everyday we walk on a tight rope. Our people often say: we can only do with what we are given. *Now we are just hoping for “peace” – if we escape major problems by the end of a day, then we congratulate one another for making it through one more day*… What do I think about abolishing the township as an independent level? Well I’m for it. Since
2004 it is the county that manages our budget. If we go one step further and make the township a branch office of the county, the upper levels will have to take over our current responsibilities. That would be a relief! We are then free of the burden of worrying over insufficient resources or being held responsible for tasks that are beyond our means. We can then focus our work on implementation."

The speed with which the national reform achieved its intended objective—as seen in high burden reduction rates - has brought to the foreground a central issue: whether villagers can prosper simply with a reduced level of extraction. As noted earlier, it was widely acknowledged within academic and policy circles that burden-reduction would need to be sustainable. The embedded nature of the burden issue, however, was lost in the policy phase. What needed to be “fixed” were problems in the implementation of policies at the lower levels: counties and townships. Local officials were left with little choice but to comply, given their subordinate status in the state bureaucracy, and they coped, by passively “sitting through” their job. With resources barely sufficient to pay for salaries, public services were minimized, if provided at all. Some townships found it difficult just to maintain the government, Ironically, “to maintain the basic operations of grassroots-level government” was one of the three main

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58 Anhui piloted the management of township finance at the county level in 9 selected counties in 2003, ahead of most of the country, and extended the centralization provincial-wide in 2004.
objectives of the rural tax reform. Without a sufficient budget, and banned from entrepreneurial activities, commercial or fiscal, township officials learnt the security of dependence, and thus tacitly embraced the “demise” of townships as an independent level of government. The collective response amongst township cadres to the enthusiastic debates amongst academic and policy analysts on their future prospect was one of resignation: “we have never been independent”.

Conclusion

This paper suggests that the central state has, as a result of elite competition and bureaucratic politics, simplistically attributed the hardships of rural life (low household income and low levels of public goods provision, etc.) to excessive local extraction. In turn, this extraction was explained by overstaffing and spending abuses in townships and villages. A complex and multi-faceted issue was reduced to one of maladministration and bad institutional designs at local levels. The beauty of this schema, from the perspective of central state actors, is that it absolved the central government of responsibility for rural suffering. Supervision of local agents thus became a central aspect of the national reform program. A scapegoat was found, and then hunted down, and reform objectives—bettering the situation of the peasants—were proclaimed accomplished.

59 The other two objectives are reducing peasants’ burden and sustaining the reduction, and maintaining the smooth functioning of rural schools and guarantee the pay of school teachers (Document No. 7, 2000).
Township cadres, the objects of the reform, defended their past practice and demanded superiors to play fair by paying up for its costs. They then utilized their advantage as implementers by tailoring reform details to their needs, maximizing job security and minimizing responsibilities. Paradoxically, the cumulative effect of the implementation maneuvers have been a *fostering* of the centrally defined objectives of the reform, as demonstrated in the higher than expected burden-reduction rates and the faster-than-scheduled pace of reform implementation nationwide. As reform approached its completion local state actors also tacitly accepted their dependency, leading to a collapse of township governance.

When local officials were deprived of the motivation, authority and resources to assume responsibility for local governance, upper levels were left with a choice between taking new measures or ignoring the need for action. Lately, attempts to move to fiscal responsibility over education to the provincial level, and the “Socialist New Village” Program, aimed at making up for the public goods “deficit” in rural areas, suggest that more duties are being assumed by central and provincial governments.⁶⁰ Whether these will eventually work for rural residents and have any meaningful impact over the quality of rural

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⁶⁰ Provincial governments, rather than counties, would be made responsible for making sure that school education is properly funded when the proposed amendments to the Law on Compulsory Education are passed by the National People’s Congress. The amendments were put to the NPCSC in February 2006. See *South China Morning Post* 26 February 2006, A6.
governance remains to be seen. What this paper shows is that changes in rural fiscal practices were not the result of a central plan, but the outcome of a complex process that no one designed.