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Shirkers or Toilers? Local Strategic Action and Education Policy Under Fiscal Abundance

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ABSTRACT

Making sense of the behavior of local government officials is important for understanding the operation of large multi-tiered governance systems such as China. Local officials have often been seen as self-serving maximizers of the 'local interest', adopting the best possible strategies of action allowed by the circumstance of the time. A prevailing view in the literature, influenced by frames of analysis provided by principal-agent theory, is that local officials are shirkers and rent-seekers. In fiscal policy, where resources have normally been tight, this means local hoarding of resources, shirking of spending responsibilities and assertive bidding for central projects, resulting in inefficiencies in resource allocation. Recently a substantial inflow of central funding into local education offers an opportunity to reassess this characterization of local strategic behavior. How have local leaders responded at a time of relative fiscal abundance? Did they seek to increase *ever more* funding inflow and reduce local responsibility? Examining aggregate statistics at the national level and local case materials from the central part of the Chinese hinterland, this article finds that available evidence does lend some support to previous observations of local fiscal behavior, such as diverting funds. However, other expenditure patterns in the presence of relative abundance of central funds present strong evidence that this behavior masks a deeper motivation to act responsibly in the pursuit of shared education reform goals.

Introduction

Making sense of the behavior of local government officials is important for understanding the operation of large multi-tiered governance systems such as China. The literature on implementation gaps in public administration, employing a largely 'top-down' approach to analysis, has laid emphasis on the importance of agency control and explored reasons for its failure. In the case of China, where authoritarianism emphasizing top-down control has co-existed with large variations in policy execution, local officials have often been seen as maximizers of the 'local interest', adopting the best possible strategies of action allowed by the circumstance of the time.¹ Strategies of local actions vary—local leaders may

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¹Some major works elaborating this theme are Peter T.Y. Cheung, Jae Ho Chung and Zhimin Lin, *Provincial Strategies of Economic Reform in Post-Mao China: Leadership, Politics, and Implementation* (Armonk, NY: M.E. Sharpe, 1998); Xueguang Zhou, 'The institutional logic of collusion among local governments in China', *Modern China* 36, (2010), pp. 47–78; Jae Ho Chung, *Central Control and Local Discretion in China: Leadership and Implementation during Post-Mao Decollectivization* (Oxford: Oxford University Press, 2000); Hao Jia and Zhimin Lin, *Changing Central-Local Relations in China: Reform and State Capacity* (Boulder, CO: Westview, 1994); Ezra F. Vogel, *One Step Ahead in China: Guangdong under Reform* (Cambridge: Harvard University Press, 1989). For a recent work, see Eun Kyong Choi, 'The politics of central tax collection in China since 1994: local collusion and political control', *Journal of Contemporary China* 25(97), (2016), pp. 146–159.

be 'pioneers, bandwagons, laggards',² or 'statesmen, scramblers and niche seekers',³ but tension with central policies seems systemic. At the same time, there is a second, equally popular, view of local governments, which emphasizes the impeccable role that some local experiments have played in the evolution of national policy and reforms.⁴ According to this view, conflict and collaboration co-exist in the interface between the highest echelon of powers and the intermediary and grassroots levels.⁵ Implementation problems are hence more a result of the 'complexity of joint action' by multiple actors in diverse institutional contexts than of control deficit of some actors over the others.⁶ Studies into reform processes have identified how state actors at different tiers of government have worked together to generate new national policies.⁷ The complex interactions between diverse actors and the multifarious impacts these have brought demonstrate that national policy and local behavior are *not* at all times in a 'zero-sum game'.⁸

The argument that local governments in China are best understood as opportunistic maximizers of local self-interest in their relations with central government frequently draws on principal and agent theory as a way of framing their behavior. Such is the currency of rational choice and game theoretic approaches in political science, even scholars who draw conclusions that might seem to contradict principal and agent analysis may situate their analysis within this framework. Zhou, in explaining the 'collusive' behavior of local governments in resisting, bending and evading central policy directions, begins by framing the problem as a principal and agent dilemma, but concludes by suggesting that 'flexibility' by local governments is a rational response to over-rigid implementation of central directives which central government seeks to impose. What is framed at the outset as self-interested behavior, indistinguishable from rent-seeking and other forms of 'shirking', turns out to be responsible action by local officials concerned to maintain stability and legitimacy.⁹

Zhou's analysis also frames the actions of local officials through the lens of implementation theory and organization theory respectively. In the first case, local officials use the decision-making discretion to show 'flexibility', in the process representing and expressing local points of view and diversities. As a result, the policy as implemented may not be what the central policy-makers exactly intended or expected. In the second case, operating under 'bounded rationality', local officials adopt coping strategies and develop local decision rules and strategies appropriate to their circumstances.¹⁰ In either case, these 'agents' are not the one-dimensional characters of principal and agent theory, who calculate what they can 'get away with' in maximizing their self-interest, while at the same time satisfying their principals. The flexibility with which they interpret central commands is shaped by the organizational routines of the implementing organizations and their historical and contemporary adaptations to their environments. Assumptions about the economic calculus of agents when faced with the instructions and expectations of a principal do not seem to have much relevance if this is our view of the considerations that shape local decision-making

²Cheung *et al.*, *Provincial Strategies of Economic Reform in Post-Mao China*, pp. 25–26.

³Vogel, *One Step Ahead in China*, p. 313.

⁴Sebastian Heilmann, 'From local experiments to national policy: the origins of China's distinctive policy process', *China Journal* 59, (2008), pp. 1–30; Linda Chelan Li, 'Differentiated actors: central–local politics in China's rural tax reform', *Modern Asian Studies* 40(1), (2006), pp. 151–174.

⁵Linda Chelan Li, *Centre and Provinces: China 1978–1993. Power as Non-Zero-Sum* (Oxford: Clarendon Press, 1998/2002); Chung, *Central Control and Local Discretion in China*.

⁶Jeffrey L. Pressman and Aaron Wildavsky, *Implementation: How Great Expectations in Washington are Dashed in Oakland* (Berkeley, CA: University of California Press, 1984).

⁷Daniel Kelliher, *Peasant Power in China* (New Haven, CT: Yale University Press, 1992); Linda Chelan Li, *Rural Tax Reform: Policy Processes and Institutional Change* (London and New York: Routledge, 2012); Christian Göbel, *The Politics of Rural Reform in China: State Policy and Village Predicament in the Early 2000s* (London: Routledge, 2010).

⁸Li, *Centre and Provinces*.

⁹Zhou, 'The institutional logic of collusion among local governments in China', p. 74.

¹⁰Herbert Simon's concept of 'bounded rationality' refers to measures adopted by administrators to limit the complexity of their tasks while continuing to pursue rational means–end stratagems, for example by limiting relevant factors in calculating benefits and costs to those relevant to a specific jurisdiction of responsibilities, while excluding others. Such 'local coping' strategies, while seemingly ignoring some central concerns, might in this sense be considered rational and responsible. Herbert A. Simon, 'A behavioral model of rational choice', *The Quarterly Journal of Economics* 69(1), (1955), pp. 99–118.

behavior in the face of central government policy instructions and guidelines. Strategies of 'evasion' may now be seen as strategies to operationalize handed-down policies and instructions and to make them more in line with local demands and pressures.

Rational choice principal and agent theory is only one type of 'agency theory'. For example, legal theories of agency expect the agent to do his or her part out of obligation and loyalty, not out of self-interest alone.¹¹ 'Stewardship theory' begins from the premise that the agent (the manager; the local official) wants to do a good job in the overall interests of the collectivity (the firm; the state; the nation). The starting assumption, contrary to most standard principal and agent theory, is that '... there is no inherent, general problem of executive motivation'.¹² In this version of agency theory, the 'zero-sum' implications of principal and agent conflicts of interest are rejected.¹³ The problem then is simply to create the appropriate structural arrangements to maximize the agent's contributions to the shared goals and values (as distinct from minimizing the effects of their opportunism). Other perspectives on 'agency' also adopt a more expansive view of the motivations underlying the initiatives taken by the agent, recognizing the crucial significance of autonomy that is embedded in the concept and at the same time stressing the overlapping and perhaps conflicting obligations they face, depending on the social or institutional setting. For example, health professionals often have obligations both to health system funders (their 'principals') as well as to patients (their 'clients'). The second kind of agency behavior involves discretionary exercise of a professional obligation, including the responsibility to use their skills and knowledge responsibly for the benefit of the patient.¹⁴ In this case, the agent has multiple and conflicting pressures and priorities of a kind that their professional training is supposed to help prepare them to face. Underlining these alternative theories of agency are the logics of identification and internalization, which psychological research has identified, rather than that of compliance only.¹⁵

What sort of agents are China's local government officials?¹⁶ Are they the corrupt shirkers and power abusers assumed by principal and agent theory? Or are they responsible stewards or loyal 'toilers' coping with conflicting pressures and trying to fulfill their official roles and responsibilities as best they can? Which view of their motivations best predicts or explains their behavior? In this article the authors put the matter to the test in one setting by observing the behavior of local officials when significant changes are made to central policies which required their action in order to implement them, on the one hand opening up new opportunities for rent-seeking, diversion of funds and other 'self-serving' behaviors and, on the other hand, providing the opportunity to achieve important changes in the provision of local education services. A recent change in fiscal policy has resulted in a substantial inflow of central funds into local education. The purpose of this extra funding was to achieve important national education policy objectives. In this situation, not only was the central government providing policy direction, it was also providing new resources. Most previous analyses on central-local relations have focused on situations of fiscal pressures and resource scarcity, highlighting the dire conditions in which many local governments operated (*albeit* still in the face of policy direction and exhortation from the center). Local

¹¹Pauline T. Kim, 'Beyond principal-agent theories: law and the judicial hierarchy', *Northwestern University Law Review* 105, (2011), pp. 532–524.

¹²Lex Donaldson and James H. Davis, 'Stewardship theory or agency theory: CEO governance and shareholder returns', *Australian Journal of Management* 16(1), (1991), p. 51.

¹³Leslie J. Vermillion, Walfried M. Lassar and Robert D. Winsor, 'The Hunt–Vitell general theory of marketing ethics: can it enhance our understanding of principal–agent relationships in channels of distribution?', *Journal of Business Ethics* 41, (2002), pp. 273–274.

¹⁴Robert G. Evans, 'Incomplete vertical integration in the health care industry: pseudomarkets and pseudopolicies', *The Annals of the American Academy of Political and Social Science* 468, (1983), p. 65.

¹⁵Herbert C. Kelman, 'Compliance, identification and internalization: three processes of attitude change', *Journal of Conflict Resolution* 2, (1958), pp. 51–60; Charles O'Reilly and Jennifer Chatman, 'Organizational commitment and psychological attachment: the effects of compliance, identification, and internalization on prosocial behaviour', *Journal of Applied Psychology* 71(3), (1986), pp. 492–499; Linda Chelan Li, 'Central–provincial relations: beyond compliance analysis', in Joseph Cheng, ed., *China Review 1998* (Hong Kong: The Chinese University Press, 1998), pp. 157–186; Linda Chelan Li, 'Central–local relations in the People's Republic of China: trends, processes and impacts for policy implementation', *Public Administration and Development* 30, (2010), pp. 177–190.

¹⁶Thomas Heberer and Gunter Schubert, 'County and township cadres as a strategic group: a new approach to political agency in China's local state', *Journal of Chinese Political Science* 17(3), (2012), pp. 221–249; Gunter Schubert and Anna Ahler, 'County and township cadres as a strategic group: "building a new socialist countryside" in three provinces', *The China Journal* 67, (2012), pp. 67–86.

officials have been observed to act in favor of expanding local fiscal security while showing an almost 'insatiable appetite' for external resources, whether from upper level remittances or from the society, in order to make ends meet or to satisfy private needs of a predatory nature.¹⁷

Abundance might be expected to stimulate new forms of self-seeking diversion of funds and evasion of central government policy intentions. For example, where these funds were for local education, the conflicting priorities and self-serving interests of local officials could continue to win out over the objective of improving education services and outcomes. The devotion of extra central funds might also be seen as an opportunity to divert local funds that formerly went to the same purposes, merely substituting the central money for the local effort. It is notoriously difficult to prevent such substitution when the central government simply adds money in the pursuit of extra local effort, as it is impossible to trace the flow of funds coming from diverse sources given fungibility of fiscal resources. That is, central activism may provide an opportunity for local shirking. But is this the most plausible interpretation of local discretion and of local–central 'fiscal gaming'? Do local officials continue to grab an ever bigger inflow of funding and avoid as much local responsibility for educational policy outcomes as possible, or does their behavior exhibit other motivations and objectives?

The article will proceed as follows. The next two sections offer, respectively, a brief background of the local education financing regime and an overview of the new fiscal policy in local education and major changes in central and local contributions. Employing aggregate statistics these sections provide important contextual discussion and highlight the gravity of the changes in the local fiscal scene as far as school education is concerned. Then the article discusses the education financing situation in a county-level government in Central China, using case materials obtained through fieldwork.

A brief explanation of the fieldwork arrangements is in order here. This article draws from the findings of a larger, multi-year project examining the changing intergovernmental relations over education in China.¹⁸ The objective of the fieldwork was to gather data regarding intergovernment interactions and processes in the management of inflow of additional educational funding in a county. Nian County, an agricultural locality in Henan Province, is the subject of the case discussion in this article.¹⁹ Between 2006 and 2011, the authors and their research team conducted a total of 95 interviews with 82 people in Nian, including over 30 senior- to middle-rank officials (secretary, mayor, directors of fiscal and education bureaus, middle-rank cadres in fiscal and education bureaus, and other bureaus such as economic development), and school principals and teachers in 20 primary and secondary schools. The authors also reached out to city, provincial and national levels to triangulate information and canvass a fuller picture through incorporating perspectives from different levels. About 40 interviews were conducted with fiscal and education officials at these levels, and academics and researchers close to the national education policy circle. The experience in this research concurs with previous documented observations that conducting fieldwork in China is a challenging enterprise. Despite the opening up of China in the recent decades to external investment and visitors, which has enabled more visits and direct observations 'in the field', in-depth field research still faces immense difficulties.²⁰ In this study, the authors have benefitted from the assistance of experienced local collaborators and resources (including access and goodwill) accumulated through their prior work on intergovernmental relations and government reforms in China. Whilst these efforts have enabled access to the relevant bureaus, discussions on flows of monies and intergovernmental interactions were often clouded with 'smokescreens', and seeking clarification on data was always an uphill battle.

¹⁷Roy Bahl, *Fiscal Policy in China: Taxation and Intergovernmental Fiscal Relations* (San Francisco, CA: The 1990 Institute, 1999); Li, *Centre and Provinces*; Andrew Wedeman, 'Small budgets, extra-budgets, and small treasuries: illegal monies and local autonomy in China', *Journal of Contemporary China* 9(25), (2000), pp. 489–511.

¹⁸Demarcating the Responsibilities of Government Across Tiers in China: Reform Discourse, Change Processes, and Significance, funded by Hong Kong General Research Fund, 2010–2011 round.

¹⁹Nian is a pseudonym.

²⁰For a soul-searching discussion of difficulties in doing fieldwork in China and coping strategies, see Maria Heimer and Stig Thøgersen, *Doing Fieldwork in China* (Honolulu, HI: University of Hawaii Press, 2006).

Table 1. FGM: central–local funding responsibilities (%).

Funding categories	Central–local responsibilities
School operating costs	Western provinces: 80%: 20%. Central provinces: 60%: 40%
Living cost subsidy to residing pupils in need	50%: 50%
Maintenance of school buildings	50%: 50%
Provision of textbooks	Central: nationally prescribed textbooks. Province: locally prescribed textbooks 100%

Sources: State Council Document No. 43 (2005); Ministry of Education and Ministry of Finance Notice No. 337 (2007).

The authors found that the government of Nian County had deviated from central instructions when putting funds to specific uses in the new fiscal context. The findings do not, however, support a simple zero-sum relationship between central and local activism on local education, namely the view that all or any resistance, diversion of funds or strategic behavior by local officials in favor of local interests entails a net loss in educational reform achievements. The county government may thwart central initiatives in the form of higher levels of funding for education, by diverting some funds, but at the same time it may also display its own activism through making distinctively local contributions to education reform outcomes from its own resources.

School Education in China: From Scarcity to Relative Abundance

School education spending in China is highly localized, with central funds accounting for less than 10% of annual in-budgetary educational expenditure until onset of reform in 2006. The bottom-heavy pattern in spending responsibilities is found in most items of public services in China. World Bank reports have estimated that about 70% of overall national spending in China took place in the subnational levels, although subnational levels shared under half of national revenue.²¹ The spending–funding gap has given rise to a range of problems generally described as the ‘unfunded mandate syndrome’: low quality of public services, proliferation of user fees, poor morale amongst the rank-and-file, and tensions between local governments and residents.

The co-existence of fiscal decentralization and political centralization has presented a paradox in the literature on China and intergovernmental relations studies.²² The key question is how to make sense of the former in the light of the latter, and vice versa. Indeed, education accentuates the paradox as the degree of decentralization there, over 90% of total educational spending being at subnational levels, has been higher than the 70% subnational share in the overall picture of total government spending. Most central funding also went to areas beyond the reach of local schools. For example, about two-thirds of the central funds had been earmarked to higher education institutions directly managed by the Ministry of Education or other central ministries. In contrast, about 60–70% of total education spending was contributed by the township and county levels, the lowest levels of the state hierarchy.²³ Many rural schools struggled to keep classes

²¹The major World Bank reports include, World Bank, *China: Managing Public Expenditures for Better Results*, Report No. 20342-CHA (Washington, DC: World Bank, 2000); World Bank, *China: National Development and Sub-National Finance—A Review of Provincial Expenditures*, Report No. 22951-CHA (2002); World Bank, *East Asia Decentralizes: Making Local Government Work* (2005). For a concise review of the budget and expenditure management reforms and their impacts, see Christine P. W. Wong, ‘Budget reform in China’, *OECD Journal of Budgeting* 7(1), (2007), pp. 33–56.

²²Concepts such as ‘fragmented authoritarianism’ and ‘decentralized authoritarianism’ highlight the contradictory features in the political system and practices and have been highly current in academic discussions on contemporary China. See Kenneth Lieberthal and David M. Lampton, *Bureaucracy, Politics and Decision-Making in Post-Mao China* (Berkeley, CA: University of California Press, 1992); Pierre F. Landry, *Decentralized Authoritarianism in China: The Communist Party’s Control over Local Elites in Post-Mao China* (Cambridge: Cambridge University Press, 2008).

²³Information on shares between sub-provincial levels is scattered and piecemeal, but anecdotal evidence from the Chinese literature similarly points to the township (before 2001) and then county (after 2001) shouldering the lion’s share of local education spending, mostly the cost of teachers’ pay in local schools. See Xiaolin Wang and Hong Mui, ‘Zhongguo yusuan tizhi yu ertong jiaoyu weisheng fuwu chouzi’ [‘Chinese budgetary system and children education and health services’], (2006), available at: http://www.unicef.org/china/zh/Budget_study_Chinese.pdf (accessed 2 April 2011); Jiabin Lin, ‘Jiakuai xibuxi diqu gonggong fuwu fazhan de zhongyaoxing yu duice jianyi’ [‘Significance and suggestions for improving public services in western China’], (2008), available at: <http://mcpr.macrochina.com.cn/u/44/archives/2008/1608> (accessed 2 April 2011).

running as cash-strapped county and township governments turned to parents and other social sources to supplement their small budgets.²⁴ Non-state funds in total education spending had thus risen to 38.7% in 2005, from 24.8% in 1995.²⁵ In theory, education had become a priority government spending, as the government was, by law, required to allocate education expenditure of no less than 4% of Gross Domestic Product from 2000.²⁶ In reality, funding continued to trail behind targets at between 2.6% and 3.6% of GDP from 2000 to 2009,²⁷ until the State Council pledged in 2010 to meet the 4% objective by 2012.²⁸ This was declared accomplished in the 2012–2013 Budget.

The bottom-heavy funding distribution means that per student spending varied with local fiscal wealth. Education inequity became an acute problem drawing sensational societal discussions, as rich and poor localities had unequal access to resources to provide for education.²⁹ Not only did inequities in resource inputs cause poor educational outputs and outcomes in the disadvantaged schools, including high pupil wastage, teacher shortage, dilapidated school premises and exorbitant fees,³⁰ but the spatial distribution of the haves/have-nots has exacerbated the political tension between the well-off Eastern Region vis-à-vis the Central and Western Regions, accentuating the infamous rural–urban divide of the Chinese population.³¹

Rural education faced a further plunge when the rural tax reform was implemented nationwide in 2002–2003. The rural tax reform started locally in the mid-1990s to alleviate the escalating peasants' burden of local taxes and fee charges. Educational fees, constituting a large share of local levies, were hit hard under the reform. As fee incomes dried up, many township and village schools had difficulty keeping their doors open.³² These developments were, to an extent, beyond the original expectations of the central government. Through an interview conducted in 2010 with sources close to the decision of rural tax reform, the authors learned that central government was indeed at the time concerned about the likely impacts of rural tax reform on rural schools. Apparently this consideration, together with other developments at the time, in particular the Asian Financial Crisis, had contributed to the deferred implementation of reform, in order to allow more time to centralize the financing of township and village schools to the county level. As it turned out, the scale of the resultant financial shortfall in rural schools exceeded expectations. Seeking a remedy, the central government had little choice other than to take up a larger responsibility for financing rural education.³³ In 2006, a new school financing

²⁴Rachel Murphy, 'Paying for education in rural China', in Vivienne Shue and Christine Wong, eds, *Paying for Progress in China: Public Finance, Human Welfare and Changing Patterns of Inequality* (London and New York: Routledge, 2007), pp. 69–95.

²⁵Constructed from data in *Zhongguo Jiaoyu Jingfei Tongzhi Nianjian* [China Educational Spending Statistical Yearbook], 1996 and 2006.

²⁶The Education Law of 1995 specifies that education fiscal spending shall reach 'a certain level' of the GDP to be specified further by the State Council. A percentage of four was specified in the Education Reform and Development Outline, released in 1993 by the State Council and Central Committee of CPC and was supposed to take effect from 2000.

²⁷Lujing Zhang, 'Jiaoyu Jingfei shinian qianzhang chao 1.6 wanyi' ['The "debt" for education fiscal spending surpassed 1600 billion yuan during past decade'], *China Economic Weekly* 9, (2011), p. 49.

²⁸Central Committee, CPC and State Council, *Guojia Zhong Changqi Jiaoyu Gaige he Fazhan Guihua Gangyao, 2010–2020* [National Education Reform and Development Outline, 2010–2020] (2010).

²⁹Linda Chelan Li and Wen Wang, 'Pursuing equity in education: conflicting views and shifting strategies', *Journal of Contemporary Asia* 44(2), (2014), pp. 279–297; Linda Chelan Li and Fangcheng Yuan, 'Zhixing chaju yu shiquan huafen de panzhun yuanze: jiaoyu gaige de zhichu fenxi' ['Implementation gap and standards of intergovernmental jurisdiction zoning—on spending of education reform'], *Zhongguo Nongcun Yanjiu* [Journal of Rural China Study] 2, (2011), pp. 98–111; Y. Du et al., *Zhongguo Yiwu Jiaoyu Caizheng Yanjiu* [Research on Compulsory Education Financing in China] (Beijing: Beijing Normal University Press, 2009).

³⁰Mun C. Tsang, 'Education and national development in China since 1949: oscillating policies and enduring dilemmas', in Chung-ming Lau and Jianfa Shen, eds, *China Review 2000* (Hong Kong: The Chinese University Press, 2000), pp. 579–618; Asian Development Bank, *People's Republic of China: Support for Reforms in Compulsory Education Financing*, Project No. 37001(TA4363) (2008).

³¹Song Liu, 'Woguo yiwu jiaoyu fazhan de chengxiang chayi fenxi' ['An analysis of the urban–rural gap in the development of compulsory education in China'], *Liaoning Jiaoyu Yanjiu* [Liaoning Education Research] 11, (2006), pp.45–49; Zanjun Xiao, 'Zhongguo yiwu jiaoyu touru de eryuanhua tezhen' ['The duality of compulsory education financing in China'], *Jiaoyu Yu Jingji* [Education and Economy] 2, (2006), pp. 43–47.

³²John James Kennedy, 'From the fee-for-tax reform to the abolition of agricultural taxes: the impact on township governments in northwest China', *The China Quarterly* 189, (2007), pp. 43–59.

³³Linda Chelan Li, 'Working for the peasants? Strategic interactions and unintended consequences in the Chinese rural tax reform', *China Journal* 57, (2007), pp. 89–106.

Table 2. FGM funding by central–local contributions (billion yuan, % share).

	2006	2007	2008	2009	2010	2011	Total
Central	15(42)	36.48(53)	57.06(55)	66.61(55)	73.18(55)	92.12(55)	340.45(54)
Local#	21.1(58)	32.3(47)	47.16(45)	55.05(45)	60.48(45)	76.14(45)	292.23(46)
Total(100)	36.1	68.78	104.22	121.66	133.66	168.26	632.68

Sources: Annual Budgetary Reports (2006–2011) submitted by the Finance Minister to the annual plenums of National People's Congress.

*2006–2010 figures are executed figures; 2011 figures are budgeted figures.

#Local funding figures (comprising funding from all subnational levels) and their shares from 2008 to 2011 are reconstructed using the 1.21 (central): 1 (local) ratio for 2006–2010 period reported in the 'Targets of the rural compulsory education FGM reform have been achieved for the eleventh five-year-plan period', (23 December 2010), available at: http://www.gov.cn/gzdt/2010-12/23/content_1771809.htm (accessed 6 May 2011). The 2008–2011 local figures (and thus the total figures for these years) are likely upper-end estimates given the rising shares of central funding during the period.

regime, the Fund Guarantee Mechanism (FGM), was put in place leading to a substantial increase in earmarked funding from central and provincial governments to rural schools.³⁴

Under the FGM, additional funding was provided from the central and provincial levels to areas of rural education which had been neglected under the pre-existing state funding system and relied heavily on levies collected from parents. Four areas of spending received this compensatory provision: the daily operation of schools; maintenance of school buildings; living expenses of resident pupils; and textbooks (Table 1).³⁵ The scheme also sought to correct the bottom-heavy orientation of the pre-existing system and, through two features in the scheme design, mitigated the uneven access to educational resources between the well-off eastern provinces and the hinterland. First, the central government foot a major portion of the bills for the above four spending categories, while the provincial governments paid the bulk of the remainder, with the result that cities, counties and townships became the main winners. Secondly, additional funding was directed to Central and Western Regions only, and not to the more affluent Eastern Region. The Western Region, considered as the worst-off region nationwide, also received a higher level of central government contributions than the Central Region.

The New Financing Regime

A total of 633 billion yuan of new funding was injected into rural school education in 21 provinces in central and western regions between 2006 and 2011 under the FGM. Figure 1 depicts the phenomenal increase; the sharp rise of the curve shows the pace by which additional funding was provided. Figure 2 puts the new funding in context—the contribution of FGM funds to total education in-budgetary funding. Echoing Figure 1, FGM funds' contribution increased from 5.7% of total in-budgetary education spending in its first year of execution in 2006 to almost 12% in 2008–2009 (diamond-linked line in Figure 2). The square-linked line which runs above the diamond-linked line measures the share of FGM funds as a proportion of the *original* in-budgetary education spending, which excludes the value of FGM funds, to extrapolate the impact of the FGM funds for the 'pre-FGM' education regime if there had not been any education funding reform. Cumulatively, the value of FGM funds from 2006 to 2010 (464.42 billion yuan) amounted to 12% of the *original* in-budgetary education spending (3,980.66 billion yuan) for the *entire country* during the period. Bearing in mind that the additional funding from FGM was spent only in the less well-off rural schools in central and western China, this traditionally cash-starved sector indeed enjoyed a rare change of fortune.

³⁴State Council Office, *Guowuyuan guan yu shenhua nongcun yiwu jiaoyu jingfei baozhang jizhi gaige de tongzhi* [A Notice of the State Council on the Deepening of the Fund Guarantee Mechanism Reform of the Rural Compulsory Education], State Council Document 43, (24 December 2005).

³⁵Ministry of Education and Ministry of Finance, *Caizhengbu jiaoyubu guanyu tiaozheng wanshan nongcun yiwu jiaoyu jingfei baozhang gaige youguan zhengce de tongzhi* [Notice on Adjusting and Improving the Reform of the Fund Guarantee Mechanism for Compulsory Education], No. 337, (26 November 2007), available at: http://www.law-lib.com/law/law_view.asp?id=228754 (accessed 23 May 2011).

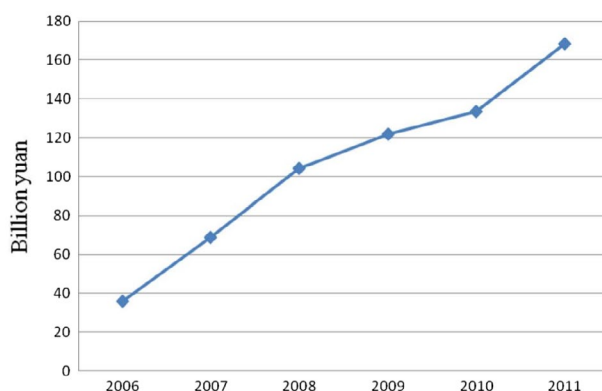


Figure 1. FGM funding: phenomenal increase, 2006–2011. Note: The 2010–2011 growth is provisional as 2011 funding figures are based on budgeted figures in the 2011 Annual Budget Report. Source: Table 2.

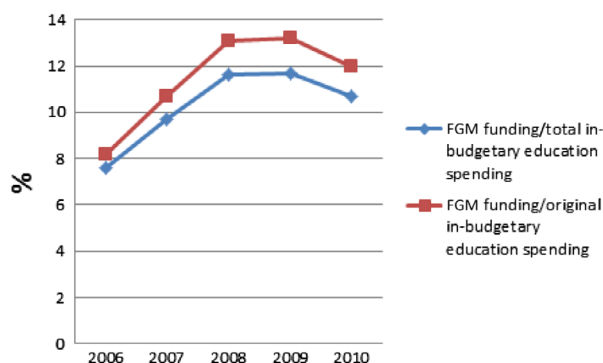


Figure 2. FGM funding as a proportion of total education in-budgetary spending. Source: Table 2; fiscal spending data from Ministry of Finance website, available at: <http://www.mof.gov.cn/> (accessed 8 May 2011).

To what extent did the FGM, as a centrally initiated measure, bring about a significant adjustment to the previous bottom-heavy funding responsibilities in education spending? The new financing regime supplements rather than replaces the pre-existing funding.³⁶ As an additional feature, does it carry sufficient weight to make a difference to the broader picture? It is important, first, to stress that FGM is not accompanied by specific policy mandates. It is a funding mechanism to improve overall primary and secondary education services, especially in rural areas, not a policy tool to direct funds to specific educational service mixes or innovations. Put simply, FGM was a 'grant-in-aid' to address a fiscal imbalance: the national policy of universal access to education, to be achieved by higher levels of public expenditure on schools, had previously relied heavily on local funding. As its name reveals, the new mechanism not only sought to mitigate the school fiscal crisis in the aftermath of the rural tax reform, but also harbored an objective of rationalizing education finance in the longer run. The broader objective can also be discerned from explicit references in two State Council documents to 'establishing a "fund guarantee" mechanism for compulsory education to secure the sustained funding of rural education'.³⁷

³⁶Linda Chelan Li and Fangcheng Yuan, 'Zouchu nongcun jiaoyu zengliang gaige de kunju' ['Getting out of the incremental trap in rural education reform'], *Zhongguo Nongcun Yanjiu* [Journal of Rural China Study] 1, (2011), pp. 189–200.

³⁷State Council Office, *Guowuyuan bangongting guanyu wanshan nongcun yiwu jiaoyu guanli tizhi de tongzhi* [A Notice of the State Council Office on Perfecting the Management System of Compulsory Rural Education], Document 28, (14 April 2002); State Council Office, *Guowuyuan guan yu jinyibu jiajiang nongcun jiaoyu gongzuo de jue ding* [A Decision of the State Council on the Strengthening of Work on Rural Education], Document 19, (17 September 2003).

On the other hand, despite the objective to help out local governments in dire fiscal conditions with their educational expenditures, funds from the central government have accounted for only 54% of the additional funding provided under the scheme. The subnational levels together (provincial, city, county) supplied over 40% (Table 2).

Table 3 presents the full picture of in-budgetary education spending, comprising the pre-existing and FGM funds, and respective central and local contributions. In particular, the notion of 'central funding' (item 3) is disaggregated into two parts—item 1 (central-own level) funds that go directly to centrally managed functions and are spent by central educational units, and item 2 (transfer grants) funds that are remitted to local coffers to finance local spending. Correspondingly, the notion of 'local (education) spending' (item 5) is disaggregated into 'local (own level) spending' (item 4) and 'transferred grants' (item 2). Given the current emphasis of analysis on the source of education funding, the composite notion of central funding (item 3) encompassing both 'central funding, own level' and 'central transfer payments', is taken as the operational definition of 'central funding' in this article. Correspondingly, for 'local (subnational) funding', the operational definition is 'local funding, own level' (item 4), which includes all education spending with funds originating from various subnational levels, rather than 'total local spending' (item 5), which include central transfer payments (item 2) spent locally. Thus, the grand total of in-budgetary education spending is either the sum of 'total central spending' (item 3) and 'local spending, own level' (item 4), or of 'central spending, own level' (item 1) and 'total local spending' (item 5). Table 4 shows the contributions of different funding sources to the growth in education spending, in terms of the rate of increase between 2006 and 2009 during the implementation of FGM.

A couple of observations from Tables 3 and 4 are worth highlighting. First, despite the continuous injection of new central funding—which increased by 229% between 2006 and 2009—total central funding (item 3) still at no time contributes more than 20% to total in-budgetary education spending nationwide. The bottom-heavy funding distribution in education prior to 2006 (when central funding used to account for less than 10% of total spending) was alleviated, but far from overhauled.

Secondly, local funding in education, in absolute terms, increased substantially despite a drop in relative share as central funding soared. The share of local funding (item 4) in total in-budgetary education spending declined from around 90% during 2000–2005 to just above 80% in 2009. At the same time, the value of local funding witnessed a 103% growth from 2006 to 2009 (Table 4). Indeed the 103% growth in local (own level) funding (item 4) is only slightly lower than the 120% growth in total local education spending (item 5), which includes central transfer funds to local education. This strongly suggests that local own funds have contributed almost as much to the growth in local education spending as have the more publicized central transfer funds subsequent to the introduction of the FGM.

Flexible implementation in Nian County

County-level analysis is important since the FGM was designed to ameliorate funding deficits in *rural* schools, which are all situated in the county or below (townships and villages). What took place at these grassroots levels under the new scheme? How did the county officials and other local stakeholders respond to an influx of additional resources? Again, it is to be stressed that the new funding was not directed at influencing specific educational programs and that county officials retained broadly the same levels of discretion over provision and management of educational services as before. The analysis does not seek to observe direct impacts on service mix or outcomes, but on how officials responded to increased funding in terms of overall education spending relative to other local needs and interests.

Henan Province, a populous province with over 15 million school pupils, 10% of the total pupil population in the country, has traditionally been a major player in education nationally. In 2007, FGM

Table 3. Central and local in-budgetary education spending: own level, transfers, FGM (billion yuan, % share).

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1 Central-own level	14.05(8)	17.241(7.81)	21.025(7.95)	24.02(8.18)	21.964(6.52)	24.485(6.16)	29.523(6.2)	39.526(5.55)	49.163(5.46)	56.762(5.44)
2 Transferred grants	3.122(1.73)	4.059(1.84)	4.075(1.54)	4.822(1.64)	11.201(3.33)	13.953(3.51)	31.077(7.4)	68.109(9.55)	111.208(12.34)	141.377(13.56)
2.1 FGM funding	N/A	N/A	N/A	N/A	N/A	N/A	15(3.6)	36.48(5.1)	57.06(6.3)	66.61(6.38)
2.2 Non FGM	3.122(1.73)	4.059(1.84)	4.075(1.54)	4.822(1.64)	11.201(3.33)	13.953(3.51)	16.077(3.8)	31.629(4.45)	54.148(6.04)	74.767(7.18)
3 Total central spending	17.172(9.73)	21.3(9.65)	25.1(9.49)	28.842(9.82)	33.165(9.85)	38.438(9.67)	60.606(12.7)	107.635(15.1)	160.371(17.8)	198.139(19)
4 Local-own level	159.292(90.27)	199.513(90.35)	239.398(90.51)	264.892(90.18)	303.429(90.15)	359.045(90.33)	417.441(87.3)	604.597(84.9)	740.65(82.2)	845.615(81)
5 Total local spending	162.414(92)	203.572(92.19)	243.473(92.05)	269.714(91.82)	314.63(93.48)	372.998(93.84)	448.518(93.8)	672.706(94.45)	851.858(94.54)	986.992(94.56)
6 Grand total (3+4, or 1+5)	176.464(100)	220.813(100)	264.498(100)	293.734(100)	336.594(100)	397.483(100)	478.041(100)	712.232(100)	901.021(100)	1043.754(100)

Sources: Constructed from Table 2 and information on education spending from Ministry of Finance website.

Table 4. Increase in funding by funding sources since FGM, 2009 over 2006 (%).

Item	1	2	2.1	2.2	3	4	5	6
Funding source	Central-own level	Transferred grants	FGM funding	Non-FGM funding	Total central spending	Local-own level	Total local spending	Grand total
Increase %	92	355	344	365	229	103	120	118

Source: Calculated from Table 3.

Table 5. Education spending, fiscal expenditure and fiscal dependence rate in Henan, 2005–2009 (billion yuan, %).

		2004	2005	2006	2007	2008	2009
1	Total fiscal expenditure	88.0	111.6	144.0	187.1	228.2	290.5
2	Central transfer payments	45.1	57.8	76.1	100.9	127.3	177.9
3	Fiscal dependence (%)	51.3	51.8	52.8	53.9	55.8	61.2
4	Total education spending	15.3	18.7	23.3	36.6	44.4	52.6
5	Education spending as share of total fiscal expenditure (%)	17.4	16.8	16.2	19.6	19.5	18.1

Source: *Henan Provincial Statistical Yearbook*, various years.

Table 6. Total fiscal expenditure and education spending in Nian County (million yuan).

	2004	2005	2006	2007	2008	2009	2010
Total fiscal expenditure(growth rate %)	380	420(11.1)	580(38.9)	840(44.5)	1080(28.5)	1405(30.1)	1669(18.8)
Incoming transfers(fiscal dependence %)	280(74)	330(79.5)	480(83)	720(85.7)	940(86.8)	1245(88.6)	1484(88.9)
Education spending(growth rate %)	120	140(18.3)	180(25.4)	260(46.6)	360(37.9)	383(6.4)	440(14.9)
% share of education in total expenditure	31.8	33.9	30.6	31	33.3	27.2	26.4

Source: Constructed with information from Nian County education and fiscal bureaus.

funding in the province was about 4.4 billion yuan, of which 2.3 billion yuan (52%) came from the central government and 2.1 billion yuan (48%) from provincial and sub-provincial levels.³⁸ The FGM funds soared to over 12 billion yuan in 2009.³⁹ Mirroring this increase, total education spending in Henan Province tripled between 2004 and 2009 (Table 5). The overall fiscal dependence rate of the province, which measures the proportion of provincial expenditure financed by central transfer payments, steadily increased from 51% in 2004 to 61% in 2009.⁴⁰

Nian County exhibits characteristics fairly commonplace in the rural hinterland of China: agriculture being the mainstay but industry and service sectors were premised in local economic strategy as part of the larger national trends. With a total population of about a million, rural resident total income per capita was 2,300 yuan in 2005, substantially lower than the provincial average of 2,800 yuan and the national average of 3,200 yuan. It has relied on incoming funds from upper-level governments to finance its local spending. The fiscal dependence rate rose further to 89% in 2010 from 80% in 2005. Education topped the spending list and consistently accounted for one-third of total government spending until 2009.⁴¹ Execution of FGM in 2007 led to a 47% leap in education spending, which was followed by

³⁸These are planned figures from Provincial Finance Bureau of Henan released in February 2007 and may deviate from actual executed figures [see http://big5.gov.cn/gate/big5/www.gov.cn/jrzg/2007-02/25/content_533786.htm (accessed 4 September 2010)].

³⁹The 2009 figure (executed) is calculated from the 'Henan Provincial Budget Report of 2010 and execution of the 2009 budget', submitted to the Henan Provincial People's Congress on 25 January 2010 (see http://www.mof.gov.cn/zhuantihuigu/10nianshuanbaogao/yusuanbaogaohuibian10/201003/t20100305_274511.html). A number of FGM spending components are listed.

⁴⁰'Fiscal dependence' refers to the ratio of local and central funding sources in the overall mix. The concept is independent of other measures of dependence and autonomy, such as policy autonomy. Fiscal dependence may be one element underlying policy autonomy, but other factors are clearly also relevant.

⁴¹Education's position as the top spending sector is a common phenomenon for many county governments in inland provinces, as teachers often account for the bulk of the state payroll in the county budget. In Nian County, serving teachers accounted for more than half of the serving personnel on the state payroll. Authors' interview, 2011.

Table 7. Education funding in Nian County by sources (million yuan, % share).

	Total	Central-in- budgetary(1)	Provincial-in- budgetary(2)	City-in- budgetary(3)	County-in- budgetary(4)	Donation/ investment(5)	School- related fees (6)
2004	150.5	134.3(89.2)		2.7(1.8)		13.5(9)	
2005	169.4	157(92.7)		0.4(0.2)		12(7.1)	
2006	199.3	188.1(94.4)		0.2(0.1)		11(5.5)	
2007	275.6	162.3(58.9)	49.5(18)	39(14.2)	15.1(5.5)	0.7(0.3)	9(3.1)
2008	382.5	259.9(67.9)	61.2(16)	44.5(11.6)	16.3(4.3)	0.6(0.2)	0
2009	397.5	264.6(66.6)	58.9(14.8)	58.9(14.8)	14.8(3.7)	0.4(0.1)	0

Source: Constructed with information from County Nian education and fiscal bureaus.

another 38% rise in 2008. In 2009 and 2010, the already expanded spending base grew by another 6% and 15%, respectively (Table 6). However, the share of education spending in total expenditure has also fallen from its peak of 33% in 2005 and 2008 to 26–27% in 2009–2010. This suggests that other areas of government expenditure also benefited, as did education, from the increased inflow of central transfer payments.

Table 7 gives information as to the types of funds going into the education budget. First, dominating the scene—over 90% of the total—were in-budgetary funds (items 1–4). School-related fees were abolished in 2008. A tiny portion of education funding has come from social donation and investment over the years, but except for the year 2004 has not exceeded 0.5%. Secondly, central funds (item 1) account for the largest share, reaching two-thirds by 2008–2009, followed by funding from provincial (item 2), city (item 3) and county (item 4) levels in that order. Following implementation of FGM in Nian County in 2007, the value of central–provincial–city funds in education increased 52.5% by 2009; as a result, the reliance of county education on upper-level funds rose further from 91.1% in 2007 to 96.2% in 2009.

A closer look at Tables 6 and 7 finds that the total education spending figures in Table 6 (row 3) are consistently smaller than the funding figures in Table 7 (column 1). Table 6 employs education spending statistics, while Table 7 disaggregates education spending by their funding sources. In theory, the sums should match, so that all funds allocated for education are spent in education, and education spending does not employ resources other than from the specified sources. The authenticity of the figures was checked with informed Nian fiscal officials to verify that the differences were not a technical phenomenon due to, say, differences in accounting and calculations between the education and fiscal bureaus. Rather, the discrepancies were an indication of *diversion of funds away* from education to other uses in the county. County education officials complained during interviews, in coded language, that funds had been diverted from education to other uses in the county by county leaders, and that ideally, they would want to keep more of the funds in the education sector. As shown in Table 8, the difference between education funds and education spending dropped from 20.3% in 2004 to only 3.6% in 2009. The ‘surplus’ (funding in excess of spending) is smaller both in absolute and in relative terms *after* FGM was implemented in 2007. In 2007–2009, total cumulative surplus is 52.6 million yuan, or 5% of education spending value, as compared to 79.2 million yuan and 15.2% in 2004–2006. Given the increased opportunities for diversion, ‘shirking’ theorists would expect that the enlarged pool of educational funding as a result of inflow of FGM funds after 2007 would result in a larger diversion of funds away from education, but data available suggest that while the diversion continued, its scale in fact declined.

Discussion: Local Leaders as Responsible Leaders?

How should one interpret the *meaning* of acts of under-spending and fund diversion? To what extent are these acts of ‘irresponsibility’, with valuable resources earmarked for schools and pupils wasted in non-productive consumption or personal extravagance; or are the funds under-spent or diverted for reasons to do with local community needs and the priorities of the county leaders—that is maximizing ‘public value’ as much as personal gain? First, it is clear that the analysis of fiscal flows cannot give the

Table 8. Gap between education spending and funding, Nian County (million yuan).

	2004	2005	2006	2007	2008	2009
Education spending	120.0	140.0	180.0	260.0	360.0	383.0
Education funding	150.5	169.4	199.3	275.6	382.5	397.5
Gap(%)	30.5(20.3)	29.4(17.4)	19.3(9.7)	15.6(5.7)	22.5(5.9)	14.5(3.6)

Source: Tables 6 and 7.

full answer because, given the fungibility and substitutability of fiscal resources, flows can conceal as much as they reveal about intentions. But equally, the stated claims or actors' rationalizations are no more reliable, unless corroborated by external evidence. This article's assessment on this question, based on analysis of both sorts of data, is that Nian's local officials, not untypically, had 'mixed motives'—they acted in some situations as calculative maximizers of resource inflows and in others as serious executors of the county's assigned role as the administrator and planner of local education. Indeed, these two role perceptions were by no means necessarily in conflict.

At this juncture, it is worth recapping some basic findings of the foregoing analysis. First, the various local levels (provincial, city and county) have contributed more than 40% of the total new funds provided to local education under the new school finance reform, a handsome figure bearing in mind the original objective of the reform—to lend fiscal assistance to supplement the local shortfalls in education resources. Secondly, county officials in Nian displayed active agency in their day-to-day management of both local and central education funds. The FGM is designed to provide additional fiscal resources from central and provincial levels to finance local education, the planning and management of which remains a county responsibility. Education is a county priority in China because, as elsewhere, there are bottom-up pressures for good education. The tacit pressure from society, despite the lack of institutionalized downward accountability mechanisms in an authoritarian state, has led upper levels to use admission rates (to universities and senior high schools) as one of the benchmarks to assess the quality of county education and the performance of its leaders.⁴² County officials are thus under the dual pressure to seek improvements in education, both from upper levels and also from the local community in which they live and interact on a day-to-day basis.

A range of education initiatives were taken after 2006 in Nian County which went well *beyond* the categories of education spending supported by FGM (Table 9). Nian's poor admission rate into universities (the lowest amongst all counties in the same city in 2006) drew the attention of the new County Secretary soon after he took office in May 2006.⁴³

I arrived here in May (2006). In June I noticed our university admission rates were appallingly low. A year ago we were the eighth out of ten amongst the counties/districts in the city. This year we became the last—or the first from bottom up! Education was in a mess! I decided to fix it. First we merged the three high schools into two. The weakest school—and students—had little hope of getting good examination results (and into universities) any way. Then, we gather, we'd need better teachers and principals to teach and run the remaining schools. We did it through open recruitment. We ended up with new, strengthened teams, including a new principal who joined us from another, better performing, locality, and additional senior teachers. I then turned to the Education Bureau. The former director was inefficient and there was infighting amongst the leading cadres. After the personnel shake-up, we have much more capable and unified leaderships in the schools and the bureau.⁴⁴

⁴²Since the 1990s, the 'cadre responsibility' system has been instituted to tighten up upward accountability of local officials, and various 'veto items' proliferated to ensure compliance of priority tasks, such as family planning, peasants' burden reduction, industrial production, law and order, petition, and collective protests [see <http://www.infzm.com/content/54591> (accessed 12 March 2014)]. See Maria Heimer, 'Remaking the Communist party-state: the cadre responsibility at the local level in China', *China: An International Journal* 1(1), (2003), pp. 1–15; Maria Heimer, 'State capacity and local agent control in China: CCP cadre management from a township perspective', *The China Quarterly* 173, (2003), pp. 35–52.

⁴³Education was the second batch of priority county work. The first batch of work include measures to mitigate four longstanding problems: (1) slack work culture amongst cadres (high absenteeism; alcoholism; low morale and efficiency); (2) urban construction irregularities (serious irregularities in land sales and construction projects; poor urban planning causing wastage of land); (3) public protests; and (4) external investment (failing enterprises, weak economy).

⁴⁴Interview, 2009.

Table 9. Education initiatives in Nian County, 2006–2009.

Initiatives	Direct cost (Mn yuan)
<i>Teacher recruitment</i>	
Recruit 1,500 new teachers, including 130 specialist teachers and 260 temporary teachers over 2006–2009 to improve teacher–student ratio and enhance education quality	34.78
<i>Performance pay and incentives for excellent teachers</i>	
Additional allowances of RMB 200/400+ per month per teacher (in post/retired) since 2008, ahead of central policy starting 2009; total local funding RMB 11.82 million. Forty awards for excellent teachers per year with high profile accreditation and material incentives from RMB 5,000 to 20,000 each. RMB 420,000 for 2006–2009	12.24
<i>Teacher training and management</i>	
Rationalize teacher allocation across schools and between urban and rural schools to enhance equity and efficiency	n/a
Introduce ‘ladder management’ approach to schools and teachers: different standards and benchmarks to suit different baselines, with associated incentives and penalties to raise standards and improve performance	
Collaborate with universities to provide training opportunities for teachers	
<i>Scholarships and assistance to pupils and teachers with merit or in need</i>	1.6
<i>Cadre management and new leading personnel</i>	
Tighten up cadre discipline at education bureau and schools, replace leading personnel in education bureau and major schools to improve efficiency and boost morale	n/a
<i>Vocational training</i>	
For unemployed or laid-off workers and migrant workers, costs and stipends	15.99
<i>Outsourcing logistics</i>	
Bringing in new players from the market to improve efficiency	n/a
Total	64.61

Subsequently, a stream of initiatives, including improving teachers’ pay and training, strengthening of school leadership teams, and streamlining resource distribution across schools, were taken to improve local school education, achieve better public examination results and increase admission to university places, which cost an estimated 65 million yuan for 2006–2009. A 2007–2009 reconstruction program of dilapidated school buildings had over 48,000 square meters of school building renovated, and 90,000 square meters of new building area added, which were about 6.4% of total school building area in the county in 2006.⁴⁵ These expenditure items were beyond those identified by the central government through the FGM mechanism. One local education official so described the status of education spending in the local context in an interview in 2009:

Education has become the focus of much attention these days. Parents are concerned about the practical benefits education can bring to their children; pressure has thus been on admission to universities and high school public examination scores. Governments and officials care about education because achievements, or failures, in the education arena are seen to reflect their work more generally, especially to the locals ... With the new FGM and additional funding from the upper levels, our schools’ business is now run more or less smoothly. Needs for support of pupils from disadvantaged families have been much better met. Students no longer have to quit school because their parents could not pay fees—basic education is now free. But education is, still, far from reaching a self-sustaining level of development. There are ‘tons’ of shortfalls to meet, in infrastructure, facilities, teachers, management, and so on. In a word, the baseline is still very low and the ‘historical debt’ is thick and deep. While we are now working at some of these, and have seen various obvious improvements, there is, however, still a long way to go.

On the one hand, the county government had diverted some FGM funds from upper levels to non-educational spending; but it also expended efforts, at its own discretion, from rationalizing management to fine-tuning resource allocation, with a view to improving the performance of its education sector. To reconcile the ‘gap’ in Table 8 and the local education initiatives outlined in Table 9, one interpretation is that Nian’s officials preferred to spend on education projects of their own choosing rather than on items imposed by the central government; and in doing so they were making extra local effort, not less. As well, this was a matter of expressing local priorities. At the local level, there were strong views about local education needs, which might not align with central priorities:

⁴⁵Information from interview, 2009.

Now (with the FGM in place) the day-to-day operation of the education sector is largely guaranteed. For example, we have since September 2010 raised again the spending standards per student. However, given the limited county budget, we don't have a lot of additional capacity to raise the spending baseline substantially ... A long history of under-spending (relative to needs) means that education infrastructural facilities are generally poor. We have a large stock of substandard, dilapidated school premises; educational equipment (laboratories, libraries) is of poor quality or some equipment is simply not available; sports facilities are substandard, and so on. The new monies under FGM are largely earmarked for school daily operation, not infrastructure, and thus cannot help much.⁴⁶

Conclusion

Traditional principal-agent analysis begins from the assumption that actors are self-interested maximizers and goes on to argue that shirking and rent-seeking are endemic dilemmas of monitoring and control by principals. Applied to central-local relations, local officials from this point of view are presumed to be self-serving at best and corrupt at worst when it is observed that central funds are diverted or central mandates are ignored and evaded. Viewed from perspectives of responsible agency and local stewardship, an entirely different interpretation of the same phenomena becomes available and, in the authors' view, more plausible, namely that diversion of funds and 'bending' of central mandates is a response to local needs by local officials aware of the demands and challenges of local education. They shared with central government a set of broad objectives about improving educational outcomes. But they also had local knowledge and local priorities based on this knowledge. At a time of relative resource abundance under the FGM, county officials have sometimes diverted upper-level funds to areas of spending other than those originally prescribed, including non-educational uses. At other times, the county allocated own source funds to uses that local officials perceived as more in need. There were also strategic behaviors designed to 'play' with rules for desired benefits, for instance the delayed abolition of local school-related fees, and lobbying the upper-levels to enlarge the size of inward transfer payments. Different shades of behavior constitute the full range of adaptation of local officials, as responsible agents co-working with other agents, to a complex operating context.

A generic and core challenge to local governments, in and out of China, is to balance the multiplicity of societal needs and priorities with the functional division of public administration. Important as education is as a policy, other priorities also similarly require funding. Historically a top spending item in the county budget, education was prey to fund diversion, especially when cash was tight generally. While diversion of funds from their specified uses indicated non-compliance with central regulations, local initiatives on improving education and the active agency therein placed in doubt the traditional interpretation of the *implication* of such acts of non-compliance.

The analysis in this article suggests that while there might be issues of inefficiency or pockets of corruption, the Nian leaders' behavior reflected characteristics of an active agent, demonstrating their accountability as leaders within their own local environment and responding to local demands for better services and education. As Zhou concludes, the many responsibilities of a county government together with a meager local budget often necessitate bona fide flexibility in local implementation.⁴⁷ In the central-local funding game, more careful observation is necessary in interpreting acts of avoidance, diversion and evasion. These should not be equated with self-seeking shirking or rent-seeking on their first appearance, as they might be as likely, where the evidence supports it, acts of co-principals in a framework of 'co-agency'.⁴⁸ There is more to read from an observation of departure between central prescriptions and local actions than an act of non-compliance, much less to equate incidences of non-compliance with predatory actions.

⁴⁶Interview, 2011.

⁴⁷Zhou, 'The institutional logic of collusion among local governments in China', p. 74.

⁴⁸Linda Chelan Li, 'Central-local relations', in Chris Ogden, ed., *Handbook of China's Governance and Domestic Politics* (London and New York: Routledge, 2012), pp. 143–152.

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