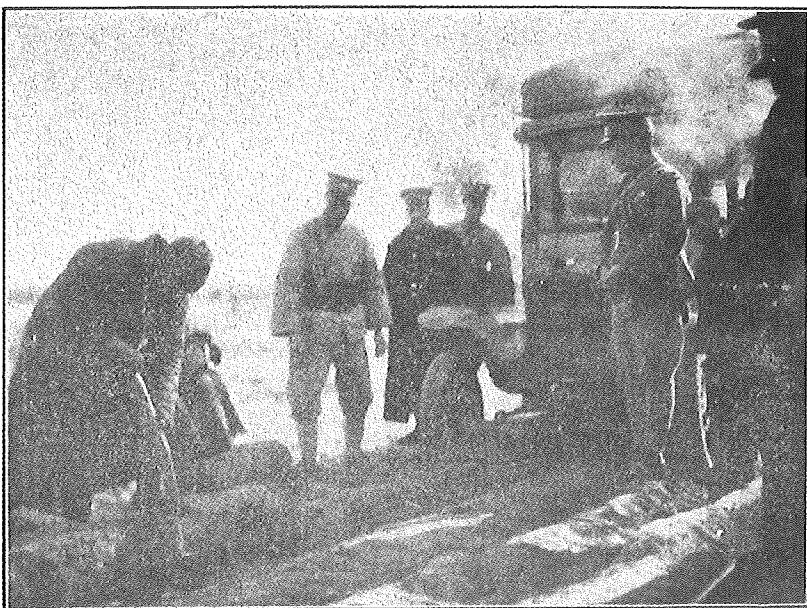


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Hebei Minister of Civil Affairs Sun Huanlun stuck in the mud in Wuqing county during a 1929 trip to investigate conditions in the province. Source: Sun Huanlun, *Chu xun ji shi* (Inspection tour report) (n.p., 1929), p. 358.

Building Local States China During the Republican and Post-Mao Eras

Elizabeth J. Remick

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To my parents
Helen and Jack Remick

generous than they had to be, especially since as a graduate student I had nothing to offer in return. I will never forget the hot pepper-eating contests we shared, the adventurous Cantonese cuisine, and most particularly the kindness of two recently retired cadres who took me to the hospital and fed me Chinese herbal medicine when my temperature hit a delirious 104 degrees F. It was truly above and beyond the call of duty.

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E.J.R.

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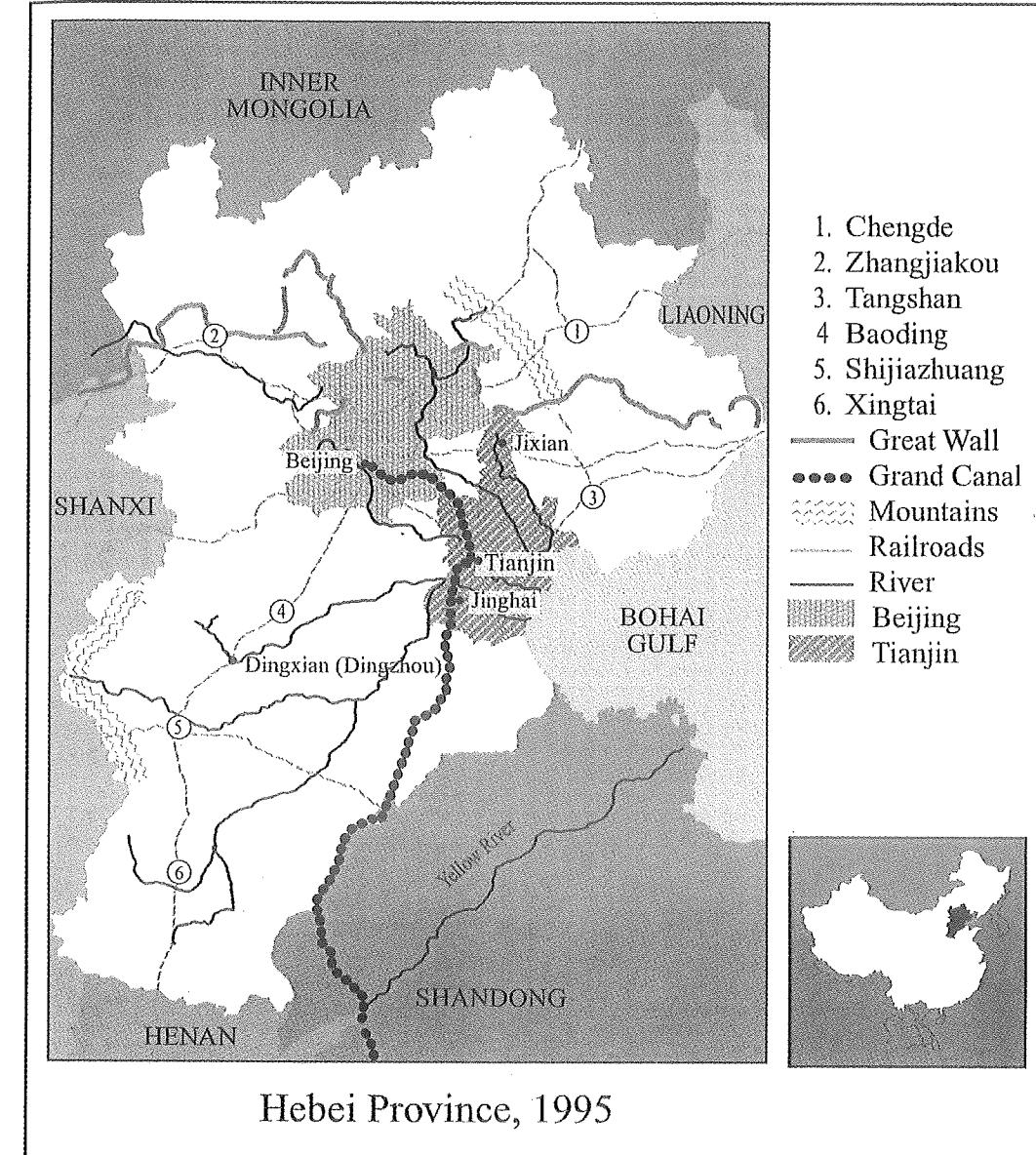
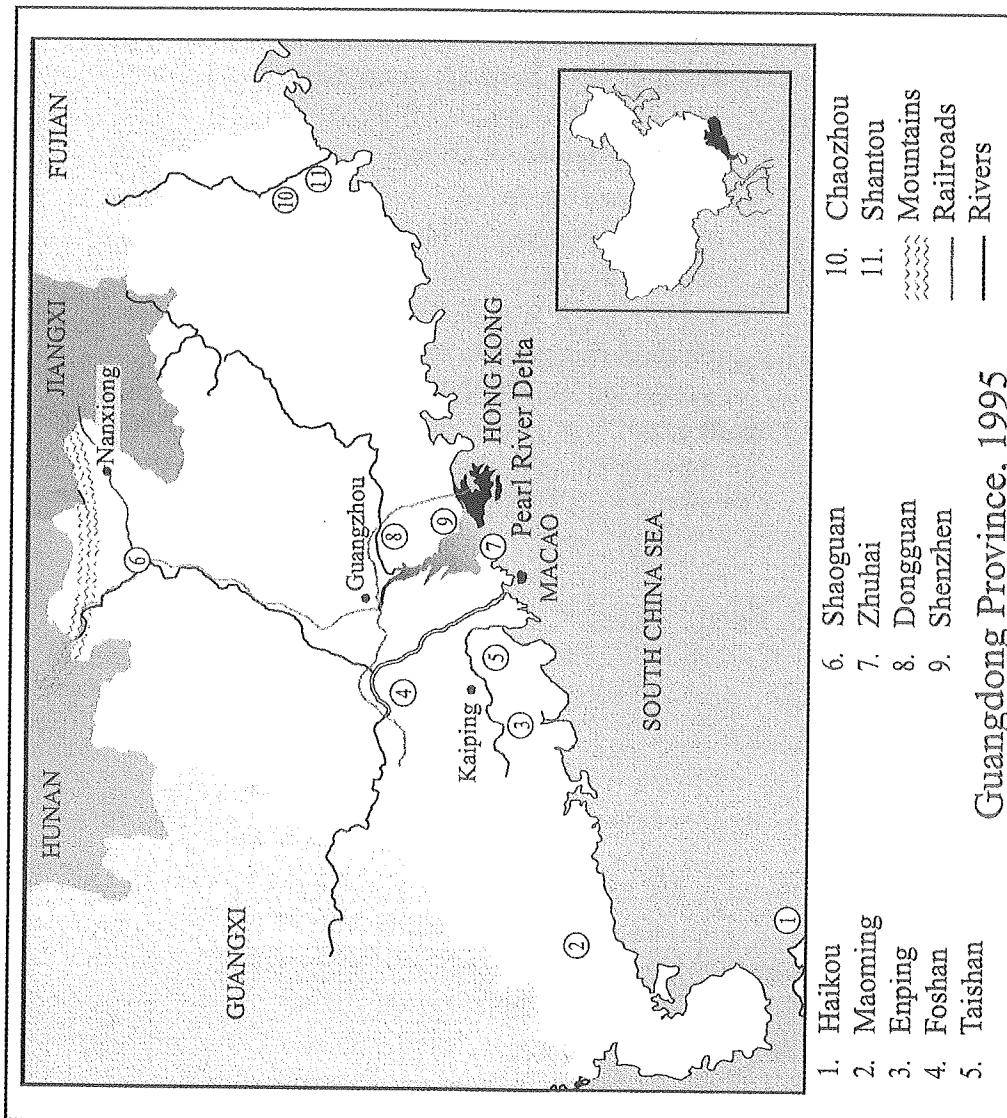
Abbreviations

Interviews are cited in this book by an abbreviated format that indicates the location and the bureau in which they were conducted. NX refers to Nanxiong county, KP to Kaiping, JH to Jinghai, and JX to Jixian. TX refers to Tax Bureau, FN to Finance Bureau, and GZ to Gazetteer Office. For example, “NX-TX-or” is the first interview conducted in the Nanxiong County Tax Bureau. A complete list of the interviews and interviewees is available from the author upon request.

CCP	Chinese Communist Party
CPHGD	Cartographic Publishing House of Guangdong Province
DDZCB	Dangdai Zhongguo congshu bianjibu (Contemporary China Series Editorial Department)
DDZCBW	Dangdai Zhongguo congshu bianji weiyuanhui (Contemporary China Series Editorial Committee)
FY	Fiscal year
GCDT	Guangdong caizhengting, Disike tongjigu (Guangdong Public Finance Department, Number 4 Statistics Section)
GCM	Guangdong caizhengting, Mishuchu (Guangdong Public Finance Department, Secretariat)
GCTC	Guangdong caizhengting, Tianmu chenbaочu (Guangdong Public Finance Department, Land Reporting Office)

GCTG	Guangdong caizheng tepaiyuan gongshu and Guangdong sheng zhengfu, Caizhengting (Guangdong Public Finance Special Agent Office and Guangdong Provincial Government, Public Finance Department)
GM	Guangdong minzhengting (Guangdong Civil Affairs Department)
GMD	Guomindang, Nationalist Party
GNBW	<i>Guangdong nianjian bianzuan weiyuanhui</i> (<i>Guangdong Yearbook Editing and Compiling Committee</i>)
GST	Guangdong sheng tongjiu (Guangdong Province Statistics Bureau)
GSZM	Guangdong sheng zhengfu, Mishuchu (Guangdong Provincial Government, Secretariat)
GZNT	Guangdong sheng zhengfu, Nonggongting, Tongjike (Guangdong Provincial Government, Agriculture and Industry Department, Statistics Section)
HM	Hebeisheng minzhengting (Hebei Province Civil Affairs Department)
HZM	Hebeisheng zhengfu, Mishuchu (Hebei Provincial Government, Secretariat)
IPSR	Institute of Political and Social Reconstruction
JFZK	<i>Jinghai jingji fazhan zhanlüe ketizu</i> (<i>Jinghai Economic Development Strategy Discussion Group</i>)
JXD	Jinghai xianqing diaochazu (Investigation Group into Jinghai's Current Situation)
JZBW	<i>Jixian zhi bianxiu weiyuanhui</i> (<i>Jixian Gazetteer Editorial Committee</i>)
KXGZB	<i>Kaiping xian gongan zhi bianxiezhu</i> (<i>Kaiping County Public Security Gazetteer Editorial Group</i>)
KXJZBB	<i>Kaiping xian jiadong zhi bianxie bangongshi</i> (<i>Kaiping County Transportation Gazetteer Editorial Office</i>)
KXSZBX	<i>Kaiping xian shuiwu zhi bianxie xiaozu</i> (<i>Kaiping County Tax Gazetteer Editorial Small Group</i>)
MEM	Mass Education Movement

NCZBLX	<i>Nanxiong caishui zhi bianzuan lingdao xiaozu</i> (<i>Nanxiong Public Finance and Tax Gazetteer Editing and Compiling Leadership Small Group</i>)
NXDZBW	<i>Nanxiong xian difang zhi bianzuan weiyuanhui</i> (<i>Nanxiong County Local Gazetteer Editing and Compiling Committee</i>)
PRC	People's Republic of China
SOE	state-owned enterprise
TDBW	<i>Tianjin shi difangzhi bianxiu weiyuanhui</i> (<i>Tianjin Municipality Local Gazetteer Editorial Committee</i>)
TJNB	<i>Tianjin jingji nianjian bianjibu</i> (<i>Tianjin Economic Yearbook Editorial Department</i>)
TSTJ	Tianjin shi tongjiu (Tianjin Municipality Statistical Bureau)
ZDC	Zhongguo ditu chubanshe (China Cartographic Press)



Building Local States
*China During the Republican
and Post-Mao Eras*

CHAPTER I

A Theory of the Local State

In 1992, during tax propaganda week, county tax officials in Tianjin paraded nine tax-evasive entrepreneurs in front of an audience of a thousand and publicly humiliated them before hauling them off to jail. To reach a wider audience and discourage others from cheating, the meeting was broadcast on county television. The Tianjin tax officials offered this as an example of their methods when I asked them about their tactics for stopping tax evasion. “Democratic assessment small groups” (民主评议小组 *minzhu pingyi xiaozu*) were another favored means. Every quarter, they explained, the tax bureau would call a meeting of small entrepreneurs—for example, all the hairdressers in a particular neighborhood—to examine one another’s tax returns to catch cheaters. Since they were competitors, the officials reasoned, they could be counted on to expose malefactors.

I assumed that the mass meetings and criticism sessions, as unexpectedly Maoist as they seemed, were standard procedure and expected to find the same practices in Guangdong when I went to my next research site in Nanxiong county. After all, I would be visiting the same level of government, and the officials there worked in the same tax ministry and used the same tax codes as in Tianjin. What I found in Guangdong, though, took me by surprise. When I asked a roomful of tax officials how they organized *their* democratic assessment small groups and how they structured *their* mass meetings, they looked at me as if I had lost my mind. After an uncomfortable silence, the prefectural tax bureau director who had accompanied me to the county interceded. A Tianjin native who visited home regularly, he had kept in touch with practices there and explained to the others what I meant. They were horrified. Asking people to turn one an-

other in? Mass struggle sessions? No one in Guangdong would stand for it. It sounded far too much like the Cultural Revolution. It was up to the tax bureau, not anonymous accusers, to find tax evaders. The people in Tianjin must be crazy. In Guangdong, they explained, they would never use mass denunciation sessions. The most they might do would be to organize small-group study sessions to discuss one or two tax-evasion cases.

This experience illustrates how varied local government practices can be despite all the unifying efforts of the central state. Not only did the officials in Guangdong not follow the same practices as their counterparts in Tianjin, they could not imagine doing so. What accounts for such differences in the implementation of state policy? How can we explain the differences in organization of state institutions in different localities even though both are members of the same rigid and rule-bound bureaucracy? Have these variations changed over time? As this book hopes to show, the answer to these questions lies in the process of local state building; in the two cases examined here, local state building led to variations in the local state.

This book examines two periods of Chinese history that have commonly been viewed as periods of state disintegration or retreat. And they were—at the central level. When re-examined at the local level, however, both are revealed to be periods of state building. In both the Nanjing decade of Guomindang (GMD) rule (1927–37) and the early post-Mao reform era (1980–92), both national and local factors shaped local state building and created variation in local state structure and practice. This book focuses on one key area of the state, taxation and public finance, to trace out the processes of local state building in these periods.

Interpreting 1927–37 and 1980–92

Since the mid-1980s scholars have challenged the idea that the Nanjing decade was a period of state disintegration and argued that the period exhibited patterns of increasing political activism, bureaucratization, and state activity (Kuhn 1986 and 1979; Schoppa 1982; Duara 1988). In contrast, earlier interpreters of the period tended to characterize it as irremediably chaotic or as a failure of national integration (Sheridan 1975). The study of European state formation should have alerted us to the idea that disorder might not be inimical to state building; after all,

similar periods of warfare and chaos produced European national states. The data presented in this study show that local-level tax and finance institutions developed in Republican-era China under just such circumstances.

Less often recognized is that the early post-Mao reform era was also a period of local state building. This idea contradicts the interpretations of those who have emphasized, in one way or another, the retreat or failure of the central state during the reform years. Many American newspapers, Chinese officials, hopeful international capitalists, and scholars have championed this interpretation. Some argue that an economically “liberalizing” state must be disengaging itself from the economy and from social control in general (Howell 1993; Unger 1989). A related view is that the changes in local government in the 1980s and 1990s are symptoms of a central collapse (D. Goodman and Segal 1994) or of increasing lawlessness among corrupt local officials (Wedeman 1997). However, others argue that the state is in fact extending its reach and growing in size (Shue 1988, 1994) or that state leaders never intended to reduce state controls over the economy. Dorothy Solinger (1993), for example, contends that the market reforms were most decidedly statist and meant to increase state power and revenues and that the use of the tools of a centrally planned economy in implementing the reforms resulted in a fusion of planned and market economy (see also Shirk 1993). It is clear that the central Chinese state has extricated itself from many of its pre-reform micro-management functions. It is also evident, however, that in other ways the state has transformed itself and grown in new areas, in effect changing shape without losing much of its mass.¹ Although the central government may have devolved or lost some of its powers, local governments have picked many of them up. On their own initiative, they have also taken on new functions that were not directly delegated to them by the center. This book illustrates in detail the growth in the functions, reach, and organizational complexity of local states, particularly county, tax, and public finance institutions, and makes the case that this constituted state building in both the Nanjing decade and the post-Mao period.

It is not the purpose of the comparison to suggest that the events of the first period directly affected the events of the second period. The only, rather indirect, links connecting the two periods are local cadres’ historical memory and their limited reference to historical prece-

dents. In the counties I visited, there was little direct institutional linkage between Republican and post-Mao tax and public finance administrations; the Mao-era government completely remade Republican institutions. Nevertheless, officials did know the history of their locality and looked to the pre-1949 period for negative examples of tax and public finance administration. To help create that historical memory, each county tax bureau was instructed to compile a history of its predecessors for the county gazetteer. One bureau even maintained a small museum devoted to county tax history. One of my interviewees had, in 1992, just retired from the tax bureau after working there since 1948. Because of his stories, and because of the official line about taxation in the Republic, his colleagues agreed that rapacious tax collection contributed to the anger that brought about the revolution. This particular interpretation gave them a long list of practices to avoid. For instance, *tankuan* 推款 (a tax levied on a whole village) was a politically loaded term, as was tax farming. Because of this history, these options for solving tax administration problems were denied to contemporary tax officials.

Still, as will become evident, similar practices arose in the two periods, and it is worth considering whether current practices are somehow legacies of the earlier period. For example, we might ask whether the current proliferation of local exactions and fees derives from a similar proliferation during the Republic. They are not, in fact, causally related; that problem and other examples of isomorphism are instead similar reactions to comparable structural conditions in both eras.² Officials in both periods faced a huge, disorderly market economy, local governments did not have the power to determine their own tax policies and rates, and higher levels of government cut them off from the most lucrative sources of revenue. It is hardly surprising that they reacted in similar ways as they tried to pursue state-building goals.

The Local State

The local state in China has been the subject of much scholarship in the past generation.³ As local states have become more independent with the decentralization of certain functions in the post-Mao era, the importance of localities has become increasingly clear. Although some

scholars refer to them as “local governments,” I and other writers prefer the term “local states” because this emphasizes their “state-ness.” What is a state in general and a local state in particular?

As I use the term, the state is purely an organization, not an idea as in Hegelian conceptions. In Charles Tilly’s words, states are “coercion-wielding organizations that are distinct from households and kinship groups and exercise clear priority in some respects over all other organizations within substantial territories” (Tilly 1990: 1). Although their functions have changed over time, since the nineteenth century, all states have generally conducted foreign relations and fought wars, administered justice, kept domestic order, provided social services, regulated the economy, and extracted revenue in order to do all those things. They are made up of discrete parts, functional (for instance, ministries) and territorial (for instance, provincial governments). Each of these discrete parts is more or less controlled by the center, depending on the circumstances. For example, in a federal system local governments are formally independent of the central government yet have to bow to its wishes on some matters. At the other extreme is a centralized state in which the local governments are agents of the center. In all these situations, the parts of the state are in conflict with one another, constantly jockey with the center for power, and dispute the implementation of policy. In the Chinese case, “local” governments are territorially defined segments of the state below the central level. Inside China, the term covers provincial, provincial-level municipality, prefectural, municipal, county, township, and village governments. The terminology I use, more common outside China, restricts the use of “local” to the county level and below and refers to province and prefecture as intermediate levels, since they are further removed from dealing with the general population. These local segments of the state apparatus, or more simply “local states,” have their own institutional interests to protect and are not simply weaker or diluted versions of the central state out at the periphery. Their ability to promote local interests is limited by the center’s power at any given time to enforce its will.

Local states are staffed by officials with their own personal agendas and institutional interests, agendas and interests that often conflict with central directives. But they may also conflict with what the people in their jurisdictions want. These lower levels of the state charac-

teristically protect local popular interests on some occasions and their institutional interests on others. In the field of Chinese studies, scholars have debated whether the predatory or protective image best fits the role of local officials during the twentieth century. For example, Vivienne Shue (1988) has argued that the local cadres in the “honeycomb” state of the Mao era were protective of local interests when possible, and Jonathan Unger (1989) has argued that they were extraordinarily predatory. But, in fact, this is a false dichotomy; local officials are always *both* protective and predatory, in varying degrees at various times.⁴ “Protective” simply means that they defend local interests, and “predatory” that they defend their own personal or institutional interests, as well as those of the center. As agents of the larger state apparatus, their structural location means that they are always asked to be all things to all people. The result is that they can be both protective and predatory.⁵

The structural position of the local state is exactly what makes it so important for understanding why central policies are or are not implemented and why central state-building efforts are or are not effective. Central governments issue many sophisticated directives to local governments. Some of them are implemented as planned, but many are not, and only by looking at what happened in a particular locality can we tell why. The success or failure of many central directives thus depends on the localities. The same applies to the process of state building itself. The central government can establish elaborate institutions in the capital, but until those institutions have counterparts at the local level, they are isolated and powerless with little hope of control outside the capital. Of course, the creation of local institutions does not mean that central intentions are carried out automatically—to the contrary, it establishes a new dimension of central-local tension.

Local states are by definition part of a larger state apparatus, and as such they do not carry out all the functions of central states. Is it still useful to refer to them as states? They do not exercise sovereignty, usually do not conduct foreign relations with other countries, and generally do not have their own standing armies enjoying a Weberian monopoly of the legitimate means of violence. However, they are a part of a larger state organization that does all these things, and they frequently are the local representatives of that organization. Much as a functional division of the central government, for example, a ministry

of education, is a part of the state and therefore able to engage in state building, so can a local state. Use of the term “local states” emphasizes the possibility of independent action and highlights the aspects of their actions that help define, as discussed above, what a state is: it maintains internal order, administers justice, provides public services, regulates markets, and extracts revenue in order to do those things.

The Importance of Variation in Local States

This book highlights variation in local state structure and practice—local state variation, for short—that arises as a result of local state building. Such variation is a neglected topic in political science. Local state structure is defined as the organization of local government: the offices within the government and the hierarchy among them. Local state practice is the way that local governments both implement higher-level policy and make and implement their own policy in areas not controlled by higher levels. It is how they carry out their work in the most concrete sense. Until fairly recently, political science treated local state variation mostly as a vestige of the past or as a problem of central state building. In the classic studies of European state formation, local state variation was ruthlessly eliminated by the centralizing, bureaucratizing, homogenizing modern national state (Tilly 1975, 1990; Moore 1966; Skocpol 1979). To a certain extent, this story is correct; yet it ignores the reality that variations in local state structure and practice may continue or even increase despite the growth of strong central institutions.

Although the existence of local state variation is increasingly better documented in the comparative politics literature, comparisons between local-level governments are most often used as a proxy for cross-national comparisons rather than as a way to understand the significance of intra-state difference. For example, Putnam and his co-authors (1993) ask what general lessons can be learned about the cultural prerequisites for democracy from a comparison of the experiences of Italian regional governments. Similarly, Atul Kohli’s (1987) excellent study asks how different local governments in India affected poverty-alleviation policy. Both works assume that the lessons of local governments are transferable to the national level because local and central states are essentially analogous. This ignores the aspects of

local states discussed above: central states have sovereignty, and local states by definition do not but must always work under the watchful eye of regional and central states. The effects of central actions on local political outcomes can be crucial, however, as Judith Tendler (1997) has demonstrated in the Brazilian state of Ceará.

When the political science literature does acknowledge local state variation, it tends to focus on variation within democratic regimes and to assume that the regime type itself is prone to local variation. That is, democratic traditions or elections or party competition create local state variation. Kohli's study attributes policy differences to the party in power in each Indian state. Putnam and his coauthors argue that regional political culture and traditions of democracy determine the effectiveness of local governance in Italy. But the emphasis on democracy as the cause of local variation becomes questionable in light of other studies. For example, Richard Snyder (2001) shows that in Mexico, different local outcomes in the re-regulation of the coffee industry were not simply the product of who was elected to office but were also shaped by local institutional structure and policy repertoire.

However, it becomes even more doubtful that democracy, or regime type more generally, is the cause of local state variation when we consider the variation that exists in more authoritarian states. Frances Hagopian (1996) has shown that during the period of military rule in Brazil, and even after the transition to democracy, local politics were dominated by the "clientelism, regionalism, and personalism" of local strongmen. The strongmen's style and activities determined the practice of politics and administration at the local level. Similarly, in the Chinese case, regardless of regime type, during the twentieth century both the structure and the practice of local states varied considerably. When local officials engaged in state building, their own preferences and ideologies, orders from above, and local social contexts affected that process and produced different state structures and practices. Local state variation is attributable to the basic structural relationships between locality and center rather than to more ephemeral phenomena like regime type.

Local state variation is important because it results in variation in state-society relations and affects central state capacity. The revival of state-centered analysis, beginning most notably with *Bringing the State Back In* (Evans et al. 1985), restored a useful approach to the study of

politics to political science, but it brought with it a bias toward central states that masks some important aspects of state-society relations and state capacity. First, the early work on state and society frequently treated the relationship between state and society within a given polity as uniform. However, because local state structures and practices vary throughout a country, so do state-society relations. The debate over the nature of the Chinese local state illustrates this problem. Scholars have characterized Mao-era local states as either faithful agents of the center (Unger 1989; Oi 1989) or protectors of local interests (Shue 1988); they see post-Mao local states as developmental, regulatory, or authoritative (Oi 1999; Blecher and Shue 1996; Blecher 1991b; Yali Peng 1996; Baum and Shevchenko 1999). Each characterization has different consequences for state-society relations: clientelist, corporatist, open to the formation of civil society, or closed to it. But these characterizations are not mutually exclusive. They simply illustrate the existence of local state variation and show its importance. Similarly, contrasting characterizations of Republican-era local states as increasingly predatory (Duara 1988), dominated by helpful managerial elites (Rankin 1986), or serving the interests of lineage elites (Siu 1989a) may also be explained by regional difference. Such differences imply that there were significant differences in state-society relations during the Republic as well.

Second, the early literature also did not disaggregate the state; rather, it spoke of a single state capacity. When we consider the disparate abilities of both different functional areas of the state and different local states, the notion of a single state capacity becomes questionable. For example, a state may have the ability to implement policy in one policy area but not in another (Perry 1994). Similarly, in considering the capacity of the state as a whole, we must take into account the ability of local states to implement the center's policies as well as their own. Each of the characterizations of local states described above implies different conclusions about the ability or willingness of local states to implement central policy. Implementation is either full and automatic or remolded by localism, either aided by statist developmental village corporations or rendered ineffective by corruption. Since there is good evidence for all these models, this suggests that the ability of the central state to implement policy is deeply affected by local state variation.

Rethinking the Concept of State-Society Relations

For analytical reasons, the formulation given above oversimplifies the distinction between state and society. In fact, especially at the local level, the distinction between state and society is not clear. This becomes particularly evident when we try to locate people or groups in either state or society. Take tax farmers, who are discussed in much more detail later. They are essentially private contractors collecting taxes for the state. Tax farmers are agents of the state, with all the “principal/agent” problems inherent in that relationship. In other words, the state officials act as principals who issue orders, and the tax farmers act as the agents who carry out those orders but with different levels of obedience, depending on their own interests. At different times, the principals have different levels of control over their agents. Nevertheless, the institutional practices and structures that those agents, tax farmers, create are available as a model for the next contractor or bureaucrat. Are these people members of the state or of society? That they have characteristics of both demonstrates how the state-society dichotomy breaks down at the local level.

The alternative to a dichotomous view is to conceptualize people like tax farmers as existing in a space between state and society.⁶ This space is what Mary Backus Rankin (1993) calls a “managerial public sphere” and Philip Huang (1993) the “third realm” in China. Rankin sees activities in this intermediate space in the late Qing as a solution to that state’s failure to provide public services. In their absence, local elites engaged in “sponsorship or establishment of institutions for welfare, education, religious purposes, social betterment, or defense; . . . supervision or direct management of both initial construction and ongoing activities and finances; and building or repair of local infrastructure like roads, bridges, dikes, and wharves that did not necessarily require permanent institutional organization” (Rankin 1993: 161). This, she argues, created more “space” in a managerial public sphere (or spheres) between state and society where state and elites worked together (i.e., the spheres interpenetrated). Philip Huang proposes that, in order to clarify terminology and avoid applying terms more appropriate to European society to China, the space between state and society, “in which both participated,” be called the “third realm.” He ar-

gues that during the early twentieth century, the third realm became more “institutionalized . . . [and] the scope of its public functions . . . expanded steadily over time” (Huang 1993: 224–26).

This reconceptualization serves the important purpose of locating a place where state and society interact as we become more explicit about “the ‘recursive,’ that is, mutually transforming, nature of state-society interactions” (Migdal et al. 1994: 294). Although the analytical distinction between state and society is useful, to the extent that there is a boundary between state and society, it is very porous. The task, then, is to specify the different ways in which state, society, and the people and institutions in the “third realm” interact and influence one another.

We can now return to the question of how to think about tax farmers and other types of people and institutions that inhabit the “third realm,” people that Rankin refers to as “extrabureaucrats.” The provision of public goods and services⁷ can be effected through a variety of means that involve different state-society relationships. They can be provided by state agencies, by semi-state, semi-private organizations (for example, school boards), contracted out to private organizations (tax farmers or companies that run prisons), or provided outright by private organizations (for profit or not for profit, and with more or less supervision by state organizations). They can be funded by obligatory contributions to the state (taxes), by private donations, or by a combination of both. Usually resources provided by state organizations are funded through taxes, and usually resources provided by private organizations are funded privately, but not always. The variety of these relationships is exactly the point, because the different relationships have direct effects on the ways that state and society, bureaucrat and extrabureaucrat, principal and agent, achieve or fail to achieve their ends.

Can we think of the work done by these intermediate people as the work of the state and of their proliferation as a form of state building? Of particular relevance to this study is the question whether we can consider the proliferation of tax farmers a form of state building. Some interpretations of tax farmers emphasize their antisocial nature; that is certainly the case in Prasenjit Duara’s *Culture, Power, and the State* (1988), in which many tax farmers are portrayed as violent, bloodsucking parasites. Nor is this characterization limited to China. Nineteenth-century ethnic Chinese tax farmers in Southeast Asia were

rapacious capitalists who colluded with the colonial state to reap the monopoly rents of revenue farming (Butcher 1993), *ancien régime* French tax farmers were decadent and corrupt, and Ottoman tax farmers exploited the peasantry beyond its capacity to bear (Barkey 1994). However, antisocial or exploitative behavior *per se* is hardly enough to disqualify tax farmers from being part of the state; after all, bureaucrats can be just as exploitative. In any case, not all tax farmers are exploitative; it is not even clear that they extract more than bureaucrats would in their position (Copland and Godley 1993). In the Chinese case, Susan Mann (1987) and even Duara sometimes emphasize the protective aspect of tax farming, in which it could be used to distribute tax burdens more fairly. More important for the question of state building, in China as in France, tax farmers sometimes helped to create durable bureaucratic institutions and physical tax-collection apparatuses that would ultimately become the property of the state (Matthews 1958: 10). Moreover, tax farmers, when working under a state that could successfully discipline them, as in the case of the Tianjin salt merchants, could function effectively (Kwan 2001: 33–34). Under certain circumstances, then, tax farmers could play an important role in carrying out state revenue-collection functions and in building permanent state institutions. That role may only have been transitional in the historical growth of the modern national state (Tilly 1990; Butcher and Dick 1993), but it was crucial during that state-building period. By extension, other types of extrabureaucratic activities that had the same effects can also be viewed as contributing to state building.

Local State Building

The term *state building* as used in this book means something very specific: it is the process by which state actors make a state organization grow in size, extend its reach, and increase its functions. *Growing in size* means increasing the number of employees and suborganizations within the state organization itself. *Extension of the state's reach* refers to the state's ability to exert influence through an organizational presence at lower and lower levels of the administrative hierarchy. For instance, the creation of a subcounty tax office would represent an extension of state reach. *Increasing the state's functions* means that the state takes on new tasks that had not previously been its re-

sponsibility. For example, if a state began to provide irrigation systems or other types of infrastructure, this would be an increase in state function. Some of the means by which state building, so defined, has been accomplished historically include bureaucratization, centralization, internal specialization, and routinization of procedures, but state building need not include all or any of those means. State reach, for instance, might be increased through the use of semi-private contractors such as tax farmers. Further, this definition of state building may be applied to different levels of the state organization independently. Central institutions may be growing, when local institutions are not. This definition also allows us to examine state building in particular policy areas, rather than as a seamless whole. This is useful because it helps us to understand that states do not have equal capacities in all policy areas; individual states may be good at some things and inept at others.

Is *effectiveness* also a criterion for assessing whether local state building is taking place? For example, what if the new local tax offices in this study were empty and their real roles filled by tax farmers, or what if they had been usurped by lineage groups or were simply unable to collect taxes? All these things did, in fact, happen in Republican China. Could local states' tax and public finance institutions have grown in size, taken on new functions, lengthened their reach, and still failed to establish effective administration that could reliably extract resources and manage expenditures? It seems likely that local states that successfully took on new functions and lengthened their reach were also successful in carrying out the business of tax and public finance administration, but this needs to be empirically verified. Effectiveness is difficult to measure, but in the area of taxation and public finance, total revenues and expenditures can be used as a proxy. Local states in both periods did establish new bureaucracies and find new ways to squeeze resources out of their populations, and just as important they did, at least sometimes, use those resources for productive purposes. During the Republic, the counties did get clinics, roads, police, and schools, albeit without perfect efficiency. In the post-Mao period, the localities studied here did get new roads, buildings, markets, and welfare services. Related to the question of effectiveness is whether the kind of state building described here was the dysfunctional variant, "state involution" (Duara 1987, 1988); discussion of that is reserved for Chapter 6.

Local State Building

This book's local-level approach and focus draw on but are distinct from those of the best-known authors who write about state formation (Tilly 1975, 1990; Moore 1966; P. Anderson 1974; M. Mann 1993; Wallerstein 1974; Giddens 1987). The state-building process described here takes place in the context of a state that had long had the most basic bureaucratic institutions. Some have even argued that China has existed as a national state for three thousand years (Tilly 1990: 3). The approach contrasts starkly with the classic works on state building or state formation, most of which have been concerned with how the central institutions of national states came into being, particularly in Europe. Most have examined the development of nation-states as one process in the context of others or have identified it as a side-effect of other processes.⁸ These works have made the European state-building experience the baseline for most later work on non-European experiences. One refreshing exception is R. Bin Wong's (1997) fine analysis of the formation of the Chinese central state, which compares the Chinese experience to the European one and argues that a truly worldwide understanding of state formation must take into account the Chinese experience. Excellent as all these analyses are, they fail to view the state-building process from the bottom up or to think about local states as having agency once they have been conquered by the new central state. Both of these are crucial to understanding how local state building affects the process of central state building.

The local state building analyzed in this study took place under conditions different from those of the European experience, and as a result, its dynamics were also different. The local governments were operating under a political authority with varying levels of power over them, and this altered the way that macro-level structural factors affected the size, shape, and function of local states, as compared to the way that central states were built. For instance, consider the compelling analysis Tilly (1990) offers to explain variations in state-building outcomes in early modern Europe. Tilly argues that the distribution of capital and coercion in geographic space explains which European states became large and heavy and which stayed small and light. Areas with high levels of trade relied on easy-to-collect commercial taxes and, as a result, developed states that could hire armies, buy off rivals, and avoid building big bureaucracies. Places with little trade

but many peasants had to build large coercive apparatuses to extract resources and ended up with giant, plodding bureaucracies. States that took the middle, "capitalized coercion" path defeated the others, in part because they maximized their revenues. But it would be impossible to apply this schema to local state building in China. Distributions of capital and coercion might partly explain why local states in twentieth-century China look different from one another, because they would certainly affect the resources at local officials' disposal. But because local states are part of a larger state and always function under the jurisdiction of another, higher level of the state, they are always subject to the directives of that higher level. Local conditions alone cannot account for the development trajectories of local states.

At the same time, superordinate levels of government also cannot alone account for local developments. Local state building takes place within the framework of the larger state, but central policies and directives cannot anticipate all eventualities and problems. Therefore, local variation in policy implementation and state structure flourishes in the interstices of central or provincial regulations. Wherever the center or the provincial state neglects to proscribe or prescribe, localities develop distinctive solutions to their local problems. Local social organization, economic organization, or political history often play important roles in these solutions. The interstices of central and provincial power were much larger during the Republican period than they were in the immediate post-Mao period, and, as we shall see, the result was more local variation in policy implementation and state structure during the Republic.

Modernization and State Building

The impetus behind local Chinese state building was essentially political and ideological. This contrasts with the more familiar story that national states in Europe arose because of "war and preparation for war, [which produced] durable features of state structure" (Tilly 1990: 36). It is true that in Republican times changes in local taxes and public finance were made in order to raise money for militias, but just as often they were aimed at other purposes. In China, localities engaged in state building because higher levels ordered them to do so or created incentives for them to do so, or both; because local officials embraced modernizing ideologies and wanted to do more; and because

local people (especially elites) embraced those ideologies and pushed local officials in that direction. The following chapters focus on the results of these political-ideological factors rather than their origins, but a brief discussion of them is in order here.

During the Republic, the main ideology driving state building was modernization. The idea that China needed to modernize gained currency after the Opium Wars and particularly after China's military defeat by Japan in 1895. In the face of late nineteenth-century colonialism, modernization efforts concentrated on military development to make China as strong as its industrialized foes; by the turn of the twentieth century, the concept was extended to mean constitutional reform that would allow it to do the same in the political arena (Cohen 1974; Schwartz 1964; Hsiao 1975; Levenson 1953; Wright 1968). But by the 1920s and 1930s, cultural, social, and political leaders had come to believe that to "save" China, nearly all aspects of life needed to be modernized (Fitzgerald 1996). Art, literature, family life, religious practices, gender roles, and even sexuality had to be modernized if China were not to fall prey to colonizers (Crozier 1988; L. Lee 1999; Yeh 2000; Duara 1995; Hershatter 1992, 1997; Strand 1989). In the national cultural realm, this conviction was manifested in GMD programs such as the New Life Movement, which urged urban residents to be modern (albeit Confucian), militarized citizens, and in Sun Yat-sen's exhortations to Chinese to brush their teeth, stand up straight, and wear clean clothes (Eastman 1991a: 31). At the national level, this obsession was expressed in the GMD's modeling of state structures on what it saw as the modern, American-style three-branch system of government (plus two more for good measure: examination and auditing/inspection; Strauss 1998). The military, schools, police (Bastid 1988; Stapleton 2000), and the state structure itself had to be remade to make China strong. Local-level leaders also participated in this panicked race to modernity. From the late Qing on, some local elites tried to find ways to make farmers cleaner, better educated, less superstitious, and more technically proficient in agriculture (Duara 1991; Hayford 1990). One excellent example of this, discussed in Chapter 3, was the eager welcome that elites in Dingxian county, Hebei, extended to the Mass Education Movement in the early 1930s in the expectation that it would rid the peasants of what the elites saw as their embarrassing backwardness. For local elites and officials alike, modernization meant that local states would be free of the nonbureau-

cratic, premodern tax farmers, middlemen, and corrupt yamen runners. Their image of the modern state was one that was bureaucratic; provided public services such as education, basic health care, and infrastructure; and helped to regulate social life and protect the needy and the upright (Tsin 1999). Carrying out these modernizing changes required state building to create the institutions to do those things.

After 1949, a different, yet still modernist, vision of state building was promoted at all levels.⁹ The Mao era was, of course, obsessed with the modern, which in Maoist China translated into gigantomania, central planning, and the obliteration of whatever was deemed at any given time to be feudal thought and practice. In the post-Mao period, the interest in modernization—as in "the Four Modernizations"—is again evident, although the meaning of that formulation is notoriously unclear. Probably most people would agree it has something to do with promoting science, technology, and economic growth. But at the local level in this period, the goals for modernization were based on clear objectives, and many of them look very much like the aspirations of Republican-era modernizers. Local leaders wanted scientific agriculture, education, infrastructure, environmental protection, and social services—and, of course, lots more money for everyone.¹⁰ Without these things, they, and by extension the central government, would have found it difficult to maintain their legitimacy. And indeed, some scholars have argued that provincial and local officials rather than the central leaders were the main proponents of economic reform and modernization (Shirk 1993; L. White 1998). Consequently, local governments acted on central policies encouraging economic development and state modernization. In addition, their own aspirations caused them to do more and to engage in their own modernizing state-building projects without permission from above. Local governments raced to provide better public buildings, schools, roads, bridges, housing, social services, and development zones (Blecher and Shue 1996). The mechanism local officials embraced as the key to modernization and the engine of economic growth was collective enterprise, and they invested as many resources in such enterprises as they could (Whiting 2001; Oi 1999; Blecher 1991b; Blecher and Shue 2001).

Chinese state builders, like those in many late-developing states, could choose from a number of foreign models and adapt them to their own particular circumstances. Examples of direct (and involuntary) borrowing abound in the post-colonial world. Borrowing began

even earlier, however, in the nineteenth century. Meiji Japan is a good example. Meiji reformers sent emissaries to Germany, France, and England to find blueprints for building the police, armies, and postal systems and adapting them to Japan's needs (Westney 1987; Gluck 1985). The hope was that by adopting these institutions, Japan could stave off imperialist encroachment by using the Europeans' own institutions and technologies to defend itself and perhaps even defeat the Europeans at their own imperialist game. Late nineteenth-century reformers in China likewise discussed the wisdom of embracing Western technology and practices, and perhaps even Western social organization and philosophy, as part of a self-protective strategy against colonialism (Wright 1957). They also looked to the Japanese model for an example of how to accomplish their goals (Reynolds 1993). In short, by the nineteenth century the national state had become modular and could, like nationalism (B. Anderson 1991), be borrowed, pirated, and adjusted to local conditions.

Sometimes the adoption of foreign models was not so voluntary, however. Post-colonial states that inherited a colonial state apparatus are clear examples of that. However, other kinds of international politics and regimes have on occasion forced late developers to adopt Western institutions. For instance, one reason the Japanese adopted the French police system was that Europeans announced they would give up their extraterritorial privileges only if the Japanese built a European-style police force (Westney 1987). Economic aid has also been an important carrot (and sometimes stick) to induce the adoption of Western systems. Often, the aid is conditional on accepting Western consultants to provide advice and to encourage institutional change. Both the Republican and PRC governments hired foreign advisors on taxation and public finance during the periods under study. In 1929, the GMD government invited the Kemmerer Commission, a group of finance and tax experts from the United States, to study the Chinese system and make recommendations; some members of the commission stayed on until 1949 (A. Young 1971). Similarly, in 1986 and 1988 the World Bank sent missions to the PRC to study taxation, finance, and investment (World Bank 1988 and 1990). Of course, Chinese state leaders did not always heed the recommendations of these advisors, but they were obliged to ask for them in order to receive foreign aid. In such cases, non-Western states have sought to imitate Western state forms, and Western states

have made imitation of those forms—no matter how superficial—a prerequisite for mutual interaction.

Clearly such borrowings are not examples of “spontaneous” state making, as in Early Modern Europe; when a state forms makes a significant difference in its state-building experience. One outcome of this was that in the late twentieth century, the range of acceptable types of state organization grew quite limited around the world. Tax farming, prebendal office-holding, and the use of unsalaried, fee-collecting employees are no longer acceptable for national- or local-level governments because they are considered premodern state practices. Even fifty years ago, some of these practices were considered legitimate and useful in some places, but now no one would even consider using them—even if they might possibly provide the state with more flexibility and more revenue.

Focusing on Taxation and Public Finance

As noted above, not only does the definition of state building used in this work allow us to examine institutional change from the perspective of the locality, but it also permits us to look at particular policy areas that experience state transformation. This study concentrates on the development of tax and public finance organs rather than on the development of the state as a whole. Following the example of the contributors to *The Formation of National States in Western Europe* (Tilly 1975), who examine the development of police, military, finance, and food distribution apparatuses, this book disaggregates the process of state building by policy area. State building does not take place evenly across policy areas; for instance, a state might experience a boom in the size and functions of its policing system, while its military or educational systems remain unchanged. Because of this unevenness, a series of detailed analyses of important areas of institutional growth and policy change that together constitute state building is the best way to analyze the phenomenon as a whole. This book concentrates on the process of state building in the area of tax and public finance administration, perhaps the key internal state function.¹¹ Without effective means both to extract and to allocate revenues, states cannot perform their other functions. Thus, although an analysis of a single policy area cannot tell us everything about state building in all policy areas, the effects of tax and public finance are

unique in affecting many other areas. By looking at taxation policy, tax collection, expenditures and revenues, and fiscal sharing arrangements, we can see the priorities of the state. If a local state cannot tax and spend, then it is unlikely to be able to do anything. In this sense, tax and public finance are a good, though not perfect, indicator of state building as a whole.

Cases and Sources

The basic methodology of this book is comparative, qualitative historical analysis. At the most general level, it compares the Nanjing decade and the post-Mao period. Because of the discontinuities caused by Mao-era developments in tax and public finance, however, there are no detailed, longitudinal comparisons. Within each period, the book uses case studies from two different localities in China to identify regional patterns in the structure and practice of taxation and public finance. These patterns constitute local state variation. The historical narrative focuses on the process of local state building that produced the variation.¹²

The first level of comparison is between the Nanjing decade, 1927–37, and the first part of the post-Mao reform period, 1980–92. This is an interesting comparison for two reasons: it allows us to analyze (1) how regime type may have affected outcomes and (2) the extent to which apparent similarities in state-building outcomes in the two periods are, or are not, related. As we shall see, local state variation occurred under both the capitalist, authoritarian GMD regime and the post-Mao semi-market semi-socialist regime. It was the process of local state building itself, not regime type, that created variation. As for the reappearance in the reform period of earlier phenomena, some scholars have raised the possibility that the problems of the Republic have simply returned (Siu 1989b; M. Yang 1994; Perry 1999). In noting some examples of isomorphism between the two periods, they have asked whether they arise from similar causes and perhaps even signal the return of similar social groups, economic practices, and cultural meanings. As have these scholars, I find that in the case of tax and public finance the isomorphism is not the result of path dependence or the “return” of old practices and structures. The intervening Mao years did irrevocably alter the structures of local society, economy, and

state; as will be shown in Chapter 6, the parallels are the results of similar structural conditions.

The second level of comparison is cross-regional. Many factors that might conceivably lead to local state variation across regions are interrelated, and their effects are difficult to disaggregate. For example, economic structure, social structure, culture, language, geography, or ecology are mutually interacting and change simultaneously in varying ways from place to place. Since my purpose in making a regional comparison was to understand the limits and causes of local state variation, I chose cases that were maximally different in all the interrelated ways just described,¹³ since this would most likely illustrate the extent of variation. Finally, since it seemed likely that wealth might overwhelm all other considerations in the ability of local states to engage in state building, I tried to neutralize its effect by selecting regions with relatively similar levels of overall wealth.

The result was that the two regions studied are Guangdong province and Tianjin (part of Hebei province in the Republican period and now a provincial-level municipality), which are, in Skinner's (1977) terms, parts of two very different macro-regions, Lingnan and North China, respectively.¹⁴ His work and that of others have shown that the two provinces had distinct economic, social, cultural, and ecological formations throughout the twentieth century (Faure and Siu 1995; Faure 1989; Siu 1989a; Duara 1988; P. Huang 1985; Esherick and Rankin 1990). Ecologically, most of Guangdong is lush, green, and subtropical; the Pearl River Delta is one of the most fertile rice-producing areas in all of China. In contrast, much of Hebei is a dry plain; its harsh weather and frequent floods create a hard life for its mainly wheat- and cotton-growing cultivators. Guangdong is known for its single-surname villages and complex landowning lineage organizations (Watson 1985 and 1990), whereas Hebei has the multi-surname villages and the more atomistic owner-cultivator socioeconomic structure characteristic of all of North China (Duara 1988). Guangdong also has a long history of well-developed domestic and international commerce, whereas Hebei's economy has traditionally been centered on subsistence agriculture and much less on trade. Finally, Guangdong, far from both Beijing and Nanjing, had a historically contentious relationship with the center; in contrast Hebei province and Tianjin municipality had close political ties with the center in both periods. In

Tianjin, that close relationship is illustrated by its status as a province-level municipality, which means that its immediate superordinate is the central government and not the Hebei provincial government. After 1973, Tianjin Municipality consisted of the six urban districts of Tianjin city proper, four suburban districts, five seaside districts, and five rural counties, all of which the center could oversee fairly easily. In contrast, Guangdong was much larger and, as a result, less transparent to the center. In the early 1990s Guangdong had 20 prefectures; beneath them were six county-level municipalities (县级市 *xianji shi*), 69 counties, and three autonomous (minority) counties (GST 1993: 61). All these differences, many of which are certainly interrelated, might be expected to contribute to local state variation. In sum, then, the selection of these two regions was designed to maximize the variation we will find in comparing them.

The final level of comparison is intra-regional. Within each region, I studied two counties in order to widen the scope of inquiry. In each region, I selected one relatively wealthy and one relatively poor county on the theory that wealth might be an easy predictor of capacity for state building. I found, however, that the style and amount of state building was connected much more to region than to wealth. In Guangdong province, the two counties are Nanxiong 南雄, which is in northern Guangdong's less developed, tobacco-growing, Hakka-speaking area, and Kaiping 开平, which is on the margins of the rich Pearl River Delta and is the ancestral home of huge numbers of overseas Chinese. In the Tianjin/Hebei region, the counties are Jixian 蓟县, a mountainous agricultural county struggling to industrialize, and Jinghai 静海, which has terrible alkaline soil but now boasts many large and prosperous rural industries as well as what was, in the early 1990s, the country's richest village, Daqizhuang. For the Republican era, I was unable to obtain historical materials from Jixian and substituted the rich historical sources on Dingxian 定县. Dingxian was at that time a moderately prosperous North China county, notable primarily for its political status as a model, and then as an experimental, county. Each county had a distinctive local flavor, but both clearly shared the regional characteristics discussed above. Because there are no direct comparisons of cases between the Republican and post-Mao periods, the substitution of Dingxian for Jixian is not a serious problem, although it makes the study less elegantly symmetrical than I would have liked. Both Dingxian and Jinghai were subordi-

nated to the Hebei provincial government during the Republic, and both Jixian and Jinghai were units of Tianjin Municipality during the post-Mao period. This is the most relevant point for comparison.

The special status of two of the cases makes them atypical in ways that might affect local state variation; namely, Tianjin's position as a directly administered municipality and Dingxian's designation as a model county might skew state-building outcomes. Because Tianjin is administratively under the direct scrutiny of the center, its counties are probably more likely to carry out central directives and have less room to develop their own idiosyncratic practices. This administrative structure may therefore magnify some of the differences between Guangdong and Tianjin; a comparison of Guangdong and another province might reveal less variation. Still, since central policy is one of the important factors causing local state variation, it is fair to make the comparison. Similarly, Dingxian's model status during the Republic certainly brought it attention and resources unavailable to other counties, particularly after the provincial leadership conferred new powers of governance on the county government that probably increased its autonomy from local elite groups. One might therefore expect the state-building accomplishments of the Dingxian county government to have been unusually great compared with those of other counties. In fact, this does not seem to have been the case empirically; as we shall see, even the model county government was able to make only modest changes in taxation and public finance. As the following chapters will show, the special statuses of these two territorial units did not bias the results.

Data for the study come from both interviews and documentary sources. I conducted the interviews and collected most of the written materials in Tianjin and Guangdong over the 17 months between September 1991 and January 1993. In each of the counties I visited, I conducted interviews with officials from the county tax bureau, the county finance bureau, and at least one subcounty tax office. In almost every case, interviews were conducted in the presence of a higher-level (provincial, municipal, or county) official who monitored the responses. In each county, I also met with officials in the county gazetteer office and in two cases obtained access to the county archives.¹⁵ Unfortunately, in both cases I was told (and saw for myself in the card catalog) that the archives contained no relevant documents open to the public. In the other two locales, county gazetteer officials

Region
different

provided some Republican-era documents from the archives for my use, but I was denied access to the archives themselves. Finally, I also conducted interviews with officials from the provincial or municipal tax bureau in each region.

Besides interviews, the main sources of data were county gazetteers, periodicals and yearbooks, provincial and county government reports, reports on rural research conducted during the 1920s and 1930s, and "memoir" literature (文史资料 *wenshi ziliao*). For reasons of state security, officials were loath to furnish me with unpublished written materials on post-1949 tax and public finance. Fortunately, three of the four counties had published or were about to publish new gazetteers that contained relevant information, and I was given access to the drafts. In collecting written materials, I did research in 1991–93 at the Guangdong Provincial Archives, the (Guangzhou Municipal) Zhongshan Library, the Zhongshan University Library, the Tianjin Academy of Social Sciences, and the Nankai University Library. In addition, during the summer of 1993, I returned to China for further documentary research at the Beijing Library and the Beijing University Library and used the National Library and the Academia Sinica libraries in Taipei, Taiwan.

Outline of the Book

Each of the following chapters sets out to show how and why local state variation developed. In doing so, each traces the process by which the tax and finance organizations of each county grew, reached downward, and took on more tasks. The main questions asked are: Who collected taxes, how, and why? What taxes did they collect, and why? What did county governments spend their revenues on, and why? How did the county share revenues upward and downward, and why?

Chapter 2 examines state building in the two counties in Guangdong during the 1920s and 1930s. Under a provincial government controlled by a modernizing separatist warlord, the counties implemented a set of bureaucratizing reforms to increase land-tax collections. This resulted in the creation of new, centralized tax bureaucracies with an extended reach, partial elimination of tax farming and extrabureaucratic tax functionaries, and reorganization of the counties' public

finances. That reorganization included both internal transformations and external changes in the county's relationship to the province above and the townships below. During the period, county revenues increased and funded an ever-expanding menu of state functions and social services. The counties' co-optation of lineage and merchant groups into the bureaucratic structure of the state gave Guangdong's local states a distinctive character.

Chapter 3 traces state building in the Hebei counties during the years 1927–37. Although the county tax and public finance bureaucracies grew, regularized their procedures, and redrew fiscal relationships with the province and townships in a recognizably bureaucratic manner, extrabureaucratic mechanisms for tax collection and revenue management persisted and, in some cases, grew over the same period. Thus although the formal fiscal apparatus of the state was growing in these counties, it still relied on and competed with elaborate extrabureaucratic fiscal structures. Constant warfare and the threat of Japanese invasion created pressures to raise revenues for defense purposes but did not substantially alter institutional structures. Combined with cooperation between local elites and the state, this meant that tax farming and other extrabureaucratic activity flourished in Hebei.

Chapter 4 examines state building in the two Guangdong counties during the post-Mao period. Guangdong's fiscal reforms resulted in a larger local state apparatus with extended reach. Behaving as increasingly independent market-driven actors, counties contracted with townships and the province to remit fixed amounts of revenue; this gave each level an incentive to keep and retain as much as it could. As a result, the tax and public finance bureaucracies reached lower into the countryside than they had before, because the townships demanded their own tax offices in order to increase revenues.

Chapter 5 is a study of state building in the Tianjin-area counties in the post-Mao era. Tianjin municipality's much closer grip on these counties led to a smaller, more concentrated tax and finance organization than existed in Guangdong. Rather than remitting fixed sums, the counties transmitted fixed percentages of their revenues to the municipality, which still treated them in many ways like its own budgetary units. Vertical supervision and controls between the county tax and public finance administration and its superiors and inferiors were stronger than they were in Guangdong, but the reach of the tax and

public finance system was not as deep. Because they lacked a township-level revenue-contracting system, counties had no incentive to build township tax and finance organizations. Their resources were spread more thinly across the landscape.

Finally, Chapter 6, the conclusion, draws together the strands of the empirical argument by making direct comparisons across all the cases. It considers whether local state building in these cases is involutionary, argues that it is not, and then discusses the nature of the states produced. It lays out the main variations in local state structure and practice occurring across all the case studies and analyzes the sources of isomorphism in Republican and post-Mao taxation and public finance. The chapter concludes by examining the consequences of local state variation for the central state and by exploring China's prospects for solving some of its enduring problems of taxation and public finance at the local level.

PART I
*Local States in
Republican China, 1927–1937*

PART I

Introduction

The structure and practices of local states during the Republic of China (1911–49), not surprisingly, owed much to those of the late imperial period. This introduction provides a brief presentation of the broad context of ideas of the state and of state development in Qing (1644–1911) and Republican China to 1937, as well as a short overview of the historical and institutional context of local state tax and public finance administration during those periods. As we shall see, public finance administration in the early Republic closely resembled that of the late Qing; significant institutional change in the administration of taxation and expenditures did not come until the Nanjing decade.

The State During the Qing Era

According to Confucian ideals of statecraft, the bureaucracy was supposed to be impartial and efficient, to impose only a limited economic burden on the population, and to lead by moral example (Kuhn 2002).

The state's authority rested upon a mandate conferred by Heaven and revocable upon strong evidence of misrule—floods, famines, and the like. To avoid such phenomena, officials were motivated to intervene in ecological and economic matters. The basic idea of legitimacy was premised upon supporting the people and regulating their livelihoods. Popular support was crucial to maintaining the Mandate of Heaven. (R. Wong 1997: 92–93)

Important to maintaining that legitimacy was an ideal of setting the tax burden at minimal levels.

Contradicting that ideal was a second notion of the state as a highly centralized, autocratic, and bureaucratic machine. The emperor had

absolute power and the moral authority that derived from his status as son of heaven. Working under him was a highly integrated bureaucracy that reached from Beijing down through the province and prefecture to the county level. The centralized early Qing (roughly 1644–1723) bureaucracy was the envy of European state-builders like Louis XIV, who still had to contend with feudal lords, the likes of whom China had not seen in several centuries. The officials within the bureaucracy and others who passed the imperial examinations were members of a small literate elite with strong cultural and social ties to others like themselves around the country, ties that reinforced their loyalty to the state as well as to their class (C.-L. Chang 1967; Esherick and Rankin 1990: introduction and conclusion).

In practice, many factors worked against this theoretical state model even when Qing rule was at its peak in the early eighteenth century. The emperor's power was always diffused by factionalism at the court and by the very size of the empire; it was difficult to extend imperial power to frontier areas. Furthermore, even in the central provinces patronage and localism reduced the effectiveness of central orders. Particularly since the imperial bureaucracy stopped at the county magistrate himself, local governance was largely, and increasingly over time, conducted by local people whose interests and those of the locality trumped those of the central government (Ch'ü 1962; Schoppa 1989). However, especially for its time, the high Qing state was remarkable for its accomplishments in organizing, controlling, and extracting resources from society. Using some tools inherited from the Ming and others established with the consolidation of Qing rule, such as the palace memorial system (Spence 1966), the state used material, moral, and coercive means (R. Wong 1997) to collect taxes through a modified version of the *lijia* system of mutual taxpaying responsibility, to maintain social order through the *baojia* system of mutual security responsibility, and to provide basic infrastructural goods to the population (Hsiao 1960: chap. 2).

This administrative system changed and evolved over time, but events of the late eighteenth century and nineteenth century severely challenged it. Some scholars have emphasized the external challenges posed by China's encounters with the West and Japan (Teng and Fairbank 1954; Cohen 1984); others have emphasized internal causes (Kuhn and Mann Jones 1978). Clearly, both were important. Following the Opium Wars (1839–42, 1860), the threat of impending coloniza-

tion by the Western imperialists highlighted the weakness of the Chinese state system. After the mid-nineteenth century, officials and other intellectuals began searching for other state forms to replace a system that was, to them, quite self-evidently not doing the job (Cohen 1974; Schwartz 1964; Hsiao 1975; Levenson 1953). At the local level, elites became more and more active in providing the kinds of social services and goods that the local governments were increasingly incapable of providing (Kuhn 1970; Rankin 1986).

At the same time, the very prosperity and peace of the high Qing led to new difficulties by the end of the eighteenth century. Commercialization and population growth limited the ability of the central government to control local society, not least because the Confucian statecraft ideal of a small government prevented the number of administrative units from growing along with the population. During the Kangxi era (1662–1723), for example, there were 1,261 counties governing a population of about 150 million people; by the Jiaqing era (1796–1821), the number of counties had increased to 1,293, whereas the population had jumped to over 430 million (Ch'ü 1962: 2; Kuhn and Mann Jones 1978: 108–9). In short, a relatively small bureaucracy was responsible for administering larger and larger numbers of villages and people. County-level officials tried to cope with this expansion by hiring unofficial, self-supporting employees to carry out their administrative work and relying even more than before on local elites to carry out many of their tasks (Reed 2000). Such a minimal state simply did not have the capacity to carry out many "state-like" projects beyond administering justice, collecting taxes, and maintaining basic infrastructural projects such as waterworks or city walls. This system resulted in the growth of a parasitic group of local administrators vulnerable to and enmeshed in local networks of power, who by the middle of the nineteenth century were likely to provoke mass protest and resistance. The large-scale rebellions of the late eighteenth century through the mid-nineteenth century—most notably the White Lotus Rebellion (1774–1804), the Nian Rebellion (1853–68), and the Taiping Rebellion (1850–64)—have been seen as responses to the corruption and predatory nature of local government during this period (Perry 1980; Kuhn 1970).

These internal and external challenges initiated a long process of evolution and reform of the way that the state functioned and was organized. First, at the provincial and county levels, new military, political, and fiscal powers were distributed to local leaders. When the

imperial army proved incapable of stopping the Taiping Rebellion, the central government decided that the only way to defeat the rebels was to give local militarists the power to raise their own armies, funded by their own taxes (Kuhn 1970). In the long run, this downward distribution of power was an important cause of the collapse of the Qing: ultimately it could not control local armies or extract enough taxes to survive. Simultaneously, throughout the last half of the nineteenth century and into the early twentieth century, both central and local officials tried to reform the Qing system. At the central level, officials first attempted self-strengthening reforms in the military and technical training (Wright 1957), although China's defeat by Japan in 1895 showed those reforms to be inadequate. The Guangxu emperor's (r. 1875–1908) attempt to reorganize the central state through the Hundred Days reform in 1898 failed because of resistance at the imperial court.

After the Boxer Rebellion in 1900, the impulse for reform overcame that resistance, and the New Policies (*xinzheng*) enacted beginning in 1905 reorganized the central government organs into ministries, abolished the Confucian examination system, and established a legislature and a constitutional regime (Wright 1968: introduction; E. Young 1977). At the local level, provincial leaders carried out the New Policies by establishing modern police forces, social welfare programs, and educational systems (Stapleton 2000; Duara 1988: chap. 3; Thompson 1985). Eventually, however, provincial leaders came to believe that the Qing regime could not meet the challenges it faced even if it were reformed, and struggles between the center and provincial leaders culminated in a provincial secession movement and ultimately the Xinhai Revolution in 1911.

Financing the Qing State

The eighteenth- and early nineteenth-century imperial state was supposed to be minimal, but it still required a large amount of revenue to maintain its bureaucracy, and that revenue derived mostly from taxes. The administration of taxes was, at the central level, the responsibility of the Board of Revenue (戶部 Hubu). Provincial treasurers had the job of passing revenues up to the Board of Revenue; below them were officials responsible for tax collection. From top to bottom, the system was characterized overall by a very low degree of bureaucratic

specialization; salt and customs taxes were collected by specialized organizations, but the land and head tax¹ (地丁钱粮 *diding qianliang*) was collected by county (*xian* and *zhou*) governments and an informal network of agents and runners below them (Bastid 1985: 52–57). The separate salt and customs bureaucracies had been created to ensure that their revenues were not usurped by local officials, as the land and head tax revenues were (Zelin 1984: 27). In spite of this engrossment, before the mid-nineteenth century, the land tax was the most important source of state revenue, although its collection was hampered by outdated land registers. After the land tax, the greatest revenue producers were the salt tax, customs duties, and the tea tax, followed by a small number of insignificant commercial taxes (Zelin 1984: 16).

As Madeleine Zelin points out, the revenue-sharing arrangement in the mid-Qing left local governments strapped for cash. On average, provinces were permitted to retain only about 21 percent of the land and head tax revenue for their own uses; there were, in fact, no taxes earmarked specifically for local use. Instead, counties collected taxes on behalf of the state and sent up to the prefecture all funds in excess of a quota for county operating expenses. Local uses were strictly limited, however, and funds tended not to be available for local projects. "Over 84 percent of all land and head taxes left for local use were earmarked for expenses primarily of concern to the central government. . . . Besides the government stipend for all the ranking officials . . . , retained funds included wages for yamen runners . . . , ceremonial expenses . . . , student stipends . . . , and charity for the orphaned, widowed, and poor" (Zelin 1984: 29). Another mark of this system's inflexibility was the difficulty local governments faced in obtaining emergency funds or funds for unanticipated expenses (Zelin 1984: 28).

In short, the Qing ideal of a small and inexpensive state was reinforced and realized by a distinct absence of official funding at the local level. At the same time, since it was patently clear to early Qing officials that funds were insufficient, local officials developed intricate means of informal funding in order to increase their own salaries and produce funds for local use. These means included a variety of informal surtaxes and customary fees that subjects paid to local officials to carry out official business, as well as the institutionalization of customary payments upward within the bureaucracy; lower-level officials had to add a percentage to all revenues they remitted to their superiors (Zelin 1984: chap. 2).

The shortcomings of this system were clear by the time of the Yongzheng emperor (r. 1723–36), who was particularly distressed by the arrears and deficits endemic to it. He decided to eliminate the system of informal finance by banning payments among officials and formalizing surtaxes, which became important sources of provincial revenue. However, the reforms failed by the end of the emperor's reign partly because officials resisted serious structural change in favor of moral exhortation against corruption, because "they left unresolved the issue of clerk and runner engrossment," and because many localities had difficulty extracting the additional revenues necessary to pay for the bureaucratizing reforms (Zelin 1984: 265). In the end, provinces and counties were left even worse off than they had been before the reforms.

The limitations of this fiscal system helped to make local government more corrupt and local society more and more ungovernable (Kuhn 2002: 22). Throughout this period, increasing commercialization created new, untapped sources of revenue as well as types of activity that the state had no means of regulating. Population growth meant that local governments had more people to tax, police, and administer (Kuhn and Mann Jones 1978). Local governments had to find new sources of revenue to pay for their increased administrative burdens. Until the mid-nineteenth century, they did so mainly by coming up with inventive ways to squeeze additional tax payments out of farmers (Hsiao 1960: chap. 4). In order to carry out even basic administrative tasks, magistrates had to hire many agents whose salaries came out of the magistrate's personal funds (Ch'ü 1962: 22–32; Reed 2000). The result was corruption, malfeasance, and the kind of rapaciousness that scholars and revolutionaries alike have seen as an important cause of both exploitation and rebellion in late imperial China.

After the middle of the nineteenth century, restrictions on local government finance relaxed somewhat as a result of state efforts to quell the Taiping Rebellion. At that time, the center had to permit the provinces to levy commercial taxes in order to extract the resources necessary to raise and build militias and armies and later to pay for reconstruction (Bastid 1985: 65–67). As a result, a plethora of local commercial taxes came into being (S. Mann 1987). Many of these were taxes on particular classes of commercial activity or on the sale of particular products. The best-known, the internal tariff, or *lijin*, was levied by local authorities when goods passed through internal customs checkpoints on water or land (S. Mann 1987: chap. 6). The new com-

mercial taxes allowed the state fiscal access to a wide variety of economic activities that had hitherto been closed to it, but they also benefited primarily the local governments. The central government was never able to revoke the fiscal powers it had granted the localities during the Taiping crisis. By the beginning of the twentieth century, provincial finances had become increasingly opaque to the central government. At that time, in a perhaps desperate attempt to gain some understanding of provincial finances, the Ministry of Public Finance ordered provincial governments to compile books documenting on-the-ground practice in a series of *caizheng shuoming shu*, guides to public finance. By the time the books were published, however, in 1913 and 1914, the Qing had already fallen. The books reveal the unsystematic, ad hoc nature of provincial finances and the great amount of regional variation. Although the basic structure of all provinces' practices was the same, for example most still relied on agricultural taxes, different patterns were starting to emerge in commercial taxes.

The State During the Republic

After the Xinhai Revolution, the Republic of China was established as a constitutional regime, using the boilerplate for the modern state then common in Europe and the United States. The dominant ideals behind this state were no longer those of Confucianism, but those of modernism. The legitimacy of the modern state derived from its mobilization of "the people" and "society," the use of scientific methods of public administration, and the provision of social order, education, and social welfare for all citizens (Tsin 1999: 14; Fitzgerald 1996: chap. 1).

In practical terms, however, achieving these goals in the early Republic was difficult. Within four years, the central government essentially ceased to function in many parts of China after President Yuan Shikai's death on the eve of declaring himself emperor left regional militarists to fight over the spoils (E. Young 1977). Between 1916 and 1927, the Beiyang Army regime in Beijing seldom could command provincial governments outside the northern provinces it controlled militarily. Beiyang generals and the other regional militarists fought among themselves in the hopes both of increasing their own territory and of becoming the lucky group to reunite all of China under its command. Since most revenues went to finance wars, only a limited amount was left to fund a modern government.

However, some provincial leaders did enact modernizing policies during the warlord period (1916–27). Feng Yuxiang, Yan Xishan, Chen Jiongming, and others had modernizing plans or revolutionary backgrounds (Sheridan 1966; Gillin 1967; L. Chen 1999). Among the regional military powers was, of course, the Guomindang, led by Sun Yat-sen and located from the early 1920s in Guangzhou. After bargaining, often unsuccessfully, with the warlords from Yunnan and Guangxi and with the local militarist Chen Jiongming for power over Guangdong province, the GMD finally declared the establishment of a national regime with its capital in Guangzhou in 1925. Relying on the people of Guangdong for much of its early funding (Fitzgerald 1990), the GMD and its National Army launched the Northern Expedition to unite the country in 1926. The GMD's left-wing faction set up a new national government in Wuhan, and the right wing, led by Chiang Kai-shek, established a rival government in Nanjing. After the White Terror of 1927, the left wing was eliminated or driven from power, and the Nanjing government set about establishing new state institutions. Its ability to do so, and the territorial reach of the government's power, were limited by the deals the GMD had struck with warlords, elites, and gangsters during its fight for power (Sheridan 1975: chap. 6; Wakeman 1995). Throughout most of the period 1928–37, the GMD had firm control only over Jiangsu, Zhejiang, Anhui, and Jiangxi. The rest of the country was still controlled by warlords. In the provinces that the Nanjing government controlled, it launched ambitious modernization programs, touching on virtually every aspect of social and economic life, to improve agriculture, to raise literacy rates, to control prostitution, gambling, and opium use, to promote women's rights, to improve public health, to build industry and commerce, and to regularize police and fire protection, just to name a few areas (Hayford 1990; Hershatter 1992; Lipkin 2001; Zhou Yongming 1999; Fitzgerald 1996). It also thoroughly restructured government itself and created some fairly effective central institutions under difficult circumstances (Strauss 1998). Of course, another important and increasingly expensive state goal was to defeat the Communists. All these projects met with varying degrees of success. Still, it is rather striking how certain aspects of the GMD program, such as the New Life Movement, and elements of the modernist GMD vocabulary seeped into the policies of even the regional militarists who were not under tight GMD control.

Some have argued that GMD programs were already failing because of corruption, mismanagement, and criminality by the time of the full-scale Japanese invasion in 1937 (Eastman 1974; Tien 1972); others hold that the GMD was making strides in institution building until these efforts were prematurely ended by the invasion (A. Young 1971; Strauss 2000). That argument is impossible to settle, but in any case these projects came to a halt with the invasion of coastal and northern China after 1937.

Financing the Republican State

Initially the Republic of China continued many of the basic elements of the late Qing fiscal system. However, particularly beginning in the late 1920s, both provincial and central governments made efforts to bureaucratize and rationalize what was a fairly chaotic public finance and taxation system.

Until 1927, the formal revenue-sharing arrangement between the center and the provinces was based on the assignment of certain tax revenues to the center and of certain others to the provinces. Land tax revenues were assigned to the central government, and provinces were permitted to levy and retain surtaxes up to 30 percent of the main tax (A. Young 1971: 69). In practice, however, throughout most of the warlord period, the central government was not able to enforce this division of tax revenues. The only tax revenues that the central government received in this period were the ones it collected on its own and the ones collected in the provinces directly under its control. The central government collected the salt tax and customs taxes directly using organizations separate from the territorial structure of government: the Customs Administration and the Sino-Foreign Salt Inspectorate (Strauss 1998: 59).

During the early Republic, the provinces and counties relied heavily on land surtaxes and on commercial taxes and surtaxes, which were essentially unregulated. Generally speaking, the collection process itself determined the division of revenues among levels of government. The counties were in charge of tax collection; they turned the main tax revenues over to the province, but levied their own surtaxes for their own use. Although the provinces often issued regulations on permissible surtax levels, in practice, local surtaxes were poorly understood and regulated by the province; they frequently exceeded the

amount authorized for the main tax. County finances were not centralized, and the many disparate social welfare and infrastructural projects organized by the late Qing elite (Kuhn 1986: 332) were financed sometimes informally but always diffusely and often did not pass through the county government office. Villages also collected their own quasi-legal and largely unregulated surtaxes. Although some scholars argue that this unregulated local taxation led to a heavy tax burden on the population (C. M. Chang 1934; Sheridan 1975), altogether all levels of the state managed to extract only about “one-twentieth of total output” during the prewar decades (Rawski 1989: 26), a relatively low percentage even in a developing country at the time.

After 1927, the new central government tried to regularize and clarify revenue sharing and to systematize the fiscal system at all levels. In 1928, the First National Public Finance Conference officially surrendered central claims to the land tax and assigned 100 percent of the land tax revenues to the provincial governments (Tien 1972: 74–75). This was a *de jure* recognition of what had been the *de facto* situation for over ten years. This left the central government with customs and salt taxes as its main sources of revenue. Another major change in the tax system was that beginning in 1930, the *lijin* was gradually abolished, at least in part because the provinces were usurping a fair amount of these revenues from the center. It was replaced with a series of more rationalized excise taxes on cigarettes, cotton yarn, and other products administered by a new, centrally controlled bureaucracy, the Consolidated Tax Administration (A. Young 1971: 65; Strauss 1998: 126–33; Tien 1972: 79). In 1936, the central government also tried to institute an income tax and an inheritance tax, but these were implemented only on a very small scale before 1937 and applied almost exclusively to state employees (Strauss 1998: 136). Confounding many of these efforts at rationalizing finance was that for several years after 1928, the central government did not have a budgeting system in place—there had not been one since 1919–20—and the provinces were not required to submit budgets to the center until after 1932 (A. Young 1971: 80, 72).

As for local public finance, the GMD government made several attempts to reorganize its administration after 1928. The central government issued the County Organization Law in 1928 in an effort to bureaucratize county government, including the administration of public finance and taxation (Kuhn 1986: 345–46), and to squeeze out

the local elites, unofficial tax-collection agents, and others who had become involved in the administration of public finance. Further regulations about county finance came out of the Second National Public Finance Conference of 1934, which attempted to delineate more clearly both the revenues and the expenditure responsibilities of county governments. The center instructed the provinces to tell counties to eliminate the *kejuan zashui* 苛捐杂税, “exorbitant taxes and miscellaneous levies,” which essentially meant to standardize the types of land and commercial taxes collected at the local level and to resurvey and reregister land (A. Young 1971). As we will see, both these efforts had mixed results, in part because even as the central government was restricting county revenues, it was increasing required expenditures. In addition to its efforts to restructure county finance, the regime also established fiscally independent municipal governments, clearly separating urban administration from county and provincial government for the first time (Stapleton 2000; Coleman 1984; Lipkin 2001). These fiscal and administrative reorganizations often resulted in changing and rising tax burdens and contributed to increases in tax protest and resistance throughout the period.²

The following chapters describe what happened within the institutional framework of taxation and public finance that existed in China during the Nanjing decade as local officials strove to administer public finances and to build bigger, more modern local states.

PART II

*Local States in
Post-Mao China, 1980–1992*

PART II

Introduction

Profound institutional changes occurred between 1937 and the early 1980s. Public finance and tax institutions during both the Japanese occupation and the Civil War period helped to shape the institutions of the Mao period (1949–76), not least because the institutions of that era were a reaction to the chaos of the late Republic. Although the post-occupation GMD regime aspired to control tax and public finance, the situation was quite disordered until the new People's Republic remade the system by centralizing control over taxation and public finance. As we shall see, at the most general level the institutional changes of the Mao era should be considered state building. However, in a rather interesting development, state building in the policy area of taxation and public finance ceased around 1956.

Politics and Public Finance During the War

After Japan invaded China proper in 1937, three different groups vied for state power until 1945: Japanese puppet governments, the GMD, and the CCP. The Japanese installed several puppet regimes: Manchukuo in the northeast, the Federated Autonomous Government in Mongolian areas, the Provisional Government of the Republic of China in Beijing and nominally in control of North China, and the Reformed Government (1938–40) in Nanjing to manage Central China. After 1940, the Beijing and Nanjing regimes were combined into a single puppet National Government under Wang Jingwei, headquartered in Nanjing. A separate puppet government also controlled Guangzhou and parts of Guangdong province.¹ The GMD

moved its capital inland to Chongqing in 1938 and continued to lay claim to all of China. In reality, it controlled most of south, southwest, and inland central China except for the rail lines. The CCP's main stronghold by 1935, at the end of the Long March, was in the Shaan-Gan-Ning (Shaanxi, Gansu, and Ningxia) border region, with Yan'an as its capital. Behind Japanese lines, it also extended effective political control over base areas in North China in the Jin-Cha-Ji (Shanxi, Chahar, and Hebei) border region by 1938 and in central and eastern China by 1941 (Lindsay 1970; Y. Chen 1986: chap. 1). From the time of the famous 1936 Xi'an Incident, when Chiang Kai-shek was kidnapped and forced into the Second United Front with the Communists, until the 1941 New Fourth Army Incident, when the two parties again engaged in armed combat (Y. Chen 1986: 64–75), the GMD and CCP cooperated uneasily. In many areas, the sudden and frequent changes in the boundaries of the three contenders' control challenged any powerholder attempting to reassure the inhabitants of an area that they would not be punished for cooperating by the succeeding regime.

The details of tax administration and public finance during this period are not as well understood as that of other periods in Chinese history. For all three aspiring states, the primary objective of tax collection was to fund military operations. However, the Communists also had political objectives that distinguished their taxation methods from those of the GMD and the puppet regimes. The CCP's evolving strategies and mechanisms for taxing the rural population became the foundation for the PRC's approach to rural taxation.

Of the three contenders for power during this period, the least studied is, perhaps, the puppet governments. These regimes inherited the basic structures of tax and public finance of the GMD; they also had control of China's most industrially developed regions, including Manchuria and coastal areas such as Shanghai.² They directly or indirectly expropriated many large and heavy industries as well as communications and transportation (Boyle 1972: 101–2, 116–17), and the profits from these industries appear to have been an important source of revenue. Neither the Beijing nor the Nanjing puppet governments could wrest customs revenues from the British, who only relinquished control when Japanese occupation of the major ports forced them to do so—but the revenues then went to Japan, not to the puppet regimes (Lincoln Li 1975: 131–32). As a result, both regimes were con-

stantly short of revenue and “became dependent on funds grudgingly supplied by Japan, extralegal income, currency manipulation,³ and squeeze” (Boyle 1972: 115). Both also apparently experienced difficulties in collecting taxes in rural areas. In the late 1930s and early 1940s the Beijing puppet regime reorganized village government and the formal structures of taxation and public finance, sweeping away what Duara (1988: 224–26) calls the old “cultural nexus of power” and allowing the state to register land and extract resources without opposition from local elites. How effective these reforms were, we do not know. Anecdotal evidence suggests that the Japanese army and the puppet regimes found other ways to extract resources from the Chinese countryside, such as looting and raiding. Beyond this, Western-language sources say little about taxation and public finance under the Japanese-sponsored governments.

In the areas controlled by the GMD, the government tried to consolidate tax collection and to push through the reorganization of taxation and public finance that it had attempted to implement since the beginning of the 1930s. It succeeded in establishing the collection of direct taxes such as the income, business, and inheritance taxes and relied increasingly on this source of revenue (Strauss 1998: 145). However, the GMD government soon encountered severe difficulties in implementing these policies and in financing itself in general. First, when the GMD moved inland, it moved away from the industry and commerce that its fiscal system was designed to tax; as a result, revenues from the “Customs, Salt, and Consolidated Tax Administrations . . . slowed to a trickle by 1940” (Strauss 1998: 143). Moreover, the GMD’s efforts to reform taxation and public finance were complicated by the inflation that started as early as 1937 and became astronomical by 1941; for example, food prices in Chongqing escalated 1,400 percent in 1940–41 (Eastman 1991b: 154–55). In response, the government began collecting the land tax in grain rather than in cash, undertook a program of compulsory grain sales and “borrowing” (Eastman 1984: chap. 2), and abandoned the income tax, turning to taxes on salt and the transport of goods. In 1942 the government also established “state monopolies for the distribution of salt, sugar, tobacco and matches” (Eastman 1991b: 155). Because tax revenues were producing only a tiny fraction of the amounts needed for the war⁴ and because there were no capital markets in the interior to raise funds by selling bonds, the government printed vast amounts of money, thus contributing to the inflationary spiral (A. Young 1963: 39–

42). After 1941, foreign aid was also of crucial importance to the war effort (A. Young 1963: chap. 10).

The war years were important in the development of CCP strategies for public finance and tax administration. During the United Front period, the GMD central government provided financial support for the Shaan-Gan-Ning Communist base area, which became a special administrative region of the Republic of China.⁵ After hostilities erupted between the two groups in 1941, these transfers stopped, and the Communists began to seize more territories from the GMD and to establish political and administrative power in them. These base areas shared a number of characteristics. First, the areas held by the Communists were almost exclusively rural, and so the CCP concerned itself primarily with agricultural taxation. Especially during the early part of the occupation, when the party wished to emphasize the United Front against Japan instead of the class struggle, tax reduction (along with interest and rent reduction) was an important tool in creating a political program attractive to the peasants (Selden 1971: chap. 3; Keating 1997: chap. 5). At other times, both before and after the United Front, local cadres emphasized land reform instead. Another tactic used in the base areas was to tax landlords so heavily that they were nearly eliminated; this allowed the CCP to avoid the struggle involved in land reform (Lindsay 1970: ii). During the first part of the war, “when administration was still rudimentary” in the Shaan-Gan-Ning border region, taxes were “collected at mass meetings through appeals for voluntary patriotic donations” (Selden 1971: 137). As the party’s administrative capacity improved, tax collection was generally carried out by village cadres or local peasant activists, who had taken over that job from the tax farmers and professional collectors of the GMD (Y. Chen 1986: 376–82; Keating 1997: 144). Besides agricultural taxes, the CCP also levied a tax on goods moving into and out of Japanese-occupied areas and imposed excise taxes on certain luxury goods whose consumption they wished to discourage (Lindsay 1970: 8–9). In North China, the party experimented with several different land taxation schemes. In the “equitable burden” system, an elected village council assigned households a tax quota based on a loosely defined ability to pay; this system was followed by the “unified progressive tax,” which was based on both the quality and the quantity of land owned by a household as determined by a survey conducted by the village council (Lindsay 1970: 2, 4, 8–9). Beginning in

1940 in Central and East China, party policy was to consolidate the miscellaneous taxes inherited from the GMD and replace them with the National Salvation Public Grain Tax (Y. Chen 1986: 369); the same tax was also collected in the Shaan-Gan-Ning region (Schran 1976: 185–87). Besides cash or in-kind tax payments, CCP governments relied heavily, too, on corvée, which made sense in a cash-poor economy. Not much is known about the administration of finances once taxes were collected in Communist-held areas.⁶ By their nature, the areas administered by the CCP behind Japanese lines were scattered, and it was not easy for the base areas to communicate, let alone transfer money. Financial administration seems to have been mostly a local affair from about 1940 until 1945 (Y. Chen 1986: 369).

Politics and Public Finance During the Civil War, 1946–49

After the Japanese surrender in 1945, the GMD and the Communists, who by this time had expanded their power base significantly, raced to establish political power in the occupied areas (Pepper 1986). Foreign governments recognized the GMD government as the legitimate central government, and the GMD officials who had spent the war years in exile in the interior returned to their posts at all levels of government. At first the CCP and GMD tried to work out a compromise, but by 1946 they were back at war. Surprisingly, despite abundant military aid and weaponry from the United States and despite the advantages that came with being the government in power, the GMD armies quickly lost to the Red Army, at first in guerrilla warfare and later in pitched battles. By early 1949, it was clear that the GMD would be defeated. In January of that year, Chiang Kai-shek resigned as president, and the leadership of the party and government began the retreat to Taiwan. GMD rule on the mainland effectively ended with the establishment of the People’s Republic of China on October 1, 1949.

During the Civil War, the GMD government tried to implement the tax system it had sought to put in place before the Japanese invasion. Once again, it tried to enforce the payment of direct taxes, to establish a rational commercial tax system, and to resurvey and tax land. As before and during the war, the GMD encountered serious obstacles. Although formally abolished, tax farming as a major means

of rural tax collection flourished, as did the *kejuan zashui* (unauthorized taxes and levies) that counties had collected all along. Even more devastating was the continuing problem of inflation, which became hyperinflation by 1948. Currency reform did nothing to alleviate the problem. Both local and central governments continued to collect land taxes in kind and to "borrow" grain. Although the central government was aware that the tax burden on farmers was far too heavy, it was forced to raise tax rates in 1948, even as its ability to collect those taxes declined (Eastman 1984: 80). The state's inability to collect taxes severely hampered its ability to govern and to create an effective army.⁷

Meanwhile, the Communists built on their experiences in the base areas during the anti-Japanese war. In the "liberated" areas, the Communists began to emphasize class struggle by engaging in land reform on a large scale and by attacking the rural classes identified with the GMD: landlords, usurers, and sometimes rich peasants. In place of tenants, there would be only owner-cultivators, who would pay low taxes to the government. As the Red Army began to capture cities, however, the CCP had to confront the problems of taxing and administering urban economies and of creating a system of public finance for a remarkably large country.

Public Finance and Taxation, 1949–58

One of the new regime's first tasks was to establish a stable economy and a reliable fiscal system. Once hyperinflation was under control and a new currency had been issued, it was possible to establish a rational scheme of taxation and budgeting (Riskin 1987: 42; Lardy 1978: chap. 2).

At first, taxation did not differ radically from the system under the GMD, since the extraction of resources from the urban economy was unknown territory for the new regime, and the new state was interested chiefly in creating economic stability and trust. It continued to levy many of the same commodity taxes that the GMD had collected, but it gradually developed a more effective system of income taxation than the GMD had ever been able to create. Altogether, the state imposed 23 taxes on industry and commerce (Bachman 1987: 124). In cities and even in some counties, the same tax and public finance bureaucrats who had worked for the previous

governments continued in office because they alone had the skills and knowledge to carry out the work.

In rural areas, land reform was the first step in reforming the tax system. Completed in most places by the end of 1952, land reform transformed the land-tenure system into one of small free-holdings. Each owner-cultivator was responsible for paying the taxes on his or her family's land. Land taxes were levied at progressive rates, ranging from 7 percent to 30 percent (Donnithorne 1967: 338). Starting in late 1953, farmers were also subject to a system of grain procurement. At that time, the state began creating a grain monopoly, and peasants were required to sell their "surplus" grain to the state at fixed prices (Shue 1980: 214–45).⁸ As time passed, the grain quotas that peasants had to deliver to the state, first as individual households and later as collectives and communes, became more onerous and even disastrous, especially during the Great Leap Forward (Oi 1989, chap. 3; D. Yang 1996). More than the agricultural tax itself, the grain procurement system helped to fund the industrialization program then under way. Tax collection as well as grain procurement were administered by village cadres.

After the economy had stabilized, the socialist transformation of the economy began, and the system of taxation changed along with it. Between 1953 and 1956, most of the urban economy was nationalized and then collectivized. In 1952 and 1953, peasants were encouraged to join mutual aid teams, and by 1956 most had become members first of semi-socialist cooperatives and then of fully collectivized agricultural production cooperatives (Shue 1980, chap. 7; Donnithorne 1967, chaps. 2 and 3; Perkins 1966: chap. 4). The First Five-Year Plan, implemented in 1953, coordinated the activities of the collectivized economy. Collectivization of industry, commerce, and agriculture had several important effects. First, it drastically changed the way that the state collected taxes. Individuals ceased to be a major target of taxation; instead collective units became the focus of the system. In urban areas, this meant that as private entrepreneurs were squeezed out of business and into collectives, in part through onerous taxation, it was the collectives that the state monitored and dunned for taxes (Bachman 1987: 124–25). In rural areas, the collective unit took over the task of paying taxes.⁹ In the centrally planned economy, tax payments became a matter of accounting, rather than a subject of struggle. After agricultural collectivization, a progressive tax system no longer made sense. The land tax was set at a single flat rate, nationally averaging 15.5 percent of

"normal annual yield," a somewhat arbitrary amount determined by surveys based on production in 1953 (Donnithorne 1967: 339; Riskin 1987: 70). Tax liabilities did not change for several decades thereafter, even though production improved considerably; essentially the land tax became a fixed quota (Oi 1989: 17–20; Perkins 1966: 47). Agricultural taxes were collected, in kind, from the collectives by agencies of the local offices of the Ministries of Commerce and Food, with the cooperation of the Ministry of Finance through its Agricultural Tax Bureau (Donnithorne 1967: 345).

From 1950 until the Great Leap Forward, the sources of state revenues evolved along with the economy. The main components of revenue were agricultural taxes, industrial and commercial commodities taxes, and state enterprise profits and depreciation allowances. Between 1950 and 1959, agricultural taxes dropped from 29 percent of total revenues to a mere 6 percent, and industrial and commercial taxes declined slightly from 36 percent to 29 percent. Not surprisingly, state enterprise profits and depreciation jumped from 13 percent to 62 percent of total revenues (Riskin 1987: 72–73; Ecklund 1966: 20, 25–27). Profits, rather than taxes, were the mainstay of PRC budgets.¹⁰ Since many of the enterprises were owned by the state or by collectives and had soft budget constraints, there was little resistance to the collection of taxes.

Management of the state budget also evolved over time. In order to gain a firm grip on state income and spending, in 1950 the central government instituted a system of total budgetary centralization (Lardy 1978: chap. 2). The provinces and subprovincial units ceased to have independent sources of revenue and had to remit all revenues collected within their jurisdictions to the central government. They also had to obtain the central government's permission for all expenses (Oksenberg and Tong 1991: 5). Essentially, the budgets of all levels of government, from the center to the grassroots level, were consolidated until reasonable expenditures and revenues could be determined. From 1951 to 1958, the center divided revenues with the provinces. The center and the provinces had "their own respective fixed expenditures and revenue sources (mostly from enterprise profits)," and the two levels shared revenues from "several locally-collected taxes" (Oksenberg and Tong 1991: 5). The revenue-sharing rates were designed to produce enough income to pay for budgeted provincial expenditures; the provinces were permitted to keep a certain amount of surpluses at the end

of the year (Oksenberg and Tong 1991: 5). This system linked income and expenditure and therefore created incentives for provinces to increase revenues, although local officials still complained that the system was too centralized (Lardy 1978: 68).

The system created a huge amount of tax and public finance work, and the central government responded by establishing the Ministry of Finance in 1949. Its responsibilities included "compilation of the central government's annual budgets, the collection of revenue, and the supervision of the financial work of all the other ministries and of local organs of finance and taxation which [were] established at the different administrative levels" (Donnithorne 1967: 365–66). The ministry supervised the various banks and insurance companies; within it were a Budget Bureau, General Taxation Bureau, Agricultural Tax Bureau, and bureaus for the economic construction and financing of general administration, defense, education, and culture. Until 1958, at the local level, tax offices collected revenue, and public finance offices disbursed funds (Donnithorne 1967: 366). That is, the central government did not establish its own tax collection apparatus but relied (except for salt and customs taxes) on local governments to collect all tax revenues. This pattern continued until 1994 (World Bank 1990: 115).

Tax and Public Finance During the Great Leap Forward

The inauguration in spring 1958 of the Great Leap Forward threw the economy into disarray. Workers toiled day and night on sped-up assembly lines in the belief that huge labor inputs could catapult China's industrial production past Britain's and reach the level of the United States. Farmers worked constantly in the fields and in backyard steel furnaces to produce the surplus and inputs necessary for the industrial take-off. The yields supposedly achieved were mind-boggling, and indeed proved too good to be true. As has been well documented, tragedy struck when tax collection and grain procurement quotas were increased to keep pace with the incredible production increases, and millions in the countryside starved from 1959 to 1961 (Bernstein 1984). Grain that could have fed peasants was exported; land that could have grown grain was converted to cash crops; agricultural workers were diverted to industrial work; and communal mess halls led to massive wastage of food in rural communes (D. Yang 1996:

65). The result was somewhere between 16.5 million and 30 million excess deaths between 1958 and 1961 (D. Yang 1996: 37–38).

Under these circumstances, the state budgeting system disintegrated (Y. Huang 1994). It was impossible to obtain realistic data on revenues, and expenditures skyrocketed because of the inflated revenue figures passed upward by frightened lower-level cadres. As a result, the planning system collapsed, and the budget went into deficit (D. Yang 1996: 34–39). As the Great Leap Forward began in 1958, the center had just implemented a fiscal decentralization scheme as part of a larger program to give provinces more control over tax rates, prices, “grain management, planning, and materials distribution management” (Lardy 1975: 28, 1978: chap. 3). Under the new revenue-sharing system, all revenues (rather than specific revenue items, as before) collected in a locality were divided between the center and province at a negotiated rate. “The income includes enterprise profits and taxes, as well as year-end surpluses” (Oksenberg and Tong 1991: 6). Since revenues were wildly unpredictable as a result of the economic dislocation and chaos caused by the Great Leap Forward, this was more practical than the earlier revenue-sharing method because determination of the division of revenues did not depend on forecasts of revenue from any particular source. During this period, many state-owned enterprises, mostly consumer goods manufacturers, were transferred from central to local ownership. This decentralization reduced the center’s overall share of state revenues and expenditures (Donnithorne 1972: 3, 9).¹¹ Extrabudgetary revenues, including some “profits retained by enterprises and their controlling central ministries or local departments . . . [and] certain local surtaxes and fees,” began to grow in importance as a source of local investment funds (Donnithorne 1972: 10).¹² By 1958, they equaled between 20 and 30 percent of total local budgetary revenues (Donnithorne 1967: 391). They thus represented a growing local source of revenue that the center could not control.

Meanwhile, in 1958 the tax system was radically simplified. After the simplification, only ten kinds of industrial and commercial taxes remained (Bachman 1987: 125). The five commodity taxes to which state and collective industrial and commercial enterprises had been subject were combined into a single unified commercial and industrial tax (Donnithorne 1967: 372). A commercial and industrial income tax was also established for collective enterprises. “Provinces received for the first time the power to adjust tax rates and to increase the scope of

certain taxes” (Lardy 1975: 29). Furthermore, since collectivization had resulted in many fewer taxpaying units and since the tax system was much simpler than before, local tax bureaus were shut down, and their employees were reassigned to local finance bureaus (Donnithorne 1967: 366).

Tax and Public Finance During the Cultural Revolution

After several years of relative calm following the Great Leap Forward, the public finance and taxation systems, like the rest of the state apparatus, fell into chaos during the first years of the Cultural Revolution. Officially, total revenues continued to be shared between province and center until 1967. In reality, after a brief period of centralized control in 1968, the pre-1958 system of localities retaining the revenues from certain fixed sources and sharing revenues from certain other taxes with the center resurfaced. However, the wholesale purging of bureaucrats meant that no economic plan was compiled in 1967 and 1968. This made it impossible to implement the revenue-sharing program (Oksenberg and Tong 1991: 7–8). In fact, with much of tax and finance staff “overthrown” and displaced first by young radicals and then by the Cultural Revolution committees of cadres and PLA officers, very little tax and finance work of any kind took place during 1967 and 1968.

After the high tide of the Cultural Revolution passed in 1968, the balance of power in public finances between the center and province changed significantly. The provinces

acquired increased budgetary authority to arrange the structure of local spending, gained control over a larger portion of revenues and expenditures than the central government, retained the total share of year-end budgetary surpluses, secured multi-year revenue-sharing rate adjustments, and earned the power to determine the mode of fiscal relationships with subordinate levels, while the centre also imposed new controls on provincial revenues and expenditures. (Oksenberg and Tong 1991: 8–9)

The provinces were now much more in control of their own finances. And significantly for the story told in this book, they now had the power to determine their own subprovincial revenue-sharing arrangements and subprovincial administrative structures.

During the 1970s, the center experimented with a number of revenue-sharing systems while still allowing the provinces increased autonomy. From 1971 until 1973, a "lump-sum transfer" system was in use. Every year, the provinces negotiated their income and expenditures budgets with the center, remitted a fixed quota of revenue, and retained the balance for provincial use or assumed responsibility for making up shortfalls.¹³ This system gave the provinces incentives to increase revenues and guaranteed the center a fixed amount of income, but it did not give the center access to unexpected windfalls or protect it from unexpected shortages in provincial revenues. In 1974 and 1975, the system was changed in order to provide more security for poorer provinces. Expenditures and revenues were delinked; the provinces negotiated expenditure targets with the center and then received subsidies if their revenues were insufficient. Over and above the negotiated expenditures level, provinces were permitted to retain a small percentage of revenues collected within their jurisdictions in order to provide them with an incentive to increase revenue collection (Oksenberg and Tong 1991: 10–12). In 1976, this system was abandoned, and the sharing of total revenues was restored.

For the most part, the tax system remained unchanged from the earlier period. The only important change was that the tax system was simplified even further. By 1973, "only the industrial and commercial tax . . . , the industrial and commercial income tax . . . , customs duties, and the agricultural tax remained as major tax categories" (Bachman 1987: 125). Except for the customs tax, taxes were still collected by the local governments on behalf of the center. As a result of the decentralization of the late 1950s and 1960s, the central government received revenues directly only from enterprises it owned and from customs duties (Oksenberg and Tong 1991: 10).

Tax and Public Finance During the Reform Period

By the mid-1970s, the shortcomings of the existing system were clear: the economic system was unproductive, but the political situation prevented major changes that might have increased productivity and decreased poverty. In the absence of far-reaching reforms, during Hua Guofeng's transitional leadership in 1977 and 1978, the center experimented with a number of different revenue-sharing arrangements in

order to balance its desire to "enhance revenue, control local spending, and maintain regional fiscal equality" with the provinces' desire to maintain their new powers (Oksenberg and Tong 1991: 13). The scheme that eventually came to dominate after 1983 was originally tried in Jiangsu in 1977. Under this arrangement, the total amount of revenue was shared between province and center, as it had been in 1959–67, with the rate set to create an approximate balance between expected revenues and expenditures. Now, however, the shares were fixed for four years in order to reduce bargaining, and within an overall expenditure limit the province could determine its own expenditures as long as they were in line with the general priorities of the central government and received its approval (C. Wong 1991; Oksenberg and Tong 1991: 14). This system benefited both the province and the center because both received a share of the increased revenues created by energized local revenue collection.

Following Hua's fall from power after the Third Plenum in December 1978, the party faction led by Deng Xiaoping was able to overcome the political obstacles to economic reform. Over time, they introduced reforms affecting almost every aspect of the economy: agriculture, enterprise ownership, banking, prices, labor and product markets, trade, and, of course, tax and public finance (Naughton 1995). Underlying all these changes was a desire to reinvigorate the economy and raise standards of living from the very low, yet remarkably equal, levels of the Cultural Revolution period (G. White 1993; Riskin 1987; Harding 1987).

Agriculture was decollectivized by 1983. After some experiments with the form decollectivization should take, commune lands were divided up and assigned to individual families, who became responsible for all production-related decisions (Hartford 1985; Kelliher 1992). Under the household responsibility system, each family signed a contract with the village government agreeing to produce and deliver a certain amount of grain or other products in return for the right to use the land for a fixed amount of time (Oi 1989: chap 9; K. Zhou 1996; D. Yang 1996; Zweig 1997). These grain contracts replaced the grain procurement system as the state's method of ensuring that enough grain was produced; sometimes the grain quotas were still onerous. Grain procurement officially ended in 1985, but the state continued to purchase grain from farmers and manipulated prices to encourage or discourage production. Local governments' issuance of

IOUs for state-purchased grain jeopardized this system in the late 1980s and the 1990s (Wedeman 1997).

These changes in agricultural production had ramifications for tax administration. Although the rates and targets of agricultural taxation did not change, village cadres became responsible for collecting the agricultural tax from dozens or hundreds of families. This made their task enormously more complicated. Furthermore, rather than taxing only grain, the state initiated an agricultural products tax on the sale of non-grain cash crops. On the whole, however, official rates of agricultural taxation remained low; it was other kinds of unofficial local fees and levies that truly burdened the farmers and provoked protest during the reform years (Lü 1997; Bernstein 1999; Bernstein and Lü 2000, 2003).

The reform era brought a retreat from the highly simplified industrial and commercial tax system of the Mao era. As new types of economic activity flourished, the government had to create taxes that gave officials more flexibility in dealing with different sectors and creating levers to encourage or discourage certain activities. Reform of the tax system began in 1984. Rather than continuing to rely on the industrial and commercial tax, which as a turnover tax did not reward profitability, the government split the tax into smaller components such as a value-added tax, a product tax, and a business tax (Bachman 1987: 132–33; C. Wong et al. 1995: 48). Furthermore, after 1984, rather than simply remitting profits to the state, the larger state-owned enterprises (SOEs) paid a flat 55 percent income tax¹⁴ and the smaller SOEs a progressive tax to the government units that owned them. In 1987, an enterprise contract system developed, in which “enterprises contract[ed] to pay taxes on a specific level of profits . . . [and were] then subject to a lower (or even zero) rate of tax on profits above that level” (C. Wong et al. 1995: 56–57). The contract system introduced a considerable amount of bargaining between enterprises and public finance officials into the system, and some SOEs continued to remit profits instead of paying income tax. Collective, individual, private, joint venture, and foreign enterprises were also subject to income tax under a set of separate tax codes. Together, these business taxes produced the vast majority of tax revenues. In 1980, a personal income tax was introduced, but its personal exemption of 800 *yuan* meant that almost nobody except foreigners had to pay it until the mid-1990s.¹⁵ Other minor taxes were also introduced in the early 1980s (C. Wong

et al. 1995: 60–65). Overall, the tax system became much more complex and challenging to administer.

The tax administration system, which had essentially been eliminated at the local level after 1958, had difficulty keeping up. After the 1978 plenum, county governments were permitted to establish tax bureaus separate from public finance bureaus. However, personnel and tax-related expertise were sorely lacking (Bachman 1987: 130). Schools to train tax cadres were established, and demobilized military personnel with accounting backgrounds were transferred to the grassroots tax administration system, but the local units still encountered problems tracking the boom economy. At the central level, a reorganization took place in 1988 that would presage the 1994 tax reform. The General Taxation Bureau was transferred from the Ministry of Finance to the newly constituted State Administration for Taxation (World Bank 1990: 116). That organization had a quasi-ministerial status, although it was to an extent supervised by the Ministry of Finance. Even at the central level, however, qualified personnel were in short supply. In 1987, the General Taxation Bureau, which was “responsible for tax policy and administration and for supervising the assessments and collections by local tax bureau officials employed by provincial and lower level governments,” had only 345 employees (World Bank 1990: 116).

Between 1980 and 1982, in the search for the revenue-sharing system that would best promote economic development, the center allowed provinces to experiment with five different systems. These ranged from the highly autonomous “lump-sum transfer” model of Guangdong and Fujian, in which the province paid a fixed sum to the center and was otherwise on its own except for centrally issued soft targets for expenditures, to the center-dominated model mandated for Beijing, Shanghai, and Tianjin, which had to negotiate a sharing rate with the center every year and had no control over the structure of local spending (Oksenberg and Tong 1991: 19–22; Donnithorne 1981: 4–7). By 1983, the desire of provincial governors for autonomy trumped central efforts at exerting control because central officials needed provincial support for the overall reform program (Shirk 1993: 166–69). Guangdong and Fujian were permitted to continue using the “lump-sum transfer” system,¹⁶ but the other provincial-level units were subject to a version of the Jiangsu model described above. That is, the province and center negotiated a five-year agreement for a division of revenues that left the

province an amount approximately equal to its expenditures, which were guided by soft targets set by the center. This sharing arrangement applied only to a category of funds called "shared revenues," but not to revenues collected in a particular area and designated either "central fixed revenues" or "local fixed revenues" (C. Wong et al. 1995: 86; C. Wong 1997). The provinces determined their own revenue-sharing arrangements with subprovincial units and were not, theoretically, permitted to "incur deficits, issue local bonds, or confiscate, transfer and apportion sub-level resources without compensation" (Oksenberg and Tong 1991: 18). They also remained subject to national tax and planning regulations. To a great extent, all these complicated sharing arrangements were undercut by the central government's moves to increase its share of revenue. At various times during the 1980s and early 1990s, it required the provinces to make "loans" that it never repaid; it introduced new taxes that were paid to the center; and it claimed ownership of profitable SOEs (C. Wong et al. 1995: 96–97).

From 1984 until 1994, the basic framework outlined above remained in force; in order to increase the center's rapidly declining share of revenue (S. Wang 1994: 98; C. Wong 1991), the center borrowed from the provinces and implemented measures to increase its control of extrabudgetary funds, which had ballooned by the late 1980s. According to Wang Shaoguang, in 1978, extrabudgetary revenues equaled 31 percent of budgetary revenues, already a substantial sum. But between 1979 and 1988, "while budget revenues grew 133 percent, extrabudgetary funds increased five-fold," largely due to the surreptitious transfer of items from the official budget into local governments' off-the-record grasp (S. Wang 1994: 99). The increasingly common collection of "self-raised funds" by local governments further increased the amount of state funds not under central control (C. Wong 1998).¹⁷

After 1994, the central government attempted to redress the problem of its declining revenue share by implementing a "division of taxes" system (分税制 *fenshui zhi*) in which certain taxes are assigned to local governments and others to the central government (Bahl 1998). Most previously "shared" taxes reverted to the locality. Only three taxes (VAT, the resource tax, and stock market trading tax) would continue to be shared between center and province, and they would be divided at uniform rates across the country (C. Wong et al. 1995: 132–33; Ma 1995: 16–17). This system was designed to eliminate bargaining and poaching by both center and locality. In order to ad-

minister this system, an important innovation was introduced: central and local taxes are now handled by separate organizations. Local governments have established their own local tax administration bureaucracies, and the center has established branches of the national tax authority in each locality. As of this writing, the verdict is still out on how well the system has succeeded in increasing central tax revenues (S. Wang 1997).

Did State Building Take Place During the Mao Years?

Before we move on to the empirical analysis of the reform period in the next chapter, it is worthwhile to ask whether the period of time discussed in this preface witnessed episodes of state building. It seems clear that the war and Civil War years were too chaotic to support state-building activities beyond the establishment of basic political power. How should we view the early years of the PRC, however?

Based on the definition of state building introduced in Chapter 1—growth in size, the assumption of new tasks, and extension of the state's downward reach—clearly the early years of the PRC were in many ways an important period of state building. The new state established a huge bureaucracy that reached down to the lowest levels of society and was capable of intervening in the most intimate aspects of life. At the most general level, it was able to reorganize economic, social, and political life in profound ways (Cheek and Saich 1997; Whyte and Parish 1984). More specifically, it developed a growing bureaucracy that took over aspects of social life and social control that the GMD government only dreamed of, through systems of mass meetings and the *danwei* system (Lü and Perry 1997; Walder 1986), which, among other things, supervised the allocation of jobs, housing, and food and goods ration coupons. It also took on the giant task of economic management as it constructed and coordinated a centrally planned economy (J. Lin et al. 1996; Riskin 1987).

Interestingly enough, after an initial period of state growth in the first five years of the PRC, when the state tried to tax and organize a private economy, the collectivization and socialization of the economy that began in 1956 caused the state to *contract* in size, to do fewer, less complicated tasks, and to *shorten* its reach in the area of taxation. As we have seen, most of the staff of local tax bureaus were trans-

ferred to consolidated tax and public finance offices after the nationalization of industry and commerce. In the nationalized economy, less effort was required to transfer profits from larger, consolidated state-owned enterprises than had been needed to monitor and tax numerous small private enterprises. The simplifications of the tax code in 1958 and 1972 meant even fewer tasks for tax collectors. Furthermore, whereas previous tax systems had sought to extend their reach to the individual and to enforce taxing authority at that level, by the mid-1950s the new tax system had eliminated this as a goal. Since enterprises and agriculture were collectivized, the state had to reach down only to the collective. In this sense, although the Mao period was certainly an era of state building in other parts of the state apparatus, it was *not* a period of state building in taxation and public finance.

CHAPTER 4

Local State Building in Guangdong Province, 1980–1992

At first glance, county tax and public finance officials in Guangdong in the early 1990s had little in common with their counterparts in the early 1930s. In the 1990s officials were bureaucrats, not brokers. The national polity had been deeply transformed by the Mao years, and they confronted an industrializing political economy in transition from central planning to market socialism, not a purely capitalist economy of petty producers. In fact, however, they shared one important goal with their predecessors: they, too, sought to build local state institutions that would help modernize their localities by providing the funds for more social services and a larger infrastructure. They also faced a similar problem: because of the ways revenues were shared with the province, they had difficulty getting the necessary funds.

This chapter studies local state building in Nanxiong and Kaiping counties during 1980–94, the era of the post-Mao economic reforms. In contrast to the Republican years, the central state was stronger and had lessened some of the structural political differences between regions. Vertical controls over counties were much more effective and had reduced the scale of local state variation. Local social groups, such as lineages and merchant organizations, could no longer influence local state building as they had during the Republic; one goal of the revolution had, after all, been to smash their power. Corporatist institutions that might have represented the interests of classes, such as workers' and peasants' unions, did exist, but they usually acted to mobilize support for the state rather than to press the claims of social or economic groups on the state. This combination of homogenizing