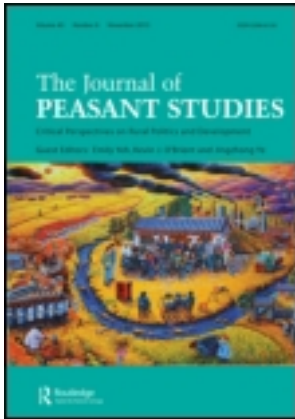


This article was downloaded by: [University of Kansas Libraries]

On: 10 February 2014, At: 18:04

Publisher: Routledge

Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: Mortimer House, 37-41 Mortimer Street, London W1T 3JH, UK



The Journal of Peasant Studies

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/fjps20>

Finance and rural governance: centralization and local challenges

John James Kennedy

Published online: 19 Dec 2013.

To cite this article: John James Kennedy (2013) Finance and rural governance: centralization and local challenges, *The Journal of Peasant Studies*, 40:6, 1009-1026, DOI: [10.1080/03066150.2013.866096](https://doi.org/10.1080/03066150.2013.866096)

To link to this article: <http://dx.doi.org/10.1080/03066150.2013.866096>

PLEASE SCROLL DOWN FOR ARTICLE

Taylor & Francis makes every effort to ensure the accuracy of all the information (the "Content") contained in the publications on our platform. However, Taylor & Francis, our agents, and our licensors make no representations or warranties whatsoever as to the accuracy, completeness, or suitability for any purpose of the Content. Any opinions and views expressed in this publication are the opinions and views of the authors, and are not the views of or endorsed by Taylor & Francis. The accuracy of the Content should not be relied upon and should be independently verified with primary sources of information. Taylor and Francis shall not be liable for any losses, actions, claims, proceedings, demands, costs, expenses, damages, and other liabilities whatsoever or howsoever caused arising directly or indirectly in connection with, in relation to or arising out of the use of the Content.

This article may be used for research, teaching, and private study purposes. Any substantial or systematic reproduction, redistribution, reselling, loan, sub-licensing, systematic supply, or distribution in any form to anyone is expressly forbidden. Terms & Conditions of access and use can be found at <http://www.tandfonline.com/page/terms-and-conditions>

Finance and rural governance: centralization and local challenges

John James Kennedy*

The ability of local governments to raise revenues has been dramatically altered over the last several decades in rural China, and this has had a significant influence on local governance. The fiscal reforms in 1994 and after 2002 significantly strengthened central government capacity to collect revenues at the provincial, county and township levels. The centralization of tax policies has also fundamentally changed the relationship between central and local administrative levels. This paper examines the cost and benefits of strengthening central government capacity and the increasing reach of the state in rural China. One of the challenges facing local officials is to provide social services and at the same time deal with underfunded mandates from higher authorities. Local officials and villagers have adjusted to changes in finance and tax policies in diverse ways. Moreover, when analyzing fiscal reforms and local governance it is important to take into account the differing perspectives from the village, township, county and center.

Keywords: local finance; taxation; rural governance; rural social services; centralization

Introduction

Financial reform after 1994 is a story of recentralization and national policies designed to recapture local revenues and create a standardized tax system as well as increased local service provision. The story begins with initial market reforms in the 1980s and decentralization of resource allocation at the lower levels to allow for local economic development decisions. This created the impetus for economic growth in the 1980s and increasing local revenues. However, tax restructuring lagged behind market reforms and the central government continued to lose revenues relative to provincial governments. By 1993, central revenues were about a third of total provincial revenues. Moreover, the central government ran a deficit while the combined provincial government budgets had a surplus (see [Table 1](#)). In order to regain fiscal control at the macro level, the central government launched the 1994 tax reform that established a tax sharing system with the provinces. This reform strengthened the capacity of the national government to collect revenues from the provincial governments, but the center also shifted responsibility for a number of expenditures to local governments. The 1994 reform provided greater autonomy to sub-provincial governments at the county and township level to levy local taxes and fees in order to make up the balance between central remittance and local expenditure needs. Soon after, the reform officials at

We would like to acknowledge Kevin O'Brien, Emily Ting Yeh and Saturnino Borrás for their insightful comments as well as the Northwest Socioeconomic Development Research Center (NSDRC) in Xian China and the Ford Foundation, Beijing, for their support.

Table 1. Central and provincial revenues and expenditures¹ from 1980–2010.

Year	Central		Provincial	
	Revenues	Expenditures	Revenues	Expenditures
1980	284	667	875	562
1985	770	795	1235	1209
1990	992	1004	1945	2079
1991	938	1091	2211	2296
1992	980	1170	2504	2572
1993	958	1312	3391	3330
1994	2907	1754	2312	4038
1995	3257	1995	2986	4828
1996	3661	2151	3747	5786
1997	4227	2533	4424	6701
1998	4892	3126	4984	7673
1999	5849	4152	5595	9035
2000	6989	5520	6406	10,367
2001	8583	5768	7803	13,135
2002	10,389	6772	8515	15,281
2003	11,865	7420	9850	17,230
2004	14,503	7894	11,893	20,593
2005	16,549	8776	15,101	25,154
2006	20,457	9991	18,304	30,431
2007	27,749	11,442	23,573	38,339
2008	32,681	13,344	28,650	49,248
2009	35,916	15,256	32,603	61,044
2010	42,488	15,990	40,613	73,884

Notes: ¹100 million yuan

Source: China Statistical Abstract (2011).

the lowest administrative level shifted their key duties from service provision to revenue collection. The change in funding expenditures created uneven tax burdens on villagers throughout rural China. In order to further centralize the tax system down to the micro level and reduce villager burdens, the central government initiated the tax-for-fee reform that eliminated most local fees in 2002, and then the abolition of basic agricultural taxes in 2006. This is a remarkable achievement. In fact, it is the first time in over 2000 years that the rural population has not been subject to an agriculture-based tax or fee. The 2002 tax reform successfully reduced villagers' burdens and extended the reach of the state.¹ The main function of township officials shifted from tax and fee collection back to service provision, but the new reforms also weakened township governments and increased government debts at the township and county levels. Thus, tax reform in China is a story of recentralization with both costs and benefits for local finance and governance.

The fiscal reforms dramatically altered the ability of county and township governments to raise revenues, and this has a significant influence on governance, especially at the township level. The town (*zhen*) or township (*xiang*) is the lowest level of official administrative authority in China, and in the 1990s rural residents blamed township officials for excessive

¹This refers to Shue (1988) and the ability of the central government to influence local officials. Also see Oi *et al.* (2012) for a similar discussion

taxation in the countryside. Indeed, township officials had a difficult job as they attempted to provide social services and at the same time deal with underfunded mandates from higher authorities. These officials adjusted to changes in finance and tax policies in various ways. For example, soon after the 1994 tax reform, township governments in the inland poorer regions had to impose more informal fees and levies on individual agricultural households, while wealthier townships in the coastal areas relied on local industry for resources, and villager households experienced little change in their agricultural tax and fee rates (Lin and Liu 2007). In some areas, township leaders took out loans to meet county revenues targets (Zhao 2006). After the implementation of the tax-for-fee reform and the abolition of the agricultural tax in 2006, township officials near urban centers adjusted to the loss of funds through land lease revenues due to urban expansion and real estate development (Takeuchi 2013). The diversity of ways in which township governments adjusted to central governments poses challenges in observing and understanding how fiscal policies influence rural governance across China.

The research on the 1994 to 2002 tax reforms is diverse and there is a rich variation in the methods scholars use and geographic areas where they have conducted studies. For example, one of the most influential and damning investigations of rural conditions and excessive taxation was a 2001–2002 qualitative report that incorporated in-depth interviews with villagers in Anhui province (G. Chen and Wu 2004). There were also a number of quantitative studies that tend to examine national or regionally representative surveys as well as government statistical data (Tao and Liu 2005, Lin and Liu 2007). These statistical studies present a different picture of villager burdens. Some scholars also use mixed methods. One example is Zhao Shukai, a leading expert on rural governance from the China Development Research Center, who incorporates qualitative interviews and statistical data to study township governments. Zhao (2006) finds that township leaders face a complex array of challenges and they are not simply unruly rent-seeking officials.

This paper offers a state-of-the-field review of rural financial reform and local governance in China starting in the 1980s, focusing on different approaches, methods and perspectives used to evaluate local tax and fiscal policies. It is divided into three sections. The first section examines rural fiscal policies from the 1980s to 1994, examining the conditions that led to the 1994 reform. While many scholars agree on the fiscal challenges that central and local governments faced adjusting the tax system, these studies tend to approach the issues from difference perspectives as well as various definitions of central-local relations.

The second part examines the causes and consequences of increasing villager burdens in the 1990s from the villager, institutional and township government perspectives. These different views or approaches have a significant influence on how scholars evaluate local governance and the fiscal reform. From the central government perspective, the 1994 tax reform strengthened fiscal relations with the provinces and provided greater fiscal autonomy for sub-provincial governments to fulfill expenditures obligations. However, a major consequence of that reform was a significant increase in villagers' burdens (taxes and fees). The reasons for these burdens (and the amount) varied based on level of regional economic development as well as central and local perspectives. From the perspective of a villager in a poorer region, the increase in burdens was due to uncontrolled rent seeking by township and county officials. The 1994 reform created a system whereby the central and even provincial governments could not effectively monitor local officials to avoid over-taxation and collection of illegal fees (So 1997, T.B. Bernstein and Lü 2003, Chen and Wu 2006). The institutional perspective suggests that the root problem is more systematic and focuses on the regressive tax system, income disparity among the rural population, and

uneven implementation of tax regulations and laws (Zhou 2006, Lin and Liu 2007, Tao and Qin 2007, X. Chen 2009). The township government view holds that officials unduly received the brunt of the blame for villager burdens (Zhao 2005).

The third section examines the fate of township governments and local governance in the post-2002 (2006) Tax-for-Fee Reform era. A number of studies find that the 2002 reform dramatically reduced villager tax and fee burdens (X. Chen 2009, L.C. Li 2012, Liu *et al.* 2012). However, there are still unresolved issues such as the role of the township government and public services provision. Some scholars suggest the township government has lost much of its authority and has become a service provider for the county (Ho 2001, Smith 2009, 2010). Some have even proposed a new definition of 'local' with the elimination of township governments and establishing the county as the lowest administrative level (He 2000, Xu 2004). However, other scholars suggest that the township still plays an important role as the lowest level of government. They suggest that it should have greater budget autonomy (Takeuchi 2013) and that the introduction of direct elections for township government leaders can increase local accountability (governance) and resolve the supervision problem (Lin and Liu 2007, Tao and Qin 2007, Meng and Zhang 2011).

Central-local relations and rural fiscal policies from 1980 to 1994

From the end of the Maoist period (1949–1976) until the early 1990s, the rural financial system went through significant changes at the local and national levels. In 1979, central government revenues were dependent on state-owned enterprises (SOEs) in the urban areas and indirect taxes through grain quotas in the countryside. However, this changed with the introduction of economic reforms in the 1980s, such as the breakup of the commune system and the introduction of private enterprises in the rural and urban areas. Indeed, the central tax system did not adequately adjust to the rise in new private businesses and the central revenues fell throughout the 1980s (Oksenberg and Tong 1991, Hershler 1995, Wang 1997, Wong 2000). Moreover, provincial governments were attempting to protect local revenues from 'predatory' practices of the national government and even avoiding tax payments to central authorities (Wong *et al.* 1995). This gave the impression of a relatively weak central government that was unable to adjust the tax system and collect revenues. However, the 1994 tax reform reflects a re-assertive central government with the capacity to reshape provincial and central fiscal relations (Hershler 1995). The reform improved the revenue stream for the central government, and it altered the relationship between provincial and central government, but it also created a regressive tax system and a new set of problems for sub-provincial-level governments. County and township governments were faced with reduced budgets and increased responsibilities for local expenditures.

In 1979, the fiscal and political system was highly centralized. The central government controlled local expenditures and revenues and the tax system was redistributive. The central government collected taxes from wealthier industrial coastal provinces with SOEs and redistributed revenues to poorer inland provinces. Rural taxes were mostly based on grain quotas collected from over 54,000 communes in the countryside. In 1979, 81 percent of the population lived in the countryside on communes (*gongshe*) which were rural units that consisted of brigades (*dadui*) and production teams (*shengchandui*). The production teams contained 10–20 households and were the basic unit of production. Grain was sold to state grain stations and villagers were paid in work points. Moreover, all grain quotas and taxes were collected at the production team level (Rozelle 1994,

Unger 2002). In 1981, there were 54,000 communes, 720,000 brigades and over 6 million production teams (China Statistical Abstract 1982).

While farmers were not directly taxed during this period, they were indirectly taxed through ‘price scissors’ where the central government sold communes agricultural inputs such as tractors and farming tools for high prices while buying production team grain at depressed prices (Lin and Liu 2007). However, in the early 1980s, the central and local governments broke up the communes in favor of the household responsibility system (HRS), and the new basic unit of agricultural production became the household. Thus, in 1985 there were 83,000 townships, 940,000 administrative villages and over 190 million households (China Statistical Abstract 1986). While the commune grain quota system ended, the price scissors effect continued. Rural households were given plots of land based on family size, but the land remained collectively owned and villagers had land use contracts. Moreover, villagers were subject to grain procurement quotas where farmers had to sell a specific amount of grain at below-market prices to state (township) grain stores. Local cadres supplied farm inputs, such as chemical fertilizer, pesticides and hybrid seeds, through state stores and deliveries (Rozelle 1994). In addition, township officials and village cadres collected taxes and fees through the grain procurement system. The township government deducted taxes and fees from the procurement grain prices and then paid the villagers the remaining balance (Lin and Liu 2007).

After the breakup of the communes, the official administrative hierarchy was established in the 1982 state constitution, and it lays out the three official local administrative levels: province (*sheng*), county (*xian*) and township (*xiang*). However, according to the *China Statistical Abstract*, most provinces have several administrative levels and one lower level: province (*sheng*), prefecture (*diji*), prefecture municipality (*dijishi*), county (*xian*), county seat (*xianshi*), town (*zhen*), township (*xiang*) and village (*cun*). The lowest administrative level is the town or township. The difference between a town and a township is the proportion of residents who are registered as non-agricultural (urban) population. A town has over 10 percent of the population registered as non-agricultural, whereas a township has over 90 percent of the population registered as agricultural (Zhong 2003). Most studies that examine the town and township level of government tend to combine these two into one, referring to townships as both town and township governments. There are also administrative villages (*xingzhengcun*) that have a villager committee with 5–7 members, a village leader and a party secretary, and within an administrative village there are natural villages (*zirancun*) and small groups (*xiaozu*) (see also Ho 2013).

Given the change in the local administrative divisions in the early 1980s, it is also important to clearly define ‘local’ government. Studies in the 1990s and after 2000 that discuss the rural fiscal system often refer to central and local government relations or higher authorities and local cadres. The usage of the term ‘local’ depends on the context and how scholars define local government. Some studies refer to local as the province. For example, when discussing central-local relations, Wong (2000) examines the financial policies between Beijing and the provinces. The term ‘fiscal federalism’ refers to the centralized political system with a decentralized fiscal system between the central and provincial governments (Montinola *et al.* 1995). Others use local to refer to sub-provincial levels such as municipality, county and township. Li (2006) and Kung *et al.* (2009) evaluate the tax system and government relations between county and township levels where the township is local. Often, village studies on taxes and fees refer to the village as local and the township as a higher authority (Tsai 2002, Kennedy 2007).

In the 1980s, the main function of township governments and village committees was to provide local services and implement central policies. However, the additional functions varied across rural China. In the poorer provinces, central transfers provided most of the local (sub-provincial) revenues. Services included local road and irrigation repair, maintenance of local schools, running water and availability of farming needs such as seeds, fertilizers and pesticides. There were also central mandates and unpopular policies that had to be implemented such as family planning and land management. In wealthier provinces, township leaders were also establishing and managing township and village enterprises (TVEs). Indeed, rural economic development in the coastal provinces took off during this time (Oi 1999).

Between 1980 and 1996 the gross domestic product (GDP) grew on average by nearly 10 percent (Wang 1997). This was astonishing growth and it was in part due to the decentralized allocation of resources and local economic decision making at the provincial and sub-provincial levels. However, the central government was also losing revenues at an astounding rate. Central revenues were dependent on provincial and sub-provincial governments to collect taxes and make upward transfers, but entrenched local interests and outdated tax codes resulted in shrinking and reduced central revenues (Wang 1997, A. Chen 2008). This included tax evasion and unauthorized tax breaks that municipal and county governments offered to attract industrial development. As a result, the percentage of total revenues to national GDP dropped from 31 percent in 1978 to 12 percent in 1993 (China Statistical Abstract 1995). Moreover, the central revenues actually declined between 1990 and 1993 while provincial revenues nearly doubled (see Table 1). Provincial and sub-provincial governments were responsible for delivering services, and local expenditures came from the central government through revenue sharing to finance local mandates (Wong 2000). This was important for poorer agricultural provinces because revenue sharing was meant to fill in the gap between central mandates and local revenues. Thus, the redistributive revenue-sharing system benefited the inland provinces, but the wealthier provinces gave more in revenues than they received, and provincial leaders attempted to protect their revenues. As a result, the center had to negotiate the percentage or amount of locally-collected revenues to be remitted, and these contracts varied among provinces (Oksenberg and Tong 1991, Wang 1997). Central government deficit was climbing and the center made three attempts to change or institutionalize 'fiscal contracts' between central and provincial governments, but central leaders were unable to reverse the trend (Hershler 1995, Wong 2000). As a result, the central government scrapped the old system of contracts and introduced a new tax reform in 1994 that created a shared tax system and strengthened central control over the fiscal relationship between the national and provincial governments.

The 1994 tax reform recentralized the financial system, and the central government introduced a rule-based tax system rather than negotiated percentages of remittance from the provinces (Wang 1997, Wong 1997, A. Chen 2008). The new tax assignment system (*fenshuizhi*) divided the taxes into three distinct categories: national, local and shared. National taxes were based on a unified tax code, and shared taxes were given to the central government and then portions were returned to the provinces as remittances. Local taxes were decentralized with various types of taxes determined at the provincial and county levels. As a result, the central government no longer relied on the provincial and sub-provincial governments to collect all taxes. Instead, the task of collecting central taxes now fell on the national tax service, and the central government set up its own revenue collection agencies in the provinces and counties (Wang 1997). This increased the reach of the state and established a parallel tax administration: one for the national

and the other for provincial and sub-provincial governments. The central taxes included value added tax (VAT) on industrial products, banks and SOEs. Provincial taxes include local enterprise income tax, animal slaughter tax, agricultural tax, specialty (non-grain products) agricultural tax and land lease revenues (A. Chen 2008, Wang 1997, Oi 1999). The central revenue agencies provided incentives for sub-provincial governments to collect state taxes by allowing the county governments to retain 25 percent of the VAT taxes collected. The provincial and county governments were able to keep local taxes (Zhong 2003). The new system was also known as 'eating in separate kitchens' (*fenzaochifan*). Within a few years, the tax assignment system was successful in increasing central revenues and reversing the trend (Hershler 1995, Wang 1997). Table 1 shows the dramatic and immediate turnaround for central revenues after 1993. Indeed, central revenues tripled from 1993 to 1994, while total provincial revenues decreased.

Despite the central government success, there were five systemic problems with the 1994 tax reform. First, the new system eroded the redistributive aspect of the previous tax system. Central transfers were now based on remittances from provincial tax collection and subsidies in the form of special transfer payments. Thus, wealthier provinces retained more of their revenues and poorer provinces had to rely more on local taxes and fees (Wang 1997, A. Chen 2008). The transfer payments were mostly earmark grants for provincial projects such as capital construction and economic development (Lee 2000). However, allocations of these grants were largely political and poorer provinces were underrepresented in the central decision-making process (A. Chen 2008). This put the poorer inland provinces at a disadvantage for some of the larger transfer payments. While poorer provinces did receive transfer payments, one scholar predicted that 'new taxes may counter the redistributive aims of the reform by increasing some of the poorer regions' tax burdens' (Hershler 1995). Second, the central government (Ministry of Finance) introduced revenue growth targets for each province. The central government mandated that each year's revenue growth had to match or surpass that of the previous year (Wang 1997, Wong 2000). In turn, the provinces imposed revenue growth targets on sub-provincial governments with punishments and rewards based on achieving targets. Third, the tax reform provided 75 percent of the VAT from local enterprises to the central government and counties could keep the local enterprise income tax. The problem was that the VAT could be collected even if the state enterprise was unprofitable (Zhong 2003). This left county and township governments with non-profitable enterprises or no local industries at all searching for new revenue sources.

The fourth systemic problem is that the 1994 tax reform did not address extra-budgetary funds because it provided sub-provincial governments the opportunity to make up for lost revenues (Wang 1997, Zhou 2006, A. Chen 2008). These are off-budget funds that consist of informal levies and fees, and they are used to fulfill local fiscal commitments and upper-level mandates. The official budget relies on designated taxes, such as the agricultural tax and local enterprise income tax, but if the local tax base is not enough to cover expenditures then county or township government as well as the village committee may impose unofficial fees and levies to make up for the shortfall. Local governments have relied on extra-budgetary funds since the 1950s and they increased during the 1980s (Wong 2000). Thus while the central government gained greater fiscal control over the collection of revenues from the provinces, county and township governments enjoyed a level of autonomy in levying fees, fines and apportionments on villagers. Indeed, by the late 1990s, township and village authorities were dependent on extra-budgetary funds to provide services and over half the local revenues collected consisted of these informal fees and levies (Wang 1997, Eckaus 2003, A. Chen 2008).

Table 2. Revenue and expenditures¹ for three counties in Shaanxi Province, 1996–2010.

Year	Hu County		Jia County		Shenmu County	
	Revenues	Expenditures	Revenues	Expenditures	Revenues	Expenditures
1996	0.7	1.0	0.1	0.4	0.7	0.9
1997	0.8	1.1	0.1	0.4	0.8	1.0
1998	0.9	1.1	0.1	0.5	0.9	1.2
1999	1.0	1.3	0.1	0.5	1.0	1.3
2000	1.1	1.4	0.1	0.7	1.3	1.6
2001	1.2	1.8	0.1	0.9	1.8	2.2
2002	1.1	2.1	0.1	1.1	2.2	2.8
2003	1.2	2.2	0.1	1.3	3.4	4.0
2004	1.3	2.6	0.1	1.4	4.4	5.2
2005	1.0	2.7	0.1	1.9	6.7	7.9
2006	1.4	3.8	0.0	2.2	6.8	11.3
2007	1.7	4.8	0.1	3.5	10.0	15.6
2008	2.1	7.2	0.2	4.8	16.5	23.6
2009	2.6	9.3	0.2	8.2	21.6	27.7
2010	3.4	13.2	0.3	9.7	28.4	28.6

Notes: ¹100 million yuan

Source: China Statistical Abstract (2011).

Finally, the central government shifted expenditures downward to the county and township governments (Wang 1997, Zhao 2006, A. Chen 2008). Although the counties and townships had increased local revenues due to greater autonomy in raising extra-budgetary funds, these local governments had little authority in deciding expenditures. Indeed, expenditures increased faster than revenues after 1994. Between 1994 and 1999, total fiscal revenues at the county level increased by 51 percent, but the total expenditures grew over 100 percent (A. Chen 2008). The situation was worse for poorer counties. Table 2 displays the revenue and expenditures for three counties in Shaanxi province. Jia County is one of the poorest counties, with no natural resources or industry. In 1996, total revenues covered one fourth of the county expenditures. By 2002, total revenues comprised only one tenth of the county expenditures. Many provincial governments did not fare much better. Table 1 shows that total provincial revenues were greater than total expenditures in 1993, but by 1999 revenues only covered 62 percent of total expenditures. This also contributed to the growing local debt; county and township governments had the heaviest debt burdens.

Local perspectives and fiscal policies leading up to the 2002 tax-for-fee reform

The 1994 tax reform influenced villagers and township and county officials differently. As a result, the positive or negative consequences of the tax reforms depend on the level of analysis and perspective taken. Scholars who take on a villager perspective of local burdens have a very different interpretation of tax reforms than scholars who examine the reforms from a township official's viewpoint or from a broader institutional perspective. In addition, not all villagers and township officials were affected the same way. Villagers in the wealthier coastal areas experienced minimal household tax and fee increases, while villagers in the inland agricultural regions were subjected to increasing burdens. Nevertheless, the national leadership continued to centralize fiscal policies. In the 1990s, the central government made several attempts to adjust the tax and fee policies and reduce villager

burdens, but these peripheral regulations did little to change the system. As a result, the central government scrapped the old system of local fiscal autonomy and introduced a new tax reform in 2002 that abolished most local fees and eventually the agricultural tax in favor of increased central transfers to pay for local services (X. Chen 2009). This expanded central fiscal control down to the grassroots level.

The villager perspective, especially in the poorer regions, tends to paint a bleak picture of rural China in the 1990s, and township officials are viewed as the key culprits for rising local taxes and fees. For example, G. Chen and Wu (2004), who conducted their 2001–2002 fieldwork in Anhui province, report a very oppressive environment where self-interested township officials use coercive and even brutal measures to collect fees. Despite growing local repression, villagers still resisted when they could, and they viewed the central government as a benevolent leadership unaware of the corruption at the local level. Li (2004) observes the same dynamic between villagers' view of local officials and the central government. Indeed, qualitative studies conducted in the 1990s and early 2000 offer a similar negative depiction of township authorities (O'Brien and Li 1996, Lü 1997, So 1997). Personal interviews provide in-depth understanding of village life and hardships, especially observations of local abuses at the hands of some corrupt township officials. Interviews also offer insight on informal and illegal revenue collection, as well as villagers' reactions and resistance. During my own research in the late 1990s, I found many villagers referring to the 'three wanting cadres' who want your money, your grain and your unborn children. Although the general feeling among villagers was that the township officials were out to enrich themselves, villagers I interviewed also admitted that they were willing to pay for services, but few had faith that fees and levies would go directly towards village services. Many of these observations reflect the problem scholars pointed out earlier with the loopholes in the 1994 tax reform and the fact that reliance on extra-budgetary funds could potentially give rise to wasteful spending and corruption.

Official fees were a significant source of villager burdens (*nongmin fudan*). These were known as the 'five township and three village fees' (*wu tongchou, san tiliu*). Township budgetary funds that cover the basic local public services are called the 'five township fees' (*tongchou*), for education, militia training, family planning, road repair and construction, and public health care and epidemic prevention. The 'three village fees' or *tiliu* are the public accumulation fund, public welfare and administrative fees. While development and social welfare needs determined the amount of money collected annually, village cadres typically decided the actual amount of the *tiliu* (Lü 1997, Kennedy 2007). In addition, villagers were required to provide corvée labor that ranged from 10–20 days a year of 'voluntary' labor for public projects. Outside of the official fees, township governments and village committees could also collect apportionments (*tanpai*) or 'self raised' funds for specific investment projects (O'Brien and Li 1996, Kennedy 2007, So 2007). These are unofficial levies charged to the villagers without explicit government regulations or laws. These include basic services such as water and electricity fees. In fact, the list of fees both official and unofficial could be quite long, ranging from a few dozen to more than a hundred items (Wong 1997). Villagers have often referred to these fees as the 'three unrulies' (*sanluan*): unruly fundraising, unruly fines and unruly apportionments (T.B. Bernstein and Lü 2003). With the combination of budget and extra-budgetary collections, total burdens could reach over 40 percent of villagers' annual income and the majority of payments were typically informal fees (*ibid.*).

In addition to the fees, villagers were also required to pay agricultural taxes such as the specialty tax. The specialty tax (*techan shui*) was levied on non-grain agricultural products such as tobacco, fruits and vegetables. Villagers who relied on these cash crops were

usually wealthier and could afford the tax, but for villagers who lived mainly on grain products and grew cash crops on the side, the tax was a heavy burden. Indeed, one scholar pointed out that ‘the special product tax on those who lived mainly on ordinary products was not just unfair but drove them into an impasse’ (A. Chen 2008, 327). Some villagers were so frustrated that they gave up cash crops as a side business. During a village visit in 1998, I met a farmer who decided to plant a few apple trees in 1995 because the market price for apples was relatively high. However, by 1998 the price of apples had plummeted and he still had to pay the specialty tax. He decided not to harvest the apples and let them rot on the ground rather than give the bulk of his sales to the township government.

In order to reduce villager burdens, but not make any significant changes to the tax system, the central government attempted to introduce several regulations and policies to limit local fees. One early example is the 1993 Law on Agriculture that stipulated villager fees could not exceed five percent of their annual income. However, the regulation was vague on how to calculate average household annual income at the village level. Thus, from the onset of the five percent rule, township governments were able to work around the regulation to collect fees. Throughout the 1990s there were several central documents and policies addressing excessive rural taxation, but villager burdens as a proportion of their income continued to increase. These unsuccessful national attempts to reduce local burdens contributed to the perception of a decentralized fiscal system and lack of central oversight. T.B. Bernstein and Lü (2000) state that ‘inadequate central fiscal capacity and inadequate controls over bureaucracy were the underlying causes for excessive burdens’ (752). While the center was sympathetic to villagers’ plight, the central government was also enjoying increased revenues and there seemed to be little incentive to fully address the systemic problems at the county and township levels. Even if the national leadership had the will, some scholars suggest it is extremely difficult for the central government to rein in the systematic corruption at the county and township levels (Wedeman 2000). In an effort to show parallels between imperial (late Qing) and post-Mao revenue collection, Kaiser and Tong (1997) show that the excessive taxes farmers paid during the late Qing did not reflect strong extractive capabilities of the central imperial court, but rather a weak central authority unable to control corrupt county magistrates. This inability to control local officials and rising rural discontent and protests contributed to the fall of the Qing dynasty. T.B. Bernstein and Lü (2000) echo this sentiment for the post-Mao period, stating that ‘discontent with burdens was widespread and chronic’ (756). Some of the evidence in the 1990s and early 2000s tend to reflect this problem. The number of reported social disturbances increased from 10,000 in 1994 to 24,500 in 1998, to over 40,000 in 2000 (Tanner 2005). Although most protests were relatively small, ranging from 50 to 1000 rural residents, some were massive, involving 60 to 70 townships and 20,000 to 200,000 villagers (ibid.). Moreover, these protests and social disturbances were atomized and dispersed, and directed at the township and county officials rather than the central government (O’Brien and Li 1996, 2006). Another important aspect of the rural protests at the time is that there were no rural and urban linkages. That is, most urban intellectuals did not show any interest in villager plight or protests (T.B. Bernstein and Lü 2000).

While the villager perspective tends to focus the blame for excessive taxes and fees on the unruly township government officials, the institutional viewpoint examines the structural bias against villagers that allowed for an increase in underfunded mandates and excessive burdens (Tao *et al.* 2004, Yep 2004, Lin and Liu 2007, Tao and Qin 2007, Liu *et al.* 2012). After the 1994 tax reform, the central government shifted expenditure responsibilities downward and turned a blind eye towards township officials’ informal revenue

collection. However, the institutional explanations vary as to how and why villager burdens increased after 1994. Some scholars suggest that market liberalization, income disparity and a regressive tax system are the key factors for the rise in villager burdens (Lin and Liu 2007, Tao and Qin 2007). Other scholars find that villager burdens represent a structural bias against the rural population (Yep 2004).

Lin and Liu (2007) and Tao and Qin (2007) suggest that regional income inequality contributes to variation in villager burdens. Using provincial-level data from the Ministry of Agriculture to evaluate villager burdens across regions, they find that excessive taxation in the countryside was not uniform across China. Indeed, for some of the coastal provinces, such as Guangdong province, burdens measured as reported fees actually decreased in the 1990s. The hardest-hit regions were inland provinces. The combination of income disparity within rural China and a regressive tax system put agricultural regions at a greater disadvantage. Most rural taxes were levied on land and agricultural products, but by the early 1990s an increasing share of rural incomes was coming from non-agricultural sources, such as salaries from TVEs and rural migrant remittances. Moreover, these were not subject to village or township tax administration. However, poorer rural communities have a lower proportion of non-agricultural income and are more vulnerable to direct taxes and fees. Still, both Lin and Liu (2007) and Tao and Qin (2007) argue that increased villager burdens were also due to central and provincial governments granting county and township governments greater informal tax and fee autonomy in order to fulfill central mandates.

Yep (2004) finds that the reduced fiscal transfers as a result of the 1994 tax reform contributed to the underfunded mandates and that the tax-for-fee reform in 2002 may not resolve this structural problem. The lack of local investment created a cycle where the township governments collect fees from villagers because there is no local industry, but when local resources are extracted through informal fees the tax base shrinks (i.e. losing potential investment). This also contributed to overstuffed township governments (Zheng 2000, Zhao 2006). Extra-budgetary funds were the only way to fill the revenue gap, but these informal funds are available to township governments through the loophole from the 1994 reform. In addition, duties for township officials and village cadres shifted from strictly service provision to revenue collection and villager burdens dramatically increased; at the same time villagers were incorporating various ways to resist rising burdens. This began a vicious cycle where township governments needed to employ more staff to collect revenues, but a surge in staff also meant an increase in expenditures for salaries. In turn, greater villager resistance resulted in the need for more staff to counter local resistance (Yep 2004).

Township officials are in a precarious position as agents in the lowest administrative level of government. They are caught between villager dissatisfaction with taxes and fees and the county government's demands to collect revenues. From the township government perspective, collecting taxes and fees was a survival tactic. Township officials had to collect official taxes and fees as well as extra-budgetary funds to meet expenditures. However, township expenditures and revenue sources varied across rural China (A. Chen 2008). For example, a wealthy township in Zhejiang province with a population of 45,000 collected 47 million *yuan* in 2002, of which 17 million were budgetary funds and the remaining 30 million were extra-budgetary. A much poorer township in Ningxia province with a population of 12,000 had 130,000 *yuan* in total revenues. This township submitted all its tax revenues to the county government and then received 630,000 *yuan* in subsidies (Zhao 2006).

Township officials also had burdens, and they needed to fulfill tax and fee quotas set by the county government. While collecting extra-budgetary funds was a common way to meet expenditures and tax/fee quotas, some township officials had to defer salaries or take out

loans to meet county revenue targets. The township officials would borrow money from the credit cooperative to fulfill the target that was submitted to the county, then pay back the loan with the county remittance. In his sample of 20 townships, Zhao (2006) found four townships that admitted to using this method, called 'empty running'. In the 1990s, it was not uncommon for township officials to not be paid for months at a time. During a 1997 village visit in northern Shaanxi province, we heard that there was a general tax strike in the township. Villagers had recently refused to pay excessive fees and taxes. When we visited the village leader's home, his wife came out the doorway and sternly marched across the courtyard with a heavy pot in each hand threatening to beat us if we did not leave the courtyard. After we explained that we were not with the township government, she invited us in and served tea. We asked her why she thought a foreigner was with the township government. She believed that the township government was so desperate to end the tax strike that they would even hire a foreigner to help collect the revenues from the villagers. Later that evening we met with two township officials. In order to meet the county revenue targets, they had to forgo getting paid until the end of the tax strike. Although they had not been paid in six months, they were sympathetic to the villagers' demands. This case shows that it is important to understand both the villagers' and township officials' perspectives.

The interaction between provincial leaders and county and township officials also contributed to the rise in excessive fees (L.C. Li 2006, 2012). One of the key factors that define the relationship between county and township officials is the cadre management system (see also Smith 2013). The provincial organization department (*zuzhibu*) sets the promotion standards for county leading cadres and the county party organization department oversees the promotion of township leading cadres.² During the 1990s and early 2000s, fulfilling tax and fee quotas (or revenue targets) was a key factor for promotion. Thus, local officials conform to measures of performance (O'Brien and Li 1999). Indeed, according to Zhao (2006), 'Failure to meet quotas not only precludes the possibility of commendations and promotions, but also entails "yellow card warnings" and even summary "dismissals from office"' (44). Central documents and notices were disseminated to reflect central concern with the growing villager burden problem, but the lack of immediate action to reduce burdens did not necessarily signal a weak central government. Instead, the central and provincial leadership strategically allowed the system to continue shifting the blame for increasing villager burdens onto the township governments (O'Brien and Li 2006, L.C. Li 2012).

In response to the social and governance problems arising from the 1994 tax reform and increasing rural taxes and fees, some provincial and county governments introduced local experiments in tax and fee reforms to relieve rural burdens. One reform experiment in Anhui province in 2000 caught the attention of the central leadership. This was the tax-for-fee reform where all fees were eliminated in favor of a single agricultural tax. The move represented a complete break with the previous system, and reduced the autonomy of township and county governments. It also continued fiscal centralization down to the township level. After 2002, county and township governments became more dependent on central and provincial subsidies to pay for basic public services. Once the central

²Leading cadres are the official leaders at each administrative level. They are either the mayor (government head), vice mayor, party secretary or vice party secretary. Unlike civil servants, leading cadres are transferred every three or four years and they are subject to strict promotion standards from the administrative level above (see Edin 2003).

leadership adopted tax-for-fee as a national policy in 2002, it was fully implemented down to the township and village level through the cadre management system. For township leaders, the new measure for promotion was implementing the tax-for-fee reform and fulfilling public service duties.

Local governance and the fate of the township in the post-2002 tax-for-fee reform era

As with the 1994 reform, whether or not the 2002 tax-for-fee reform was a success depends on the perspective taken. The central view is that the reform was very successful in expanding its fiscal authority down to the township and village level (Lin and Liu 2007, Tao and Qin 2007, Liu *et al.* 2012). Unlike the 1994 reform, the central government has taken greater responsibility for funding expenditures through transfers and subsidies (X. Chen 2009, Oi 2010, L.C. Li 2012). From the villager perspective, the reform increased household income after the elimination of most fees and the agricultural tax in 2006. For the township government, official duties have shifted again from revenue collection to service provision. The township governments have also adjusted and found new sources of revenue, especially in the area of land leases (Takeuchi 2010). Yet the township government has also lost a level of autonomy (Smith 2009).

The ongoing debate is over the fate and function of the township government after 2006. One argument suggests the township government should be eliminated as a level of government and serve as a county office (He 2000, Xu 2004). Some scholars believe this has already happened (Smith 2009). An alternative is that the township government should be allowed greater autonomy and that direct elections for township leaders need to be introduced (Lin and Liu 2007, T.B. Bernstein and Lü 2003). Each has distinct implications for local governance. The tax-for-fee reform would weaken the authority and ability of the township government to extract local resources, but maintain and even strengthen county authority in the township. Direct elections would make township leaders more accountable to villagers, but it would also strengthen the autonomy of the township governments.

One of the ways township governments have responded to the 2002 tax reform is to search for alternative sources of revenue. The most abundant resource available (at this time) for this is land. Takeuchi (2013) and H. Li and Kung (2012) suggest that township and county officials are turning to land lease revenues to make up for the loss in direct fees and taxes. Indeed, the number of reported land disputes has increased dramatically since 2006. Sun Liping, a professor at Tsinghua University, suggested that over 180,000 disturbances occurred in 2010 and the majority of these incidents were over land disputes (Orlik 2011). In the early stages of the 2002 tax reform, Ho and Lin (2003) also found that township leaders were tapping into land resources as a way to make up for the tax and fee shortfalls. In his case studies, Takeuchi (2013) finds that township governments are using the land lease revenues to maintain overstaffed offices, even under pressure to reduce personnel. However, the increase in land lease sales to real estate developers is also due to a systematic change in promotion measures from economic (industrial) development to urbanization (H. Li and Kung 2012). Indeed, these new measures have not only changed the behavior of county and township officials, but also the landscape. In 2000, about 37 percent of the population was considered urban. In January 2012, the central government reported that the urban population made up 51 percent of the population. According to these figures, China is now a majority urban nation.

Despite rapid urbanization, township governments still serve about half the population. Yet in the wake of the 2002 tax reform, the function of the township government remains in flux. He Kaiyin (2000), who introduced the tax-for-fee reform innovation in the late 1990s and 2000, suggests eliminating the township altogether. He advocates a new three-tier government system where the county is the lowest level of government. Xu Yong (2004), the director for the Center for Chinese Rural Studies at Central Normal University, contends that the township should become a branch of the county government. The assumption is that the elimination of the overstuffed township offices should reduce local budgets and streamline services. Indeed, township offices are split between local (*kuai*) and county (*tiao*) responsibilities (Mertha 2005). After townships lost the authority to raise revenues, the township offices had little to do and many services were covered by the county offices at the township level.

Smith (2010) suggests that a number of townships have already become county offices by default. The authority to collect revenues defines a local government, and without tax and fiscal autonomy the township becomes a hollow administration unit. He finds that the township offices have fallen under the control of the county bureaus. While this may coordinate service provision and policy implementation between the township and county governments, it has also placed greater responsibility for service provision onto the township officials. Ironically, Smith argues that the township governments are now overwhelmed and understaffed. Counties have a greater interest in wealthier townships with local industry and thus industrial towns have less autonomy than poorer townships. However, greater autonomy for townships also requires improved public oversight.

Direct elections for township leaders were viewed as one solution for the accountability problem as well as reducing villager burdens (So 1997, T.B. Bernstein and Lü 2003, Yep 2004, Lin and Liu 2007). Indeed, the central leadership provided political openings for both tax and local election reforms. Zhu Rongji, at the 9th National People's Congress in 1998, announced the importance of tax and fee reform and encouraged local experiments (Yep 2004). County leading cadres who introduced direct elections for township government heads were responding to central leadership cues such as Jiang Zemin's pledge to expand grassroots democracy at the 15th Party Congress, and Zhu Rongji's hint at supporting elections beyond the village level (L. Li 2002, L.C. Li 2007). County innovators also viewed township elections as a way to resolve the problem of unruly township leaders. Thus, in the early 2000s, there were three possible directions for reducing villager burdens: tax and fee reform, direct elections for township leaders, or both. Direct elections for township government heads look good from the villager perspective because they should provide more accountable leaders, but for the county government they would be a loss of authority to select key personnel at the township level. Still, if the township governments are becoming county branch offices by default, then township elections may become a moot point.

Although the national government increased central transfers and subsidies after 2002, one of the remaining problems for county and township governments is rising deficits (Yep 2004). The gap between revenues and expenditures was a problem for county and township governments throughout the 1990s, but the problem became more acute after 2002 and especially after 2006. In the early 2000s, annual township deficits were in the millions of *yuan*, a significant problem for poorer townships with annual revenues under one million *yuan* (Zhao 2006). The sources of township debts included infrastructure investments, administrative expenditures and unpaid salaries (*ibid.*). At the same time, many counties were incurring debts due to the growing deficit between annual revenues and expenditures. After 2002, county and township governments were unable to use extra-budgetary funds to

make up the difference, so they had to rely more on higher-level transfers and subsidies (X. Chen 2009). Of course, deficit levels vary across townships and counties. Table 2 shows annual revenues and expenditures for three counties in Shaanxi province. Hu County had an agricultural, wheat-based economy, especially in the 1990s. From 1996–2001, revenues covered about 70 percent of county expenditures. By 2006, total revenues covered only 25 percent of expenditures. Jia County is a poor, remote county in the mountainous region of northern Shaanxi. In 1996, revenues covered 25 percent of expenditures, but by 2006 the proportion had dropped to 3 percent. Shenmu County has natural resources, especially coal, and the 2002 tax reform has had little influence on county deficit there.

Thus, the 2002 tax-for-fee reform and the elimination of the agricultural tax in 2006 have reduced villager burdens as well as the authority of the township government. Before 2002, rising deficits were managed at the township and county levels, but after 2002 townships and counties are more reliant on central transfers and subsidies.

Conclusion

The introduction of financial reforms in 1994 and 2002 is a story of centralization and national policies aimed to capture local revenues and increase local service provision in rural China. The central government began in 1994 with macro policies that reshaped the fiscal relationship between central and provincial governments. However, the 1994 tax system allowed for greater local autonomy at the county and township levels to collect taxes and fees. The 2002 tax reforms continued the centralization process by eliminating not only local fees, but also local fiscal autonomy. Success of these tax reforms depends in part on whether the central or local perspective is taken.

A number of questions remain regarding deficits, public service provision and the function of township governments. For example, how long can local governments depend on land leases to help reduce deficits? Will the elimination of the township government in favor of county-level offices improve service provision for the rural population? Will elections for more autonomous township leaders enhance service provision and local accountability in the countryside? These are only some of the questions that will contribute to the rich literature on rural taxation and local governance.

References

- Aubert, C. and X. Li. 2002. 'Peasant burden': taxes and levies imposed on Chinese farmers. In: Wilfred Legg, *et al.*, eds. *Agricultural policies in China after WTO accession*. Paris: OECD, pp. 160–76.
- Bernhardt, K. 1997. *Rents, taxes, and peasant resistance: the Lower Yangzi Region, 1840–1950*. Stanford, CA: Stanford University Press.
- Bernstein, T.B. and X. Lü. 2003. *Taxation without representation in contemporary rural China*. Cambridge and New York: Cambridge University Press.
- Bernstein, T.P. 2004. Unrest in rural China: a 2003 assessment [online]. Center for the Study of Democracy, UC Irvine, Working Paper. Available from: <http://repositories.cdlib.org/csd/04-13> [Accessed 12 July 2012].
- Chen, A. 2008. The 1994 tax reform and its impact on China's rural fiscal structure. *Modern China*, 34(3), 303–43.
- Chen, G. and C. Wu. 2004. *Zhongguo Nongcun Diaocha [China Rural Survey]*. Wuhan, China: Wuhan Publishing House.
- Chen, X. 2004. *Zhongguo Nongye Shuizhi Xinzheng Rang Jiu Yi Nongmin Jin Kaiyan* [New agricultural tax policy makes 900 million peasants smile]. *China Rural Science & Technology*, 4, 20–3.
- Chen, X. 2009. Review of China's agricultural and rural development: policy changes and current issues. *China Agricultural Economic Review*, 1(2), 121–35.

- Edin, M. 2003. State capacity and local agent control in China: CCP cadre management from a township perspective. *The China Quarterly*, 173, 35–52.
- Ge, R. 2005. Zhongguo Nongye Jinru 'Wu Shui Shidai' [Chinese countryside has entered 'age of no taxes']. *Outlook Weekly*, 5, 14–6.
- He, K. 2001. What way should go the reform of the rural taxes and fees? *World of Surveys and Research [Diaoyan Shijie]*, 8, 14–8.
- He, K. and L. Sun. 2000. *Zhongguo nongcun shuifei gaige chutan [The early exploration of the rural tax-for-fee reform]*. Beijing: Zi Gong chubanshe [Zi Gong Publishing].
- Herschler, S.B. 1995. The 1994 tax reforms: the center strikes back. *China Economic Review*, 6(2), 239–45.
- Ho, S.P. and G.S. Lin. 2003. Emerging land markets in rural and urban China: policies and practices. *The China Quarterly*, 175, 681–707.
- Huang, B. and C. Kang. 2012. Are intergovernmental transfers in China equalizing? *China Economic Review*, 23(3), 534–51.
- Huang, C. 2005. Premier vows to spread the wealth: agricultural taxes will be abolished next year, two years ahead of schedule, promises Wen Jiabao. *South China Morning Post*, 6 March, 6.
- Kennedy, J.J. 2007a. From the fee-for-tax reform to the abolition of agricultural taxes: the impact on township governments in northwest China. *The China Quarterly*, 189,
- Kennedy, J.J. 2007b. The implementation of village elections and tax-for-fee reform in rural northwest China. In: Elizabeth J. Perry and Merle Goldman, eds. *Grassroots political reform in contemporary China*. Cambridge, MA: Harvard University Press.
- Kung, J. 2000. Common rights and land reallocations in rural China: evidence from a village survey. *World Development*, 28(4), 701–19.
- Lee, P. 2000. Into the trap of strengthening state capacity: China's tax-assignment reform. *China Quarterly*, 164, 1007–24.
- Li, H. and J. Kung. 2012. *Fiscal incentives and policy choice of local governments: evidence from China*. Working Paper, Hong Kong University of Science and Technology.
- Li, L. 2002. The politics of introducing direct township elections in China. *The China Quarterly*, 171, 704–23.
- Li, L. C. 2007. Working for the peasants? Strategic interactions and unintended consequences in the Chinese rural tax reform. *The China Journal*, 57, 89–106.
- Li, L.C. 2012. *Rural tax reform in China: policy processes and institutional change*. Routledge.
- Li, X. 2003. Rethinking the peasant burden: evidence from a Chinese village. *Journal of Peasant Studies*, 30, 46–74.
- Lin, J.Y., et al. 2002. *Urban and rural household taxation in China: measurement and stylized facts*. Working Paper, China Center for Economic Research, Peking University.
- Lü, X. 1997. The politics of peasant burden in reform China. *The Journal of Peasant Studies*, 25, 113–38.
- Luehrmann, L.M. 2003. Facing citizen complaints in China, 1951–1996. *Asian Survey*, 43, 845–66.
- Luo, R., et al. 2007. Elections, fiscal reform and public goods provision in rural China. *Journal of Comparative Economics*, 35, 583–611.
- Meng, X. and L. Zhang. 2011. Democratic participation, fiscal reform and local governance: empirical evidence on Chinese villages. *China Economic Review*, 22(1), 88–97.
- Mertha, A.C. 2005. China's 'soft' centralization: shifting *TiaolKuai* authority relations since 1998. *The China Quarterly*, 184, 792–810.
- Montinola, G., Y. Qian and B. Weingast. 1995. Federalism, Chinese style: the political basis for economic success in China. *World Politics*, 48(1), 50–81.
- O'Brien, K. and L. Li. 1999. Selective policy implementation in rural China. *Comparative Politics*, 31(2), 167–86.
- O'Brien, K. and L. Li. 2006. *Rightful resistance in rural China*. New York: Cambridge University Press.
- Oi, J. 1999. *Rural China takes off: institutional foundations of economic reform*. University of California Press.)
- Oi, J., et al. 2012. Shifting fiscal control to limit cadre power in China's townships and villages. *The China Quarterly*, 211, 649–75.
- Oksenberg, M. and J. Tong. 1991. The evolution of central-provincial relations in China, 1953–1983: the formal system. *China Quarterly*, 125, 1–32.
- Ong, L. 2006. The political economy of township government debt, township enterprises, rural financial institutions in China. *China Quarterly*, 186, 377–400.

- Orlik, T. 2011. Unrest grows as economy booms [online]. *Wall Street Journal*, 26 September. Available from: <http://online.wsj.com/article/SB10001424053111903703604576587070600504108.html>
- People's Daily. 2005. Ba Nongcun Shuifei Gaige Quanmian Yinxiang Shenru [An all-round deepening of the rural tax reforms]. *People's Daily*, 8 June, 1.
- Qu, C. 2005. Mianzheng Nongyeshui, Xianzhen Zenme Ban? [Agricultural taxes rescinded, what will township governments do?] *People's Daily*, 24 March, 6.
- Rozelle, S. 1994. Decision-making in China's rural economy: the linkages between village leaders and farm households. *The China Quarterly*, 137, 99–124.
- Rozelle, S. and G. Li. 1998. Village leaders and land rights formation in China. *American Economic Review*, 88(2), 433–8.
- Shue, V. 1988. *The reach of the state: sketches of the Chinese body politic*. Stanford, CA: Stanford University Press.
- So, A. 2007. Peasant conflict and the local predatory state in the Chinese countryside. *Journal of Peasant Studies*, 34(3), 560–81.
- Takeuchi, H. 2013. Survival strategies of township governments in rural China: from predatory taxation to land trade. *Journal of Contemporary China*, 22(83), forthcoming.
- Tang, Y.Y. 2005. When peasants sue en masse: large-scale collective ALL suits in rural China. *China: An International Journal*, 3, 24–49.
- Tanner, M.S. 2005. Chinese government responses to rising social unrest. Testimony presented to the US-China Economic and Security Review Commission on April 14, 2005 [online]. Available from: http://www.rand.org/pubs/testimonies/2005/RAND_CT240.pdf [Accessed 12 July 2012].
- Tao, R. and M. Liu. 2005. Urban and rural household taxation in China: measurement, comparison and policy implications. *Journal of the Asia Pacific Economy*, 10.
- Tao, R. and P. Qin. 2007. How has rural tax reform affected farmers and local governance in China? *China and World Economy*, 15(3), 19–32.
- Tian, J.Q. 2009. Reorganizing rural public finance: reforms and consequences. *Journal of Current Chinese Affairs*, April, 145–71.
- Tsai, L.L. 2002. Cadres, temple and lineage institutions, and governance in rural China. *The China Journal*, 48, 1–27.
- Unger, J. 2002. *The transformation of rural China*. Armonk, M.E: Sharpe.
- Wang, S. 1997. China's 1994 fiscal reform: an initial assessment. *Asian Survey*, 37(9), 801–17.
- Wedeman, A. 2000. Budgets, extra-budgets, and small treasuries: illegal monies and local autonomy in China. *Journal of Contemporary China*, 9, 489–511.
- Wong, C.P. 1995. Fiscal reform in 1994. In: Kuan Hsin-chi, ed. *China Review 1995*. Hong Kong: Chinese University Press, p. 20.
- Wong, C.P. 1997. Rural public finance. In: Christine P.W. Wong, ed. *Financing local government in the People's Republic of China*. Hong Kong and New York: Oxford University Press, pp. 167–212.
- Wong, C.P. 2000. Central-local relations revisited: the 1994 tax sharing reform and public expenditure management in China. World Bank Office in China, April.
- Wong, C.P., C. Heady and W.T. Woo. 1995. *Fiscal management and economic reform in the People's Republic of China*. New York: Oxford University Press.
- Xu, Y. 2004. Xianzheng, xiangpai, cunzhi: xiangcun zhilide jiegouxing zhuanhuan [County government, township branch and village management: the structural transformation of rural management]. *Zhongguo Shijie [China Century]*, 771.
- Yep, R. 2004. Can 'tax-for-fee' reform reduce rural tension in China? The process, progress and limitations. *The China Quarterly*, 177, 42–70.
- Yep, R. 2009. Land conflicts, rural finance and capacity of the Chinese State. *Public Administration and Development*, 29(1), 69–78.
- Zhang, X., et al. 2004. Local governance and public goods provision in rural China. *Journal of Public Economics*, 88, 2857–71.
- Zhao, S. 2006a. Hard pressed township finances. *Chinese Sociology and Anthropology*, 39(2), 45–54.
- Zhao, S. 2006b. The debt chaos of township governments. *Chinese Sociology and Anthropology*, 39(2), 36–44.

- Zheng, Y. 2000. Xiangzhen zhengquan zuzhi yu zhidu bianqian de tedian, jigou pengzhang de chenyin jidui tantao [Exploring the causes of overextended staffing in township governments]. *Zhongguo Nongcun Guancha* [China Rural Survey], 4, 31–42.
- Zhong, Yang. 2004. *Local government and politics in China: challenges from below*. Armonk, NY: M. E. Sharpe.
- Zhou, F. 2006. Shuifei gaige dui guojia yu nongmin guanxi zhi yingxiang [The impact of tax-fee reform on state-peasant relations]. *Shehuixue yanjiu* [Sociology Studies], 3, 1–38.

John James Kennedy received his PhD at the University of California, Davis in 2002. He is an associate professor in the department of political science at the University of Kansas (KU), and director of the Center for Global and international Studies at KU. He is also affiliated with the Northwest Socio-economic Development Research Center (NSDRC) at Northwest University, Xian. His research is on rural social and economic development and topics include local elections, tax and fee reform, rural education and the cadre management system. He is currently examining local government evaluation of public services and specific health care issues. He has published articles in *The China Quarterly*, the *Journal of Contemporary China*, *Asian Survey*, the *Journal of Chinese Political Science*, *Asian Politics and Policy*, *Whitehead Journal of Diplomacy and International Relations* and *Political Studies*. Email: kennedy1@ku.edu