

# Creating Wealth and Welfare

## *Entrepreneurship and the Developmental State in Rural China*

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### 1 Introduction

The entrepreneur embodies a scarce and distinctive amalgam of vision, drive, creativity, acquisitiveness and opportunism which enabled him or her to ... combine factors of production in innovative ways to create wealth both for him/herself and for society as a whole. As such, the notion is inextricable from both markets and the profit motive ... It is also part of the private realm of society as opposed to the public realm of the state or the associational realm of 'civil society' which operate with different sets of motives and behavioural codes. (Gordon White, unpublished MS)<sup>1</sup>

Conventional notions of entrepreneurship are infrequently applied to government behaviour and, as Gordon White pointed out in the paper cited above, are even further removed from discussions of social welfare provision. The concept of entrepreneurship, rooted as it is in the analysis of economic behaviour in the context of competitive markets, contrasts with behaviour conventionally associated with public sector managers or with those responsible for welfare provision. The Chinese experience may, however, provide counter examples – of entrepreneurial local states and of 'welfare entrepreneurship'. In post-Mao China, there is considerable evidence not only that government officials exhibit the characteristics of entrepreneurs in directly engaging with business as well as indirectly facilitating market development, but also that wealth thus created is in certain circumstances used to fulfil the more traditional roles of government including welfare provision. This article asks whether local officials have been entrepreneurial in the cause of welfare provision. Or, put differently, do welfare responsibilities influence the behaviour of local government officials in their engagement in, or relationship with, local business?

Although the sharp dichotomies between public and private sector behaviour have been eroded in the context of shifting ideologies concerning state

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\* This article arises from research initiated jointly with Gordon White who was, and remains through his work, a rich source of ideas and inspiration. I am grateful to Bob Benewick and Lu Yuelai for valuable comments on this article, and to Lu Yuelai for research assistance.

<sup>1</sup> Gordon White, unfinished MS on 'Welfare entrepreneurship'.

and market, and within recent debates over welfare provision and the behaviour of public officials, nonetheless, the applicability of the term entrepreneurship to the field of welfare provision appears 'unlikely' (White n.d.; White and Shang n.d.).<sup>2</sup> In the paper cited above, Gordon was exploring the emergence of 'welfare entrepreneurship' in China, that is, the efforts of government agencies to expand into unconventional activities in order to finance and deliver public and social goods. Earlier work on urban business had recognised entrepreneurship outside the usual sphere of business, including the efforts of the Communist Party 'to stimulate entrepreneurial behaviour on the part of state managers as well as private businessmen' (Gold 1988:20). The type of entrepreneurial state activity which emerged in China's countryside was not, however, initially promoted by the Party or higher level government; rather, the changing structure of incentives (whether intentional or not) led to its rapid spread.

Gordon's work on welfare in China, and his exploration of 'welfare entrepreneurship', primarily focused on urban welfare, but his interests had more recently extended to rural welfare provision.<sup>3</sup> The collective (township and village) administrative level, which is primarily responsible for the provision and financing of welfare to the rural population, is also the level where the greatest entrepreneurial behaviour by government officials is observed. Here I thus draw on debates about the nature of the local Chinese state, as developmental and entrepreneurial (White 1991; Blecher 1991) or corporatist (Oi 1992). These debates focus on the unique institutional experiments in local economic development which emerged during the 1980s, and of which the rapid growth of township and village enterprises is among the most remarkable and remarked upon phenomenon. The pattern of development appeared to challenge predictions of established theories of transition, in particular that bureaucrats will resist changes that reduce their own power, that they are motivated by rent-seeking opportunities, and that clearly defined property rights are a prerequisite for successful economic development.<sup>4</sup>

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<sup>2</sup> The wider use of 'entrepreneur' is, however, becoming more common; for example Tony Blair has described as 'social entrepreneurs' 'those people who bring to social problems the same enterprise and imagination that business entrepreneurs bring to wealth creation'.

Numerous studies of township and village economic growth have examined the role of rural industrialisation, and the fiscal and other incentives for the local state to generate income through enterprise promotion. Little explicit attention has been paid to the welfare implications, beyond the general impact of growth on income levels and employment, and to some extent a concern with growing income inequality and social stratification. However, many studies do observe the channelling of resources towards welfare purposes. In this article I examine the locus of responsibility for provision and financing of welfare, and the contribution of local state entrepreneurship to meeting these responsibilities. In conclusion, I discuss the implications for welfare provision of two policy initiatives which may affect the behaviour of local officials and the nature of the local state: (a) proposed changes in the fiscal system and their implications for the capacity of local governments to raise and retain funds; and (b) the village governance agenda.

## 2 Development, Entrepreneurship and The Local State

Two types of entrepreneurship have been the focus of much attention in the literature on China's rural economic transformation during the past two decades. First, in response to changing incentives and market opportunities, formerly collectivised peasants moved rapidly into new areas of economic activity as farmers and private business entrepreneurs. Many cadres, fearful of whether local initiatives would obtain the approval of the central authorities, initially opposed private entrepreneurial activity and wealth creation. Such opposition appeared to support arguments, based largely on Eastern European experience, that government bureaucrats or 'redistributors' would lose power to 'producers' – the new entrepreneurs – during the transition to a market economy (Kornai 1992; Nee 1989, 1991; Rona-Tas 1994). However, local entrepreneurship in many cases occurred with at least the tacit support of local government leaders, and expanded rapidly once the central government signalled its approval.

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<sup>3</sup> The fieldwork which is drawn on in part of this article was undertaken through a project initiated jointly by Gordon and myself, and funded by a DFID ESCOR grant.

<sup>4</sup> There is a considerable literature on property rights in China, particularly in TVEs. This issue is not addressed in this article.

Indeed, local government officials themselves emerged as an entrepreneurial class, taking advantage of opportunities to capitalise on their networks and access to resources in the partially reformed economy (Cook 1998). Such officials were instrumental in establishing collective (township and village) enterprises or in supporting private or quasi-private 'red hat' enterprises. Incentives to operate in this manner were largely embedded in the fiscal system, specifically the capacity of local governments to raise and retain extra-budgetary funds. A major potential source of such funds are township and village enterprises (TVEs).

The collective, particularly township, level of government emerged with a pivotal role in local economic development soon after the creation of townships to replace the communes in the mid-1980s. Formal government structures end at the county level. Below this, townships and villages – referred to as 'collectives' – fulfil a range of government functions with specified responsibilities, limited power, and some mechanisms of accountability at each level. A major responsibility of the collective is the provision of social welfare. While the collective has no formal tax-raising powers, its capacity to raise other (extra-budgetary) revenues in the absence of significant transfers from higher levels determines its ability to fulfil these responsibilities. From the mid-1980s rural enterprises – particularly TVEs – provided the major source of growth in the local economies, and thus in local government revenues. By 1990 they provided over three times the total revenue raised through agricultural taxes, accounting for 37 per cent of all fiscal revenues at and below the county level (Wong *et al.* 1995:108).

This unanticipated performance challenged conventional thinking on the adaptability of public officials during transition, and gave rise to debates about the nature of the 'local state'. Since the late 1980s, researchers have examined the incentives provided by the decentralised fiscal system and the capacity of local governments to retain extra-budgetary revenues as key factors in explaining the entrepreneurial involvement of local officials in collective industry, as well as their relationship with

private business. The main 'models' of the local state emerging within this literature – as developmental, entrepreneurial or 'local state corporatist' – are reviewed in the following section.

### **3 Models of the Local State: Entrepreneurial, Developmental or Corporatist**

As China's rapid growth unfolded, existing theory failed to provide adequate explanations for local development. Rather than resisting reform or losing power in the process of market transition, bureaucrats began to play a direct entrepreneurial role. Their behaviour did not conform to the predictions of the literature on the politics of economic liberalisation that rent-seeking officials would resist reform or distort the market.<sup>5</sup> Alternative 'models' were required, with Gordon White in the forefront of their development, drawing on his earlier work on the developmental state. Models of the developmental and entrepreneurial states (Blecher 1991; White 1991) and the local corporatist state (Oi 1992) suggest ways in which officials adapted and shaped economic reform to the benefit of their localities. Their role as market facilitators and entrepreneurs has been (potentially) productive rather than purely rent-seeking. In many cases it appears also to be redistributive and welfare-oriented.

The principal dimensions of these models concern the nature of bureaucratic adaptation to market transition, the locus of entrepreneurship – in business or government, the role of the state as facilitator of, or participator in the market, and its relationship with private business. While the distinctions between models may not be as clear in reality as the initial formulations suggest, the overlaps between them help to highlight the 'developmental' purpose of the local state, which may be entrepreneurial and/or corporatist, and may operate both for the promotion of local economic development and for the enhancement of social welfare. The implications for welfare provision of changing the incentives (particularly fiscal) and structures of accountability within which local state development has occurred will then be explored.

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<sup>5</sup> See also Duckett (1996) for a development of this argument in the context of entrepreneurship among municipal government agencies.

### 3.1 Developmental and entrepreneurial local states

The notion of entrepreneurship had been largely absent from relevant literatures – both on state socialism – which has ‘planners, not entrepreneurs’ (Blecher 1991:266) and on the developmental state where ‘by and large entrepreneurship is conceptualised as an activity undertaken by enterprises which are implicitly or explicitly viewed as distinct from the developmental state administration’ (Blecher 1991:266–7). Describing the concept of ‘state entrepreneurship’, White (1991) highlighted the adaptability of the state, and the active institutional response to opportunities opened up by market reform and the changing politico-economic environment. Both authors examined the distinctive market-facilitating role of the ‘entrepreneurial state’ – ‘the process whereby individual levels of government, state agencies and individual officials become not only stimulants to but also participants in emergent markets’ (White 1996: 171). Local governments were seen to be ‘acting as powerful and effective agencies for local socio-economic development. They are, in effect, mini ‘developmental states’ (White and Benewick 1995:6).

Drawing on examples of development in two counties in the 1980s, Blecher distinguished clearly between developmental and entrepreneurial states by focusing on the locus of entrepreneurship and the relationship of the enterprise to the state. Thus ‘a developmental role of the state ... emphasises entrepreneurship by state administrative or bureaucratic agencies as a central activity’ in contrast to ‘a rather different developmental role for the state in which entrepreneurship is undertaken by enterprises’ (Blecher 1991:267). In the entrepreneurial state conceptualisation, government bureaus engage in entrepreneurial activity, not merely to assist the agency in carrying out its assigned task, but in order to earn profits (*ibid*: 267–8). It was this behaviour which Gordon White more recently observed in government welfare institutions, and which formed the basis of his discussion of ‘welfare entrepreneurship’.

### 3.2 The local corporate state

In her formulation of the local corporate state (LCS),<sup>6</sup> Jean Oi also investigates the adaptability of cadres to changing incentives in the transitional economy, providing a framework within which the local state may be both entrepreneurial and developmental.<sup>7</sup> Her work is particularly concerned with the incentives ‘embedded in the institutions that shape the actions of officials’ including the property rights regime, the nature of central–local relations, and the fiscal system. She suggests that where the risks or costs to individuals were too high, the state – in China’s case the local government – had to step in and assume the entrepreneurial role to start rural industry.

Oi’s use of the term ‘corporatism’ differs from more conventional usage and has evolved over time. It is ‘not concerned with the role of the central state in the vertical integration of interests within society as a whole ... [but] is constituted and co-ordinated by local government – specifically counties, townships and villages’ (11–12). Initially it referred to the running of village governments as a diversified corporation, redistributing income to their members and giving members a stake (Oi 1988) raising the paradox that increasing industrialisation could strengthen the corporate nature of the village, albeit with a different character.<sup>8</sup> The term has evolved to refer to ‘the degree to which the LCS has been able to restrain the private sector from becoming an independent economic class. Local governments have used a combination of inducements and constraints to fashion a local corporatist system that melds the entrepreneurial and governmental roles of local governments’ (1999: 138).

Oi’s ‘developmental state’ has both a market facilitating and redistributive role. Within a local corporatist context, local officials turn the administrative bureaucracy into a channel for the flow of information and resources to facilitate market production and serve local economic growth (1999: 178). They can also redistribute income among different sectors and enterprises within the local corporate state. This broader conceptualisation of entrepreneurial activity

<sup>6</sup> This work has evolved from early discussions e.g. Oi (1988, 1992) to the most fully developed presentation in Oi (1999).

<sup>7</sup> Duckett (1996) also suggests that there may be a mixed model of developmental and entrepreneurial states.

<sup>8</sup> See also Walder (1998) for a related argument at the county level.

suggests that it may take place within developmental local governments, in which case state entrepreneurship may serve to promote broader developmental objectives. Thus with sufficient incentives and resources, bureaucracies can assume an entrepreneurial role in promoting economic reform (Oi 1999:193).

### 3.3 The redistributive local state

How do these models of the local state assist in understanding the allocation or use of resources created by entrepreneurial governments, and what are the implications for the provision and financing of welfare? Just as local economic growth, and hence improved incomes and living standards, depended on the entrepreneurial drive to create a vibrant local economy, so too the capacity to develop local welfare services depends on the ability of the local state to control some of these resources as well as their willingness to finance such provision. In the literatures on the local state and economic growth, references are made to the use of resources for welfare promotion, for example through the provision of employment to villagers and the use of funds to finance welfare programmes or relief. Early work on TVEs, for example, noted the dilemma faced by local officials wanting to be successful businessmen as well as good government officials responsible for village welfare (Byrd and Lin 1990).

The result is a continued redistributive role for the state operating through different mechanisms. Under the developmental or corporatist state, enterprises (whether collectively or privately owned) most likely to receive government assistance are those deemed most capable of contributing to the 'corporate good', the definition of which changes over time, but may include social interests such as the provision of employment, as well as profitability and growth (Oi 1999). In those villages where resources are available to the collective, high levels of public services may be provided. In many highly industrialised villages from Guangdong to Shandong, the collective has effectively taken over all responsibilities for welfare provision through enterprise-raised funds. Thus in some circumstances reforms have led 'not to the end of redistributive socialism but to a new form of redistributive corporatism ... the power of the local government has grown along with the provision of collective welfare' (Oi 1999:79–80). Enterprise ownership may be less important in this process than the relationship between government and business (whether collective

or private) which determines the capacity of the local state to marshal resources for redistribution towards developmental purposes.

## 4 Welfare Creation by Local States

The local state, in the form of the village committee and township government, is primarily responsible for welfare provision and financing. This section describes first the responsibilities of central and local governments and, second, the availability of various sources and mechanisms of financing; finally, the relationships between available financing mechanisms, the nature of the local state, and peasant–cadre relations are discussed.

### 4.1 Responsibilities for welfare provision

Under the pre-reform collective system, rural welfare provision was in principle comprehensive with public provision of health care and education existing alongside basic guarantees to relief and social assistance for certain categories of people. In practice, however, stark differences existed in levels of provision both between rural and urban populations and between rural areas where individuals were dependent ultimately on family and community economic resources. Following decollectivisation, the government has redefined its responsibilities towards the rural population, limiting these to minimal forms of relief and assistance to the very poor and destitute, to specific vulnerable or deserving groups, and to those affected by natural disasters. Major social security programmes are summarised in Table 1.

This shift in responsibilities from the centre may have little immediate impact in many rural areas. Nonetheless, it represents a significant change of principle, with implications for the financing and delivery of services. While the main policies for social assistance are defined by the central government, provision has increasingly been devolved to 'society' – including local communities, mass organisations, work units, families and individuals – through a policy of welfare 'socialisation' (*shehuihua*) (Caireng 1995:229; Zhu and Pan 1994; L. Wong 1998). The assumption is that the main sources of livelihood protection will be self-provided (Leung and Nann 1995; Wong 1994).

Rural relief and social assistance are the domain of the civil affairs system. Related programmes, such as

**Table 1: Main Social Security Programmes**

Type of programme	Main programmes	Provider/financer
i social relief and assistance	<ul style="list-style-type: none"> <li>• payments in cash or kind to poor households</li> <li>• material assistance to victims of natural disaster</li> </ul>	<ul style="list-style-type: none"> <li>• collective welfare funds</li> <li>• Civil Affairs budget, 'society', donations</li> </ul>
ii social welfare	<ul style="list-style-type: none"> <li>• institutional care e.g., for the aged, disabled and orphans</li> <li>• welfare factories providing employment for the disabled</li> </ul>	<ul style="list-style-type: none"> <li>• collective welfare funds</li> <li>• self-funding activities</li> <li>• local government subsidies</li> </ul>
iii social insurance	<ul style="list-style-type: none"> <li>• pension schemes</li> <li>• community health insurance schemes</li> <li>• insurance against disasters</li> <li>• insurance for employees of TVEs</li> <li>• insurance for public employees</li> </ul>	<ul style="list-style-type: none"> <li>• individual contributions</li> <li>• collective welfare funds</li> <li>• employer provision</li> <li>• government budget</li> </ul>
iv social preference	<ul style="list-style-type: none"> <li>• special payments to veterans, disabled soldiers, dependants of soldiers, demobilised and retired soldiers etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Civil Affairs and collective welfare funds</li> </ul>
v medical security	<ul style="list-style-type: none"> <li>• curative health services</li> <li>• preventive services (immunisation and MCH)</li> <li>• immunisation and MCH insurance schemes</li> <li>• medical fee exemptions</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Health/budget allocations</li> <li>• user fees</li> <li>• collective welfare funds</li> </ul>
vi other	<ul style="list-style-type: none"> <li>• mutual savings/credit societies</li> <li>• minimum living standard guarantee</li> <li>• other e.g. childcare, activities for elderly</li> </ul>	<ul style="list-style-type: none"> <li>• individual contributions</li> <li>• county budget and collective welfare funds</li> <li>• collective funds</li> </ul>

health, education and employment involve relevant systems under the ministries of health, education and labour, with budget allocations from the treasury. Implementation takes place through agencies at different levels in the administrative hierarchy, involving cooperation with and contributions from township-, community- and village-level organisations, households and individuals. At the township level, social welfare activities are co-ordinated by the local committee on social security and civil affairs led by the director of the township government (Leung and Nann 1995:103, 112). Responsibilities of these committees include provision of 'five guarantees' (*wubao*), old people's homes, *ad hoc* assistance to poor households, and in some cases administration of insurance, pension or cooperative medical schemes. The local civil affairs bureau is also responsible for providing 'social preference' benefits, which often account for a

large proportion of local civil affairs budgets particularly in poor or 'old revolutionary base' areas.

The role of the state in direct provision or financing has declined since 1978. Overall the Ministry of Civil Affairs budget has remained around 1.5 per cent of state expenditure, declining marginally from 1.65 per cent per year under the Sixth Five year plan (1981–85) to 1.5 per cent under the Eighth Five-year plan (1991–95) (Wong 1998:149). The 1980s saw a decline in overall funding for rural relief by 50 per cent in real terms with expenditures in poor areas experiencing the greatest decline. During fieldwork,<sup>9</sup> government officials at provincial and county, as well as township levels, consistently mentioned that budget allocations from higher levels are generally used first to pay cadre wages and are often insufficient even for this purpose.<sup>10</sup> Poorer areas with greatest need and facing

<sup>9</sup> Fieldwork was undertaken in Guizhou, Hubei and Shandong between February and May 1998 by the author and researchers from the Ministry of Civil Affairs, Beijing. The following sections draw on this research.

<sup>10</sup> Interviews: Guizhou and Hubei, 1998.

**Table 2: Social welfare relief funds**

(10 000 Yuan)

Item	1985	1990	1995	1997
<b>National Total</b>	218349	426772	797289	1077496
Government funds	71097	202456	375313	461710
Collective funds	147252	224316	421976	615786
Funds for family members of martyrs and disabled veterans	106983	242732	435359	615411
Government funds	35328	141163	240980	293670
Collective funds	71655	101569	194379	321741
Funds for poor households	28688	38744	56210	75088
Government funds	11826	18650	26867	36127
Collective funds	16863	20094	29343	38961
Five guarantee funds ( <i>wubao</i> )	55196	85052	160121	196951
Government funds	6693	11851	22277	26545
Collective funds	48503	73201	137844	170406
Funds for urban and rural welfare homes of all types	27483	60245	145599	190046
Homes for disabled veterans	3040	6213	11737	17095
Government funds	2911	5920	10920	15966
Collective funds	129	293	817	1129
Social welfare homes	24443	54032	133862	172951
Government funds	14340	24873	74269	89402
Collective funds	10103	29159	59593	83549

Source: *China Statistical Yearbook* 1997:737; 1998:793

relatively heavier burdens in meeting nationally set wages, tend to receive fewest transfers, but to have the weakest capacity to raise funds locally. When compared with the growth in labour insurance and welfare funds for the urban population the imbalance is more stark: in 1995 state spending on civil affairs was only 4.4 per cent of such expenditure (C. Wong 1998:151).

#### 4.2 Local sources of welfare finance

The above discussion indicates the responsibilities of the collective for local welfare provision, but the lack of corresponding funds. The breakdown between central and collective revenues and expenditures is seen from official data in Table 2. Actual provision thus depends crucially on locally available resources. The result is the proliferation of multiple channels of funding as the local state seeks ways to meet its obligations, including fees and levies on farmers and businesses, entrepreneurial activities by the state, welfare lotteries and welfare 'enterprises'.

The individual or household is increasingly responsible for self-provision; rural health and education are now predominantly privately financed through user fees. Households also make a major contribution to welfare funds (*gongyijin*) which are collected and allocated at the village or township level, with fees and levies on farmers remaining the primary source. Levies (*tliu* and *tongchou*) are imposed on rural residents, usually on a per capita basis. Due to the proliferation of extra-statutory charges on farmers to meet local financing requirements, the central government has set a limit on the amount that can be raised of 5 per cent average per capita village income.<sup>11</sup> Collective enterprises also contribute to these welfare funds, while in villages with high levels of enterprise development, and thus non-agricultural employment, welfare provision may be financed exclusively through enterprise-raised funds.<sup>12</sup>

Most relief and social preference expenditures are financed from these welfare funds. Welfare homes are

<sup>11</sup> The 5 per cent limit refers to all levies, not just those for welfare purposes. There are frequent reports of levies exceeding this amount, while the limit leads to incentives for the government to inflate reports of

average income in order to increase the amount which can be collected.

<sup>12</sup> Interviews: Jiaozhou, 1998. Linda Wong notes similar developments in Guandong (1998:76).

**Table 3: Extra-budgetary revenue and expenditures of central and local governments**

(100 million yuan)

Year	Total extra-budgetary revenue	Central government	Local government	Total extra-budgetary expenditure	Central government	Local government
1985	1530.03	636.10	893.93	1375.03	562.05	812.98
1986	1737.31	716.63	1020.68	1578.37	640.94	937.43
1987	2028.80	828.03	1200.77	1840.75	741.61	1099.14
1988	2360.77	907.15	1453.62	2145.27	842.86	1302.41
1989	2658.83	1072.28	1586.55	2503.10	975.87	1527.23
1990	2708.64	1073.28	1635.36	2707.06	1037.69	1669.37
1991	3243.30	1381.10	1862.20	3092.26	1263.27	1828.99
1992	3854.92	1707.73	2147.19	3649.90	1592.81	2057.09
1993*	1432.54	245.90	1186.64	1314.30	198.87	1115.43
1994	1862.53	283.32	1579.21	1710.39	225.02	1485.37
1995	2406.50	317.57	2088.93	2331.26	351.38	1979.88
1996	3893.34	947.66	2945.68	3838.32	1034.92	2803.40

\*The coverage of extra-budgetary revenue and expenditures was adjusted in 1993 and the subsequent data are not comparable with those from previous years.

Source: *China Statistical Yearbook*, various years

funded partly from civil affairs budgets, township extra-budgetary funds (including remittances and public welfare funds of township enterprises), and in richer villages from the collective funds derived from village enterprises, run by village committees. In addition, many institutions responsible for the care of the elderly or disabled have started 'welfare enterprises' or operate other income-generating activities which enjoy tax reductions or are provided with various forms of support from the township such as allocation of land or subsidised essential services.<sup>13</sup> In some areas welfare lotteries have been established to provide an additional source of local finance.

Social insurance is increasingly seen as an alternative source of funding for relief and assistance, as well as a mechanism for expanding the rural social security system. Two major initiatives are in areas of community health insurance and rural pensions (or old age insurance), although other insurance schemes include crop insurance, housing and various forms of personal insurance as well as insurance for government and TVE employees, which may be organised by public or commercial agencies. Contributions to government-run insurance or pension schemes either may be collected from individuals on a voluntary basis, as part of regular

compulsory levies, or paid from collective funds raised from other sources, including enterprises.<sup>14</sup>

Funds raised by the collectives are part of the off-budget funds which have received increasing attention in recent years. The decentralisation of the fiscal system gave rise to two forms of off-budget finance – extra-budgetary funds (*yusuanwai zijin*) under the control of local governments and administrative agencies and self-raised funds (*zichou zijin*) at the county and township levels. The ability to retain these revenues was a key incentive to the promotion of enterprises by localities and administrative agencies. While accurate data on these funds is inevitably hard to obtain, it is clear that their scale is considerable. According to official aggregate statistics, in 1993 off-budget funds accounted for about 36 per cent of total revenues. Local studies point to considerably higher proportions, particularly at the township level (Wong 1997:59; Fan 1998).

Comparing the division of expenditure responsibilities among administrative levels Wong also notes that lower levels (the township) are remitting more than they retain (see Table 3). These levels bear the main burden of local government financing responsibilities, including wage increases, which have

<sup>13</sup> Interviews, Enshi, 1998.

<sup>14</sup> Interviews, Hubei, 1998.



exceeded the average rate of price inflation and have pushed up the costs of administration and service provision (Wong 1997:58). Thus, even as local states are being entrepreneurial, pressures are increasing on local budgets and the share of resources available for welfare is likely to be squeezed as localities try to meet administrative and wage costs. In a climate of growing competition between enterprises, and a slow-down in overall growth, the resources available to local states for redistributive or welfare purposes may well be threatened.

### 4.3 Finance, accountability and peasant–cadre relations

Responsibility for the livelihoods and welfare of the rural population, and the need to create resources with which to fulfil this role, place potentially contradictory demands on local officials. Either they can raise funds through directly entrepreneurial activities or from private enterprise; alternatively, they must raise funds from the very constituency for whose welfare they are responsible. These options may either strengthen their position – if they are able to create resources and use them for developmental or welfare purposes; or weaken them – if they create resources but fail to use them to benefit the community, or if they fail to create such resources, except by impositions on villagers. In all cases there are implications for the future of the local state in an era of more intense market competition leading to possibly tighter budget constraints. Peasant–cadre relations will be a key element in these developments.

A major source of tension between peasants and cadres in recent years has been the burden of collective fees. These tensions arise not only from the absolute level of fees but also from perceptions of what the money is being used for, and the commitment of officials to local development. In townships with sources of collective finance, whether relatively wealthy or poor, relations between villagers and leaders were generally better than in those without. The latter (again regardless of income level), can be broadly categorised in two types. First, those which (based on comparisons with neighbouring areas) potentially could have promoted greater local development, but where government appears to have few developmental or entrepreneurial aspirations. In these areas, township and village leaders seemed to

resort rapidly to additional levies on farmers to meet any new obligation (such as pension or insurance schemes) imposed from above, generating increasingly high levels of tension between farmers and the state. Second are those townships with few entrepreneurial opportunities, which tend to be located in the poorer areas. In the fieldwork sites, the strongest points of contention were over the imposition of fees that led to no direct or visible gain for the community; or where villagers' preferences over use were ignored. In one case, funds were withheld by villagers in protest at the relocation of the local school to a neighbouring village.

These tensions are not new. The 5 per cent limit on levies was introduced in response to protests against rising extra-statutory charges. Two additional institutional changes are now being introduced that, in theory, have the potential to reduce these tensions. First are fiscal reforms to rein in some of the off-budget funds by converting fees to taxes (*feigaishui*). While the implications at the sub-county level are not yet clear, sources of funding for the local state will almost certainly be affected. Second, the village governance agenda, involving elections and, perhaps more importantly, the development of mechanisms of financial accountability at village and township levels, may create greater openness, particularly in areas where farmers are the main source of collective revenue.

## 5 Conclusion

What are the implications of these two important reform agendas, and how do they relate to discussions of the local state and welfare provision? While both may potentially relieve some sources of tension in local state–society relations, it is also possible that they will work in contradictory directions. While villagers are provided with stronger mechanisms for holding officials accountable, the capacity of officials to control income sources with which they can provide collective goods may be compromised. The outcomes will depend in part on prior local conditions and villagers' expectations. In more industrialised townships, where all services are provided by enterprise-raised funds, officials expressed concern about how residents would react if funds had again to be raised directly from them in the event of a down-turn in the economy reducing revenues from enterprises.

While fiscal reform and rationalisation may be necessary, this may also impose costs on entrepreneurial developmental states. One of the casualties may be rural welfare provision. Equally, for those collectives with limited opportunities to raise resources (but possibly developmental intentions) there is little indication that more transfers will be available. On the contrary, the devolution of responsibility from central to local state and society involves a strong emphasis

by central government agencies on the local determination of affordable levels of welfare provision. Thus, collective level officials may face greater pressures to respond to the demands of the local population, but control fewer resources with which to meet their obligations. Successful and smooth institutionalisation of fiscal reform and village governance may need to be accompanied by greater commitment to redistributive welfare from the centre.

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