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## Rural Fee Reform and the Changing Relationship between State and Peasant<sup>1</sup>

*Abstract:* This paper is exploring the Rural Fee Reform from 2002 and its effect on the relationship between state and peasant. Based on the studies in 12 townships, 6 counties, the author found that the basis of local government finance had been transformed from rural fees and taxes to inter-governmental transfers and debts. This may cause some fundamental changes in state-peasant relationship: the ties between local government and peasant are becoming loose and the state power might start to retreat from rural societies.

*Keywords:* Rural Fee Reform; state-peasant relationship; local government finance.

### Introduction

State-peasant relationship would be discussed from the perspective of Rural Fee Reform in this article in order to answer following questions: How has the state-peasant relationship been changing since the 21<sup>st</sup> century? What kind of effect would these changes bring in the state's political institution building and the structure of the rural societies?

The state-peasant relationship was always a grand issue in Chinese history. According to the orthodox Confucius tradition, taxes should be as low as possible, though the land tax was the major fiscal revenue which supported the operation of the old bureaucratic system. In traditional China, for instance, the agricultural tax rate was  $\frac{1}{10}$  in Warring States Period (472–221 B.C.),  $\frac{1}{30}$  in Western Han Dynasty (206 B.C.–A.D. 8),  $\frac{1}{40}$  in Tang Dynasty (618–907). After the foundation of People's Republic of China, the agricultural tax rate stayed low—3–4% (approximately  $\frac{1}{30}$ ) before Rural Fee Reform in 2002.

However, the state did not only levy the agricultural tax, but also imposed all sorts of exorbitant taxes or fees and corvée on peasants which we called “the burden of peasants” today. Unlike agricultural rate, burden on the peasants would rise and fall rapidly according to the state politics. Generally, it was relatively light at the beginning

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of every dynasty, while grew heavier in later period. Peasants were overwhelmed by the burden which was much higher than the agricultural tax at many times. Hence some well-known finance and tax reforms in history were directed towards the burden on peasants, such as Single Whip System in Ming Dynasty (1468–1644) and the reform of Huo Hao in Qing Dynasty (1644–1911).

After the foundation of People's Republic of China in 1949, the state–peasant relationship was in a severely transforming period. The state equalized land ownership through Land Reform in the beginning; regained the land from peasants and returned it to the collective through Agricultural Collectivization in the 1950s; yet distributed the use right and income right back to peasants in the 1980s. Although the state implemented low-rate of agricultural tax during this history period, peasants had to sell their crops to the government at a unified price (set by the state, which was lower than market price) which was virtually a kind of peasants' burden. Although this system was abolished in the 1990s, other kinds of fees were booming which was much higher than the agricultural taxes. Among the 120 billion to 150 billion yuan of taxes and fees of Chinese peasants before the Rural Fee Reform, there was only 40 billion of agricultural tax while the others were all sorts of fees.

The increase of peasant burden was apparently due to the over-levying of the state, but the more direct reason might be the financial difficulty of local governments, which was also the same in history. The land tax was always the fiscal revenue belonging to the central government, so the daily expense of local officials and public affairs of local governments mainly depends on other fees imposed on peasants. Peasant burden increased as long as the expenses of local governments increased. In modern times, booming tariff, commercial and industrial taxes became the main fiscal revenue of the central government. Agricultural taxes gradually became local taxes. However, agricultural taxes could hardly meet local governments' requirements on expense because of its low rate, limited volume and little flexibility. Thus the increasing of peasant burden was an inevitable result. In 2002, the Chinese government implemented Rural Fee Reform in the whole nation, aiming at decreasing the burden of peasants. As reforms in history, Rural Fee Reform was actually a reform of local government finance, especially directed towards low-level governments—the counties, townships and villages.

According to the statement above, it was necessary to discuss about three agencies—the central government, local governments and peasants, rather than merely focused on the state and peasants in the scope of the state's finance and tax institutions. The Financial status and action mode of local governments were especially keys of understanding state–peasant relationship. Hence it was a main analyzing method of this article that extracted local governments from the general concept of “state” and scrutinized as the key point. Local governments contained four levels in official concept: province, municipality, county and township. The last two were the fundamental low-level governments which directly faced peasants, while provincial and municipal governments were relatively not so important in state–peasant relationship that generally did coordinating work. Therefore, the concept of “local governments” in this article meant counties and townships, especially focused on township governments.

### Behavior of Local Governments: A Review

Studying of gentries and local elites of the rural societies was a traditional research field of China Study in western world that also influenced Chinese scholars' understanding of the rural societies and low-level politics. Fei Xiaotong's "double-track politics" theory was an outstanding representative. According to Fei's studies, the political structure of Ancient China was a three-level structure of the state, gentries and peasants, whose operational process was an interaction of two "tracks:" one track was the policy implementing from the central government, local governments to gentries; the other was the reaction of policies from peasants to gentries and through informal relationships to governments (Fei Xiaotong 1999). Obviously, gentries were the key to understand state-peasant relationships of that time. Yet many scholars discovered that the local gentries had changed from traditional, protective gentries to "entrepreneurial brokerage" since the late Qing Dynasty by scrutinizing the economical structure of the rural societies. These new middlemen represented the interest of state rather than that of villages (Huang 2000; Duara 1994). After 1949, Land Reform and the Collectivization fundamentally changed the structure of the rural societies—the traditional middle-level disappeared and village cadres generally represented the will of the state.<sup>2</sup> The previous three-level social structure was replaced by the double-level one. The entire rural societies of China involved in the socialist totalitarian system.

After China's Reform and Opening Up in 1980s, studies of state-peasant relationship inherited the tradition of local elites. There were two focuses of studies on this field in sociology analyzing the relationship of peasants and rural elites from different perspectives. Through levying process of agricultural taxes and fees, some scholars focused on the interacting pattern of cadres and peasants and further discussed the power structure and characteristics of its operational mode of the contemporary rural societies (Sun Liping & Guo Yuhua 2000; Wang Hansheng & Luo Gang 2001). The other perspective was villagers' committee election and village politics, in which village cadres and local elites were still the focuses. To some extent, the election made village cadres intended to represent villagers' interest rather than perform as an absolute agent of state power in the rural societies. Some further studies scrutinized the relationship of village election and villagers' internal social structure (He Xuefeng & Tong Zhihui 2002). It was obvious that these studies were benefited from the tradition of China Study in western world, making considerable progression on the relationship of power elites and the rural societies. However, it was a common character of these studies that lacking deep discussions of the power of state or government which was perceived as a precondition or ambiguous background. As the representative of state's power, local government officials appeared in an odious image and

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<sup>2</sup> Some scholars found that the behavior of leaders of production teams was not absolutely representing the will of the state, who was more like a middle-level. For example, they would turn a blind eye to agricultural producing (Putterman 1993). Their behavior was understandable, since leaders of production teams did not have the same stable promotion system as other government cadres, so they would consider the interest of villages.

their action pattern was precondition rather than object of study. As a result, studies of state–peasant relationship would easily follow the simple mode of repress-resist relationship or game theory of power.

Ying Xing's study on peasants' appeal to higher-level government was a breakthrough in the study of state–peasant relationship. By narrating a detailed long story about peasant appeal (*shangfang*), Ying revealed the action mode of both low-level and high-level local governments. The contribution of Ying's study was that followed the process of *shangfang* to penetrate interior of local governments of all levels, and revealed the complexity of local governments' behavior and started to challenge the common negative understanding of local cadres. From the perspective of sociological empirical research, Ying's work was a valuable beginning of discussing governments' behavior as the object of study.

The financial system of Chinese government was always a unitary system, which meant that the central government had complete power of decision on tax. The central government determined items, bases and rates of tax, and applied unified standards in the whole nation. Since the reform of 1980s, though this unitary system has not been changed, the distribution of tax revenue and the responsibilities of expense were gradually decentralized, which considerably stimulated local economy. Some scholars believed that this fiscal decentralization was the key point if we wanted to understand the success of Chinese economy (Qian, et al. 1995).

Studies above had tried to understand the behavior of local governments by analyzing the fiscal system and its operating process. This article tries to introduce the political-economic analysis into sociological frame in order to help sociological empirical researches get rid of the inclination of concentrating on “society” and neglecting “state.” The behavior of government should be considered as an endogenous, rather than exogenous variable in low-level administration. This article chooses Rural Fee Reform (2002–2005) as the research topic.<sup>3</sup> In this study, we have not assumed that local governments were the opposition of the rural societies, but tried to understand motivations and constraint conditions of local governments' behavior.

### Central–local Relationship behind State–peasant Relationship

Since 1980s, land property rights were fixed in the rural societies—villages had the land ownership and peasants had the use right and income right of the land. But the tax system was not fixed. Peasants mainly paid agricultural tax to the state. Peasants who planted commercial crops had to pay tax on special agricultural productions in addition. Besides agricultural taxes, peasants had to pay other two main types of fee: *Santi Wutong* and various levies. *Santi Wutong* meant three deductions and five

<sup>3</sup> Research materials were collected in surveys from 2004 to 2005, including interviews with administrative organizations of counties, townships and villages, and questionnaires about local governments' financial status. Since Rural Fee Reform mainly affected state–peasant relationship in Central and western region, the majority materials used in this article came from the central and western region, specifically 6 counties and 12 townships of Hu Nan, Chongqing and Jilin. All names of counties and townships were anonymized.

charges, which were legacies of People's Commune before 1980. Three deductions (*santi*) were for management expenses, accumulation fund and public welfare fund of villages' administrative organizations. Five charges (*Wu tong*) were expenditures by township governments for road construction, education, family planning expense, militia training and *youfu*.<sup>4</sup> As *santi wutong* was collected and spent by townships and villages, there was no state standard for it, which led to a phenomenon that *santi wutong* was heavier in poor villages than that in rich villages. After the mid-1990s, this issue became more and more critical. The central government issued No. 13 Document in 1998 to standardize the amount and levy process of *santi wutong*. According to this Document, the total amount of "*santi wutong*" should not exceed 5% of local peasants' net income. However, local governments in many regions manually raised the local peasants' net income in governmental reports to levy more *santi wutong*. The increasing of *santi wutong* was not effectively restrained.

There was no any nationwide standard for various levies in the rural region. Local cadres could make any levy standards at their will in the name of public affairs, especially of education, road construction, and water conservancy project. So far there was no comprehensive researching data indicating the specific amount of this burden of peasants. According to the 1999 survey in 12 counties of 6 provinces conducted by Ministry of Agriculture, averagely one peasant paid about 100 RMB for taxes and fees every year, which was about 7% of peasants' net income, 29% for agricultural taxes, 58% for *santi wutong* and 13% for various levies (Zhao Yang & Zhou Feizhou 2002). Fees were twice as much as agricultural taxes. But the survey could not exactly reflect the reality about fees, the various levies in the 1999 survey should be still lower than actual amount.

In sum, "light taxes and heavy fees" and lacking standards were the general characters of peasants' burden before Rural Fee Reform. Peasants' Shangfang and even suicides because of heavy fees were the most common news in the end of 1990s. The stability of rural societies was threatened. Rural Fee Reform was urgently necessary.

At the beginning of 2000, the central government implemented Rural Fee Reform in An Hui province as a pilot project. In 2002, Rural Fee Reform was implemented in 20 provinces, and was applied in the whole country in 2003.

Clauses of Rural Fee Reform included: repealed the five charges in *santi wutong* and all kinds of levies of townships; repealed slaughtering tax and taxes on special agricultural products except for tobacco; repealed unified accumulative labor and compulsory labor; reformed the three village deductions in *santi wutong*; adjusted agricultural taxes. In brief, Rural Fee Reform was "three repeals and one adjusting."

Except the agricultural tax, almost all charges, fees, and levies were repealed. Peasants did not have to pay any other fees except standard taxes to the government. But the rate of agricultural tax was adjusted from 3% to 7%.<sup>5</sup> Furthermore, the state surtaxed about 20% of agricultural tax on peasants, which was called agricultural

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<sup>4</sup> Give special care to disabled servicemen, and to family members of revolutionary martyrs and servicemen.

<sup>5</sup> The base of this rate was the regular output (3 years) of crops, rather than peasants' net income. Although the rate rose, the actual burden did not increase considerably, as agricultural income was not

surtax, which substitute for the three village deductions in *santi wutong*. 7% plus 20% was 8.4% of regular output of crops, which was the new rate for agricultural tax after Rural Fee Reform.

In 2004, the central government released more aggressive reforming plan: reducing agricultural rate since 2004 and completely repealing agricultural tax in five years. The consequential deficit would be made up by increased inter-governmental transfer. This plan was welcomed by local governments that all provinces, except “five-province club,” claimed to completely repeal agricultural tax by 2005.<sup>6</sup> Theoretically, Rural Fee Reform and related policies would thoroughly repeal agricultural burden. From the perspective of state–peasant relationship, this reform was revolutionary. In the Chinese history, peasants for the first time could stop paying taxes to the state legally and stop being exploited by local cadres.

Seemingly, there were two lead roles in Rural Fee Reform, the central government and peasants. The central government spent tremendous money to make up the deficit after the reform and peasants benefited directly. But from the perspectives of operation and consequence, the real lead role was local governments. Although local governments could break-even in designing, actually local governments of county, township and village in the rural societies were unprecedentedly suffered, especially townships.

First of all, the function of township governments was challenged. As the lowest administrative level of government in official concept, the main functions of township governments were to levy taxes, order crops and conduct family planning before the reform. Ordering crops was no longer necessary since the late 1990s. Family planning became easy to conduct with the development of economy and society. While the most difficult work—levying taxes—was repealed by Rural Fee Reform. Hence some scholars or researchers suggested repeal township governments, or combine it with county governments.

Secondly, the relationship of the central and local governments was deeply changed. Before Rural Fee Reform, the finance of local governments primarily depended on local taxes (including local industrial and commercial taxes and agricultural taxes) and fees. Fees were more than taxes, and agricultural taxes were more than industrial and commercial taxes in central and western region. After repealing fees and agricultural taxes in the reform, low-level governments increasingly depended on inter-governmental transfer from the high-level governments. As well as the transfer for Rural Fee Reform, there were more special subsidies of huge amount allocated. The reform started with the flow of funds from the central government to the central and western region, which was also called “feedbacks from public finance to the rural societies.”

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the main source of peasants' income. However, it harmed the fairness between peasant household and households with combined occupations (Tian Xiujian & Zhou Feizhou 2003).

<sup>6</sup> The reasons of local governments' active attitude were that the cost of tax collection would not decreased with decreasing tax rate and because peasants knew in advance that rate was decreased, sometimes misunderstanding and chaos would happen during levy process.

In the design of Rural Fee Reform, there were two obvious purposes: reducing the burden of peasants and establishing the system of public service and affairs in the rural societies which should depend on governmental financial system rather than peasants. Yet the operation was not easy: on one hand, ensuring that the burden of peasants would not rebound;<sup>7</sup> on the other hand, establishing a valid and fair public service system. The success of Rural Fee Reform depended on local governments, which located between the central government and peasants, substantially depended on their balance of payment position and efficiency of financial system. In other words, the key of Rural Fee Reform was the adjustment of central-local governmental relationship. We had to scrutinize the behavior of local governments in order to understand state-peasant relationship in new condition.

### **The Relationship of County and Township Governments**

To understand inter-governmental relationship, scrutinizing inter-governmental fiscal system was essential, especially county-township financial system. The content of county-township financial system was the allocation of fiscal revenue and expenditure responsibilities between county and township. The central government did not establish unified standard of the allocation, so specific principles would be different from one place to another. Generally speaking, from establishing township financial system in the mid 1980s to the Tax-Sharing System (TSS) in the mid 1990s, county-township financial system operated in the form of revenue contracting system (*caizheng bao-gan*). After TSS, the new system distributed revenue by tax items, but still in a style of contract tax by tax.

In the revenue contracting system, county would set an “income base” for township for several years. The portion of township income that exceeded the base would be distributed between county and township in certain ratio. Since most township governments did not have their own treasuries, all fiscal revenue of township governments should be collected into county treasuries, including both the exceeding and the non-exceeding. Non-exceeding portion was not totally returned to township, but distributed according to another base—expense base. Expense base was determined by regular expense amount of township that would remain the same for several years as income base. If the income base was bigger than expense base, the discrepancy would remain in county treasury as remittance. If the expense base was bigger than income base, county government would pay to township government a subsidy to cover the discrepancy. According to county-township financial system, a township government would get the non-exceeding portion, subsidy (or submit remittance), and the

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<sup>7</sup> Most finance reforms in Chinese history which combined fees with taxes were effective in short term, but their long-term effects were opposite to the original purpose. The reason was simple. Various taxes and fees before reform often contained all items that it was very difficult for the later to create new ones. But the reform of combination provided opportunities to the later. As time went by, people would forget that the unified tax already contained all items. Local governments would impose extra taxes and fees on peasants once they were short in expense (Qin Hui 2000).

exceeding portion annually. Furthermore, other kinds of subsidies or transfers from high-level governments would be included in township budgetary revenue.

However, in the tax-sharing system, the income base was calculated according to different tax items, which meant that there would be several different income bases for one township, such as value added tax base, income tax base, industrial and commercial tax base and agricultural tax base. Some county-township financial systems set individual base for every tax item that made it very complex. But there was always one single expense base, so subsidy or remittance was still calculated by subtracting expense base from sum of all sorts of tax bases. The principle of sharing revenue system was actually still contracting.

The financial system reflected directly the relationship of county and township, especially county's control and monitor function on township. On one hand, county could motivate township to collect taxes. Although, tax department became independent since TSS, tax department could hardly accomplish their targets in rural region without township governments' cooperation. As well as agricultural tax, collecting other sorts of industrial and commercial taxes was mainly depended on the organization and conduction of township government. If township government had not reached the income base, its expense would be reduced. If exceeding, it would be awarded. On the other hand, by operating the financial system, county could control the expense amount of township. The expense base was generally calculated by multiplying finance-supported staff by salary. Besides this personnel expense, some townships had a certain amount of expense for daily operating. The county government would not help township government to cover the portion exceeding the expense base in order to restrict the increase of township staff.

The county-township financial system was similar to the principal-agent relationship. In the revenue contracting system, the operating result was still "soft budget constraint."<sup>8</sup> The most important cause was the existence of off-budgetary revenues and expenses. In China, off-budgetary revenue increased dramatically in last 20 years, which amount was once almost the same as budget especially in county and township governments (Wong 1998). In developed counties in East region, off-budgetary receipt was still close to or more than budgetary receipt. Land development fees and administrative fees were the main sources of off-budgetary receipt. While counties in central region, off-budgetary revenue was  $\frac{1}{3}$  or  $\frac{1}{2}$  of budget revenue. Generally, off-budgetary revenue was more critical than budgetary revenue for township governments. For instance, in Central regions, *santi wutong* was generally much more than budgetary revenue in a township. The management system of off-budgetary revenue was quite different from that of budget. Although Ministry of Finance initiated a set of reforms to budgetarilize<sup>9</sup> off-budgetary funds, off-budgetary funds were still generally controlled by local governments and followed the principle "levier was the user" because of involving huge governmental interests. Before Rural Fee Reform,

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<sup>8</sup> Kornai (1986) had discussed the "soft budget constrain" relationship of governments and state-owned enterprises in details.

<sup>9</sup> These reforms included department budget reform, "double tracks of income and expense" reform, and reform of unified allocation system of state treasury. See Xiang Huaicheng (ed. 2003).

as profit or rent handed in by township collective enterprises, deductions of township and charges of villages were completely controlled by township governments. From the perspective of township governments, budgetary funds were fixed while the off-budgetary were flexible. Township governments could use the off-budgetary receipt in many ways.

First of all, off-budgetary funds could be used to accomplish the budgetary income base. According to county-township financial system, if township governments could not accomplish their income bases, expense bases would be deduced correspondingly, which would not only affect directly daily work of township governments, but also negatively influenced official assessments of township government leaders.<sup>10</sup> Hence the income base was the primary target of township government. The main difficulties in accomplishing income base were default of agricultural tax and decrease of industrial and commercial taxes. The default of agricultural tax could be solved during the levy process, but the later was difficult to handle.

Secondly, off-budgetary funds could be used as some kinds of subsidies to hire temporary working people. In the budgetary expense base, the salary of township government staff accorded to the national standard, excluding all sorts of bonus and allowances. Hence township government often used off-budgetary receipt to pay bonus, allowances or welfare. Hiring temporary working people also depended on these funds. Temporary working people was arranged to levy taxes and fees in order to support all working people in governments. As thus, more fees led to more difficulties to levy; more difficulties led to more temporary working people were required; more working people led to more fees finally. A circle of organization expanding and peasants' burden increase thus formed.

Thirdly, off-budgetary funds were used to maintain daily work of township governments. In central and western region, most counties did not provide township governments with administrative expense. But a medium scale township government would spend 5 hundred thousand to 1 million annually to ensure government's running, which would mainly depend on off-budgetary fees.

Moreover, off-budgetary funds were used for public service and public affairs. *Santi wutong* was levied in the name of public expenses. Though township governments repealed expenses as many as possible, some expenses were inevitable, such as maintain of schools, roads or dams and expense of family planning.

Among the four aspects above, the first way of using off-budgetary funds was the most important. The expense priority of off-budgetary funds was determined by leaders' personal thoughts, internal power structure, economy and social conditions. But the principle was "the most urgent comes first."

In sum, off-budgetary funds were far more important than budgetary funds for low-level governmental finance. Under this condition, the control of financial system

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<sup>10</sup> The high-level government had a complex system to assess officials in lower-level governments. County governments would annually issue an assessment standard of township cadres in the form of hundred mark system or thousand mark system. This standard was constituted by many indexes with different weights. Generally, introduction of investments and financial receipt were the most important indexes. The results of annual assessment would directly affect the promotion of local cadres.

imposed on the amount of expense was useless and motivation of financial income contrarily encouraged township governments to deceive. Furthermore, the expanding of organization and deception on financial income caused township governments more and more depended on these “flexible funds.” Therefore, before Rural Fee Reform, the continuously increase of peasants’ burden was the most important issue in rural politics which was closely related to county-township financial system and inter-governmental relationship.

### **Financial Resources of Township Governments Before and After Rural Fee Reform**

The financial resources of rural low-level governments were counted by three portions: budgetary revenue, subsidies or remittance, off-budgetary income. Budgetary revenue was revenue belonging to the government after distribution based on the revenue sharing system. Subsidy was all sorts of subsidies or transfers from high-level governments to assist expense of the government. When calculating “available financial revenue” for a government, the following formula was generally used:

$$\text{Available Financial Revenue} = \text{Budgetary revenue} + \text{Subsidies—remittance}$$

This was also equal to the amount of budgetary expenditure. Since off-budgetary income and outlays were calculated separately, they were excluded from “available financial revenue.” However, off-budgetary income was undoubtedly an essential portion of governmental financial resources.

Before Rural Fee Reform, the east region mainly depended on budgetary receipt, submitted a considerable amount of remittance and received some subsidies as complement. The west region generally relied on subsidies from high-level governments, especially from the central government. The central region considerably depended on their budgetary receipt that their amount of remittance and the amount of subsidies they received were both small. The off-budgetary income were also different in these three regions: the off-budgetary receipt of the East region was huge, including administrative fees and land developing income; the central regions mainly relied on fees; while the total amount of off-budgetary income in the West region was very small. So Rural Fee Reform most affected the central and western region, especially county and township governments in the central region.

Budgetary revenue and off-budgetary fees were the main financial resources for most counties and townships in the central region. There was no national statistics for off-budgetary income. But the issue of fees was more serious in the central regions than the other two regions from some research materials and reports before Rural Fee Reform.

After Rural Fee Reform, the financial structure of county and township governments in the central and western region was obviously changed, since all sorts of fees from rural areas were repealed, the rate of agricultural tax was raised and the inter-governmental transfer was established. The most important change was the decrease of off-budgetary income and increase of budgetary revenue. This change could be re-

garded as a replacement of off-budget by budget, because the total financial resources of local governments did not considerably changed.

The effect of this replacement was most obvious in township governments, because Rural Fee Reform basically repealed all fees charged by township governments. The Table 1 below shows the agricultural taxes and fees of 12 townships before Rural Fee Reform.

Table 1

**Peasant Burden of 12 Townships One Tear BEFORE Rural Fee Reform (million)**

Province	County	Township	Agricultural tax	Tax on special agricultural products	<i>Santi wutong</i>	Total
Hunan	Binjiang	Jiangkou	1.42	0.24	2.76	4.42
Hunan	Binjiang	Sheli	1.95	0.39	4.10	6.44
Hunan	Nanchuan	Longtou	1.42	0.27	3.93	5.62
Hunan	Nanchuan	Dingyang	1.20	0.22	2.95	4.37
Chongqing	Tongfeng	Qingshui	0.19	0.03	0.32	0.54
Chongqing	Tongfeng	Yangqiao	0.84	0.33	1.48	2.35
Chongqing	Jiangyang	Fengchi	0.43	0.03	2.47	2.93
Chongqing	Jiangyang	Zhangjia	0.61	0.03	0.36	1.00
Jilin	Taicheng	Dongbahe	2.97	0.03	5.70	8.70
Jilin	Taicheng	Zhenlun	2.27	0.00	3.02	5.29
Jilin	Huifa	Fuan	0.43	0.32	0.82	1.57
<b>Jilin</b>	Huifa	Paomaxiang	0.86	0.00	1.00	1.86

Data in Table 1 only reflected the burden of peasants which was different from the total fiscal revenue of township governments because they did not include industrial and commercial taxes, subsidies and remittance. Moreover, data above were not the total amount of peasant burden that they were only “regular” burden of peasants and did not contained all sorts of illegal fees and levies. Form Table 1, *santi wutong* were more than agricultural taxes in all townships, except Zhangjia county in Chongqing. But in another county Fengchi in Chongqing, *santi wutong* was 6 times as much as agricultural taxes. Generally, *santi wutong* was about  $\frac{2}{3}$  of peasants’ burden. Then the Table 2 would show the status after Rural Fee Reform.

The comparing result of these two tables was the main content of Rural Fee Reform. The tax on special agricultural products obviously decreased, while agricultural taxes and agricultural surtax increased to twice amount in townships which was close to the raise of agricultural tax rate. Inter-governmental transferred subsidies complemented financial resources of local governments. But comparing the totals of these two tables, the financial revenue of local governments decreased after Rural Fee Reform. Except two townships in Chongqing, the financial resources decreased about

Table 2

**Peasant Burden and the Corresponding Transfer Subsidies in the Year of Rural Fee Reform (million)**

Province	County	Township	Agricultural tax	Agricultural Surtax	Tax on special agricultural products	Transfer Subsidies	Total
Hunan	Binjiang	Jiangkou	2.40	0.47	0.12	0.64	3.63
Hunan	Binjiang	Sheli	3.55	0.71	0.24	1.71	6.21
Hunan	Nanchuan	Longtou	2.28	0.45	0.14	0.56	3.43
Hunan	Nanchuan	Dingyang	1.69	0.34	0.12	0.49	2.64
Chongqing	Tongfeng	Qingshui	0.32	0.08	0.00	0.29	0.69
Chongqing	Tongfeng	Yangqiao	1.19	0.30	0.00	0.53	2.02
Chongqing	Jiangyang	Fengchi	0.60	0.12	0.00	0.00	0.72
Chongqing	Jiangyang	Zhangjia	1.05	0.21	0.00	0.52	1.78
Jilin	Taicheng	Dongbahe	5.37	1.07	0.03	2.47	8.94
Jilin	Taicheng	Zhenlun	3.13	0.62	0.01	0.82	4.58
Jilin	Huifa	Fuan	1.33	0.23	0.21	0.62	2.19
<b>Jilin</b>	Huifa	Paomaxiang	0.87	0.22	0.34	0.93	2.36

30% in other townships. Furthermore, as illegal fees and capital formations were not included, the decrease must be far more than 30%.<sup>11</sup>

### The “Emptied” Township Finance

The direct reason of decrease of township financial resources was that inter-governmental transfer and increase of agricultural taxes could not make up *santi wutong* before the reform. What was the distributing standard of inter-governmental transfer? According to “temporary method of inter-governmental transfer from the central government in Rural Fee Reform” issued by Ministry of Finance (No. 468 file, 2002),

County transfer = township transfer + village transfer + education transfer  
 Township transfer = (education expense in townships and villages of the county + family planning expense of the county + You Fu expense of the county + road construction expense of the county+ militia training expense of the county+ other charges + decrease of slaughtering tax of the county+ decrease of tax on special

<sup>11</sup> Industrial and commercial taxes and other off-budgetary income were not included, because they were not directed effected by Rural Fee Reform. If including them in the financial resources, the direct influence of Rural Fee Reform would became less obvious. Based on statement above, the decrease of 30% was caused by Rural Fee Reform, but the reason might be more complex in reality.

agricultural products of the county—increase of agricultural taxes of the county) × coefficient of inter-governmental transfer of the county<sup>12</sup>

From formulas above, we could find that the calculation of township transfer was based on previous five charges in *santi wutong*. Township transfer was the biggest part of inter-governmental transfer in Rural Fee Reform, which meant that the central government calculated it according to township charges before Rural Fee Reform. Actually, Ministry of Finance required local governments to report their amount of *santi wutong* before the reform. However, local governments reported less than real numbers because they did not know the reporting data were used for calculating transfers and guessed it might be an inspection. This story would help us to understand the deficiency of transfer because the central government used these reporting numbers to calculate inter-governmental transfer for every place.

However, the more important change occurred in the low-level governments. When transferring inter-governmental subsidies to townships or villages, county governments changed their expenditure responsibilities. Because of these changes, a considerable part of inter-governmental transfers retained by county government, and not distributed into township governments. The main changes were adjustment of expenditure responsibilities of compulsory education and the salary payment method for the financial supported staff in township governments.

A part of inter-governmental transferred subsidies was calculated by “expense of compulsory education” in five charges in *santi wutong*. In most townships, this charge was about 60% of the five charges.<sup>13</sup> In other words, expense of compulsory education was an important part in calculation of inter-governmental transfers. Yet after implementing “county-based” fiscal system, county governments generally maintained the transfer of this part. The distribution of inter-governmental transfers in Nanchuan was a good example at this point. The inter-governmental transfer system of Nanchuan was almost the same as the central government:

Township transfer = (education expense in townships and villages + family planning expense + You Fu expense + road construction expense + militia training expense + education capital reformation fees + subsidies for village other expense – increase of agricultural taxes) × distribution rate of the township

<sup>12</sup> Coefficient of inter-governmental transfer of the county = (the percentage of agricultural tax in its financial resources / national average percentage × weight + the percentage of staff salary and public expenses in its financial resources / national average percentage × weight) × coefficient of burden of the central governmental finance.

<sup>13</sup> Every item in *Santi Wutong* should not exceed 2.5% of average peasant net-income; especially the expense of compulsory education of townships and villages should not be more than 1.5%. According to “Regulation of fees and labors of peasants” issued by the State Council in 1991, the percentage of township and village education expense should be proposed by provincial education departments, audited by same-level supervision departments of peasants’ burden, approved by provincial governments and documented by agricultural department and education department of the State Council. For example in Henan, township five charges should not exceed 2.5% of average peasant net-income of the last year. Township and village expense of education was 1.5% of average peasant net-income of the last year for maintaining and rebuilding elementary and high junior schools, paying teachers’ salary and other education affairs.

Table 3

## Nanchuan distribution of inter-governmental transfers (million)

	Longtou Township	Dingyang Township	County Total
Total of transfers from the central, provincial, municipal and county governments	1.778	1.514	36.57
Exclude: slaughtering tax and tax on special agricultural products	0.077	0.069	1.550
A. Township transfers	0.557	0.494	11.78
a. subsidies for village other expense	0.128	0.102	2.716
b. expense of You Fu	0.041	0.046	0.840
c. expense of family planning	0.106	0.095	2.263
d. expense of five-guarantees household	0.205	0.189	4.276
e. expense of road construction	0.077	0.062	1.681
B. Expense of education	1.131	0.944	22.83
C. Expense of militia training	0.013	0.007	0.410

According to formula above, the calculating results of Nanchuan were in Table 3.

The total amount of transfers of Nanchuan was 36.57 million. The total of *santi wutong* before Rural Fee Reform was not available for our survey, but the total of these two townships were in Table 1. In Longtou, for instance, agricultural tax was 1.42 million and *santi wutong* was 3.93 million before Rural Fee Reform. After the reform, agricultural tax and surtax was totally 2.73 million, increasing 1.31 million. All sorts of subsidies (see row 1 in Table 3) were 1.778 million. The total amount after the reform was 3.088 million. In other words, the discrepancy after the reform was about 0.85 million even if all subsidies were distributed down to townships. However, only less than 30% of these subsidies were transferred downwards.

From Table 3, 0.077 million of slaughtering tax and tax on special agricultural products were subtracted from 1.778 million transfers because these two taxes were county taxes before Rural Fee Reform. Then 1.131 million education expense and 0.013 million militia training expense were excluded. The final transfers distributed to township government was only 0.557 million. Dingyang was basically under the same situation.

After Rural Fee Reform, more and more counties applied unified payment system of township staff's salary besides education. Some counties only paid the salary of civil servants in unified allocation form; some counties paid the salary of all financial supported staff. Unified payment of salary was the similar to "county-based" system that county finance did not offer township governments the salary of township staff, but paid the salary directly to staff's individual bank accounts. But unlike the education reform, this amount of funds was counted as a township financial resource when calculating distribution of financial resources according to county-township fiscal system. If township could not accomplish the income base, this portion would be reduced. In the name, the township financial resources remained the same after the reform, but in fact, the township government has lost the power to decide how to use the money.

For fiscal or financial organizations, the flow and default of funds were key points of using and increasing funds. The independent governmental finance meant that the government could independently arrange its budget according to its own status and expense according to priority. Expense of salary, which seemed to be a kind of fixed and specific fund, was often appropriate for emergency because it was one of the main portions of financial resources. The discretion of expense would be greatly increased if the salary was defaulted by one month, which could be regarded as a kind of “increase” of funds. Before Rural Fee Reform, the five charges in *santi wutong* performed as the lubricant of low-level governments’ operation which could be used by township governments independently. After Rural Fee Reform, the amount of “lubricant” decreased. Township governments had to appropriate its staff’s salary to keep its operation and daily work.

There were many negative influences of defaulting salary for township leaders: affected their own reputations, affected morale and increased working difficulties. Therefore township leaders would not choose to delay the salary unless the township government was penniless. The most critical question was the usage of these appropriated salary funds. Some believed it was used for reaching political marks and meet the standards regulated by high-level governments (*dabiao shengji*); some thought it was used to regale officials of high-level governments. In our research, staff of township governments said that they had to do such things. *Dabiao shengji* were things they had to do, because in present assessment systems, reaching political mark would not only influence township leaders’ promotion, but also affected township financial resources. The township governments would rather manage to accomplish than be reduced resources at last. Regaling was often in the name of “reception.” When officials of high-level governments came for inspection or research, arrangement of accommodation was necessary, otherwise the township government sometimes could not pass the assessment. We were not sure of how extravagant or wasteful the “reception” was. But it was unlikely to regale extravagantly with defaulted salary.

Centralization of expenditure responsibilities and unified allocation of salary were results or accessorial policies of Rural Fee Reform, which emptied township finance. Education was the first aspect of centralization of responsibilities. Sanitation, water conservancy and transportation were planned to follow the same reform path. Relevant staff in township governments would be dismissed or directly led by county departments. Many “specific and earmarked funds” were directly allocated by county departments rather than township governments. Public expense and inter-governmental transfers were the only remaining portions for township governments and these two portions were decreasing every year.

### **Readjustment of County-Township Relationship**

Besides centralization of responsibilities and unified payment of salary, adjustment of county-township relationship was another change. At first, when distributing inter-governmental transfers down to townships, county government reset expense stan-

dards rather than merely counted the financial gap. It was also a resetting of responsibility distribution between county and township. Second, in the distribution of financial power in county-township financial system, agricultural tax was no longer the focus which was replaced by industrial and commercial taxes.

Binjiang in Hunan province was a good case at this point. In its "proposal of inter-governmental transfers," county government recounted every expense standard of previous five charges in *santi wutong* in order to get "actual expense" of every township.

According to the tables above, the main contents of township expense were the five charges and village expense were the three deductions in *santi wutong* before Rural Fee Reform. There were two implications in this calculation standard.

First of all, county government actually changed the distribution method according *santi wutong* before Rural Fee Reform by recounting expenses. The calculation proposals of two townships in Binjiang were in Table 5 as below. According Table 5, the expense of Jiangkou was 1.84 million and Sheli was 2.72 million. But the totals of *santi wutong* before the reform were 2.76 million and 4.10 million. Calculating expenses were only 66% of previous *santi wutong*. The implication was clear. *Santi wutong* was so heavy before the reform that they were illegal fees. Hence inter-governmental transfers should not be the full-payout. Though the calculation standards were detailed and specific, the majority of them were estimations. For example, whether the expense of militia training, conscription and the salary of nurses were efficient or not was uncertain. County government also invented the method to calculate village public expense. These estimations were in the conformity with the principle of "reducing" township and village expenses.

The second implication was more obscure. From tables above, calculation standards were so detailed and specific that there were 11 items for township expense. This method fundamentally influenced county-township relationship. By this way, county government placed a covert inhibition into township governments, because the using ranges of these funds (including increase of agricultural taxes and inter-governmental transfers) were be arranged by county government. Although township governments levied millions of charges on many specific items, the usage and range of these charges were more independent. But these new subsidy funds were "very hard to use." Only 0.37 million for township government daily running could be used flexibly. The inhibition was covert because county government only listed the fund distribution basis in the proposal and did not force township governments to spend funds according to it. The subtlety of this arrangement was though township governments could use these funds independently, county government could inspect the usage of funds at any time.

The decrease of off-budgetary funds and distribution proposal of inter-governmental transfers actually "hardened" constraints of township budget. On one hand, county government took back some expenses with accompanied charge items; on the other hand, conditions were inserted into inter-governmental transfers distributed to township. County finance collected more and more financial power of townships, while budgetary power of township finance decreased to the minimum. This was undoubted a great challenge to township finance. The reason of successful

Table 4

**Township and Village Expense Standard in Binjiang County, Hunan Province**

## A. Calculation standard of village expense:

Item	Calculation standard
Number of village cadres	4/village
Salary of village cadres	¥220/person/month
Salary of villager group leaders	¥100/person/year
Expense of five-guarantees household	¥500/person/year
Public expense—villages with less than 500 are lands	¥1.8/acre
Public expense—villages with 500–1000 are lands	¥1.5/acre
Public expense—villages with 1000–1500 are lands	¥1.2/acre
Public expense—villages with more than 1500 are lands	¥1/acre

## B. Calculation standard of township expense:

Item	Calculation standard
Number of militia	According to training mission
Expense of militia training	¥850/person/year
Expense of conscription	¥500/person/year × average number of conscripts from 1999 to 2001
Award for military glory and subsidies for disabled and injured servicemen	¥8000/township
Expense of You Fu	¥700/person/year × number of conscripts in 2001
Expense of family planning	¥5/person/year
Expense of road construction and maintenance	¥10,000/township
Number of nurses in township gerocomium	2/gerocomium
Salary of nurses	¥250/person/month
Subsidies of levee	¥300/person/money × number of people in levee committee
Expense of equipment for levee	According to the length of levee and maintenance difficulty
Subsidies of flooded region	73.3% of decrease of provincial subsidies for flooded region in 1999 and 2000
County capital formation fees of education	25.46% of increase of agricultural taxes
Other subsidies	

Formula:

Inter-governmental transfer = township expense + village expense – increase of agricultural taxes – increase of agricultural surtax and surtax on special agricultural products – county capital formation fees of education

implementing of Rural Fee Reform without considerable resistance from township governments was some compensatory policies issued by county governments.

According to analysis above, county finance remained most of inter-governmental transfers from high-level governments by recounting township and village expenses.

Table 5

**Distribution proposal of inter-governmental transfers of Binjing (million)**

		Jiangkou	Sheli	County Total
Total of San Ti Wu Tong before the reform		2.76	4.10	66.49
Total of calculating expense		1.84	2.72	42.89
Village expense	Total of village	0.6753	0.988	15.67
	Salary of village cadres	0.3696	0.528	
	Salary of villager group leaders	0.0429	0.0635	
	Expense of five-guarantees household	0.212	0.32	
	Public expense	0.0508	0.0765	
Township expense	Total of township	1.1619	1.7304	27.22
	Expense of militia training	0.0357	0.051	
	Expense of conscription	0.018	0.0185	
	Expense of family planning	0.2129	0.3039	
	Transfers for family planning	0.1343	0.1916	
	Expense of You Fu	0.0735	0.0924	
	Award for military glory	0.024	0.04	
	Expense of road construction and maintenance	0.03	0.05	
	Expense of gerocomium	0.012	0.024	
	Township government daily running	0.3693	0.4713	
	County capital formation fees of education	0.134	0.169	
	Other capital formations	0.2001	0.3554	4.84
	Expense of levee	0.0524		
	Other subsidies		0.155	

However, by tracking the usage of these remaining funds, we found that these transfers were not really remained in county government. They flew down to townships in another form.

This process was achieved by recounting “expense base” in county-township fiscal system. In Binjiang, the last two adjustments of county-township financial system were happened in 1998 and 2002. Table 6 was a comparison of these two systems of counting “expense based.”

The most important changes of new system were the salary was increased twice and expense of public affairs was increased four times. How much of finance increase could achieve the new standards?

Let us took the data of 2000 and 2003 of Sheli Township as example (There was no detailed data of 1998 and 2002, so we used data of 2000 and 2003 instead. The expense bases of these two years were calculated in the same way as of 1998 and 2002). In 2000, county finance allocated 1.06 million to Sheli

Table 6  
Expense Bases of Two Fiscal Systems in Binjiang, per person per year

		1998	2002
Incumbency	Fully Financial supported staff	5000	9000
	Endowment insurance		2160
	Free medical service		70
Retirement	Retired	5000	5000
Partly Financial Supported Staff	Water conservancy	800	1600
	Agricultural technology	1200	2400
	Land and resources	600	
	Forestry	300	600
	Culture	500	1000
	Family planning	500	1000
	Expense of public affairs	300	1200
Budget reserves		1%	1%

based on the expense base. This number increased to 1.77 million in 2003, 0.71 million more than 2000. If the expense based increased averagely 0.7 million in one township, Binjiang County had to increase 15 million on expense bases for its 22 townships. The total of inter-governmental transfers of Binjiang was 43.55 million (in 2002 and 2003). After excluding 29.80 million for education and 5.99 million distributed down to villages, 7.77 million was left. Then county finance took out another 7 million to pay the increase of township expense bases.

Thus the changes of county and township financial receipt and outlays, which were caused by Rural Fee Reform, were clarified. The result was surprisingly opposite to the first impression. It seemed that county governments intercepted the majority of inter-governmental transfers. However, these remaining funds were finally used to increase expense bases of townships, such as the salary of township staff and expense of public affairs. The final distribution of inter-governmental transfers in Binjiang was as following:

68% (29.8 million)—remained by county finance for education

13% (5.99 million)—used to make up township and villages' Wu Tong (except education charges)

19% (7.76 million)—used to raise the salary of township staff and expense of public affairs.

In sum, there were two main changes of inter-governmental relationship after Rural Fee Reform. Firstly, township finance became empty by the redistributing of expenditure responsibilities. Their majority of financial funds were used to pay the salary of township staff. Secondly, the salary of township staff was more protected for avoiding corruptions. All of these had significant influence on the action mode of township governments.

### **New Characteristics of Township Government Behavior**

According to the original design of Rural Fee Reform, the expense of public service in the rural societies of local governments would be paid by inter-governmental transfers, in order to repeal fees charged on peasants. However, according to the analysis above Rural Fee Reform led to rearrangement of inter-governmental relationship which further caused two results: township finance became “empty;” a considerable portion of inter-governmental transfers were used to protect the salary of low-level governmental officials, avoid corruption and rebound of peasants’ burden. It was a difficult work to avoid the rebound of peasants’ burden according to related statement in chapter 3. In order to understand state–peasant relationship in the new century, we must scrutinize the financial operation and action mode of low-level governments.

In our research areas, county-township fiscal systems were generally adjusted along with Rural Fee Reform. On one hand, county government conducted unified payment of the salary of staffs. But except protecting the salary, county government would not allocate relevant funds for daily running of township governments. In other words, although the salary of township government staff was protected, township governments were lack of flexible funds to maintain daily running and handle emergency. Some township governments even did not dare to hold some meetings, because there was no fund to cover meeting expenses. On the other hand, industrial and commercial taxes became a part of township governments’ income base. County government demanded township governments to ensure the continuous increase of industrial and commercial taxes. Before Rural Fee Reform, county government usually issued strict demands of agricultural taxes to township governments; while after the reform, industrial and commercial taxes became the most important index to assess the work of township cadres.

It was impossible to charge fees from peasants or villages to maintain township governments’ daily running and accomplish income bases at this time when Rural Fee Reform was implemented and promoted by the central government. Just as township cadres’ words, this was the most dangerous “high voltage wire.” Therefore, there was only one way to accomplish income base and maintain daily running of township governments—borrowing.

The amount and reasons of townships and villages’ debts were discussed from many perspectives. This article would concentrate on the new characteristics of township governments’ debts after Rural Fee Reform.

Table 7 below listed the debts of our research 12 townships in 6 counties of 3 provinces. Data in the table was only township average in every province. Because the number of county was small, averages might be erroneous. The detailed information was in the appendix for reference.

Table 7 showed the accumulative debts of research townships from 2000 to 2004, categorized by sources. The last column was total debts of township average. In 2004, the regional differences were quite obvious. Averagely, every township in Hunan had 16.74 million debts, Chongqing was 5.9 million per township, and Jilin was 8.99 million per township. The average of these 12 townships was 10.49 million. This number was

Table 7

**Township Debts Categorized by Sources (million RMB)**

Province	Year	Expense of daily running and public affairs	Township enterprises	Cooperative foundation of rural societies	Total
Hunan	2000	51%	22%	27%	14.16
	2004	53%	23%	24%	16.74
Chongqing	2000	28%	57%	14%	7.61
	2004	39%	48%	13%	5.90
Jilin	2000	27%	32%	41%	4.85
	2004	52%	23%	25%	8.99

higher than some estimates of township debts, which estimated that the total amount of township debts in China was about 20 billion to 30 billion and the township average was 5 million to 7 million. But according to our research results, the national total amount should be 40 billion to 60 billion.

From 2000 to 2004, the debts of Chongqing decreased, while the debts of Hunan and Jilin increased. The decrease in Chongqing was not typical because in our research county Tongfeng of Chongqing province, the most important work of county government in this several years was “eliminate township debts,” “paying debts were also political achievements.” The decrease of township debts was the important index to assess the work of township governments. Thus, township debts in Tongfeng province decreased statistically. But the decrease only happened in the two townships of Tongfeng.

Among the three sources of township debts, “township enterprises” indicated the debts of 1990s for township enterprises, which were mainly loans of banks and rural credit cooperatives. Township enterprises usually closed down or transformed in one or two years. Then the loans would become the debts of township governments. “Cooperative foundation of rural societies” was the township financial organization established in many rural areas in the mid 1990s. The purpose of this organization was to support local economy development by providing capital. But it failed shortly. The central government and high-level governments returned the collected money to peasants and counted this money as townships’ borrowing from high-level governments. These were two “old” debts. The percentage of these two debts decreased along with the increase of total debts. The new debts in these years were for governmental daily running and some public affairs. These debts were numerous and detailed. Many debts were difficult to be verified as “public.” Some of them were actually used for daily running of township governments.

Although the total amount of township debts was enormous, about half of them were “old” debts of “township enterprises” and “Cooperative foundation of rural societies.” The increase of these debts was in the form of interests. Yet, the new emerging debts were worthy for more notice.

There was almost no loan of banks and rural credit cooperatives in new debts because of the reform of financial systems of banks. New debts generally composed by borrowing from individuals, borrowing from high-level governments and construction debt.

The fundamental characteristic was that all expense, except the salary, based on debts. There were two main sources of debts. During the year-end, township governments would ask county government for allowances. From the perspective of county government, these were “debts,” but township government treated them as “contributions” or “subsidies” that no need to pay back. The other way was that cadres of township government borrowed money personally—small amount, high interest, short term personal debts—which were used to maintain daily running of government or accomplish income base as taxes. These debts always occurred during the year-end for paying back “old” debts and borrowing “new” ones. In our research townships of Hunan province, borrowing money was the primary method for township governments’ operation. It was every new township leaders’ first mission that collecting money to pay debts and maintain daily running. In Dingyang Township of Nanchuan, the new secretary of township party committee was promoted from county agricultural department. She borrowed 0.3 million from the county department to pay for debts and maintain daily running right after her accession. In the next year, she mobilized most of township cadres to borrow high-interest private loans in order to ensure the operation of township governments, which was considered as her work of priority. In Longxiang Township of Nanchuan, every cadre would be assigned a “loan target,” from 50,000 to 200,000. These cadres would borrow money in person and return the money to township finance which would record the cadre’s name, borrowing time and amount. Finally, the money would be paid back by township finance, but in personal name. One reason of personal loans was that the high-level governments did not allow township government to borrow money from private resources. The other reason was that it was easier to borrow money in person because debtors did not trust township governments any more and personal relationships were regarded with better credit.

“Delayed payment” was another strategy. Because of lacking funds, some township governments became more and more “rascally.” Their debtors included restaurants, hotels and even gas stations. Construction debts were the most serious that almost every public construction project owed construction force the construction fees which was 20% to 80% of the total expenses.

Besides “borrowing” and “delayed payment,” township governments also had another two strategies: *Pao* (applying project funds) and sale. *Pao* meant that township governments asked for projects and funds from the high-level governments based on all sorts of relationships. The agricultural funds from the central and high-level governments were allocated in the form of project. The usage of project funds was determined by township governments. Recently, county and township governments gave “*pao*” more and more attention. *Pao* would not only cause rent-setting and rent-seeking behaviors, but also led to appropriation of project funds to pay debts and government’s daily running. Most seriously, *pao* affected the efficiency of agricultural funds: some townships needed projects, but could not receive one while some received

many just because they were good at *pao*. The other was sale—selling permanent assets of governments or contract authority of permanent assets once and for all. Different areas had different tricks. According to our research, some township sold trees, some sold bankrupt factories and their lands, some sold right of management of mountains and forests once and for all and some sold contract authority of hydropower stations and reservoirs. All of these actions undoubtedly accelerated the “emptiness” of township finance.

In sum, the action mode of township governments changed from charging peasants to borrowing and *pao* after Rural Fee Reform. The latter depended on the high-level governments and civilian rich people. Rural Fee Reform was a centralized reform since low-level governments became more depended on the high-level. However, it might be a more significant influence of the reform that the basis of low-level governments’ operation was changed silently that civilian rich people and rich stratum.

In the central and western regions, the relationship of township governments and local private enterprises were increasingly complex. On one hand, industrial and commercial taxes of enterprises became the primary income of township governments which led the governments work “all focused on enterprises, focused on all enterprises and focused on all of enterprises.”<sup>14</sup> Township governments would rather borrow money to requisition land or directly support investments. On the other hand, governments relied on enterprises’ lending money to maintain their operations. High-interest loans and construction debts of governments helped civilian rich people and rich class actually become the “stockholder” of township governments.

### **Conclusion: the State Power Retreated from Rural Societies?**

According to previous discussion, Rural Fee Reform significantly affected the relationship of central-local governments and the inter-relationship of local governments. The divisional structure of financial revenue and expenditure responsibilities was disappearing. For agricultural counties and townships, agricultural taxes and fees were replaced by inter-governmental transfers from the central and high-level governments as the main source of financial receipt. The responsibilities of rural public affairs were shifted upwards by adjustment and reform. Some other responsibilities of township governments were also transmitting upwards to county governments. In this sense, Rural Fee Reform was a centralized reform. The divisional system was replaced by the form of inter-governmental transfers from the central and high-level governments. Meanwhile, from the perspective of state–peasant relationship, this new system had new characteristics which were different from traditional “siphoning” system—peasants were not longer the main tax resource of local government finance.

Therefore, what would happen to state–peasant relationship under this new system?

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<sup>14</sup> Refer to government report of Qingshui.

The analysis of this article reflected the complexity of system reform and low-level management. Rural Fee Reform enabled low-level governments to provide public administration and service by repealing fees and strengthening inter-governmental transfers, in order to change the state-peasant relationship from “siphoning” to “serving.” During this process, the central government monitored the behavior of local governments by strengthening management of budgets and off-budgetary receipts, inter-governmental transfers and audit of funds. The internal relationships of local governments were also changed considerably: adjustment of county-township system, design and implement of distribution system, “county-based” reform and unified allocation of salary were all adjustment for the implement of Rural Fee Reform. The reform led to some positive effects: the burden of peasants reduced significantly, inter-governmental transfers system for equalization was initially established, inter-governmental transfers from high-level governments and local governments of prosperous regions replaced agricultural taxes and fees charged on peasants to be the main financial source of low-level governments in the central and western region. But its further target, transforming the functions of low-level governments and the state-peasant relationship to “serving” relationship, was not accomplished. Some unexpected consequences occurred, especially the “lost” of county and township governmental behaviors. According to analysis above, the finance of township governments was gradually emptied and the behavior of township governments revolved about loads, debts and “*pao*.” Township governments did not transfer to agents of rural public service. Moreover, they was detaching from peasants and becoming seeming indifferent and dispensable governmental organizations.

In China, 40 thousand township governments were the joints of the state and peasants. As well as being monitored by high-level governments, low-level governments should be rooted in rural societies, which was the basis of low-level administration to provide public service, maintain social stabilization and affect rural social structure. Reducing peasants’ burden was not to repeal township governments. The idea of depending merely on county governments to fulfill the increasing demand of public services of hundreds of thousands, even millions of people in one county was unpractical. It would also suspend the state power above rural societies. According to discussions above, even though township governments were not repealed, the “suspending” effect was appearing.

In China, a county of unitary financial system, any spirit of centralization of financial reforms would have the risk to “over-centralization” during implementing in local governments. The consequence of over-centralization was that high-level governments went beyond their duties to meddle with low-level governments’ affairs and low-level governments lost their autonomy. The reason of over-centralization was that the unitary system easily produced mistrust of high-level governments to low-level governments and discontent of peasants to low-level governments. The focus of these two sentiments was low-level governments, especially township governments. Rural Fee Reform was a reform aiming at low-level governments, rather than the state-peasant relationship, which paralyzed township governments. Township governments

could not comprehensively provide public service and protect the security, which was empty between the state and peasants. This was a consequence beyond expectation.

Rural Fee Reform was an important and unprecedented reform in Chinese history. However, standardizing inter-governmental relationships and low-level governmental behaviors was the essential of achieving expected positive results, instead of designing a “perfect” system. It was important to provide low-level governments with financial flexibility and activity space for independent and positive operation. Accessorized with provisions and audits, financial system of low-level governments could finally escape from the vicious circle of “once being strictly controlled, it died; once being loosed, it disordered.” The stability and prosperousness of rural societies could finally be realized.

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