

# **What is the Nature of Authoritarian Regimes?: Responsive Authoritarianism in China**

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## **Abstract**

This work proposes a new theory of authoritarian regimes: responsive authoritarianism. Most existing theories of autocracies take as their point of departure elite politics or the state's repressive apparatus to explain the rise and fall of regimes. I argue that, for many states, regimes also have to consider the consent of the governed when designing policies. Specifically, when regime legitimacy is low but the central leadership maintains a long time horizon, autocratic regimes are predicted to become more responsive to the needs of citizens.

This theory is tested against a number of aspects of the Chinese fiscal system dealing with public goods provision during the period of 2002-2011 and generally finds in favor of the theory. Chapter 4 tests the fiscal transfer system, Chapter 5 tests the fiscal expenditure data, and Chapter 6 tests data on the results of the transfer and expenditure data: actual public goods provision.

This theory has a number of implications that suggest that scholars begin to rethink how they conceptualize power dynamics within an authoritarian regime, in particular paying closer attention to the relationship between the ruler(s) and the ruled. It suggests that, at least in the political science literature, power be returned to the people.

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*Dedicated to my mother, who would have been so very proud to see me finish*

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# Introduction

## I. Authoritarian Regimes

Although the number of authoritarian regimes globally has fallen over time, recent events in the Middle East, Russia, and China have reinforced the importance of developing a clearer understanding of non-democratic states. While considerable scholarly research has been conducted on democracies, analyzing them along nearly every possible dimension imaginable, authoritarian regimes have been relatively neglected, with individual country case studies predominating over more general regime theories. There are several reasons for this imbalance, including the fact that authoritarian regimes remain purposefully opaque about their internal affairs.

Scholarly understanding of authoritarian regimes has been highly event-driven. Up through the 1970s, much of the academic attention given to these regimes focused on the long-term dynamics of authoritarian states, seeking to explain their rise via deep-seated social movements.<sup>1</sup> Literature on pacting between authoritarian elites and their democratic opposition, along with works examining how leadership was or was not instrumental in regime change, became popular in the 1980s as autocratic regimes across Latin America began to fall.<sup>2</sup> When the Iron Curtain fell, numerous scholars sought to explain how Communist authoritarian regimes could have been so fragile.<sup>3</sup> In the 2000s,

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<sup>1</sup> Juan Jose Linz, *Totalitarian and Authoritarian Regimes* (Boulder, CO: Lynne Rienner, 2000).

<sup>2</sup> Guillermo O'Donnell, Philippe C. Schmitter, and Laurence Whitehead, *Transitions from Authoritarian Rule: Comparative Perspectives* (Baltimore: JHU Press, 1986).

<sup>3</sup> Samuel Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma Press, 1991).

attention shifted to the many authoritarian regimes that allowed at least pro-forma elections.<sup>4</sup>

Many of the studies of authoritarian regimes focus on their ideological motivation or on the background of the elites who hold power in them.<sup>5</sup> Arguments grounded in elite politics have often concentrated on the dynamics of relations among key figures within the regime, based on the assumption that the most likely threat to an elite ruler is palace intrigue, not popular revolt. Meanwhile, among the studies that focus on operational concerns, there are two main categories: studies of the repressive apparatus of the state and those that examine the underlying structural formation of the state. Those focusing on repression view the balance between the state police and those seeking to undermine the regime as the key to explaining regime behavior. Authors interested in structural, sociology-based explanations have tended to use societal-based explanations of why certain regimes can sustain themselves in an autocratic form. However, few authors have consistently paid detailed attention to an operational logic that is very common in democratic theories of the state: the balance between provision of public goods and consent of the governed as the key explanation of how regimes stay in power.

## **II. Responsive Authoritarianism**

I argue that our understanding of authoritarian regimes needs to take into account the effect of popular consent on regime dynamics. Scholars who focus on elite politics

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<sup>4</sup> Andreas Schedler, "Beyond Electoral Authoritarianism: The Spectrum of Non-Democratic Regimes," in *Electoral Authoritarianism: The Dynamics of Unfree Competition* (Boulder, CO: Lynne Rienner, 2006), 219–28; Jason Brownlee, *Authoritarianism in an Age of Democratization* (Cambridge: Cambridge University Press, 2007).

<sup>5</sup> A breakdown of regime types along these lines is provided by Ronald Wintrobe, "Dictatorship: Analytical Approaches," in *Handbook of Comparative Politics*, ed. Carles Boix and Susan Carol Stokes (Oxford: Oxford University Press, 2007), 363–98.

within the regime may explain some cases, but as the color revolutions,<sup>6</sup> the Arab Spring,<sup>7</sup> and uprisings in Iran,<sup>8</sup> Ukraine,<sup>9</sup> and most recently Hong Kong<sup>10</sup> have shown, a collapse of elite unity is not the only way in which regimes can be threatened with a fall from power. Those authors who have examined the logic of repression come closer to understanding a key authoritarian power dynamic; indeed, repression is likely to be part of the story of how regimes sustain power. However, repression alone is unlikely to sustain a regime, as the failed attempts to suppress popular uprisings in Romania in 1989<sup>11</sup> and Serbia in 2000<sup>12</sup> have demonstrated; if the elites lose the consent of the governed (as opposed to at least resigned and passive acceptance), their days in power are numbered regardless of how many palace guards the regime possesses.

On the other hand, some regimes, such as China, have maintained a long-term, relatively stable authoritarian system of governance. Moreover, many of the states whose collapses are mentioned above existed for long periods of time before being swept into the dustbin of history. These cases raise three important questions:

1. Under what conditions do regimes develop some form of popular consent?
2. How is this popular consent furthered?
3. Under what conditions do regimes fail to produce popular consent?

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<sup>6</sup> Ryan Kennedy, "Fading Colours? A Synthetic Comparative Case Study of the Impact of 'Colour Revolutions,'" *Comparative Politics* 46, no. 3 (April 1, 2014): 273–92.

<sup>7</sup> David Hayes, "The Arab Spring: Protest, Power, Prospect," April 11, 2011, <http://www.opendemocracy.net/david-hayes/arab-spring-protest-power-prospect>.

<sup>8</sup> Evgeny Morozov, "Iran: Downside to the 'Twitter Revolution,'" *Dissent* 56, no. 4 (2009): 10–14.

<sup>9</sup> "Protests in Ukraine: It Started with a Facebook Message.," accessed October 1, 2014, <http://www.opensocietyfoundations.org/voices/uprising-ukraine-how-it-all-began>.

<sup>10</sup> Grace Tsoi and Bethany Allen-Ebrahimian, "The People Behind Hong Kong's Protests," *Foreign Policy*, September 30, 2014, [http://www.foreignpolicy.com/articles/2014/09/30/people\\_behind\\_hong\\_kong\\_protests](http://www.foreignpolicy.com/articles/2014/09/30/people_behind_hong_kong_protests).

<sup>11</sup> Dennis Deletant, *Ceausescu and the Securitate: Coercion and Dissent in Romania, 1965-1989* (New York, NY: M.E. Sharpe, 1995).

<sup>12</sup> Anika Locke Binnendijk and Ivan Marovic, "Power and Persuasion: Nonviolent Strategies to Influence State Security Forces in Serbia (2000) and Ukraine (2004)," *Communist and Post-Communist Studies, Democratic Revolutions in Post-Communist States*, 39, no. 3 (September 2006): 411–29.

Research on authoritarian regimes has often suggested that in a post-revolutionary period, regimes tend to have a reservoir of legitimacy that allows them a relatively free hand in policy creation and implementation.<sup>13</sup> However, regimes then begin a downward trend in legitimacy that then can usually be checked only by what some scholars have called performance legitimacy. Often this type of legitimacy is achieved through economic growth, but performance in war is also sometimes cited as a means of legitimation.

However, scholars have also found a correlation between increased GDP per capita and democratization.<sup>14</sup> The causes of this linkage have been much debated, but one suggestion is that increased pluralism brought on by economic development is difficult for autocratic regimes to manage.<sup>15</sup> To the extent that this is a factor, the increasingly disparate interests of the population demand more from the government than simply economic growth; other public goods such as health care and education feature more prominently in lists of citizen concerns than previous worries about poverty and ability to escape the traditional agricultural sector. Therefore, at higher levels of development, performance legitimacy may take the form of providing soft public goods, which require a stronger administrative state and a better understanding of societal needs than does simply providing a stable environment for economic growth.

To successfully navigate increased public demands for such services, a regime must shift to being a **responsive authoritarian** state. However, some regimes are unable to make this transition. I argue that only under a certain number of conditions, and with

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<sup>13</sup> S. P. Huntington, "Social and Institutional Dynamics of One-Party Systems," in *Authoritarian Politics in Modern Society: The Dynamics of Established One-Party Systems*, ed. C. H. Moore (New York: Basic Books, 1970).

<sup>14</sup> Adam Przeworski et al., *Democracy and Development: Political Institutions and Well-Being in the World, 1950-1990* (Cambridge, UK: Cambridge University Press, 2000).

<sup>15</sup> Larry Jay Diamond, "Thinking About Hybrid Regimes," *Journal of Democracy* 13, no. 2 (2002): 21–35; Jason Brownlee, "Portents of Pluralism: How Hybrid Regimes Affect Democratic Transitions," *American Journal of Political Science* 53, no. 3 (2009): 515–32.

the right *mechanism* of responsiveness, can a regime successfully transform itself in this way and survive democratization pressures. The specific conditions under which a regime can transform itself occur when its time horizon is long and its legitimacy position is low. If the time horizon of the regime is short (whether due to internal political squabbles or external threats), then there is insufficient time to put in place a responsive policy regimen that may take years to show results. If the level of legitimacy is high, then there is no need to be responsive; previous revolutionary or military successes sustain the regime. In addition to the proper situation to enable responsiveness, there must also be a mechanism through which the regime ascertains what specific public goods its society desires.

#### The Role of Civil Society as a Mechanism of Responsiveness

In authoritarian regimes that lack a free press and truly democratic elections, such a mechanism is found in civil society. In much of the early literature regarding authoritarian regimes, civil society was seen as oppositional to the state.<sup>16</sup> Since then, a number of roles have been proposed for civil society within authoritarian regimes, from a co-opted corporatist agency,<sup>17</sup> to an ineffectual set of talking shop groups,<sup>18</sup> to informal service providers outside the reach of the state.<sup>19</sup> Most likely, civil society plays many of these roles and others in authoritarian states, although the extent to which it fulfills each of these functions varies from regime to regime. However, in responsive authoritarian

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<sup>16</sup> See, for example, Larry Jay Diamond, "Toward Democratic Consolidation," *Journal of Democracy* 5, no. 3 (1994): 4–17.

<sup>17</sup> Kenneth W. Foster, "Associations in the Embrace of an Authoritarian State: State Domination of Society?," *Studies in Comparative International Development* 35, no. 4 (December 1, 2001): 84–109.

<sup>18</sup> Quintan Wiktorowicz, "Civil Society as Social Control: State Power in Jordan," *Comparative Politics* 33, no. 1 (October 1, 2000): 43–61.

<sup>19</sup> Gretchen Helmke and Steven Levitsky, "Informal Institutions and Comparative Politics: A Research Agenda," *Perspectives on Politics* 2, no. 4 (2004): 725–40.

states, civil society can also serve as an indirect upward information signal. Given that authoritarian governments offer very few venues that allow the masses to communicate with elites, citizen-based groups outside state control that express the public's interests can be invaluable to a regime seeking to understand society's needs.

Whether a regime can manage such a transition in objectives, recognize its falling legitimacy, and have enough self-confidence to allow a semi-independent civil society to develop are open questions. One case, however, where such a development may have occurred is in China during the 2000s.

#### China as a Test Case

China serves as an interesting test case since it contains the conditions under which an authoritarian regime is predicted to become more responsive: it has had a long time horizon yet declining levels of legitimacy. The Chinese regime has gone through several iterations of a basis for legitimacy since 1949. Initially, it had as its base of support the party's success in resisting the Japanese and defeating the ineffectual Nationalist regime. It then built upon that performance by redistributing land and punishing abusive landlords and factory owners. However, the Great Leap Forward and the Cultural Revolution eroded much of this foundational legitimacy, to the extent that by 1979 the population and even much of the leadership felt exhausted and demoralized. Performance legitimacy in the form of economic growth began to take on a larger role with the onset of the "opening up and reform" period. This change proved to revitalize the regime and its relationship with the people, leading some scholars to term it a "reform

without losers.”<sup>20</sup> However, the limits of this type of performance legitimacy became apparent with the rise of rural and urban unrest in the 1990s, as a growth-above-all policy began to show evidence of having serious negative impacts on the health and livelihood of poor residents.<sup>21</sup>

In response to these developments, in 2002 with the inauguration of Hu Jintao, Wen Jiabao, and their cohorts in the standing committee, the regime launched a program termed the Harmonious Society. While the scope of this initiative was vast, its specific high-priority target areas included education and health care, which were (not coincidentally) the sectors of greatest focus for civil society in China. The key question to consider is whether the regime has seriously carried through with the promised reforms or engaged merely in cheap talk. These reforms had to be channeled through the Chinese fiscal system, providing an excellent and observable test case to see if the Chinese regime truly desired to be responsive.

Since other authoritarian regimes self-consciously model themselves on China, a close look at the process by which China did or did not become more responsive not only illuminates the motivations and dynamics behind the Chinese regime’s behavior in the 2000s, but also informs our understanding of a newer breed of savvy authoritarian regimes that have survived for long periods of time. It can also help to explain why some regimes survive for long periods of time but then suddenly collapse, as they fail to adapt policy to meet their citizens’ needs.

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<sup>20</sup> Lawrence Lau, Yingyi Qian, and Gerard Roland, “Reform Without Losers: An Interpretation of China’s Dual-Track Approach to Transition,” *Journal of Political Economy* 108, no. 1 (2000): 120–43.

<sup>21</sup> Thomas Bernstein, “Farmer Discontent and Regime Responses,” in *The Paradox of China’s Post-Mao Reforms*, ed. Merle Goldman and Roderick MacFarquhar (Cambridge, MA: Harvard University Press, 1999), 197–219.

To be clear, I do not mean to imply that autocracies are equally responsive as democracies or that authoritarian regimes can be as free and fair in meeting the needs of their citizens as democracies can be (and often are). However, it is apparent that autocracies can also display wide variation in terms of responsiveness to citizen needs. It is also possible that some of the same operational logic that drives autocratic regimes might be applicable to a range of mediocre democratic performers as well, linking a theory of public goods provision and regime orientation in a new and novel way.

### **III. Outline of This Work**

The remainder of this work is organized as follows. Chapter 2 reviews theories of authoritarian rule, showing that most of them focus on elite politics rather than on popular consent. Those that do focus on popular consent tend to focus on the repressive apparatus of the state and not on how authoritarian regimes engender popular support. Also in Chapter 2, I propose my theory of authoritarian responsiveness, one that restores a focus on the consent of the governed. I also propose that civil society can function as a mechanism fostering responsiveness.

Chapter 3 reviews the suitability of China as a test case. It examines the changes over time in regime legitimacy, the beginning of the Harmonious Society initiative, and the specific changes that the Hu Jintao–Wen Jiabao program promised. I then review the development of the Chinese fiscal system and explain how it can serve as a very effective test case of authoritarian responsiveness.

Chapter 4 examines the fiscal transfer system in China, providing detailed graphs, charts, and regression results demonstrating central policymakers' significant progress in reorienting the system in a responsive direction. Chapter 5 explores Chinese government

spending patterns over time, overall and in the education and health-care sectors, and finds a marked shift toward greater responsiveness both generally and in the two specific areas examined. Chapter 6 looks at numerous outcome variables, such as measures of educational quality and the number of new hospital beds; it also analyzes public reaction to the responsive spending, determining that overall the responsive spending has had the desired effect. The concluding chapter revisits the arguments set forth in the work and considers some implications of the findings.

## Chapter 2: Literature Review and Theory

### I. Introduction

Authoritarian regimes remain stubbornly difficult to develop predictions about expected policies and behavior. The existing literature on authoritarian behavior has not come to any consensus on what variables matter or even the proper level of analysis to employ. Part of the problem is that existing models do not satisfactorily explain why authoritarian regimes may change policy over time and nor do many of the models develop theoretical expectations of regime durability. Theories based on the democratization literature are highly static and fail to account for the significant number of regimes that continue to survive democratization waves. Those models that focus on elite politics tend to lack explanations of why regime policies change over time. Social forces theory better explains regime durability and regime policy, but lacks a clear causal mechanism that explains precisely when change might be predicted to occur.

Rather than relying upon these traditional strategies for predicting authoritarian regime behavior, a more promising approach lies in examining state-society relations in authoritarian regimes. States, as many authors have argued, are complex, multilayered entities that are interpenetrated by society. This suggests that society has significant ability to exchange information with the state and affect state policy. As scholars have found, civil society is active in authoritarian regimes, although most of its direct political impact is in shaping policy implementation at lower levels.

However, I argue that civil society also influences policy on a deeper level: it serves as a *mechanism of responsiveness*. Authoritarian regimes have reason to fear society when their legitimacy declines – policy implementation becomes more difficult

and they face greater risk of overthrow. One of the most obvious ways to regain legitimacy is to address the concerns of society; to improve the lives of their citizens. However, formulating such policies is difficult for autocracies given that the autocrat is typically very information-poor about the condition of society. Civil society in information-poor regimes can provide upward flows of information to an autocrat. With this information from civil society, a regime can formulate responsive policies that address the needs of their citizens, increasing legitimacy and regime longevity. This type of dynamic has been termed *responsive authoritarianism*.<sup>1</sup> Regimes that are lower in legitimacy and have a longer time horizon are more likely to adopt this strategy. To test these propositions, a test case is needed and one of the most likely candidates to employ this approach is China in the early 2000s.

Overall, presuming that the tests validate responsive authoritarianism, the model improves on the existing theories in the field, fulfills the criteria of a good authoritarian model, and specifies a specific causal process of how state and society interact in an autocracy.

## **II. Key Questions About Authoritarianism**

Several key questions about even the basic definition of an autocracy remain unresolved in the existing literature and an examination of these outstanding questions helps to illuminate gaps in the literature. The central questions a complete theory should answer include the definition of an autocracy, how these regimes behave and respond to change over time, and how durable are these regimes. Mapping the conceptual issues

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<sup>1</sup> Robert P. Weller, "Responsive Authoritarianism," in *Political Change In China: Comparisons With Taiwan*, ed. Bruce Gilley (Boulder, CO: Lynne Rienner, 2008).

regarding authoritarianism makes clear where each piece of the existing literature positions itself and makes clear where weaknesses exist in current theory.

### *What Is An Autocracy?*

Defining the term autocracy not only sets the scope for a research agenda, but also contains important implication about which features are key to authoritarian regimes' existence. The question posed has a simple answer for many authors: an autocracy is not a democracy. The obvious consequence of this definition is that how one defines democracy determines what an autocracy is. The debate on what, exactly, constitutes a democracy is one of the oldest in comparative politics,<sup>2</sup> but it is fair to say that a general consensus exists on at least the necessity of public selection of the chief executive. To ensure that this selection is truly free and fair, a set of subsidiary rights are also often considered necessary, such as the secret ballot, free press, and so on. Any regime that does not feature free selection of the chief executive or contain enough subsidiary rights is therefore considered to be an autocracy (or perhaps a mixed regime).

The existing literature on democracy suggests that regime type is defined in structural terms, rather than by the behavior of the regime. That is, democracies are not defined as regimes that protect certain rights at a specific level or that distribute money in a particular set of ways, but rather by the institutional design of the political system. In one sense, this is completely necessary – comparative politics is centered on the study of institutions<sup>3</sup> and having a meaningful way of dividing what intuitively seem to be the biggest two government types along institutional lines is important. However, the reason

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<sup>2</sup> See, for example, Robert A. Dahl, *Polyarchy: Participation and Opposition* (New Haven, CT: Yale University Press, 1971).

<sup>3</sup> Margaret Levi, *Political Science: State of the Discipline*, ed. Ira Katznelson and Helen V. Milner (New York: W.W. Norton & Company, 2002).

that regime type difference is interesting is because we observe the regime types acting differently and wish to explain this variation in behavior, not because of academic fascination with institutional design (although the role of the latter should not be totally discounted!). The connection implied by the institution-centric definition is that the institutions *cause* the difference in behavior. However, danger exists in seeing different institutions and assuming different behavior. Perhaps some of, or even most of the time, this is true. However, as I will argue later in this chapter, autocracies can often act in similar ways to democracies, albeit via different mechanisms and through different institutions. Focusing on a purely structural definition of regime type obscures this potentiality.

#### *How Can Regime Behavior Be Predicted in Authoritarian Regimes?*

This question gets to the heart of the whole enterprise of studying authoritarian regimes: deriving predictions about future behavior based on theoretical models. Surprisingly, some of the most widely cited models of authoritarian regimes lack much, if any, ability to predict changes in regime policy that are not the result of regime change. In particular, several common models of authoritarian regimes are drawn, in part, from the literature on democratization.<sup>4</sup> These models typically view the pre-existing authoritarian regime as a static entity on which social or elite change starts a process that

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<sup>4</sup> Highlights of the democratization literature that offers up (limited) models of authoritarian regimes would certainly include Daron Acemoglu and James Robinson, "Why Did the West Extend the Franchise?: Democracy, Inequality and Growth in Historical Perspective," *The Quarterly Journal of Economics* 115, no. 4 (2000): 1167–99; Carles Boix, *Democracy and Redistribution* (Cambridge: Cambridge University Press, 2003); Guillermo O'Donnell, Philippe C. Schmitter, and Laurence Whitehead, *Transitions from Authoritarian Rule: Comparative Perspectives* (Baltimore: JHU Press, 1986).

ends with democratization (or, sometimes, a return to the status quo).<sup>5</sup> These types of models, however largely fail to explain changes in authoritarian regime behavior over time. Nor do they explain how different types of authoritarian regimes might react to external changes.

Beyond the democratization literature, there exist many static models of autocracies. Many authors have modeled authoritarian regimes as either the autocrat balancing various elite forces or as the autocrat choosing between rewards to and repression of the general population.<sup>6</sup> These models contain the seeds of an explanation for how authoritarian regimes react to change, as there is an implicit suggestion that varying one aspect of the equilibrium should change regime structure and behavior in certain ways. For example, a high-repression regime may move to a strategy of buying off more of the population and this would have implications for elite makeup of the regime and policy toward freedom of the press, etc. However, few of the models in this category attempt to describe a clear causal model for how the change would interact with specific regime types – i.e., would some types of regimes react differently to different types of societal changes? In this respect, their causal processes remain largely underspecified.

The few models that do explicitly model a dynamic authoritarian regime are primarily based on old studies of the Soviet Union or other mobilizational regimes.<sup>7</sup> Most of these models predict authoritarian regimes will follow an arc from a period of high

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<sup>5</sup> For example, Carles Boix offers a model in which the introduction of capital mobility begins a process by which elites begin to find themselves no longer tied to the existing regime (since they can flee). In countries with mobile factors of production, this leads to democratization. See Boix, *Democracy and Redistribution*.

<sup>6</sup> Examples of elite balancing and repression/reward models are, respectively, Bruce Bueno de Mesquita et al., “Political Competition and Economic Growth,” *Journal of Democracy* 12, no. 1 (2001): 58–72; Pablo Policzer, *The Rise and Fall of Repression in Chile* (South Bend, IN: University of Notre Dame Press, 2009).

<sup>7</sup> See, for example, Ken Jowitt, “Soviet Neotraditionalism: The Political Corruption of a Leninist Regime,” *Soviet Studies* 35, no. 3 (July 1, 1983): 275–97.

mobilization followed by a slow descent into bureaucratism. The high-mobilization period begins with a society that generally believes in the goals of the regimes or is coerced into doing so; the state is able to extract a high level of cooperation from the public in achieving its transformative social goals. As burnout begins to set in among the public and officials, routine bureaucratization becomes the dominant form of governance and public willingness to cooperate with regime projects declines. While these models are interesting in that they describe and predict how a regime's behavior changes over time, there have been no authoritarian explicitly mobilizational regimes in quite some time, limiting the applicability of these old models. However, they do offer good examples of models explaining how social change motivates adjustment in regime behavior

This lack of model dynamism is particularly problematic for studying China and other developmental autocracies. Many of these types of regime are facing some combination of rapid economic growth, new social forces becoming unlocked, and changing population demographics. These changes present new challenges and pressures to the ruling regimes to which they must react. A fully formed model of an authoritarian regime must explain how this process works; if a model does not, it misses a wide swath of existing regimes. Studying why autocracies become democracies is important and does speak, in many cases, to the nature of authoritarian regimes. And it is also true that the number of democracies has been increasing in the last 50 years. Yet, a large number of stubbornly authoritarian regimes are experiencing internal change and development. Any fully formed authoritarian model must account for these cases.

### *How Can Regime Durability Be Predicted?*

One of the strongest findings in the comparative politics literature is the correlation between level of economic development and democratization.<sup>8</sup> One of the second most important findings is that the number of democracies has generally been increasing since the end of World War II.<sup>9</sup> Both of these findings suggest that autocracy is, at least in certain circumstances, an unstable political configuration. What predicts whether a regime will go the route of China and survive for nearly 65 years or instead go the way of the ill-fated 1991 Soviet Coup plotters, who were in power for mere days? Authors have approached this problem of predicting durability with two types of answers: a structural analysis and a contingent analysis. Both of these analytic strategies are strongly related to the debate between democratization scholars about where to locate the locus of change: in macrostructural factors or in regime leadership agency.

The first approach, using structural analysis, is to assume that authoritarian regimes are brittle – that the regime is static (or static in ways that matter) and when a certain constellation of variables become true, the regime “snaps” and either democratizes or becomes a different type of authoritarian regime. This approach has a certain appeal given the speed and surprise of many authoritarian revolutions, from the fall of the Soviet bloc to the Arab Spring. In this model, the regimes have little agency, as they have no power to prevent the oncoming demographic and balance of power changes from removing them from power; at best they can alter the process at the margins but

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<sup>8</sup> While the underlying causality of this finding is much debated, the earliest attempts to describe this regularity are Robert W. Jackman, “On the Relation of Economic Development to Democratic Performance,” *American Journal of Political Science* 17, no. 3 (August 1, 1973): 611–21; Kenneth A. Bollen, “Political Democracy and the Timing of Development,” *American Sociological Review* 44, no. 4 (August 1, 1979): 572–87.

<sup>9</sup> Among many authors noting this trend, Huntington is perhaps the most famous. Samuel Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma Press, 1991).

have little power to deny the impact of the structural factors. The other approach, often labeled contingent analysis, is to see the regime as constantly playing a strategic game with some element of the elite and/or general population. That is, the regime is always responding to social movements and shifts in internal balances of power. Only when the regime miscalculates and chooses a poor response does the regime fall. This way of thinking about the problem has the appeal that it explains why some regimes have survived for long periods of time despite objectively poor conditions for autocracy, while some regime types are highly unstable and often fail if, for example, the leaders have a very short time horizon and chose responses that often entail very serious medium-term consequences.

While the ultimate answer to authoritarian durability likely draws from both types of explanations (something like Bratton and van de Walle's "structured contingency" with reference to democratization<sup>10</sup>), between the two, the relative role of contingency is under-theorized. As discussed in the previous section, static models of authoritarian regimes do not account for a regime's strategic responses to change. Many models of democratization that reference authoritarianism focus on structural issues. Even some of the dynamic models do not have any mechanism through which the regime could fail or be replaced.<sup>11</sup> From a big picture perspective, this under-specification may not be a serious problem for explaining authoritarian regimes. However, historical experience

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<sup>10</sup> Michael Bratton and Nicholas van de Walle, *Democratic Experiments in Africa: Regime Transitions in Comparative Perspective* (Cambridge University Press, 1997).

<sup>11</sup> This is not to say that there are no dynamic models that include a way to model regime change – several are discussed in this chapter. A good example of a paper that does have a well-formed model is Schatz's comparison of the Kazakh and Kyrgyzstani regimes in 2005. Edward Schatz, "The Soft Authoritarian Tool Kit: Agenda-Setting Power in Kazakhstan and Kyrgyzstan," *Comparative Politics* 41, no. 2 (2009): 203–22.

suggests that ignoring the role of contingency leaves many significant cases without a good explanation.

One of the most obvious sets of historical experiences in which this problem occurs is during democratization waves. Democratization waves are generally thought to be the result of structural factors, as contingent factors would struggle to explain why similar regimes all collapsed in a relatively short period of time.<sup>12</sup> Yet, waves are not all-powerful. In the aftermath of the fall of the Soviet bloc, the Ukraine and Belarus adopted authoritarian governments while the Baltic States did not. During the Color revolutions of the mid-2000s, Kyrgyzstani and Ukrainian dictatorships collapsed but the Kazakh one survived. In the Arab Spring, the seemingly all-powerful Libyan and Egyptian dictators were swept from power but the much less able (but demographically similar) Algerian regime survived little worse for the wear. Perhaps idiosyncratic explanations might suffice for some cases, but the field seems fairly wide open for a convincing contingent analysis to supplement explanations based on structural factors.

Studies of democratic waves also raise a related analytic issue concerning the study of regime durability. One of the major problems in the existing democratization literature, from the point of view of explaining the logics of authoritarianism, is that it focuses on the success cases in each wave, seeking to explain authoritarian regimes through regimes that failed and subsequently democratized. That is, many study the democratization process in places like Egypt and provide answers for why the regime failed. Few study the cases like Algeria and wonder why the leadership held on. I argue that this type of democratization analysis misses the mark – just as important, if not more

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<sup>12</sup> Bratton and Walle note the unlikeliness of spontaneous, contingent change in the context of Africa. Bratton and Walle, *Democratic Experiments in Africa*.

important, to explaining the workings of authoritarian regimes are those that hold on against the wave or other unfavorable conditions. They can perhaps illuminate the daily routines and rituals a state needs to survive rather than examining the key mistake a regime made or the important structural shift that resulted in falling from power.

Therefore, an ideal modeling strategy would, while keeping in mind the role of structural factors, locate outcome of a specific case on the contingent response of the regime to both quotidian and extraordinary events. Locating at least some agency within the regime also solves the problem of explaining variation in wave events and broadly similar demographic situations. With this conceptual map of the major open questions regarding authoritarianism in mind, it becomes easier to see, via a review of the existing literature on the subject, why the existing literature remains unsatisfying in providing a complete model of authoritarianism.

### **III. Existing Literature**

The existing literature on autocracies remains flawed for failing to develop a complete model answering all of the questions identified above. There are three general categories of models on authoritarianism: democratization-based, elite-based, and social forces-based. All three models do make some useful points and offer partial insights into the operation of non-democratic regimes. However, the models lack completeness for several reasons. Most fail to predict policy changes in regimes and also often do not explain variation in regime durability. Additionally, much of the authoritarian literature fails to account for the importance of societal forces in determining regime behavior. Authoritarian models based on theories of democratization are the least developed of the three, lacking the ability to predict changes in regime behavior and also poorly explaining

regime durability. Elite-based models generally do not explain changes in regime policy and nor do they include the role of society. Social forces models are somewhat of an improvement over elite and democratization models in that they account for regime durability, account for regime change, and include the role of society. However, they do not specify a clear causal mechanism or give useful predictions about regime behavior.

### *Democratization Literature*

The democratization literature offers, at best, a highly limited model of authoritarian regimes, but does make some useful points that are often neglected in the literature focusing exclusively on authoritarian regimes. Overall, the democratization literature is far too vast to even attempt a cursory summary in the space available here.<sup>13</sup> Instead, discussed below are some of the more representative models and ones that provide interesting theoretical advances with regard to understanding autocracies. Particularly valuable are the insights that unfavorable structural social forces are a major problem with which regimes must grapple and that societal actors are often a key threat to the regime, in addition to or besides regime elites. These are both points that much of the current authoritarian literature either ignores or glosses over. However, none of the models explain changes over time within a regime and offer only limited modeling of authoritarian regime durability.

The earliest explanations of democratization offered little explanation of authoritarian regime behavior, as they relied upon structuralist accounts of political change. Barrington Moore offered perhaps the most widely cited version of this when he

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<sup>13</sup> Two reasonable attempts at summary are Barbara Geddes, “What Do We Know About Democratization After Twenty Years?,” *Annual Review of Political Science* 2 (1999): 115–44. and Georg Sørensen, “Democracy and Democratization,” in *Handbook of Politics*, ed. Kevin T. Leicht and J. Craig Jenkins, *Handbooks of Sociology and Social Research* (New York: Springer, 2010), 441–58.

argued that developing a bourgeoisie (what would now be called the middle class) was crucial to the development of a democracy.<sup>14</sup> This social change led to the development of a group of people that sought to limit the power of the king through parliament, starting a process that slowly but inexorably led to democratization.<sup>15</sup> His argument serves as the intellectual basis for many later scholarly and popular arguments that a strong middle class looking to protect its interests is a key requirement for democratization. Samuel Huntington also provided some structural theories as to why regimes change in his book *The Third Wave*.<sup>16</sup> While he offered a number of possible contributory factors to the democratization cases of his third wave, he chiefly argued that economic and intellectual modernization of the third world created a climate in which autocratic governments begin to lose legitimacy. With rising expectations of standards of living and a global discourse around democratization, the days of autocratic regimes, he predicted, were numbered.<sup>17</sup> In both of these structural arguments, the role of the regime in attempting to prevent or accelerate regime change is almost entirely missing, so it is of somewhat limited use in predicting authoritarian behavior. These models do, however, emphasize the important role that society plays in forcing regime change. This would at the least suggest that regimes ought to be fearful, in the long run, of a popular revolt if they are not meeting society's expectations.

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<sup>14</sup> In particular, he argued that the UK developed into a democracy earlier than Central European countries due to the increase in the size of the landed bourgeoisie and the subsequent decline in a potentially radicalizable peasantry. Barrington Moore, *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon Press, 2003).

<sup>15</sup> The importance of this English petit aristocracy in forming a bulwark against the unlimited power of the King was also described by North and Weingast as a reason that England also surpassed the economies of Central Europe: Douglass North and Barry Weingast, "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth Century England," *The Journal of Economic History* 49, no. 2 (1989): 803–32.

<sup>16</sup> Huntington, *The Third Wave: Democratization in the Late Twentieth Century*.

<sup>17</sup> Huntington was writing at the time of the collapse of the Soviet bloc and was hardly alone in such triumphalist thinking. Fukuyama, most famously, called it the "end of history." Francis Fukuyama, *Have We Reached the End of History?* (Washington, DC: RAND Corporation, 1989).

Following the rapid wave of democratizations and later partial reversals in the 1980s, a group of authors began to emphasize the importance of contingency in regime change. Important in this regard is the pact literature. O'Donnell et al., drawing from examples in Latin America, argue that the balance of power between soft-liners and hard-liners and whether the regime performance has been positive explain when and how regimes transition to democracy.<sup>18</sup> They argue: “we assert that there is no transition whose beginning is not the consequence—direct or indirect—of important divisions within the authoritarian regime itself, principally among the fluctuating cleavages between hard-liners and soft-liners.”<sup>19</sup> They and other pacting authors focused on the role of elites in how the regime transitions, implying that understanding elites is key to understanding autocratic regimes, an analytic strategy that is echoed by authoritarian scholars in the sections below.

Fusing these two approaches are models that suggest variation in elite pacting, based on important social variables, explain democratization outcomes. Acemoglu and Robinson adopt this strategy to explain why Western Europe democratized.<sup>20</sup> In their model, democratization occurred in periodic expansions of the franchise in response to popular pressure.<sup>21</sup> This model is useful in that it explains variation in democratization via the relative strengths of the elite versus the masses. It also accounts for the role of

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<sup>18</sup> O'Donnell, Schmitter, and Whitehead, *Transitions from Authoritarian Rule*.

<sup>19</sup> *Ibid.*, 13.

<sup>20</sup> One of the major complaints of developing country scholars is that most standard political science models are based on the experience of Western Europe (or, more specifically, the UK). Never has that been quite so true as in the case of democratization literature!

<sup>21</sup> As the lower classes became more politicized due to the concurrent processes of industrialization and urbanization, additional segments of the population were given the right to vote so as to avoid revolt. The elites were generally resistant to extending the franchise any more than necessary, because allowing more poor people to vote, in the model, implies that support for redistributive policies would increase. Acemoglu and Robinson, “Why Did the West Extend the Franchise?: Democracy, Inequality and Growth in Historical Perspective.”

social change in impacting regime behavior, as agitation by the masses leads to expansion of the franchise. However, given that the dominant form of democratization in the 20th and 21st centuries has been discontinuous rather than gradual regime change, the theory seems to have limited contemporary applicability. Carles Boix offers a similar model; he argues that elite motivation to resist or encourage democratization lies in redistributive politics; elites allow or disallow democratization depending on whether it economically benefits themselves.<sup>22</sup> Both the Acemoglu and the Robinson and Boix models make the important advance of emphasizing the importance of economic politics in predicting regime behavior, something for which the existing literature does not account. They also both locate the key crucial regime support in the elites, rather than in regime leadership. This is a strategy that many authors focusing exclusively on authoritarian regimes adopt, which I argue in later sections is problematic for a number of reasons.

Since the work of Acemoglu and Robinson and Boix, a wide number of other authors have expanded this type of fusionist literature in various directions. I wish to briefly highlight two articles that make important points not captured elsewhere, both of which raise points that scholars of authoritarianism build on or draw insight from. The first is the work of Beissinger, who describes how the processes of democratization waves can occur.<sup>23</sup> He argues that resistance action that seems impossible to regime

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<sup>22</sup> He theorizes that elites were previously opposed to democratization because they believed that when a country democratized, the great mass of new voters would want to expropriate the wealth of the elite. However, with the development of international finance and the relative decline in importance of land as opposed to monetary capital, elites can shield their wealth and therefore democratization is not such a significant concern. Whether a country will democratize depends therefore on the linkages of the country to international financial markets, the importance of land to elites in the country, and the relative strength of popular demands for democratization. This model also links social changes (the increasing interconnectivity due to global finance) to democratization, but does so in a contingent way. Boix, *Democracy and Redistribution*.

<sup>23</sup> Mark R. Beissinger, "Structure and Example in Modular Political Phenomena: The Diffusion of Bulldozer/Rose/Orange/Tulip Revolutions," *Perspectives on Politics* 5, no. 2 (June 1, 2007): 259–76.

opponents in one context can begin to seem more possible once similarly situated autocracies democratize.<sup>24</sup> He notes, “[s]uccessful contention in one context, through its example, weakens political order in other contexts by raising expectations among challengers that state authority could be successfully challenged through similar means, setting off an explosion of emulative activity.”<sup>25</sup> This paper returns the emphasis to society in predicting regime behavior, but does so in a more theoretically rigorous way by specifying the mechanism of action. The second democratization paper that sheds useful light on authoritarian regimes is the work of Hadenius and Teorell, who develop a typology of authoritarian regime types.<sup>26</sup> Their main argument is that democratization is a teleological process; as regimes change, they move from more autocratic to less autocratic and then to democratic.<sup>27</sup> Quoting Bratton and Walle with approval, they claim, “[g]etting to democracy is easier from a regime in which competition is encouraged and the main challenge is to broaden participation; getting to democracy is much more difficult from a regime that has no tradition of political competition, however inclusive and participatory it might be.”<sup>28</sup> The main innovation of their work is to link regime typology to democratization outcome, suggesting that variation in regime power base and legitimacy influences democratization outcomes. This argument is suggestive

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<sup>24</sup> While Beissinger frames his argument in largely descriptive language, it is very similar to the game theoretic work of Chwe on the importance of focal point signals: Michael Suk-Young Chwe, *Rational Ritual: Culture, Coordination, and Common Knowledge* (Princeton, NJ: Princeton University Press, 2003).

<sup>25</sup> Beissinger, “Structure and Example in Modular Political Phenomena,” 263.

<sup>26</sup> They divide authoritarian regimes into five categories: monarchy, military, no-party, one-party, and limited multi-party, essentially expanding upon the standard Geddes typology. They then further claim that the democratization experience for each category of regime is different, depending on how the regime holds on to power: by the ballot box, force, or legitimizing monarchy. Axel Hadenius and Jan Teorell, “Pathways from Authoritarianism,” *Journal of Democracy* 18, no. 1 (2007): 143–57.

<sup>27</sup> Implied in this is that semi-authoritarian regimes are the most likely to democratize. Others have also noticed the weakness of semi-authoritarian regimes, but not in the context of the regime typology described by the authors. See Larry Jay Diamond, “Thinking About Hybrid Regimes,” *Journal of Democracy* 13, no. 2 (2002): 21–35 and Jason Brownlee, “Portents of Pluralism: How Hybrid Regimes Affect Democratic Transitions,” *American Journal of Political Science* 53, no. 3 (2009): 515–32.

<sup>28</sup> Hadenius and Teorell, “Pathways from Authoritarianism,” 152.

that internal regime dynamics matter greatly in responding to pressure for democratization, an important point not considered in other democratization literature.

Overall, the literature on democratization offers little in the way of specific, concrete theory to predict authoritarian regime behavior. Nonetheless, the implied and partial theories that can be developed from the literature offer a few key lessons. The first is that social forces matter. Regimes must respond to these forces or be swept away by them. Second is that specific societal actors can play an important role in threatening the regime. While several of the authors focused on the role of elites in initiating or controlling democratization, Beissinger makes the astute observation that learning within society and social actors can be one of the crucial motivators for regime change. Both of these points are missed by the elite-focused authoritarian literature discussed below. Still, the literature on democratization offers, at best, incomplete models of autocracies that contain hints of how a regime might behave.

### *Autocracy Literature*

The predominant form of autocracy literature focuses on elite behavior and incentives. Interest in this literature, which centers on and places the dominance of explanation in locating and delimiting the interests of the autocrat with respect to an active elite and a passive society, goes as far back as Machiavelli, who considered one of the most crucial questions a new ruler would face as what type of elite he would face, not what type of society:

[In France] one can easily enter there by gaining over some baron of the kingdom, for one always finds malcontents and such as desire a change. Such men, for the reasons given, can open the way into the state and render the victory easy; but if you wish to hold it afterwards, you meet with infinite difficulties, both from those who have assisted you and from those you have crushed. Nor is it enough for you

to have exterminated the family of the prince, because the lords that remain make themselves the heads of fresh movements against you, and as you are unable either to satisfy or exterminate them, that state is lost whenever time brings the opportunity.<sup>29</sup>

These types of elite-based models do offer some useful insights into understanding authoritarian behavior, but suffer the twin problems of not being able to predict regime durability or to include the role of social forces in regime behavior.

One set, or strand, of this literature tends to focus on how the autocrat secures power by controlling other elites or by making decisions absent any strategic action with society. The second strand is a subset of this literature that focuses on the specific case of authoritarian regimes that adopt some trappings of democracy (“electoral authoritarianism”). Of the two, models of authoritarian behavior that focus on the incentive structure of the ruler vis-à-vis an absent or dominated society are by far the most prevalent type of literature on autocracy in the modern period.<sup>30</sup> However, both of these strands are deeply problematic in that they do not consider the possibility that, at the least, society<sup>31</sup> can sometimes share the initiative in driving state behavior, if not lead it and nor do they offer much help in predicting changes in regime behavior.

### Elite-Driven Authoritarian Regimes

While Machiavelli may have been one of the first to identify the dilemma autocrats face with other elites, he is hardly the last. One of the earliest modern theories

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<sup>29</sup> Niccolò Machiavelli, *The Prince*, trans. Peter Bondanella (Oxford: Oxford University Press, 2005), 18.

<sup>30</sup> For a (partial) review of this literature, see Ronald Wintrobe, “Dictatorship: Analytical Approaches,” in *Handbook of Comparative Politics*, ed. Carles Boix and Susan Carol Stokes (Oxford: Oxford University Press, 2007), 363–98.

<sup>31</sup> I use society in a unitary sense here, but later I will also argue that society itself is a somewhat problematic term that begs to be disaggregated.

examining the incentive structure of the autocrat is Mancur Olson.<sup>32</sup> His model does not explicitly model elite-ruler interactions, but it does introduce the use of incentive structures and payoffs to make novel predictions about autocratic regimes, a feature of all other elite models discussed in this section. He argues that two types of bandits exist: stationary and roving. Roving bandits have no interest in improving their immediate area, as their incentive is to plunder the area to the maximum extent possible and then move on. Stationary bandits, his term for autocracies, have an incentive to provide public goods that grow the economy, so that they may then extract more in taxes in future periods. As he puts it, “[s]ince the warlord takes a part of total production in the form of tax theft, it will also pay him to provide other public goods whenever the provision of these goods increases taxable income sufficiently.”<sup>33</sup> His theory answers the important question of why autocracies bother to provide public goods at all, a key component of any theory that seeks to explain authoritarian behavior. However, his model does not offer any suggestions as to how a leader should fend off challengers to his power, either from society or other elites.

To answer the latter question, Brue Bueno de Mesquita et al. and Acemoglu et al. offer theories that suggest elite politics is essential to understanding why authoritarian regimes behave as they do and how this behavior contributes to regime stability. Bueno de Mesquita et al. theorize that authoritarian leaders constantly need to buy off elite supporters to remain in power.<sup>34</sup> They need the support of some subset of elites, which they term the selectorate, to avoid being overthrown. To earn the support of the

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<sup>32</sup> Mancur Olson, “Dictatorship, Democracy, and Development,” *American Political Science Review* 87, no. 3 (1993): 567–76.

<sup>33</sup> *Ibid.*, 568.

<sup>34</sup> Bueno de Mesquita et al., “Political Competition and Economic Growth.”

selectorate, the autocrat must send members private benefits from the public treasury<sup>35</sup>, which is at some risk to economic growth: “[w]hen authoritarian leaders face a choice between promoting economic growth at the expense of losing office and protecting themselves in office at the risk of slowing growth, they can be expected to choose the latter.”<sup>36</sup> Acemoglu et al. provide a variation on this argument in their paper, claiming that large juntas are actually stable regimes.<sup>37</sup> They postulate that all members of a junta would prefer to be in a smaller junta so they could receive a bigger slice of the private benefits that accord to being an elite, but also know that, if the elimination game were played multiple times, they could be one of the ones eliminated. In equilibrium, large elite coalitions are thus supportable.<sup>38</sup> Both the Bueno de Mesquita et al. and the Acemoglu et al. papers offer an improved version of the Olson hypothesis in that they link the fear of losing power to distributional decisions of the regime. However, both models are very elite-focused; the only way for them to be removed from power is by other elites – there is no role for the public in either model, which, even at a cursory level, seems inconsistent with the many popular uprisings that have occurred throughout history.

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<sup>35</sup> More specifically, to join the selectorate coalition, elite members must ask themselves whether they have more to gain by siding with the autocrat or by trying to join a challenging coalition. To prevent such a challenging coalition from forming, the authors suggest that the autocrat must direct significant funds to private benefits for elite members at the expense of economy-improving public goods.

<sup>36</sup> Bueno de Mesquita et al., “Political Competition and Economic Growth,” 71.

<sup>37</sup> Daron Acemoglu, Georgy Egorov, and Konstantin Sonin, “Do Juntas Lead to Personal Rule?,” *The American Economic Review* 99, no. 2 (May 1, 2009): 298–303.

<sup>38</sup> Their argument, in detail, is that large regimes are potentially stable because members of the junta require the help of the others to remove a member. Since even if all members agreed on a member to eliminate in the current round, none of them can credibly commit to not removing any of the surviving members in the next rounds. In other words, each member knows it may not be him or her that is removed from power in the current round, but has no guarantees that it will not be him or her in the next round, so no one has an incentive to start the process.

The two authors below take this into account, and note that the autocrat has a tool other than money in his arsenal: repression.<sup>39</sup>

Wintrobe and Policzer both emphasize the important role of coercion of the population in keeping a regime in power. Wintrobe argues that both distribution of benefits and enactment of repression must be considered as possible strategies employed by regimes to stay in power.<sup>40</sup> The central assumption of his model is that autocrats have a daily fear of being overthrown by both their own population and their elite supporters and that this fear drives their behavior. He includes a quote of Saddam Hussein's plastic surgeon, in dialog with Saddam about his fear of his own elite coalition, that captures the key dilemma of autocrats: "If your dog is young and small, you can hit it and kick and punish it in various ways. But when it is big and strong you have to think twice before punishing it. It might bite you. So imagine what it is like to be surrounded by one hundred dogs."<sup>41</sup> In his model, repression and reward (as he calls it, loyalty) are both options by a ruler to maintain power – loyalty is cheaper but less effective while repression is expensive (in monetary and organizational terms) but very effective. The choice of the mix of the two, according to Wintrobe, varies depending on the resource endowments of the state.

Policzer, in his study of the Pinochet dictatorship in Chile, focuses more heavily on the repression and monitoring side of the equation.<sup>42</sup> His point of departure is the observation that, "not only is coercion at the center of politics, but the choices and conflicts involved in organizing coercion show that politics is also at the center of

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<sup>39</sup> I use the male pronoun here only as a stylistic device. To my knowledge, however, there has not been a recorded modern female autocrat.

<sup>40</sup> Wintrobe, "Dictatorship: Analytical Approaches."

<sup>41</sup> *Ibid.*, 369.

<sup>42</sup> Policzer, *The Rise and Fall of Repression in Chile*.

coercion.”<sup>43</sup> His model includes two different ways that authoritarian regimes can monitor those opposed to the regime: internal and external monitoring. Internal monitoring is via the security bureaucracy, which can be highly effective (such as was the case with the Stasi in East Germany). However, then the leader creates a dilemma because he cannot monitor all of his agents directly and must hire managers, whose incentives may not be aligned with his – the administrators want promotions, which are often dependent on “success,” i.e., reporting that nothing is wrong. In effect, it creates a who-watches-the-watchers dilemma with respect to the administrators. External monitoring relies upon the press and NGOs campaigning for increased rights to highlight those with dissident opinions. The advantage of this approach is that no fundamental dilemma exists with regard to outside organizations; their goal is to report as much as possible, not as little as possible. However, allowing them to exist entails allowing them a certain freedom of action, which has obvious drawbacks for an authoritarian regime. Policizer’s model has the virtue of highlighting how variation in repression strategy may be optimal for different types of regimes, an advance over Wintrobe’s simplification of the concept.

Overall, both of these models highlight two important considerations that previously discussed articles have not: the role of fear in driving authoritarian behavior and the importance of coercion. While Wintrobe and, implicitly, Policzer are largely talking about fear of other elites, they both also discuss fear of societal uprisings, a significant advance over the Olson/Bueno de Mesquita research program. However, society is still largely absent in these models and repression is modeled as a positive

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<sup>43</sup> Ibid., 133.

correlate with order: the more repression, the more order, rather than seeing it as a possibly interacting term with the shape and dynamic characteristics of society. Some societies may react poorly and rebel when faced with additional repression while in other cases more repression might be more effective. Nor do any of these models predict how or why a regime might change over time or possibly fail.

### Electoral Authoritarianism

The other, smaller section of elite-centric literature focuses on authoritarian regimes that utilize an electoral system as a crucial mechanism for maintaining power. This literature would seem promising in its ability to account for the role of society via the role voters play in an election or in other (quasi-) democratic institutions, but most authors instead examine the role that partial democratic systems play in maintaining intra-elite harmony, meaning that this type of literature has many of the same problems as the previously discussed body of elite-driven literature.

First among the electoral authoritarian literature is the work of Levitsky and Way.<sup>44</sup> They argue that there now exists a class of authoritarian regimes in which there is a credible opposition. The ruling autocrat(s) must acknowledge the opposition and cannot completely eliminate their opponents, but nevertheless the autocrat retains the ability to harass the opposition. The regime, due to its somewhat weakened position, must still allow elections and also must often face an intransigent judiciary and a combative press. However, it is still able to use its powers to steal elections, remove troublesome judges, and silence adversarial press outlets. Democratic institutions are central to creating the opportunity for opponents to maneuver against the regime, as Levitsky and Way note:

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<sup>44</sup> Steven Levitsky and Lucan Way, "The Rise of Competitive Authoritarianism," *Journal of Democracy* 13, no. 2 (2002): 51–65.

“even though democratic institutions may be badly flawed, both authoritarian incumbents and their opponents must take them seriously.”<sup>45</sup> In their paper, they make clear that the kind of opposition being discussed is primarily constituted by out-of-favor elites, rather than by a broad-based movement. These out-of-favor elites then utilize the formal trappings of democracy to advance their positions against the regime. The innovation here is that the opposition is given agency, contrary to most of the other types of authoritarian regimes discussed previously, and this agency exists beyond one-shot power struggles – the struggle against the regime is a permanent fixture of the state.

Jason Brownlee also argues for the importance of democratic institutions in understanding authoritarian regimes. However, instead of seeing democratic institutions as a necessary evil that weak regimes must accept, he argues that the primary *raison d’être* of limited democracy is to provide a forum through which the regime can co-opt potentially threatening elites.<sup>46</sup> He claims that regimes that consciously co-opt notable elites by including them in sham legislatures have a higher probability of survival than autocratic regimes that do not. His argument is more elite-centric than Levitsky and Way, but also accounts for the functioning of regimes that have completely eliminated the possibility of open opposition. In these regimes, rather than modeling the political situation as no opposition/revolt, as in much of the game theoretic literature, opposition is located in the shadows and coopted into the legislature. I will later argue that understanding this kind of shadow opposition is key to understanding the behavior of cases such as China. Still, his specific argument has likely been problematized by the fact that his central example of a regime made impregnable by elite cooptation was Egypt

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<sup>45</sup> Ibid., 54.

<sup>46</sup> Jason Brownlee, *Authoritarianism in an Age of Democratization* (Cambridge: Cambridge University Press, 2007).

under Mubarak, a regime that fell due to a completely different vector of forces than he predicted.

Electoral authoritarianism does offer some original arguments that advance understanding of autocratic regimes; both the focus on placing agency within the opposition and the fact that these models contemplate a permanent opposition are important to note. However, as Schedler notes, the literature is also quite limited. Its focus on formal institutions in regimes where the central arena of politics is often located in the shadows is one serious problem.<sup>47</sup> Second, it largely shares the main assumption of Bueno de Mesquita that the main focus of the autocrat is on elite management, not on society.

All elite-centric literature, by definition, ignores the role that society might play in shaping the behavior of the ruling autocrat. Even those that acknowledge its existence (Wintrobe, Policzer) see it as a static body on which the repressive apparatus of the state may operate, not as a truly independent actor or array of different actors that engage in strategic interaction with the regime. Still, these models are a significant advance over those offered by the democratization literature, in that they fully specify models of authoritarian behavior. However, none of the theories offers much help in understanding dynamism in authoritarian regimes, because none of them contemplates an independent force in the state that could disturb the equilibrium between elite forces in the regime. To understand what kind of force might upset regime equilibrium, it is worth exploring the much older literature on authoritarian regimes focused on social forces.

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<sup>47</sup> Andreas Schedler, "Beyond Electoral Authoritarianism: The Spectrum of Non-Democratic Regimes," in *Electoral Authoritarianism: The Dynamics of Unfree Competition* (Boulder, CO: Lynne Rienner, 2006), 219–28.

*Social Forces Authoritarian Literature*

Social forces authoritarian literature<sup>48</sup> is a parallel to the work of early democratization explanations of Barrington Moore and Seymour Lipset, in that it focuses on how long-run macro societal changes influence regime evolution and behavior. In this analytic tradition, the authors generally place the locus of action within society and view the regime as static. The democratization literature that developed out of these assumptions has become justly famous, while many of the same authors' observations about authoritarian regimes have fallen out of general interest. I argue that this is unfortunate, as their attempts to incorporate society into explanations of authoritarian regime evolution contain several useful insights.

Huntington and Moore were among the first authors to develop a theory along these lines, when they explored the logic of one-party regimes.<sup>49</sup> They argue that most autocratic regimes undergo a two-part evolution process. The first is internal: authoritarian regimes often start out via a revolutionary movement. Then the regime undergoes a period of consolidation, leading finally to a period of adaptation in which the single party in power becomes used to being the dominant factor in society. This argument is not so different from the observations of Sovietologists such as Jowitt,<sup>50</sup> but Huntington and Moore's innovation is in how society reacts to the adaptation. During this phase, they claim, one-party regimes are basically stable, but their stability rests on their ability to co-opt threatening influences in society. As society modernizes, new interests

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<sup>48</sup> This is a term that I prefer; as far as I know there exists no standardized term for the literature.

<sup>49</sup> S. P. Huntington, "Social and Institutional Dynamics of One-Party Systems," in *Authoritarian Politics in Modern Society: The Dynamics of Established One-Party Systems*, ed. C. H. Moore (New York: Basic Books, 1970).

<sup>50</sup> Ken Jowitt, *New World Disorder: The Leninist Extinction* (Berkeley: University of California Press, 1993).

develop and it becomes increasingly difficult to co-opt these new forces within society while still accommodating the previous elite. In the end, autocratic regimes are unable to contend with these pressures and will eventually fall.

Almond and Powell claim that society matters in a different fashion than Huntington and Moore.<sup>51</sup> They note that all regimes have some level of pluralization, even in so-called totalitarian regimes like the Soviet Union: “even the most extreme form of totalitarianism – for example, the Soviet Union under Stalin – still contains pluralistic tendencies and what we might call a political process.”<sup>52</sup> This political process of which they speak is the conversion of political inputs from society into political outcomes produced by the government. In democracies, the means of channeling these inputs is clear: elections. However, they argue that even autocracies have the means to accomplish a channeling of inputs into outputs, even if it is (sometimes significantly) less effective. Their focus on the conversion of societal demands into regime policy reverses the position of the cart and the horse that later scholars develop: in these later rational choice models, policy is chosen by the autocrat and, to the extent that society is modeled, it can either passively accept the policy or rebel against it. In the Almond and Powell model, society is a significant driver of policy, with the regime forced to accommodate its interests. While the authors were writing before the dramatic increase of what Wintrobe calls ‘tin-pot dictators’<sup>53</sup> who sought self-enrichment at the same time as trying to ignore, as much as possible, the actual act of governing and producing policy outcomes, the argument is still enlightening. The state must be responsive to the expectations and

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<sup>51</sup> Gabriel A. Almond and G. Bingham Powell Jr., *Comparative Politics: A Developmental Approach* (New York: Little, Brown, 1966).

<sup>52</sup> *Ibid.*, 272.

<sup>53</sup> Ronald Wintrobe, *The Political Economy of Dictatorship* (Cambridge, UK: Cambridge University Press, 2000), 11.

demands of society, if perhaps to a lesser degree than in a democracy. While they allow for the fact that regimes can have other goals than fulfilling the desires of society (say, enriching themselves), they must at some minimum level meet the needs of society. The chief weakness of their argument is that they provide no mechanism by which society can threaten the state if the state fails to so provide the public goods they demand. Implicit is the threat of revolution but the details of this threat are left underspecified.

Perhaps one of the most cited early authors on authoritarianism, Juan Linz, can also be placed in this literature tradition.<sup>54</sup> His argument is a type of fusion of the work of Huntington and Moore and Almond and Powell. He argues that the main differentiating variable between regimes is the level of societal mobilization. States like the Stalinist Soviet Union are high-mobilization regimes, while many military dictators take over on the specific premise of demobilizing a restive society by being ‘apolitical’. He further notes, echoing Huntington and Moore, that high-mobilization regimes must eventually decay into low-mobilization ones. However, by incorporating the insights of Almond and Powell, he also notes that mobilization is not merely a one-way street of rulers controlling society, but instead is a feedback loop. In all societies, some level of pluralism exists – when the regime is in a high-mobilization state, the state leads society. However, when mobilization declines, society begins to lead the state, as informal (or even sometimes formal) groups begin to use the apparatus of the state to achieve their own ends. He gives the example of the bureaucrats in the late Soviet system that used the state to further their career and enrich themselves. Instead of the state transforming these wealth-seekers, they took the initiative and changed the nature of the state. Discussions of societal mobilization seem somewhat dated with the passing in most of the world of

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<sup>54</sup> Juan Jose Linz, *Totalitarian and Authoritarian Regimes* (Boulder, CO: Lynne Rienner, 2000).

Communism and earlier ideological movements. However, Linz's most trenchant insight here is that the state in authoritarian regimes is not a monolithic edifice or single leader that forces its will upon an unresponsive population. Rather, he argues, correctly, that it is a structure that societal forces can interpenetrate – agents of the state can easily be seen also as agents of society. Moreover, one cannot take for granted that bureaucratic mandarins or other state functionaries can steer the direction of the state just as much as the titular leader.

Overall, social forces literature offers some of the most compelling insights into the operational logic of authoritarian regimes. It suggests that one cannot assume that authoritarian leadership operates independently of or directly controls society. Instead, it notes, state and society, even in the most extreme authoritarian regimes, are engaged in an interactive process. The main problem with the older social forces authoritarian models is that they lack dynamism and a causal mechanism. Agents are not given autonomy and nor are there clearly specified links predicting how changes in social variables produce changes in regime behavior, even if these linkages are often implied. To specify a model that includes this interactivity between the state and society more fully, I now turn to a review of the literature on the state and civil society.

#### **IV. Autocracies and Civil Society**

Authoritarian regimes cannot ignore the importance of civil society if they wish to survive for any significant period of time. As literature on the state indicates, the state and civil society are closely enmeshed in authoritarian regimes – the state is not, as many elite-centric authors would argue, a distant, unitary force that can enforce its will whenever it so chooses. Rather, as a civil society literature demonstrates, an active civil

society exists in authoritarian regimes and it performs many different roles, most crucially serving as what I call a *mechanism of responsiveness*. The threat of a disobedient society motivates a regime to listen, in at least some minimal fashion, to the demands of civil society. The regime does so in order to craft policies that help it maintain and strengthen its rule.

### *The State*

Definitions for the term ‘the state’ have been contested among political philosophers since at least de Tocqueville and certainly since Weber. In earlier sections, elite-centric authors viewed the state as an all-powerful entity that an autocrat can direct with precision. Social forces authors argue for a weak state, in which society dominates the state. I argue for a nuanced model of the state, in which the state is a porous institution interpenetrated by society and full of independent agents, yet still retaining some essential ‘stateness’. This conceptualization of the state is crucial to understanding why civil society plays an important role in authoritarian regimes.

Weber gives a classical definition of the state, focusing on the importance of the monopoly over violence:

If no social institutions existed which knew the use of violence, then the concept ‘state’ would be eliminated, and a condition would emerge that could be designated as ‘anarchy,’ in the specific sense of this word. Of course, force is certainly not the normal or the only means of the state—nobody says that—but force is a means specific to the state. Today the relation between the state and violence is an especially intimate one. In the past, the most varied institutions—beginning with the sib—have known the use of physical force as quite normal. Today, however, we have to say that a state is a human community that (successfully) claims the *monopoly of the legitimate use of physical force* within a given territory. Note that ‘territory’ is one of the characteristics of the state. Specifically, at the present time, the right to use physical force is ascribed to other institutions or to individuals only to the extent to which the state permits it...

Hence, ‘politics’ for us means striving to share power or striving to influence the distribution of power, either among state or among groups within the state.<sup>55</sup>

In this widely-cited description of the term, the state is defined by what it controls – the definition does not include what constitutes the state or describe its inner workings. This specification of the concept has been and still is widely used in international relations as a way of characterizing the unit of analysis of the discipline. Other comparative politics scholars after Weber have built upon this definition by emphasizing that the state is both the institutionalization and depersonalization of power.<sup>56</sup> J. P. Nettl, among many scholars, makes the argument that the state is intricately linked to these two concepts. The more powerful the central administration of the state and the deeper it reaches into the lives of citizens, the more powerful a state is said to be. In this rendering of the state, Louis XIV’s famous phrase *L’état, c’est moi* is made a contradiction in terms – the state is the ghostly apparatus of the bureaucracy, which is completely separate and autonomous from the will of individual rulers. In the same way, as Franze Neumann argued, the Nazi German state was actually a kind of anti-state, since power was both arbitrary and personalized in the *Führer*.<sup>57</sup> The problem with this definition is that there is little room for society to have any independent power – the state directs society at a distance, neither accepting nor receiving any external input. Secondly, it assumes that the state is a monolithic entity, acting with a unity of purpose that seems at odds with casual observation of the modern state.

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<sup>55</sup> Max Weber, *From Max Weber: Essays in Sociology* (London: Routledge, 2009).

<sup>56</sup> Weber himself nuanced this definition in other writings, being somewhat ambivalent about how much society could penetrate the state. He is sometimes wrongly ascribed as the intellectual father of the monolithic state conceptualization.

<sup>57</sup> Franze Neumann, *Behemoth: The Structure and Practice of National Socialism, 1933-1944* (Chicago: Ivan R. Dee, 2009).

Along the lines of this criticism, several scholarly traditions have long taken issue with using this Weberian definition. First among those is Marxism, which sees the state as primarily a smokescreen, hiding the true domination of society by the bourgeoisie. Marx wrote in the Communist Manifesto that “[t]he bourgeoisie has at last, since the establishment of modern industry and of the world market, conquered for itself, in the modern representative state, exclusive political sway. The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie.”<sup>58</sup> In this view of the state, the governing structures of the state are window dressing that hides the true power structures of society. The state has no independent power and no independent motivation, separate from the bourgeoisie. This conceptualization is useful in thinking about the role of economics in policymaking, but it largely fails to explain developments such as the welfare state or explain how, exactly, the bourgeoisie control the state.<sup>59</sup>

Structural functionalism offered the other early critique of the state by focusing on the role of society. Structural functionalism is often identified as originating with Emile Durkheim, who is considered the modern founder of sociology.<sup>60</sup> To Durkheim, society was an understudied variable that offered much in the way of explanatory power about political phenomena.<sup>61</sup> In the 1950s, many social scientists began to reject the formalistic approach to the state that characterized pre-war scholarship, such as the focus on constitutions and formal operational rules. Instead, scholars such as Almond and Powell

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<sup>58</sup> Karl Marx and Friedrich Engels, *The Communist Manifesto* (London: Penguin Books, 2002).

<sup>59</sup> These problems led neo-Marxist writers (and Marx himself, in his later writings) to modify their original theory of the state by calling on workers of the world to struggle against the state, implying that the state has (potentially malevolent) independent power from the bourgeoisie. Philip Abrams, “Notes on the Difficulty of Studying the State,” *Journal of Historical Sociology* 1, no. 1 (1988): 58–89.

<sup>60</sup> Émile Durkheim and Kenneth Thompson, *Readings From Emile Durkheim* (London: Psychology Press, 2004).

<sup>61</sup> Interestingly, Durkheim explicitly declined to adopt a purely rejectionist view of state autonomy; he saw the state as having its own psychic character. In his view, the state decides and the agents of the state and society implement policy, a view with which Weber would probably not completely disagree.

adopted a Durkheimian approach to politics by placing society in the leading role, rather than the state.<sup>62</sup> In a simplified form, they argue that the state is merely an arena through which the various forces of society struggle over policy and resources.<sup>63</sup> The outcomes of these battles are roughly congruent with the size and resources of each group. For structural functionalists, the state has no significant autonomy or impact on policy outcomes. This view became widely enough adopted that by 1967, Nettl was able to make the relatively uncontroversial statement that “[t]he concept of state is not much in vogue in the social sciences right now.”<sup>64</sup> The state-as-an-arena formulation was a significant improvement over the formalism that preceded it, in that it acknowledged the power of society and was adopted by many of the social forces authors as a model of state-society relations. However, by removing all agency from the state, it implied that the internal functionings of the state have no impact on policy, which seems to also be an oversimplification.

Responding to the structural functionalists, neo-statists such as Skocpol, Evans, and Rueschemeyer famously called for social scientists to “bring the state back in.”<sup>65</sup> By this, they argued states should be “conceived as organizations claiming control over territories and people may formulate and pursue goals that are not simply reflective of the demands or interests of social groups, classes, or society.”<sup>66</sup> The authors differentiated

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<sup>62</sup> A couple of good examples would include Gabriel A. Almond, “Comparative Political Systems,” *The Journal of Politics* 18, no. 3 (1956): 391–409. and Almond and Powell Jr., *Comparative Politics: A Developmental Approach*.

<sup>63</sup> Almond himself later argued that this is a somewhat unfair characterization of his work, in that he has always ascribed some independent action to the state. See Gabriel A. Almond, “The Return to the State,” *The American Political Science Review* 82, no. 3 (1988): 853–74.

<sup>64</sup> J. P. Nettl, “The State as a Conceptual Variable,” *World Politics* 20, no. 4 (1968): 559–92.

<sup>65</sup> Theda Skocpol, “Bringing the State Back In,” in *Bringing the State Back In: Strategies of Analysis in Current Research*, ed. Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol (Cambridge: Cambridge University Press, 1985), 3–37.

<sup>66</sup> *Ibid.*, 9.

this conception of the state from earlier Weberian ones chiefly by emphasizing the interactive nature of the state with society and dispensing with the attention to formalism; they sought to study the state as it acted, rather than how the formal rules constituted the state. Many of the elite-centric models of authoritarian regimes at least in part adopt this conceptualization of state and society. The leadership of authoritarian regimes is assumed to be independent from and uninfluenced by society. However, this model is not really so different from earlier Weberian literature<sup>67</sup> and many of the same criticisms directed at that literature still apply – particularly the complaint about assuming the state has a unitary nature.

The responses to the call to bring the state back in have been several. The most impactful for the social sciences has been the development of what is called new institutionalism, argued for by scholars such as Kathleen Thelen and James March and Johan Olsen.<sup>68</sup> New institutionalism is an attempt to disaggregate the state and explain policy outcomes by looking at how actors within the state operate in their institutional contexts. March and Olsen claim that institutions “constitute and legitimize political actors and provide them with consistent behavioral rules, conceptions of reality, standards of assessment, affective ties, and endowments, and thereby with a capacity for purposeful action.”<sup>69</sup> However, new institutionalism has difficulty explaining developing nations and authoritarian regimes. In authoritarian regimes, there are rarely clearly understood, formal, and explicit rules of the game, as is assumed by authors working

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<sup>67</sup> For a response from the structural functionalists, see Almond, “The Return to the State.”

<sup>68</sup> Kathleen Thelen, “Historical Institutionalism in Comparative Politics,” *Annual Review of Political Science* 2, no. 1 (1999): 369–404; James G. March and Johan P. Olsen, “The New Institutionalism: Organizational Factors in Political Life,” *The American Political Science Review* 78, no. 3 (September 1, 1984): 734–49.

<sup>69</sup> James G. March and Johan P. Olsen, “Institutional Perspectives on Political Institutions,” *Governance* 9, no. 3 (1996): 249.

within this framework. This is for obvious reasons – it would restrict the freedom of the autocrat to behave as he or she wished. Some scholars, notably Helmke and Levitsky, have sought to extend new institutionalism to authoritarian and developing nations by introducing the concept of informal institutions.<sup>70</sup> Informal institutions are unwritten rules of the game that structure behavior much in the same way as formal institutional structures. As Bratton and Walle note, “[t]his is not to say that politics in countries [in Africa] lacking an entrenched tradition of constitutional governance is, as in Aristide Zolberg’s famous portrayal, ‘an almost institutionless arena with conflict and disorder as its most prominent features’. Routine procedures of politics to which participants are acutely attuned in authoritarian regimes do exist. However, problematically, many of the most important rules are informal; they are not written down and they are not justiciable in a court of law.”<sup>71</sup> When trying to determine how an authoritarian state operates, this informality is precisely what makes it difficult to study policymaking. In particular, in non-democratic regimes it is hard to gain insight into how informal rules of the game operate at the commanding heights of the state, the location at which policy is made.

Instead, many scholars studying authoritarian regimes have called to disaggregate and deconstruct the state. Philip Abrams makes a crucial observation about the danger of reifying the state, noting “[t]he state is not the reality which stands behind the mask of political practice. It is itself the mask which prevents our seeing political practice as is.”<sup>72</sup> That is, the state is a concept that is only given meaning by individuals – it is not an actual, physical thing itself. It is a hindrance to our understanding of politics inasmuch as

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<sup>70</sup> Gretchen Helmke and Steven Levitsky, “Informal Institutions and Comparative Politics: A Research Agenda,” *Perspectives on Politics* 2, no. 4 (2004): 725–40. See also Scott Radnitz, “Informal Politics and the State,” *Comparative Politics*, 2011, 351–71. for a review of the state of the literature.

<sup>71</sup> Bratton and Walle, *Democratic Experiments in Africa*, 70.

<sup>72</sup> Abrams, “Notes on the Difficulty of Studying the State.”

actions are ascribed to it that are actually the behavior of individuals within the government.<sup>73</sup> Instead, authors like Joel Migdal and Vivienne Shue offer a more practical solution: disaggregation of the state. Migdal argues that “patterns of domination are determined by key struggles spread through what I call society’s multiple arenas of domination and opposition. Officials at different levels of the state are key figures in these struggles, interacting – at times, conflicting – with an entire constellation of social forces in disparate arenas.”<sup>74</sup> In this view, the state is composed of agents operating at multiple levels, sometimes working together, sometimes in conflict with each other. Johan Olson argues similarly that the state should be seen, “not as [a] Weberian [bureaucracy], but as a conglomerate of semi-feudal, loosely allied organizations, each with a substantial life of its own, interacting with one another and interacting separately with civil groups.”<sup>75</sup>

These agents and society have multiple, interlocking relationships that determine policy formation and implementation. Shue offers an example of a disaggregated state in her review of the decentralization of power in post-1979 China. She studied mid-level farmers’ associations in China and found that state-society relations remain highly

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<sup>73</sup> Arguing in a similar vein, Pierre Bourdieu and coauthors locate the genesis of the state in an attempt by the King to gain power over local nobility – the creation of “the state” allowed the King to exert unlimited power without needing the assistance of the gentry to rule. This is a constructed, artificial state, in which the ruler has invested symbolic capital and which he has organized to provide him with greater power. These critiques offer useful insights, but leave scholars without a way forward in practically studying authoritarian regimes and governments more generally. Pierre Bourdieu, Loic J. D. Wacquant, and Samar Farage, “Rethinking the State: Genesis and Structure of the Bureaucratic Field,” *Sociological Theory* 12, no. 1 (March 1, 1994): 1–18.

<sup>74</sup> Joel S. Migdal, “The State in Society: An Approach to Struggles for Domination,” in *Strong Societies and Weak States*, ed. Joel S. Migdal, Atul Kohli, and Vivienne Shue (Cambridge: Cambridge University Press, 1994), 9.

<sup>75</sup> Johan P. Olsen, “Political Science and Organization Theory: Parallel Agendas but Mutual Disregard,” in *Political Choice: Institutions, Rules, and the Limits of Rationality*, ed. Roland M. Czada and Adrienne Windhoff-Héritier (Boulder, CO: Westview Press, 1991), 87–119.

localized and independent of the central state.<sup>76</sup> Twinned with a disaggregated state is the interest in state-society relations – how society can interpenetrate and influence the state and vice versa. Overall, this nuanced, multifaceted view of the state has much to recommend for the studying of authoritarian regimes. It provides a way forward when scholars do not have access to the pinnacle of the state when conducting research. It also moves the emphasis in studying authoritarian regimes from Kremlinological analysis of central rulers to day-to-day personal politics.

Most importantly, however, a disaggregated state suggests a model in which state and society can mutually influence each other. An interpenetrated state allows the top policymakers of the state to gain information on the needs of society while allowing local society to influence policy implementation and gain personalistic benefits. Moreover, such a model highlights the fact that society remains active and engaged in authoritarian regimes and expresses itself at least partially through its attempt to interact with the state.

These social interests and the responses of the various agents of the state (including the commanding heights), I argue, are essential to understanding policy outcomes in autocratic states. By way of contrast, most of the authoritarian models discussed in the existing literature section simplify the state as either being a strong, impregnable tool of the autocrat or being completely dominated by society. Few model or explicitly consider the possibility that policy-formation may be the outcome of give and take between state and society. In the following section, I outline the case for taking civil society seriously in authoritarian regimes.

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<sup>76</sup> Vivienne Shue, “State Power and Social Organization in China,” in *Strong Societies and Weak States*, ed. Joel S. Migdal, Atul Kohli, and Vivienne Shue (Cambridge: Cambridge University Press, 1994), 65–88.

### *State-Society Relations in Developing and Authoritarian Regimes*

To demonstrate the proposition that civil society plays an important role in the policy-making of authoritarian regimes, three conditions must hold. First, civil society must exist in authoritarian regimes. Many autocracy theoreticians are skeptical of the existence and impact of civil society in authoritarian regimes for the simple reason that these regimes all tend to be highly repressive of any open sign of private political interest articulation. Citizens are viewed as atomistic individuals, prevented from organizing or expressing their interests by the heavy hand of the security state.<sup>77</sup> However, as the following research indicates, civil society plays a significant, sometimes even vibrant role in most authoritarian regimes. Second, the relationship between civil society and the state must be made explicit. In earlier works focused on democratization, it was assumed that civil society in authoritarian regimes would be exclusively oppositional, but, as more current research has demonstrated, civil society operates in a variety of positions vis-à-vis the state. Finally, the mechanism through which civil society influences the state must be made explicit. At the end of this section, I discuss mechanisms of responsiveness in authoritarian regimes. After a review of these three questions, it becomes quite clear that civil society plays an important role in the operation and policy formation of many authoritarian regimes, which suggests that a new general model of such regimes needs to be developed, taking these points into account.

#### The Existence of and Forms of Civil Society in Authoritarian States

Civil society exists in autocracies if the definition of civil society is widened from what is typically counted in democracies. Few explicitly political civil society groups

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<sup>77</sup> The term citizen is a somewhat problematic term when used in the context of authoritarianism. I use it here to mean an individual's personal political orientation with respect to the state.

exist in autocracies. However, non-political organizations, ad-hoc groups, and the individual actions by members of society all can act in similar ways to political groups in democracies. If these forms are counted, then autocracies have an active, if not vibrant civil society.

The forms of civil society extant in autocracies depend to a significant extent on the definition of civil society. Most scholars tend to define civil society as any group seeking to operate independently of the state. Thomas Gold offers a standard definition of civil society: “[t]he term civil society has a long and complex history and can mean a variety of things. For our purposes, it refers to a whole range of social groups that seek to operate independently of the state... such as private business enterprises, labor unions, trade or professional associations, religious bodies, student organizations, artistic or intellectual groupings, and publications.”<sup>78</sup> Scholars of democratic politics or those looking for groups that can lead to democratization often place a strong emphasis on the importance of focusing on *organized and political* groups, as these types of groups have the capacity to challenge and lobby the state directly. However, I argue that a wider view of society that accepts semi-organized and unorganized but coordinated resistance to the state is more useful in studying authoritarian regimes, as organized groups generally do not exist.

Organized political and semi-political groups have long been the main subjects of interest of democratic civil society scholars.<sup>79</sup> The types of organizations that interest these scholars range from semi-political organizations such as civic organizations to the

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<sup>78</sup> Thomas B. Gold, “The Resurgence of Civil Society in China,” *Journal of Democracy* 1, no. 1 (1990): 20.

<sup>79</sup> For a review, see Michael W. Foley and Bob Edwards, “The Paradox of Civil Society,” *Journal of Democracy* 7, no. 3 (1996): 38–52.

directly political, such as Greenpeace and Amnesty International.<sup>80</sup> However, authoritarian regimes are understandably skeptical of the more politically oriented organizations and often target them for repression. Jordan is perhaps typical for authoritarian regimes in its restrictions on political groups. Holding a public meeting in Jordan requires 48 hours' notice to the government and the signature of 50 notable individuals – an impossibly high bar for most organizations.<sup>81</sup> This attitude of the state towards civil society in Jordan is similar to most other autocracies, resulting in autocracies containing limited numbers of largely docile political groups.

If standard civil society organizations are largely missing in authoritarian regimes, existing non-political associational and social relations can often serve as stand-ins for civil society in these cases. In China, Lily Tsai found that lineage groups help improve the provision of public goods in Chinese villages.<sup>82</sup> Wai Fung Lam writes that farmers' associations in Taiwan during the 1980s (before the end of the dictatorship) were able to work effectively with the state to negotiate annual water allocations.<sup>83</sup> John Entelis, in his research of Arab civil society notes that, “[a]s Assad's Syria and Mubarak's Egypt clearly reveal, one can have a viable, if not dynamic, civil society, as reflected in the existence of

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<sup>80</sup> The interest in civic organizations can be traced to the search for forums that can host Habermasian public spheres; the interest by political scientists in political organizations is self-evident.

<sup>81</sup> Quintan Wiktorowicz further notes that this is emblematic of a more general attitude of the Jordanian state towards civil society: “[s]ocial groups that operate in the shadows of society outside the panopticon gaze of the bureaucracy are unpredictable and thus potentially threatening to state power... Activism outside this state-delineated space, which is potentially disruptive and uncontrollable, is limited and repressed.” Quintan Wiktorowicz, “Civil Society as Social Control: State Power in Jordan,” *Comparative Politics* 33, no. 1 (October 1, 2000): 49.

<sup>82</sup> According to her, they serve as the moral glue that holds local societies together; local agents of the state must provide high-quality public goods or else face the moral sanctions of the lineage groups. Lily L. Tsai, *Accountability Without Democracy: Solidary Groups and Public Goods Provision in Rural China* (Cambridge: Cambridge University Press, 2007).

<sup>83</sup> Wai Fung Lam, “Institutional Design of Public Agencies and Coproduction: A Study of Irrigation Associations in Taiwan,” in *State-Society Synergy: Government and Social Capital in Development*, ed. Peter Evans, vol. 94 (Berkeley: University of California at Berkeley, International and Area Studies, 1997), 11–47.

a plethora of functional professional, social, cultural, economic, and business associations.”<sup>84</sup> These types of organizations are typically allowed because the state sees them as trusted, usually safe intermediaries through which the state can propose and ask for help in implementing new policies. They can also serve as a form of a watchdog – clan-based and lineage groups are invested by the local community with moral authority and can use this against badly-behaving agents of the state without necessarily sacrificing their non-political reputation.

Ad-hoc groups or social organizations can also mediate interactions with the state and shape state policy in autocratic regimes. Salwa Ismail notes that in Mubarak’s Cairo, the agents of the state did not attempt to penetrate the everyday governance of Cairo’s slums; instead they deferred to and worked through local respected leaders and elder councils.<sup>85</sup> She notes that “[t]his modality of governance at the local level has given rise to what could be identified as ‘local power compacts’ that are integrated into state government.”<sup>86</sup> Xi Chen writes about protest opportunism in China, about how local, ad-hoc groups form over collective grievances in the Chinese countryside.<sup>87</sup> Typically, some issue, whether land seizures or failure to pay promised pensions, motivates residents to form an ad-hoc lobbying group to force the government, through civil disobedience or petitioning, to change policy. Tun-Jun Cheng describes how the Formosa Magazine Movement, a loosely-linked group of intellectuals, initiated the democracy movement in

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<sup>84</sup> John P. Entelis, “Civil Society and the Authoritarian Temptation in Algerian Politics: Islamic Democracy and the Centralized State,” in *Civil Society in the Middle East*, ed. Augustus Richard Norton (Leiden, Netherlands: Brill, 2001), 47.

<sup>85</sup> Salwa Ismail, *Political Life in Cairo’s New Quarters: Encountering the Everyday State* (Minneapolis: University of Minnesota Press, 2006).

<sup>86</sup> *Ibid.*, 46.

<sup>87</sup> Xi Chen, “Between Defiance and Obedience: Protest Opportunism in China,” in *Grassroots Political Reform in Contemporary China*, ed. Elizabeth J. Perry and Merle Goldman (Cambridge, MA: Harvard University Press, 2009), 253–81.

Taiwan.<sup>88</sup> Ad-hoc groups organized around local or national issues have an obvious appeal to citizens in authoritarian regimes, in which individual societal actors must navigate an ever-shifting line of allowed and disallowed behavior. It also skirts burdensome registration issues and makes it more difficult to arrest and repress organizers, as often the leadership structure is nebulous or undefined. Finally, the state itself may not see the ad-hoc organizations as nearly so threatening given their transient nature.

Even individual citizens, when acting in a unified, coordinated, way, can act in ways similar to traditional civil society. Many anthropologists have investigated the personal responses of citizens to authoritarian regimes and policies that they consider unjust or unfair. James Scott studied Malaysian peasant farmers' responses to central policies and calls for passive, everyday resistance to state policies to be what he terms "weapons of the weak."<sup>89</sup> He notes their resistance strategy as follows: "[o]n some occasions this resistance has become active, even violent. More often, however, it takes the form of passive noncompliance, subtle sabotage, evasion, and deception."<sup>90</sup> This passive resistance (or, alternately, compliance) is often a key determinant of whether the state can successfully implement its policies. The Cultural Revolution is an example of how policy implementation depends upon popular compliance. During the 1960s, initial enthusiasm for carrying out revolutionary change gave way to cynicism and passive resistance after the severe social dislocations of the Cultural Revolution began to play out. It was this societal burnout, rather than a retreat from revolutionary ideology and

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<sup>88</sup> Tun-Jen Cheng, "Democratizing the Quasi-Leninist Regime in Taiwan," *World Politics* 41, no. 4 (July 1, 1989): 471–99.

<sup>89</sup> James C. Scott, *Weapons of the Weak: Everyday Forms of Peasant Resistance* (New Haven, CT: Yale University Press, 2008).

<sup>90</sup> *Ibid.*, 29.

policy, that signaled the effective end to the Cultural Revolution.<sup>91</sup> In more recent times, Melinda Herrold-Menzies writes about a local government's attempt to implement fish conservation measures for a lake in China. The reform was only partly successful – it lowered the amount of militancy among the fishermen regarding conservation policies but did not help implement policy, due to resistance of the same fisherman.<sup>92</sup> She notes, “[c]overt non-compliance as a form of resistance continues, as fishers still farm during the spawning season, hoping that they will not be caught, while homemade waterfowl snares still regularly appear on the lake. The community development programs have not brought fishers into compliance with natural resource regulations, but they have demobilized farmers’ militant resistance.”<sup>93</sup> In all of the cases listed above, it is the response of individuals in society to state policy that determines the implementation outcome.

Thus, as the above evidence demonstrates, the difference between formal civil society, defined as explicitly political organizations, and general society, defined as each citizen’s individualized and group political existence, is blurred. Civil society and society can mean nearly the same thing in autocracies, as individuals, ad-hoc groups, and local, ostensibly non-political groups passively resist or accept the policies of the state, seek benefits from the state, and demand redress from the state. Therefore, to speak of civil society only as well-organized, explicitly political groups ignores vast swaths of society that interact with, influence, and are influenced by the state in autocracies. Many authors

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<sup>91</sup> Andrew G. Walder and Yang Su, “The Cultural Revolution in the Countryside: Scope, Timing and Human Impact,” *The China Quarterly* 173 (2003): 99. Also see Anita Chan, Richard Madsen, and Jonathan Unger, *Chen Village: The Recent History of a Peasant Community in Mao’s China* (University of California Press, 1984), 230.

<sup>92</sup> Melinda Herrold-Menzies, “Peasant Resistance against Nature Reserves,” in *Reclaiming Chinese Society: The New Social Activism*, ed. You-tien Hsing and Ching Kwan Lee (London: Routledge, 2009), 83–98.

<sup>93</sup> *Ibid.*, 96.

use the term state-society relations when they really mean state-organized civil society. In autocracies, however, impactful relations between state and non-state cover a broad spectrum, including organized, non-political groups, ad-hoc groups, and individual citizens acting independently (but all in a similar fashion). These should all be considered aspects or facets of civil society if one wishes to produce useful research on the subject.

There is an important limit to what should be included in this definition; anti-social acts that resist the state and are socially destructive, such as racketeering, smuggling, violence against others, and so on are clearly not civil society, even though they are an attempt to resist the state's efforts at controlling them. What I mean to capture in broadening the term civil society for autocracies is behavior that citizens engage in which they and others in their same local society believe is rightful and rational against the state – whether an outsider would consider such claim dubious or not is, in this sense, immaterial.<sup>94</sup> Attempts by a community of fisherman to avoid state quotas because they believe that the state has failed to live up to their promises to provide alternative means of livelihood is therefore a type of semi-collectivized civil society; a group of criminals openly flouting community will to prey upon the weak is not.

### Role of Civil Society in Authoritarian Regimes

While civil society may exist in authoritarian regimes, its connection to political outcomes is less clear. Theories based on civil societies in democracies and democratizing countries suggest that civil society in autocracies should primarily be oppositional to the state. Other scholars of autocracies have suggested that civil society

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<sup>94</sup> Indeed, civil societies in democracies have often demanded special consideration that at least notionally harms the rest of society, such as the imposition of price supports for dairy products or civil disobedience against laws such as poll taxes that a particular group considers unjust.

can serve as a partner with the state in a corporatist arrangement. Some scholars of China have proposed that civil society be seen as a service provider auxiliary of the state. However, the sum of the evidence suggests that civil society is all of these things and more in autocracies. Just as a variety of forms of civil society exist in non-democratic regimes, so do the roles of these organizations. However, the direct policy impact of these various roles that civil society might play is limited, primarily existing at the implementation level.

Among scholars of democratic civil society, the dominant paradigm for understanding state-society relations is a neo-Tocquevillian perspective.<sup>95</sup> Alexis de Tocqueville, observing America's rich associational life in the 19th century, made a link between these societies and the strength of democracy in the United States. For de Tocqueville, the link was a practical one, as associations helped blunt the possibility of tyranny of the majority:

At the present time the liberty of association has become a necessary guarantee against the tyranny of the majority. In the United States, as soon as a party has become dominant, all public authority passes into its hands; its private supporters occupy all the offices and have all the force of the administration at their disposal. As the most distinguished members of the opposite party cannot surmount the barrier that excludes them from power, they must establish themselves outside of it and oppose the whole moral authority of the minority to the physical power that domineers over it. Thus a dangerous expedient [liberty of association] is used to obviate a still more formidable danger.<sup>96</sup>

However, following the work of Robert Putnam, many scholars have adopted what has come to be termed a neo-Tocquevillian view of civil society, in which associational life

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<sup>95</sup> There is a subtly important distinction between two groups of oppositional civil society scholars. One group focuses on how democratic norms are cultured by civil society organizations, which then leads to demand for democracy (e.g., Putnam). Another group claims that organizations themselves develop an oppositional position to autocracies (e.g., Soviet bloc civil society scholars). These are differences of mechanisms, though, not of predictions: civil society organizations, in both models, predict eventual democratization and the fortification of existing democracies.

<sup>96</sup> Alexis de Tocqueville, *Democracy in America* (London: G. Adlard, 1839), 92.

produces citizens that expect and demand democracy.<sup>97</sup> Civil society, according to this argument, is thus oppositional to non-democratic governments; it also serves as a bulwark protecting and improving existing democracies.

Following the lead of the neo-Tocquevillians, many of those scholars that focus on democratization from autocracy have tended to see civil society as primarily oppositional to the state. The fall of the Soviet bloc is often at least partly attributed to oppositional civil society groups, such as Solidarity in Poland.<sup>98</sup> Civil society organizations are also sometimes seen as key elements of transition to democratic rule in Latin America during the 1980s. John Entelis notes the role of oppositional civil society organizations in Algeria: “[m]utual aid, village cooperation, voluntaristic effort, and self-financing projects all combined to create independent social space which challenged state power in the most direct way possible – creating alternative centers of political legitimacy or, in Gramscian terms, counterhegemonic organization.”<sup>99</sup> To these scholars, the existence of civil society is always a threat to the state and the autocrat always seeks to repress these elements, which must be traded off against potentially increasing the revolt risk. The main policy implication would be that forms of civil society in this role seek and sometimes achieve regime change.<sup>100</sup> In that sense, the direct policy outcome of

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<sup>97</sup> Robert D. Putnam, Robert Leonardi, and Raffaella Y. Nanetti, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton, NJ: Princeton University Press, 1994). Of course, Putnam speaks specifically of social capital as the intermediate good that is produced by civil societies and is consumed by democracies, but other authors using a neo-Tocquevillian framework offer a generally similar line of argument.

<sup>98</sup> For a review of such literature, see Michael Bernhard, “Civil Society and Democratic Transition in East Central Europe,” *Political Science Quarterly* 108, no. 2 (July 1, 1993): 307–26.

<sup>99</sup> Entelis, “Civil Society and the Authoritarian Temptation in Algerian Politics: Islamic Democracy and the Centralized State,” 70.

<sup>100</sup> The strategic interaction of the *threat* of unrest in demanding regime change leading to changes in regime behavior is covered in the next section.

their agitation would be close to an all or nothing proposition; either democratization is achieved or it is not.

For a significant period of time, this was the only role that scholars offered for civil societies in an autocracy.<sup>101</sup> However, recent research has complicated a primarily oppositional model significantly by complexifying civil society in authoritarian regimes and reinterpreting the role of civil society in classically oppositional stories. Scholars have also begun to question the claim that civil society was essential for earlier democratic transitions. Michael Bernhard calls into question the claim that civil society was an important force for democratization in Eastern Europe.<sup>102</sup> He notes that Solidarity largely sought to work within the framework of the state to expand, slowly, the sphere of allowed activity. This type of even partially oppositional activity did not exist in most other Soviet satellites, and, in fact, Solidarity was slow to react to the democratic explosion that occurred after Gorbachev signaled that the Soviets would no longer use force to maintain control of the Eastern Bloc. Overall, visible, political, and organized civil society in authoritarian regimes tends to be highly regulated and often is repressed, so it is somewhat implausible that this type of civil society would serve as the basis for direct opposition to the state in autocracies. This finding would discount the possibility that open oppositional civil society organizations are often able to achieve their primary policy objective – regime change.<sup>103</sup>

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<sup>101</sup> For a discussion on the history of an opposition-centered model, see Michael Bratton, “Beyond the State: Civil Society and Associational Life in Africa,” *World Politics* 41, no. 03 (1989): 407–30.

<sup>102</sup> Bernhard, “Civil Society and Democratic Transition in East Central Europe.”

<sup>103</sup> Writing along similar lines but about the reverse case, Sheri Berman notes that it was not the lack of civil society in the Weimar Republic that doomed the regime, but instead it was the abundance of organizations that led to its downfall. She notes that, “[t]he Nazis had infiltrated and captured a wide range of national and local associations by the early 1930s, finally bridging the gap between bourgeois civil society and party politics that had plagued Germany for half a century. From this base Hitler was able to achieve two goals that had long eluded German politicians—the creation of an effective political machine

One of the first theories of civil society to challenge this hegemonic view was corporatism, a concept first delineated by Phillippe Schmitter.<sup>104</sup> In corporatism, an organization is recognized to represent certain sectors of society exclusively. These peak organizations, such as a state labor union or business organization, are then supposed to bargain with the state, looking after the interests of their members while providing the state a reliable and authoritative representative to send information and resources downwards. In the Soviet Union and other communist bloc countries, many of these corporatist structures existed, such as the All-Union Central Council of Trade Unions. These organizations nominally represented their members' concerns, although in practice much more information and instruction moved downwards rather than upwards from society.<sup>105</sup> At the local level, in China Kenneth Foster finds that many local business organizations ostensibly take this corporatist form, in which they are supposed to represent local business concerns, but instead primarily provide opportunities for businessmen to network with local decision-makers.<sup>106</sup> Likewise, X. L. Ding finds that many budding entrepreneurs in China work to embed themselves within the state to seek personalistic benefits.<sup>107</sup> This might be considered something akin to "personal corporatism," as individuals seek state titles and recognition from the state in order to gain status and legitimacy with business partners, as well as to grease the wheels of the

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and a true cross-class coalition." In other words, rather than serving as a bulwark of democracy, civil society organizations provided a convenient entry point for a state seeking to dominate society as well as keeping society atomized and disinterested in the general condition of society. Sheri Berman, "Civil Society and the Collapse of the Weimar Republic," *World Politics* 49, no. 3 (1997): 424.

<sup>104</sup> Philippe C. Schmitter, "Neo-Corporatism and the State," in *EIU Working Paper*, vol. 106, 1984.

<sup>105</sup> Jude A. Howell, "All-China Federation of Trades Unions beyond Reform? The Slow March of Direct Elections," *The China Quarterly* 196 (2008): 845–63.

<sup>106</sup> Kenneth W. Foster, "Associations in the Embrace of an Authoritarian State: State Domination of Society?," *Studies in Comparative International Development* 35, no. 4 (December 1, 2001): 84–109.

<sup>107</sup> X. L. Ding, "Institutional Amphibiousness and the Transition from Communism: The Case of China," *British Journal of Political Science* 24, no. 03 (1994): 293–318.

bureaucracy for their commercial dealings. Kellee Tsai finds similarly, that entrepreneurs, rather than identifying along class lines in opposition to the state, largely seek to leverage their connections within the state for personal benefit.<sup>108</sup>

In both national and local corporatist arrangements, the state's nominal goal is to receive upward flows of information from civil society regarding local conditions without threatening its direct rule. The direct policy implication should be that decisions are modified to take into account input from this somewhat crude form of representation. However, as previously discussed, these types of organizations rarely function this way in autocracies. Primarily, they exist to send instructions and propaganda downward rather than sending information upward. In the case of local corporatism, the organizations in China seem to exist largely to co-opt and politically neuter local notables who could cause trouble. By incorporating them into state structures and giving them personalistic benefits, as Tsai notes, it helps forestall the development of a class consciousness.

More recently, some autocracy scholars have noted how some civil society organizations in China seem to exist primarily to contract with the state to provide services.<sup>109</sup> The government typically first approaches these organizations due to their expertise in working with the relevant hard-to-serve population. The organization sees it as a win-win: it helps to further its social mission, while expanding the size and importance of the organization. The state also sees it as an expedient way to deliver services in areas where it lacks expertise. Jessica Teets notes the potential import of these

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<sup>108</sup> Kellee S. Tsai, "Capitalists without a Class: Political Diversity Among Private Entrepreneurs in China," *Comparative Political Studies* 38, no. 9 (November 1, 2005): 1130–58.

<sup>109</sup> This type of arrangement is also common in democracies, although it typically has not been seen as having a significant impact on regime behavior. Jessica C. Teets, "Reforming Service Delivery in China: The Emergence of a Social Innovation Model," *Journal of Chinese Political Science* 17, no. 1 (March 1, 2012): 15–32.

changes with respect to the state-society relationship: “[e]xpanding citizen participation in both the provision and regulation of public goods and services has the potential to change the relationship between state and society from a hierarchal relationship to more of a pluralistic one, where private groups possess a legitimate channel to participate in the provision of public goods and services, and other relevant policies, with the responsible government agency.”<sup>110</sup> In autocracies, the policy impact of civil society playing this role is unclear. Civil society organizations that contract with the government run the risk of their missions being subverted so as to win more government contracts. On the other hand, the organization can perhaps impact how government policies and programs are executed. Overall, even if organizations managed not to suffer a distortion of their missions to gain contracts, the maximum policy impact of this type of arrangement is likely limited to changing the pattern of policy implementation.

These roles that civil society can play and their attendant policy impacts are not mutually exclusive. While there exist few organizations that directly challenge the state in autocracies, organizations such as lawyers’ guilds and media organizations can offer counter-narratives to those provided by the state and can challenge local government agents. Many authoritarian states and parts of civil society engage in corporatist relationships for mutual benefit. Civil society organizations can also serve as contracting partners with the state, whether explicitly or implicitly. Different groups and people can play all or some of these types of roles at the same time.

However, the *direct* policy impacts of these civil society organizations seem to be somewhat narrow. At best, most of the impact of civil society seems to be limited to the implementation phase of policy. Local agents on the ground can be influenced and policy

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<sup>110</sup> Ibid., 16.

implementation details can be argued with the state. A few scholars have argued that, in a pluralist autocracy, civil society has some influence over policy formation,<sup>111</sup> but the cases identified by these scholars seem largely to emphasize the limited nature and special case aspect of their examples. The multitude of roles in which civil society can manifest itself all seem to suggest that it cannot remove or alter the central state's primacy in policy-making. This analysis, however, only explores civil society's immediate influence on policy. I argue that civil society has a deeper, more subtle, and more important impact on policy by serving as a mechanism of responsiveness to the state leadership. Whether the leadership will respond to this available mechanism an open question I address in later sections.

#### Civil Society as a Mechanism of Responsiveness

Much as civil society exists in some form in all authoritarian regimes, all regimes must be minimally responsive to societal needs to rule effectively. If the regime is not responsive at this baseline level, the citizens will rebel by, at the least, invoking everyday resistance to the rule of the autocracy, if not engaging in oppositional organizing and active sabotage of the state.

Authoritarian states must, in some way, partially respect the desires society or face the threat of policy implementation failure and regime collapse. Most dictators and autocrats claim to represent the will of the people, but most autocracy scholars see this as merely window dressing. According to these authors, the chief goal an autocrat pursues is personal aggrandizement and an increase in his own power. Whether or not that lines up

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<sup>111</sup> See Andrew Mertha, "Fragmented Authoritarianism 2.0': Political Pluralization in the Chinese Policy Process," *The China Quarterly* 200 (2009): 995–1012. and Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures, and Processes* (Princeton, NJ: Princeton University Press, 1988).

with the will of the people is seen as irrelevant. Most existing autocratic models also take as one of their key assumptions that the autocrat wishes to stay in power. The existing theories have tended to assume that the power to remove the autocrat comes through other elites within the regime. However, as newer research has suggested, the general acquiescence, if not support, of civil society is crucial to the everyday rule in all regimes, including autocracies. Everyday government policy implementation requires at least tacit acceptance of the legitimacy of the state by local agents of the state, civil society groups, and the local population. If these groups find policy to be illegitimate, coercion alone will often lead to policy failure. The history of failed autocratic schemes can often be traced to a failure to convince society of the value of the leadership's plan. So civil society thus also plays an additional role in responsiveness: it can often determine whether autocratic

As an example of this dynamic, in China during the Cultural Revolution, Mao was initially able to solicit the support of the general population to rise up against his perceived enemies. However, after the Lin Biao incident, public and local state agent support for continued campaigning declined. By the time of the Criticize Lin Biao, Criticize Confucius campaign in 1973, little enthusiasm existed in society to participate, making the campaign largely a failure.<sup>112</sup> Stalin's attempt to collectivize Soviet farmland also failed due to the lack of support from society. Farmers resisted collectivization and put little effort into farming for their new collectives. Agricultural output fell dramatically, ushering in one of the most devastating famines in the history of the world; some estimate 10 million died due to societal resistance to the collectivization drive.<sup>113</sup> The failure of these projects did not, of course, result in the direct removal of the

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<sup>112</sup> Joseph Esherick, *The Chinese Cultural Revolution as History* (Stanford, CA: Stanford University Press, 2006).

<sup>113</sup> Martin McCauley, *Stalin and Stalinism* (London: Pearson Longman, 2008).

autocrat, but certainly weakened the ruling cohort's position and led to its eventual ouster once the key leader (Mao, Stalin) was removed from power. In any case, it seems highly likely that repeated failure to convince the population to carry out the regime's policy (and then suffering policy implementation disasters) structurally weakens the regime in the long term, if not bringing immediate challenges to their rule.

Viewing regime success this way thus requires a reconceptualization of how a regime maintains power. Rather than conceiving an autocratic regime as basically stable in power, absent some major mistake by the ruler(s), instead the support among society for the regime should be seen as contingent. It needs to be earned on a daily basis by being at least, in part, nominally responsive. If the support falls below some minimum level, policy implementation ability suffers and, eventually, revolts will occur.<sup>114</sup> This is closely related to legitimacy. If the regime is perceived as legitimate, it suggests that support for the regime is high and the chance of revolt is low. Positive (responsive) actions reinforce and prevent the decline of legitimacy.

To encourage society to accept the regime's policies and rules as legitimate, the regime needs to be responsive to society – a regime that enacts policies and programs in line with the general desire of society, it stands to reason, has a better chance at long-term survival. Evidence exists that authoritarian regimes feel the need to be responsive even in the most repressive governments in history. In Nazi-occupied Poland, as Jan Gross has researched, rule of the population required the active cooperation between state and

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<sup>114</sup> Revolts or regime change may take a very long time to develop, but a long history of policy failure (poor economic growth, for example) has been shown statistically to increase the odds of regime change. See Dan Slater and Sofia Fenner, "State Power and Staying Power: Infrastructural Mechanisms and Authoritarian Durability," *Journal of International Affairs* 65, no. 1 (Fall 2011): 15–29. Also instructive is the classic Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge, MA: Harvard University Press, 1970).

society. This is despite the fact that the Nazis desired the eventual complete liquidation of the Poles. To accomplish the day-to-day administration of the country, the Nazis relied upon Polish middlemen to mediate between the rulers and the ruled. To obtain the cooperation of these middlemen, the Nazi Generalgouvernement had to be at least minimally responsive to societal needs. As Gross notes, this created a dilemma for the occupation head of Poland: “Frank [the local Gauleiter]... was caught in a desperate effort to accommodate the local population and at the same time to terrorize it.”<sup>115</sup> Even in the more pedestrian autocratic regimes, authoritarians see a crucial need to be responsive to expressed needs from civil society. Linan notes the appeal of Putin to the average Russian: “[h]e promised the average citizen stability, and he promised to take a hard line with terrorists, separatists, and any other destabilizing element.”<sup>116</sup>

The case of Putin provides an example of one of the specific motivators of responsiveness: to maintain the legitimacy of autocratic rule. Lack of responsiveness, from this perspective, is tied up with lack of legitimacy. And if the regime is considered illegitimate, policy becomes very hard to enact and chances for the regime to fall increase greatly. In the case of China and the center’s problem of unresponsive local agents, Shue notes, “if, as they wave the banner of more democratic accountability, these central power-holders perpetually resort to calling into question the dependable legitimacy of their own agents in local offices around the realm, to the point eventually of hollowing out the perceived political legitimacy of those agents, they may ultimately rob themselves of the capacity they require to govern China’s modern society in the orderly manner they

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<sup>115</sup> Jan T. Gross, *Polish Society Under German Occupation: The Generalgouvernement, 1939-1944* (Princeton, NJ: Princeton University Press, 1979), 89.

<sup>116</sup> Miguel Linan, “Putin’s Propaganda Legacy,” *Post-Soviet Affairs* 25, no. 2 (April 1, 2009): 139.

so desire.”<sup>117</sup> Thus, between the practical considerations of responsiveness to enable successful policy implementation and longer-range concerns about regime legitimacy, there are strong incentives for autocratic regimes to be responsive.

The major dilemma for regimes in being responsive is that, as Policzer noted, autocrats, for all their power, tend to be information-poor. No one wants to confront the leadership with difficult truths; instead Potemkin villages are created to give the central state a sense of success.<sup>118</sup> However, regimes that have a more pluralistic and active civil society can and, I argue, do use civil society as a *mechanism of responsiveness*. Unrest and dissent by workers or farmers is a warning signal that pierces the veil of ignorance of the top leadership. The more pluralistic a civil society that exists, the more potential avenues exist for such dissatisfaction and information to be transmitted to the center. In highly controlled civil societies, spontaneous riots and strikes may be the only type of warning signal that exists. However, in more pluralistic regimes, variegated forms of information can be transmitted upwards, such as policy papers, news reports, and legal cases.<sup>119</sup> Robert Weller writes about how China today is proactively promoting civil society to perform exactly this kind of information-gathering.<sup>120</sup> He terms it “responsive authoritarianism,” and notes that: “[t]he techniques of responsive authoritarianism... attempt to create such feedback without endangering the single party’s hold on power. All of them require the government to allow some limited development of social forces

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<sup>117</sup> Vivienne Shue, “Legitimacy Crisis in China?,” in *Chinese Politics: State, Society and the Market*, ed. Peter Gries and Stanley Rosen (London: Routledge, 2010), 60.

<sup>118</sup> While this informational problem may vary according to federal vs. unitary and centralized vs. decentralized, any state where the top leadership has ultimate and unlimited authority over subunits will face this dilemma.

<sup>119</sup> Weller, “Responsive Authoritarianism.”

<sup>120</sup> Ibid. Also, Andrew Nathan proposes a somewhat similar concept called “Authoritarian Resilience,” of which I will discuss further in the next chapter. Andrew Nathan, “Authoritarian Resilience,” *Journal of Democracy* 14, no. 1 (January 2003): 6–17.

that it does not directly control—NGOs, environmental protests, carefully limited local elections, even village temples or lineages.”<sup>121</sup>

Civil society in this context does not operate in the way imagined by most extant civil society literature. As Thomas Remington notes, “[p]olitical scientists distinguish between *articulation* of interests and their *aggregation*. Interest articulation is the voicing of demands by organized groups seeking to advance particular causes and interests, while their aggregation refers to the combining of the demands of various groups of the population into programmatic options for government.”<sup>122</sup> Most of the civil society literature has focused on ways in which civil society can serve as an articulator of interests. Organizations advocate for increased environmental protections, better treatment of minorities, more funding for education, and so forth. Instead, this is civil society serving as an aggregator of information that is then transmitted upward. Soviet corporatist organizations were organized on the theory that they would serve as this type of aggregator, earning the term transmission belts for fulfilling this role. This dynamic between state and society also need not be seen as solely (or even predominantly) the province of the central government – scholars have also found that local governments and agents of the state utilize civil society aggregation information systems. For example, as Ismail notes, Cairo’s local governantes typically heavily rely upon local civil societies to help mitigate conflicts and bring to their attention serious issues.<sup>123</sup>

If authoritarian regimes need to be responsive, and one of the major impediments to responsiveness is the above-described informational problem, civil society is not the only imaginable mechanism to solve regime ignorance. Journalists, artists, government

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<sup>121</sup> Weller, “Responsive Authoritarianism,” 130.

<sup>122</sup> Thomas F. Remington, *Politics in Russia* (Bergen, NJ: Prentice Hall, 2010), 173.

<sup>123</sup> Ismail, *Political Life in Cairo’s New Quarters*.

monitoring, and other channels of information can also serve as this proposed mechanism of responsiveness.<sup>124</sup> Here it is important to be clear about the distinction between channels and mechanisms. Ultimately it is society that must minimally consent to being governed. Civil society, as discussed above, is the articulation of these societal interests. To propagate these interests upwards, a number of channels can be utilized but the fundamental expression of satisfaction/dissatisfaction still lies within civil society.

At the moment, much of the research on informational problems within autocratic regimes focuses on the problem of ignorance about the performance of the regime's agents.<sup>125</sup> This concerns primarily the problem of *policy execution*; whether agents are faithfully implementing the policy preferences of the leaders. In some sense, this is a technocratic problem; it is amenable to being solved by carefully designed incentive structures, and examination of these problems can be conducted without the need from all of society. Leaders in an autocratic regime (and in governments more generally) can also be ignorant about *policy choice*, that is, given a particular goal, they may be unsure as to how to select the appropriate policy response.<sup>126</sup> To solve this problem, the state leadership may need to allow for a certain level of experimentation or convening of experts, but can do so in a way that does not challenge the preeminent role of the state.<sup>127</sup>

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<sup>124</sup> For example, in China, Tong and Sparks show the importance of investigative journalism for assisting in economic growth targets. Jingrong Tong and Colin Sparks, "Investigative Journalism in China Today," *Journalism Studies* 10, no. 3 (2009): 337–52.

<sup>125</sup> For the general outline of the principal-agent problem, see: Barry Weingast, "The Congressional-Bureaucratic System: A Principal-Agent Perspective (With Applications to the SEC)," *Public Choice* 44 (1984): 147–88; Policzer, *The Rise and Fall of Repression in Chile*.

<sup>126</sup> To see one set of possible solutions to this in the China context, see: Sebastian Heilmann, "Policy Experimentation in China's Economic Rise," *Studies in Comparative International Development* 43, no. 1 (March 1, 2008): 1–26; Sebastian Heilmann, "Policy-Making through Experimentation: The Formation of a Distinctive Policy Process," in *Mao's Invisible Hand: The Political Foundations of Adaptive Governance in China*, ed. Elizabeth Jean Perry and Sebastian Heilmann (Cambridge, MA: Harvard University Asia Center, 2011), 62–101.

<sup>127</sup> For a discussion of how the Chinese leadership used such a strategy in the post-reform era, see: Patricia M. Thornton, "Retrofitting the Steel Frame: From Mobilizing the Masses to Surveying the Public," in

Moreover, determining the best policy choice need not require full societal input, but rather can be achieved via parochial interest group input and area field specialist feedback. Finally, leaders may be information-poor as to which *policy goals* to pursue so as to increase their chances of staying in power. Finding a solution to this last problem is the most demanding on the state of the three types of ignorance, and most relevant to being responsive to the demands of society. Marxists and other ideological regimes proceeded from a basis of certainty about policy goals, but any regime attempting to be responsive has to devise a means through which it can learn about citizen preferences (widely conceived) in a way that does not threaten regime predominance. Patricia Thornton has noted that these types of policy goals discussion must go beyond simple activities like surveys of attitudes about existing policies and instead must allow larger society to participate in setting the policy agenda – a potentially dangerous activity for an autocratic regime.<sup>128</sup>

It is this last problem of ignorance about *policy goals* that civil society can help resolve for autocratic regimes. Through civil society organizations, the state can gather feedback about societal goals and then be responsive to the needs of society, which are expressed via the types of civil society forms and roles discussed in the previous section. Civil society can serve this role in a unique way – managed properly, it need not threaten the monopoly on power of the autocrat, but still allow society to express itself on the policy direction it desires.<sup>129</sup>

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*Mao's Invisible Hand: The Political Foundations of Adaptive Governance in China*, ed. Elizabeth Jean Perry and Sebastian Heilmann (Cambridge, MA: Harvard University Asia Center, 2011), 237–68.

<sup>128</sup> Ibid.

<sup>129</sup> I intend to demonstrate in the following chapter that this goal of managing civil society while still allowing it some independent voice has been at least partially achieved in China. Russia is not a completely parallel case, but some elements of this same civil society-responsiveness paradigm can also be seen operating there. See: Remington, *Politics in Russia*.

Finally, to be clear, I am not suggesting that all autocracies listen closely to the information aggregated from civil society in this way and nor am I suggesting that all autocracies are effectively responsive to societal needs. Plenty of regimes have willfully ignored warning signs from civil society movements that public opinion was turning against them in a dangerous way.<sup>130</sup> Other regimes have repressed civil society so much that little possible useful information can be sent upward.<sup>131</sup> Autocracies have also been awash in useful information and have failed to be even minimally responsive.<sup>132</sup> What I am suggesting is that savvy regimes, aware of the consequences of being unresponsive, can utilize information from civil society to increase the strength and quality of the regime.

## **V. A New Model & Proposed Test**

The causal model I propose is one in which smart authoritarian regimes are at least partially responsive to grievances from civil society because the leadership fears the consequences of being unresponsive. The fear of being unresponsive derives from the fact that all regimes, authoritarian and democratic, need a society that views their policies and the regime more generally as legitimate. Authoritarians that follow this strategy are engaging in, to borrow Weller's term, *responsive authoritarianism*. To test this hypothesis, a more detailed model is described below and a test case is identified: China in the early 2000s.

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<sup>130</sup> Perhaps the best example of this is the fall of Ceaușescu in Romania. Standing in front of the Presidential Palace addressing a crowd on December 21st, 1989, he was reportedly shocked by the booing – the look of surprise on his face as protestors jeered and heckled him is one of the defining images of the fall of the Soviet Bloc.

<sup>131</sup> Entelis, "Civil Society and the Authoritarian Temptation in Algerian Politics: Islamic Democracy and the Centralized State."

<sup>132</sup> See the case of the Philippines in Vincent Boudreau, *Resisting Dictatorship: Repression and Protest in Southeast Asia* (Cambridge: Cambridge University Press, 2009).

### *Responsive Authoritarianism*

The basic idea of responsive authoritarianism is that an authoritarian regime fears declining legitimacy among the population enough that it responds to the articulated basic needs of society, expressed and conveyed via civil society. I propose that, in simple form, the causal chain identified in the three steps identified above goes as follows:

1. *Concern over lack of legitimacy* →
2. *Information collected from civil society* →
3. *Responsive actions taken*

Authoritarian regimes, in this model, require at least some minimal affirmative action by the leadership to retain their capacity to rule over society. Most existing models of authoritarianism outlined earlier in the chapter only assume positive action needs to be taken to maintain the support of other elites. Society, if considered at all, only needs to be repressed successfully instead of cultivated. These models ignore the potentiality of passive resistance to authoritarian rule in the form of refusal to help implement policy (which usually results in policy failure). They also fail to account for authoritarian fears of popular uprisings. In the model detailed below, I argue that authoritarians need to, and often do, fear failure to maintain good relations with society and that this ultimately drives them to take affirmative action towards society, i.e., to be responsive.

The key link that allows authoritarian regimes to be responsive is civil society. As previously noted, authoritarian regimes are notoriously information-poor. Typically the press is highly controlled and agitation by outside human rights organizations is limited if not banned. Traditional transmission belt organizations, to prevent them from becoming loci of resistance, are limited primarily to downward movement of information and

instructions. Filling the informational need are the various forms of authoritarian civil society discussed in the previous section: ad hoc groups, officially non-political groups, and the observed responses of individual citizens. The press and outside human rights groups can also play a role in providing information: in several documented cases in authoritarian regimes, they serve an important, sometimes crucial role in doing so.<sup>133</sup> I merely argue that civil society provides, from the point of view of the autocrat, the safest and most broad-based way to gather information about society's grievances.

With the information collected, the regime can take action in an attempt to build legitimacy with society. I do not claim that the actions taken are always successful, as oftentimes in all types of regimes, democratic or autocratic, well-meaning policies can fail for a number of reasons, ranging from simple ineptitude in implementation to the creation of unintended consequences to local corruption and graft. However, without the information at hand to ascertain the problems in society, the regime has little chance of even beginning to craft useful solutions.

The main difference in whether regimes seek to be responsive authoritarians depends chiefly on two variables. The first is the existing legitimacy of the regime. The main motivator to be responsive is concern about the legitimacy of the regime. If the existing legitimacy of the regime is high, there is less pressure to be responsive to the needs of society. Early post-revolutionary periods in the Soviet Union and in China are examples of this, in that the civilian population gave the new leadership a relatively free hand to remake society according to its ideological goals. Low legitimacy situations, brought about by revolutionary fatigue, lack of economic opportunities, or military

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<sup>133</sup> See the cases of Chile and Kazakhstan, respectively: Policzer, *The Rise and Fall of Repression in Chile*; Schatz, "The Soft Authoritarian Tool Kit."

defeats, are situations in which authoritarian regimes begin to become seriously concerned about how responsive they are, on balance. Examples of regimes in this position include Cuba post-1991, China in the 2000s, and the Gorbachev-era Soviet Union. Overall, the theoretical expectation is that the more the regime is concerned about legitimacy, the more responsive it will attempt to be.

The second important variable is the time horizon of the regime. Time horizons are a way of restating the common game theory concept of discounts factors. As several scholars of authoritarianism have noted, the length of a regime’s time horizon can have a significant impact on an autocrat’s behavior.<sup>134</sup> For all of the discussion above about the importance of being responsive to maintain legitimacy, regimes that are in the throes of immediate revolution, war, or other calamity simply do not have the time to take considerate, measured responses to deep-set societal problems. Predictions about being responsive in those situations would therefore seem to be moot. However, those autocrats with longer time horizons can afford to engage in responsive behavior and, I argue, are more likely to do so. Table 2.1 is an overview of the possible variable values and predicted level of responsiveness.

Table 2.1

	Short time horizon	Long time horizon
High existing legitimacy	Low	Moderate
Low existing legitimacy	Episodic	High

Regimes with short time horizons and high legitimacy would generally not be concerned about being responsive – their positions are secure for the short term and thus

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<sup>134</sup> See Jennifer Gandhi and Adam Przeworski, “Authoritarian Institutions and the Survival of Autocrats,” *Comparative Political Studies* 40, no. 11 (November 1, 2007): 1279–1301., Bruce Gilley, “The Limits of Authoritarian Resilience,” *Journal of Democracy* 14, no. 1 (2003): 18–26.

the regime can turn its attention to advancing ideological goals, personal enrichment, or political intrigue against other elites. Those with short time horizons but low legitimacy are in trouble, but do not have the time to craft effective, truly responsive policies to address the situation. Often regimes that find themselves in this cell will offer quick-fix concessions to society in an attempt to buy time, such as increasing public subsidies or recognizing an opposition party. However, because they often do not address the root cause of dissatisfaction, these actions often end up backfiring, leading to increased amounts of unrest or even regime overthrow. Those regimes with long time horizons and high degrees of legitimacy, I argue, are aware of the risks of not being at least minimally responsive and can take steps to maintain their high level of legitimacy, but at the same time need not be completely responsive. Those regimes in the bottom right cell face a crisis of legitimacy while at the same time having space to respond in a considered manner. The theoretical expectation is that these regimes should be highly responsive to concerns raised via civil society, within the constraints of their information-gathering and policymaking capacity.

There are some caveats worth mentioning with regard to this model. First, it is worth noting that I am not claiming that authoritarian regimes are as responsive as democracies. Authoritarian responsiveness, even under ideal conditions in a motivated regime, is likely to be at low levels compared to democracies. I merely claim that smart authoritarian regimes are responsive *enough*, that is, responsive to societal needs at a level sufficient to maintain legitimacy of rule.<sup>135</sup> Second, I recognize that regimes pursue other goals than responsiveness, whether it be personal enrichment, ideological goals, or

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<sup>135</sup> Mancur Olson makes a similar point when discussing his model of public investment in authoritarian regimes, in that public investment in authoritarian regimes occurs and varies along with other important variables, but is less than what occurs in democracies. Olson, "Dictatorship, Democracy, and Development."

empire building. What this model does is highlight that regimes cannot ignore being at least somewhat responsive, especially when regime legitimacy is low. Securing legitimacy, via responsiveness or otherwise, enables regimes to pursue these other goals; in a sense it is a minimum condition to continue ruling. Thirdly, legitimacy does not come solely from responsiveness. Legitimacy, particularly in new regimes, can come from revolutionary successes, victory in wars, major technological achievements (e.g., the space race), and so on. Absent these events, however, legitimacy declines over time and must be earned, primarily, I argue, through responsiveness.

Overall, though, this model of authoritarian behavior compares favorably with existing models. Returning to the criterion identified at the beginning of the chapter for an ideal regime, the model explains policy changes in regimes as chiefly being predicted by a change in either the regime's time horizon or its legitimacy, which then changes the regime's relationship with civil society. Long-run regime durability is further a function of how responsive a regime is. Compared to existing models, rather than ignoring the role of society, as most elite models do, it places society as an important driver of policy in many authoritarian regimes. It also does not ignore the threat that society can pose to an autocratic regime: a threat highlighted by, among others, the events of the Arab Spring. At the same time, it indicates a specific mechanism and causal chain through which society matters, unlike the broad, 1960s developmental models. While the model is chiefly concerned with the apex of the state, it has implications for the local state as well, an issue explored further in the next chapter. It also expands upon the role civil society can play in authoritarian regimes – civil society seems to have the largest impact on

policy via its position as a *mechanism of responsiveness*. To validate the model further, a test case is needed. I argue an ideal one exists: China in the early- to mid-2000s.

### *A Test*

The idea that civil society can play this informational intermediation role is not a new one: many civil society scholars have suggested that organizations may play this part. However, to my knowledge, other than the brief paper by Robert Weller, no one has outlined a detailed model, let alone developed a systematic test of the idea. Given the relative lack of evidence, an ideal test case would show that the dynamic outlined in the previous subsection exists in one of the most likely predicted cases. This follows the research strategy outlined by King et al. in *Designing Social Inquiry*, in that the interest here is primarily exploratory, to confirm that the causal chain does operate as predicted in at least one significant case.<sup>136</sup> If the causal logic is seen to be operative in one of the most likely cases, then it at least suggests that it may be operative in the other cells of Table 2.1.

Given this strategy, the most obvious type of case to select is the one in which a regime has a low amount of legitimacy and a long time horizon. The other potential cells in the variable matrix are likely going to be cases that show less responsiveness and therefore a null or weak finding would not definitively disprove the theory. At best, then, such a research approach can only suggest that this theory may have implications beyond the one case chosen. However, if the selected case is similar enough to other regimes across time, then comparability will obviously be enhanced and hopefully this will lead to reevaluations of those similar cases, providing the theory finds initial support.

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<sup>136</sup> Gary King, Robert O. Keohane, and Sidney Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research* (Princeton, NJ: Princeton University Press, 1994).

The importance, then, of case selection means that matching the variables long time horizon and low legitimacy to an actual case is essential. One of the most obvious cases of an autocratic regime publicly reacting to declining legitimacy is China post-1989. During this period, while China's economy continued to grow at a rapid pace, signs of discontent began to percolate up from the countryside in the form of what was euphemistically called "mass incidents," or protests. Citizens were concerned about official corruption, tax rates, and the growing gap between the haves and the have-nots.<sup>137</sup> Many scholars have written suggesting that China faced and faces an ongoing legitimacy crisis and even the regime itself has spoken publicly about its challenges in retaining the support of the population.<sup>138</sup> So the issue of legitimacy, starting in the 1990s, is a very real one for the regime.

At the same time, the regime clearly has a long time horizon. With a still relatively secure grip on power, it can afford to sift through the information available to it to develop appropriate responses to this existential threat. As many scholars have shown, the government has increasingly allowed NGOs to operate, albeit within tight limitations.<sup>139</sup> The top officials of the state tacitly allow ad-hoc protest groups to advocate for redress of their grievances, as a way to gather information about conditions in the countryside.<sup>140</sup> Continuing a long tradition, the regime continually relies upon a strategy of trialing reforms in small areas and assessing the results before applying them

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<sup>137</sup> Thomas Bernstein, "Farmer Discontent and Regime Responses," in *The Paradox of China's Post-Mao Reforms*, ed. Merle Goldman and Roderick MacFarquhar (Cambridge, MA: Harvard University Press, 1999), 197–219.

<sup>138</sup> David L. Shambaugh, *China's Communist Party: Atrophy and Adaptation* (Berkeley: University of California Press, 2008).

<sup>139</sup> Teresa Wright, *Accepting Authoritarianism: State-Society Relations in China's Reform Era* (Stanford, CA: Stanford University Press, 2010).

<sup>140</sup> Kevin O'Brien and Lianjiang Li, *Rightful Resistance in Rural China* (New York: Cambridge University Press, 2006).

nationally.<sup>141</sup> Implementation timelines are drawn-out and multi-year for major policy initiatives.<sup>142</sup> These are not the actions of a regime making short-run, desperation-based decisions but one that is cautiously moving forward in policy development. As Chen Yun, one of the most powerful cadres in China for nearly 40 years put it, China's policy implementation is "crossing a river by groping for stones" (摸着石头过河).<sup>143</sup>

While the case of China from the early 2000s fits the independent variable pattern desired in a test case, the so-far incomplete evidence also suggests that the case has the predicted value of the dependent variable: the regime has become more responsive. The most public evidence is the regime's own self-proclaimed turn toward responsiveness. In a series of public statements, it has expressed concern about the situation in the countryside and, in 2003, the new President and Premier of China, Hu Jintao and Wen Jiabao, announced a major policy shift to send resources to the countryside and improve the lives of rural residents.

Superficially, this appears to be a case of responsiveness and some evidence does exist that the Hu-Wen program has led to changes in government policy. However, the biggest policy reform that they have advocated, a reorientation of the fiscal system to send more transfers to rural areas, has not been systematically tested. Evaluating if the Chinese leadership "put their money where their mouth is" on this key reform should provide strong evidence of whether their responsiveness was genuine or simply an attempt to paper over the problems with propaganda. In the next chapter, I describe more

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<sup>141</sup> Barry Naughton, *The Chinese Economy: Transitions and Growth* (Cambridge, MA: MIT Press, 2007).

<sup>142</sup> John James Kennedy, "From the Tax-for-Fee Reform to the Abolition of Agricultural Taxes: The Impact on Township Governments in North-West China," *The China Quarterly* 189 (2007): 43–59.

<sup>143</sup> Interestingly, this quote is often attributed to Deng, when, in fact, it was Chen Yun, the much more conservative reformer, offering it as caution against adopting reforms too quickly. Heilmann, "Policy-Making through Experimentation: The Formation of a Distinctive Policy Process."

fully the details of the situation in China and also provide a proposed test. These details will confirm the appropriateness of China as a test case and help develop a strong test of the authoritarian responsiveness theory.

## **VI. Concluding Thoughts**

Authoritarian responsiveness is a novel approach to explaining authoritarian behavior, one that overcomes many of the weaknesses of existing theories. As discussed in section II, a good theory of authoritarian regimes should not only explain authoritarian policy, but why policy might change over time. It should also help explain why some regimes are more durable than others. Existing theories of authoritarian regimes generally do not satisfy one or both of these criteria; nor do many include the role of society. Theories of authoritarian regime behavior based on models of democratization are generally not dynamic and fail to illuminate why some authoritarian regimes survive democratization trends for long periods of time. Elite-driven theories of autocracies ignore the role of society in affecting regime policymaking and also generally do a poor job of explaining regime durability. Electoral authoritarian models suffer from the same problems. The social forces literature does a better job of accounting for the role of society, but lacks a clear causal mechanism explaining how and why authoritarian regimes might alter policies.

Given the problems with these traditional approaches to explaining authoritarianism as it evolves, an examination of state-society relations yields more promise. Properly understanding the state in authoritarian regimes leads to the observation that state-society interactions are a complex, multi-faceted relationship, rather than, as the previous theories had suggested, a hierarchical, top down system. Civil

society is, if not vibrant, at least active in authoritarian regimes, albeit taking on different forms than those typically seen in democracies. The roles taken by civil society, however tend to be more orientated toward affecting policy implementation at the local level. Outside of a few scholars, little evidence exists that they are able to affect high-level policy formation directly. A more useful way of conceptualizing civil society's impact on policy is as a *mechanism of responsiveness*, in which it provides useful information to the apex of the state regarding societal grievances. A regime worried about its legitimacy has an incentive to be more responsive, so as to ensure its own survival and to ease policy implementation. Authoritarian rulers, traditionally information-poor, turn to civil society to determine what issues to address. Then, the regime develops what it hopes is a useful policy response and the process then repeats. This is, as Robert Weller termed, *responsive authoritarianism*. More formally, the two variables that should predict the level of authoritarian responsiveness are the regime's time horizon and its existing level of legitimacy. A good test case to test this theory, according to standard research practices, is China in the early to mid 2000s.

If the test case validates the theory, it would suggest that responsive authoritarianism provides a significant advance in the understanding of autocratic regimes; it helps explain both changes in authoritarian regimes and regime durability. It also addresses many of the weaknesses in the existing literature. In the following chapters, I demonstrate that the theory does explain well the changes in China, both more generally, and also specifically within the Chinese fiscal system.

## **Chapter 3: The Case for Authoritarian Responsiveness in China**

### **I. Introduction**

China fulfills all the criteria of a good test case of the authoritarian responsiveness model. First, there is historical evidence that the actions of the Chinese leadership since the Communist revolution fit the responsiveness model. Additionally, the current situation in China with respect to legitimacy and time horizons aligns very well with the ideal variable configuration for a test case outlined in the previous chapter. Moreover, the Chinese state leadership has been careful in the last twenty years to cultivate an active civil society that can serve as the hypothesized mechanism of responsiveness. Suggestive evidence of responsiveness, particularly evidence of being responsive to the demands of civil society, is relatively plentiful but has not been rigorously tested.

Of the major demands of civil society, changes to spending patterns via the fiscal system are the easiest to test. The Chinese fiscal system satisfies the three criteria needed for a good test subject: (1) it matters to spending outcomes, (2) the central and local governments have the means to adjust transfers and spending levels, and (3) any changes to the system are observable. In the case of China after the late 1990s, these three things are all true. Within the fiscal system, there are three tests that should conclusively demonstrate whether the government has become more responsive, all of which are the subject of the following chapters of this work. Chapter 4 tests whether the central government has increased transfers to local governments. Chapter 5 tests whether local governments have increased spending on social services. Chapter 6 tests the impact these changes have had on popular beliefs about the responsiveness of the state.

Since China is an ideal test case for all of the reasons suggested above, a finding that the Chinese state has become more responsive would lend strong support to the authoritarian responsiveness theory described in the previous chapter.

## **II. Justification for China as a Test Case**

China can be justified as a test case of the responsive authoritarian hypothesis on two primary grounds. The first is via historical evidence of Chinese leadership policy choices since 1949. This examination finds support for the predictions of the model, given the values of time horizon, legitimacy, and responsiveness that held at various points during the Communist era. Beyond simply adding support to the responsiveness theory generally, these results also strongly suggest that the model is broadly applicable to a state like China. The second justification that China is a good test case is that the current values of time horizon and legitimacy suggest that the regime should be in a period of increasing responsiveness, which, as I argued in the previous chapter, is an ideal variable configuration to test the responsiveness theory.

### *Historical Evidence of Legitimacy and Responsiveness*

The history of regime legitimacy and time horizons in China generally offers support to the authoritarian responsiveness model. During the immediate post-1949 period, the regime generally had high levels of revolutionary legitimacy, so the regime felt little pressure to be responsive. Over time, as these initial sources of legitimacy declined, regime leaders consciously reframed legitimacy in more performance-based terms. However, this new approach was more contingent and frail than the previous one

based on revolutionary legitimacy. As a result, the central government has had to make increasing efforts to be responsive in an attempt to obtain performance legitimacy.

### Revolutionary China

Mao and the Communist Party emerged from the Chinese Civil War with a large reservoir of legitimacy based on three principal achievements: as the unifier of the country, as providing an ideologically attractive growth and development model, and for its anti-colonial achievements.<sup>1</sup>

The first claim to legitimacy was the CCP's ability to unify the country after nearly 40 years of on-and-off civil war. The Chinese nation had suffered greatly after the disorderly collapse of the Qing. It was not until the late 1920s that the Guomindang were able to lay claim to represent China, but even then much of China remained under the control of warlords who offered at best nominal fealty to the fledgling Nationalist government. Attempts to increase the economic rate of growth, cut down on corruption, and promote industrialization were either half-hearted or cut short due to intransigence from local elites and wartime exigencies.<sup>2</sup> During these almost 40 years of the Republic era, warfare was a constant fact of life for residents of China, with warlords jostling for power and, at various points, open war between the Nationalists, the Communists, and the Japanese. After the end of World War II, the Nationalist regime collapsed in on itself, enabling a rapid conquest of China by the Communist forces – by 1949, just two years after the outbreak of the civil war, the biggest problem facing the Communists was that

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<sup>1</sup> There are additional supporting factors that boosted early legitimacy; the three listed here are hardly meant to be an exhaustive list of sources of early regime support.

<sup>2</sup> Jonathan D. Spence, *The Search for Modern China*, Second Edition (New York, NY: Norton, 1999), 351.

Nationalist forces were retreating faster than their own forces could advance.<sup>3</sup> The Communists quickly extended their rule to much of the current borders of China, with just a few holdouts lasting another half decade in remote parts of China. In two years the Communists had achieved what the Nationalists could not achieve in 20 – reunification, stability within China, and the possibility of a resumption of some form of normality; all promises that garnered the regime a significant reservoir of goodwill and legitimacy.

Second was the ideological appeal of Communism, particularly in the countryside. In a country that had previously seen great inequalities, the communal appeals of Marxism were an important source of strength for the Party. One of the most popular planks of the Party was its promised land reforms in the countryside, which were in part based on the Yan'an model.<sup>4</sup> Traditionally, particularly in the South, absentee landlords owned many farming areas, which they rented out to poor sharecroppers on generally disadvantageous terms. Crop failure loomed as an omnipresent menace, threatening to wipe out sharecroppers and potentially to put them into a lifetime of debt, from which they might never recover. This highly marginal position of the sharecroppers meant that they were often the subject of abuses and injustices against which they had no recourse.<sup>5</sup> By contrast, the CCP trumpeted the Yan'an model as representing an alternative, better future for China's masses. This model, developed after Nationalist forces pushed the Communists deep into the Chinese hinterlands, stressed mutual

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<sup>3</sup> Kenneth Lieberthal, *Governing China: From Revolution Through Reform* (New York, NY: W W Norton, 2004), 54.

<sup>4</sup> Barry Naughton, *The Chinese Economy: Transitions and Growth* (Cambridge, MA: MIT Press, 2007), 40.

<sup>5</sup> Naughton approvingly cites R. H. Tawney's excellent assessment of the situation of the Chinese farmer pre-1949 as: "[t]he Chinese peasant is like a man standing on tiptoe up to his nose in water—the slightest ripple is enough to drown him." Ibid.

cooperation, communal ownership of land, and a scientific approach to development.<sup>6</sup> Rather than being essentially enslaved by rich absent landlords, the Communists introduced the possibility that the average peasant might be in control of his or her own destiny. This Yan'an model was partially implemented by early rounds of very popular land reforms, taking titles away from the landlords and distributing them back to the farmers. Overall, it is hard to assess the extent to which the population was enthusiastic about general Marxist ideology, but the specifics with regard to land reform were highly popular. Thus, the enactment of land reforms and the elimination of the hated landlords was an important component of the regime's high early legitimacy, particularly with the rural classes.

Third, and perhaps most importantly, was that the Communists helped China, in Mao's words, to stand up. This meant throwing off the yoke of foreign imperialism completely; while China never suffered complete colonization as many other Asian nations did, the impact of the colonial period was still deeply felt in China. European powers arrived in force in Asia just as the Qing dynasty began a period of decay, forcing a succession of Chinese emperors to negotiate treaties with Western powers from a disadvantageous position. Initially, Europeans (particularly the British) only demanded the right to sell to China as a means to counter European silver outflow, which was used as payment for Chinese goods.<sup>7</sup> Over time, however, colonial powers demanded actual territory, starting with Hong Kong but eventually including the cores of most of China's

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<sup>6</sup> The extent to which this model was actually implemented in Yan'an is debated; certainly there was a strong element of mythmaking and propagandistic retelling of the events of Yan'an by Mao and various Communist agents. Nevertheless, the available evidence suggests that this model and the story behind it resonated with the larger population, particularly when paired with the later concrete actions of land reform in 1950. See David E. Apter, "Yan'an and the Narrative Reconstruction of Reality," *Daedalus* 122, no. 2 (April 1, 1993): 229.

<sup>7</sup> John King Fairbank and Merle Goldman, *China: A New History, Second Enlarged Edition* (Cambridge, MA: Harvard University Press, 2006), 196.

major coastal cities. These concession areas were initially suggested by the Chinese emperors as a way to quarantine the impact of foreign trade, but grew to be so numerous that European countries controlled almost all of the key nodes of commerce. Particularly hated in these concession areas was the extraterritoriality status of foreigners residing there, meaning that foreigners in concession areas could only be tried by courts of their nation. These courts often gave very sympathetic hearings to Europeans, resulting in justice for aggrieved Chinese being rarely achieved.<sup>8</sup>

Over time, as the unequal nature of the relationship with the Europeans expanded and deepened, resistance in China grew. When coordinated by the increasingly sclerotic Qing government, resistance usually meant failure and the imposition of even harsher terms, such as after the Boxer Rebellion of 1900.<sup>9</sup> During the Republican era, an intellectual basis for resistance began to develop, starting principally with protests of the post-World War I settlement in Asia, a reaction that culminated with the May 4th movement. At the same time, after World War I and the weakening of European powers, Japan began to expand its colonial ambitions to China, a development to which the Western powers largely did not react, further emphasizing the one-sided nature of the relationship between China and the West.

Once the war with Japan began in earnest, the Communist Party successfully began to position itself as the defender of China against outside forces. While the Nationalists and Chiang Kai-shek had dithered and occasionally appeased the Japanese as the Japanese expanded their colonial empire into China, the Communists early on decided to oppose Japanese expansion directly. Once the Sino-Japanese war began in

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<sup>8</sup> Dong Wang, "The Discourse of Unequal Treaties in Modern China," *Pacific Affairs* 76, no. 3 (October 1, 2003): 402.

<sup>9</sup> Fairbank and Goldman, *China*, 232.

earnest, the Communists were also perceived as some of the most effective and tenacious fighters against the Japanese. While this is true only in part (the Nationalist forces actually suffered significantly more casualties than the Communists),<sup>10</sup> the perception rooted itself deeply into popular Chinese consciousness. This positioning continued after the end of the Chinese civil war, when Mao repudiated all unequal treaties and foreign concessions, returning to Chinese control the major urban centers and ending extraterritoriality.<sup>11</sup>

Thus the regime positioned itself as the protector and defender of Chinese strength and sovereignty; after a period of national weakness stretching back over 100 years, China had, in Mao's famous words, "stood up." The mantle of legitimacy that this positioning, combined with the earlier discussed unifier and ideological claims, gave the new regime was not small. However, over the long course of Maoist China, all three bases of legitimacy began to atrophy. The CCP's performance as a unifier became an increasingly distant memory, particularly as China was riven with internal strife in the late 1950s and 60s.

The ideological claim remained, but the specific basis of the Yan'an model as an argument for legitimacy also decreased in relevance as Mao shifted from a policy of gradual change, encouraging voluntary cooperation and mutual aid (the Yan'an model) to

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<sup>10</sup> Arthur Waldron, "China's New Remembering of World War II: The Case of Zhang Zizhong," *Modern Asian Studies* 30, no. 4 (October 1, 1996): 945–78., 971. The key quote: "Both during and after the war the Chinese communists [generally] portrayed [themselves] as the most resolute patriots and fighters, and the mobilizers, moreover, of a 'peasant nationalism' ... [y]et an official compilation of the most important battles fought by the People's Liberation Army lists only 193 engagements for the entire War of Resistance period, mostly small unit actions, and only one comparable in scale to the vast engagements fought by the Nationalists."

<sup>11</sup> Formally, extraterritoriality and treaty port privileges were relinquished by the Western powers during World War II, with both the *Guomindang* and the CCP claiming credit. Moreover, exactly which agreements are included in the category of unequal treaties and when these treaties were officially abrogated is still debated. However, the symbolism of unequal treaties ending in 1949 with the CCP victory is a frame that most Chinese citizens have come to accept. See, Wang, "The Discourse of Unequal Treaties in Modern China," 419.

a more Stalinist model of forced collectivization. These new policies were generally disastrous and wreaked havoc in the countryside. Despite promises to rural residents of a better life through collectivism, Mao and other Chinese leaders followed an essentially Soviet development model that shipped grain surpluses from the countryside to the city to speed urbanization and industrial development.<sup>12</sup> Chinese rural residents had to make do with calorie budgets of 1200-1500 for a period of over 20 years, on top of the constant ideological struggles and political upheavals in the countryside.<sup>13</sup> For Chinese farmers at the time of Mao's death, the Maoist evolution of the Yan'an model was, if anything, a source of delegitimization.

The nationalism and legitimacy gained by standing up to the world is perhaps the most durable of the three. The Chinese government routinely counted on generating sympathy from its domestic audience by invoking China's century of humiliation whenever foreign policy called for such a demonstration.<sup>14</sup> However, the discourse about being a national savior from the Europeans sat uneasily with China's rapprochement with the West in the 1970s and the Sino-Soviet split, reversing the position of friend and enemy in the discursive construct. By Mao's death in 1976, an impoverished population, exhausted from constant ideological campaigns, began to seek some other reason to support the state, without which the regime would likely have withered away as occurred in Brezhnev-era Soviet Union.

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<sup>12</sup> Chinese leadership called this strategy "take grain as the key link" (*yiliangweigang* 一粮为纲), which emphasized grain production over cash crops as a way to feed the increasing numbers of urban residents. Mark Selden, *The Political Economy of Chinese Socialism* (New York, NY: M.E. Sharpe, 1988), 51. See also Jean C. Oi, *Reform and Urban Bias in China*, ed. Ashutosh Varshney (London: Frank Cass, 1993).

<sup>13</sup> Oi, *Reform and Urban Bias in China*.

<sup>14</sup> William A. Callahan, "National Insecurities: Humiliation, Salvation, and Chinese Nationalism," *Alternatives: Global, Local, Political* 29, no. 2 (March 1, 2004): 2.

### *Opening Up and Reform After 1979*

The period after opening up and reform introduced a new basis for legitimacy, but also created the seeds for post-Tiananmen discontent. The new bases of legitimacy included the twin goals of stability and prosperity, introduced to a society rocked by political upheaval and failed economic policies. However, these two bases of legitimacy lie in some tension with each other; economic change cannot solely achieve reforms without losers and this tension between the two planks of legitimacy would explode in 1989 at Tiananmen Square.

Stability was achieved by first ending the ideological campaigns. The Chinese leadership did organize occasional propaganda programs and government initiatives to clean house, such as the 1983 spiritual pollution campaign to oust the foreign ideals of abstract humanism.<sup>15</sup> However, the era of mass mobilization was over – no longer were citizens required to participate in campaigns. The ones that were organized were generally lacking in ideology and were instead organized around practical issues such as rooting out corruption. The average Chinese citizen was finally free to be left alone by the state. At the same time, intellectual freedom increased.<sup>16</sup> The party allowed repressed ideas to surface in academic journals and also permitted a moderate level of heterodox thinking. Intellectuals and party members, as long as they did not advocate the overthrow of the state, were allowed a certain amount of deliberative space. No longer were they

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<sup>15</sup> While the campaign themes seem on the face to be outlandish, its launch was due to the ongoing interplay between conservative and reformist factions within the party. Richard Baum, “The Road to Tiananmen: Chinese Politics in the 1980s,” in *The Politics of China: The Eras of Mao and Deng*, ed. Roderick MacFarquhar (Cambridge: Cambridge University Press, 1997), 358.

<sup>16</sup> The 1980s featured several cycles of loosening up and then subsequently tightening of intellectual controls (called *fang* 放 and *shou* 收 cycles). The intellectual freedom afforded during periods of relaxed controls was generally restricted to party theoreticians and intra-party publications. Most of the debate about how much to restrict speech was fought over how much party members could say within the party, rather than about freedom of speech for the general population. *Ibid.*, 414.

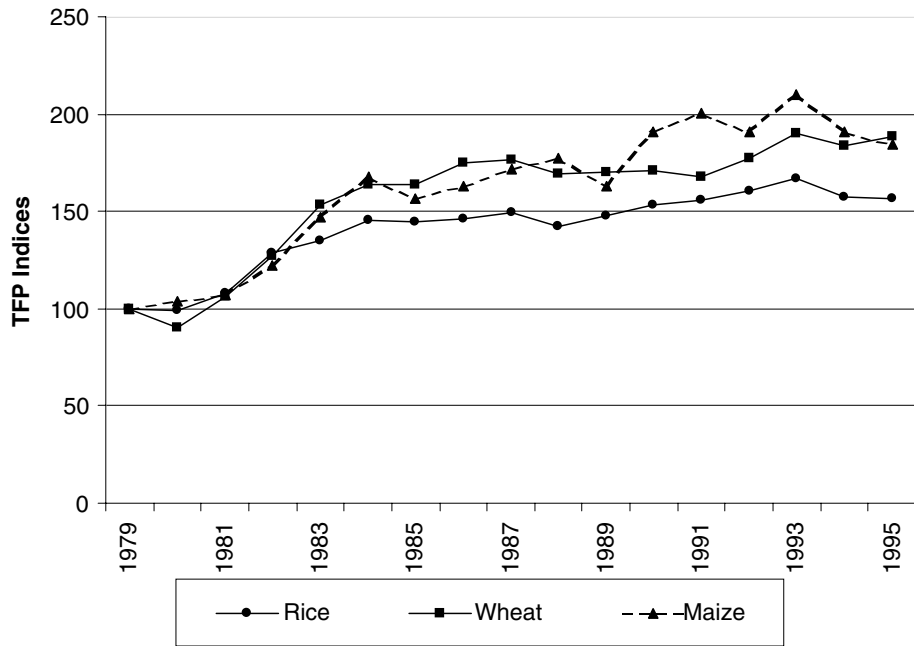
subjected to the dangerous and sometimes fatal rapid shifting of the party line and thus they could carry out their research with a modicum of stability.

Prosperity was achieved in several different ways depending on one's geographic position. In the countryside, the people's communes were decollectivized. Each village was then allowed to allocate to each farmer a personal parcel of land, on which farmers were free to grow whatever they wished.<sup>17</sup> The state still demanded a percentage of the crop as a tax payment, but the farmers were allowed to keep the remainder. Agricultural surplus was now the right of the farmer, not the urban resident. Unsurprisingly to anyone familiar with the basics of microeconomics, when farmers began to work for themselves instead of the state, rural productivity took off. Figure 3.1 below shows the extent to which agricultural production blossomed after the changes.

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<sup>17</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 89.

Figure 3.1: Total Factor Productivity in Agriculture



Source: Jin et al.<sup>18</sup>

Moreover, the countryside was a further beneficiary of the opening up and reform, in that farmers were allowed to “grow outside of the plan.”<sup>19</sup> Early in the reform period, the Chinese leadership was generally content to tinker around the edges of the communist system without ending key parts of it. One way in which it did this was by decentralizing economic planning. Some of these township and village enterprises focused on providing cheap consumer goods to an urban population that had gone without for nearly 30 years. This development led to the beginnings of a modern consumer culture in China and an equivalent of the American Dream: a refrigerator and television were now attainably on the wish list of every middle-class household. Other township and village enterprises, those with connections in the urban heavy industries, directed their production towards

<sup>18</sup> Songqing Jin et al., “The Creation and Spread of Technology and Total Factor Productivity in China’s Agriculture,” *American Journal of Agricultural Economics* 84, no. 4 (November 1, 2002): 920.

<sup>19</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 92.

meeting the needs of factories and industry.<sup>20</sup> Urban factories were only provided a certain amount of inputs according to the plan, yet often desired to produce more output than would be possible given their allocation of resources. Local village and township enterprises therefore helped meet the needs of factories that were just beginning to produce outside of the plan. These new opportunities created significant wealth in the countryside as entrepreneurial local cadres rushed to set up local enterprises to fill the booming demand.

In the urban areas, a number of measures were undertaken to increase prosperity. Most directly, factory and other urban workers were all given raises and a monetary incentive system was set up to reward hard-working factory workers. The incentive system seems mostly to have been a failure, as factory managers were loath to withhold the bonuses from most workers. Nonetheless, take-home wages were up significantly. At the same time, the flooding of the urban markets with consumer goods unleashed pent-up demand. Before the reform era began, money was a lesser requirement to purchase a good. Given that the government fixed the prices for most consumer goods at artificially low values, desirable consumer goods faced significant scarcity. The Chinese dealt with the problem by rationing, making the ration ticket for a popular good, such as the Flying Pigeon bicycle, a much more valuable thing to have than money as it gave the holder purchase rights. The end result was that most families had more money than purchase rights, so money was rarely the limiting factor in consumption. The growth of the TVEs, the switch of urban industry to producing more light consumer goods, and the end to fixed prices finally ended the era of scarcity, resulting in an urban buying spree in the 1980s.

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<sup>20</sup> Ibid., 274.

All of these changes went a significant way to establishing a new basis of legitimacy for the regime. Laurence Lau and others have called the reform process in the 1980s “reform without losers,” meaning that no or few people were made worse off, while most were made better off. In part, this was done by keeping important social safety nets; in urban areas the state maintained what is termed as the iron rice bowl, or cradle-to-grave rights to healthcare, housing, and education. In rural areas, social service provision atrophied somewhat, but almost all rural residents were made better off by the land provision reforms and retained permanent rights to a piece of land by virtue of simply being a registered resident of a village, providing an important fallback for those who did suffer difficulties. At the same time, the reforms generated prosperity and stability for a population that had been craving it.

As the 1980s drew to a close, however, fissures at the top and in society began to appear. As X. L. Ding notes, two distinct camps formed at the top as reforms progressed, the conservatives and the reformists.<sup>21</sup> The conservative hardliners were very concerned, ideologically, about moving away from the ideals of the revolution. Chen Yun, Li Peng, Bo Yibo and other conservatives spoke forcefully on this point, arguing for heavy and continued state involvement in the economy. As Chen Yun, one of the early revolutionaries put it, the market was best kept in a birdcage.<sup>22</sup> Many in this camp also worried about change and their relative position in society. Just as in the Soviet Union, a sizeable number of military leaders, cadres, and bureaucrats had become comfortably ensconced in the state and rapid change threatened to upset their position. The reformers,

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<sup>21</sup> X. L. Ding, *The Decline of Communism in China: Legitimacy Crisis, 1977-1989* (Cambridge: Cambridge University Press, 2006).

<sup>22</sup> Baum, “The Road to Tiananmen: Chinese Politics in the 1980s,” 369.

by contrast, wanted to accelerate and deepen not only the economic reforms, but also the political reforms.<sup>23</sup>

Within society, fractures also began to deepen. In urban areas, young, educated youths began to have a hard time finding jobs, as the mostly unreformed urban economy limped along.<sup>24</sup> The economy also began to overheat, forcing the government to limit credit in the late 1980s, resulting in a significant downturn in urban areas.<sup>25</sup> In rural areas, those living in areas with connections to urban areas enjoyed significant wealth while those without saw little growth after the initial burst of productivity increases from decollectivization.<sup>26</sup> Those on incomes fixed by the state were particularly hard hit by the inflation of the late 1980s and the central government offered little in the way of compensatory transfers. These interlinked divisions would eventually express themselves in the protests at Tiananmen Square, putting plain the tensions and contradictions that had developed in society.

In retrospect, however, the changes that occurred from 1979 to 1989 can be seen as a kind of golden age of reform – almost all of the population was sharing equally in the benefits of reform while problems were largely centered around managing expectations of future benefits rather than dealing with aggrieved citizens who had lost their livelihoods or their land. Overall, generating economic growth, stability, and social well-being were slowly becoming the foundational claim for the CCP's right to rule. This type of legitimacy is considerably more contingent than post-liberation euphoria or promised

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<sup>23</sup> It is important to note that many leading politicians in the reformist camp did not foresee democracy as the endpoint to their reforms, but rather a type of neo-authoritarian, pluralistic state in which the party still played a leading role. *Ibid.*, 412.

<sup>24</sup> Dingxin Zhao, *The Power of Tiananmen: State-Society Relations and the 1989 Beijing Student Movement* (Chicago: University of Chicago Press, 2001), 80.

<sup>25</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 98.

<sup>26</sup> Justin Yifu Lin, "Rural Reforms and Agricultural Growth in China," *The American Economic Review* 82, no. 1 (March 1, 1992): 39.

Marxist ideological truths. It must be renewed on a regular basis by affirmative, reactive behavior by the regime and is always in some tension with itself, as economic growth eventually produces instability and decreases some in society's well-being. The events at Tiananmen demonstrated the frailty of this basis; two years of relatively high inflation and a stagnant urban job market launched demonstrations that nearly led to the fall of the regime.<sup>27</sup> Overall, though, the Communist Party leadership was more successful than the Soviets at adapting to a post-ideological world in which foundational claims to legitimacy fell away. The events of post-Tiananmen China continue to reflect this change in orientation, as performance legitimacy has deepened and spread.

### *Post-Tiananmen*

Post-Tiananmen, it initially appeared as if the hardliners had won and the reformists had been discredited, but the victory was only partial. By 1993, the economy remained stalled out and Deng realized, in his Go South experience, that the only way to maintain growth was to introduce more radical economic reforms.<sup>28</sup> This time, however, political change would not accompany the economic restructuring as the China Democratic Party found out when it tried to register in 1998.<sup>29</sup> The economic reforms, on one hand, allowed the regime to keep the economy growing at a dramatic clip, but, on the other hand, resulted in major social dislocations. No longer was it possible to have reforms without losers. As the regime moved into an era in which its claim to rule

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<sup>27</sup> One possible interpretation of the failure of regime responsiveness that resulted in Tiananmen is that the regime had not yet developed a true mechanism of responsiveness and was thus caught unaware of the discontent within society.

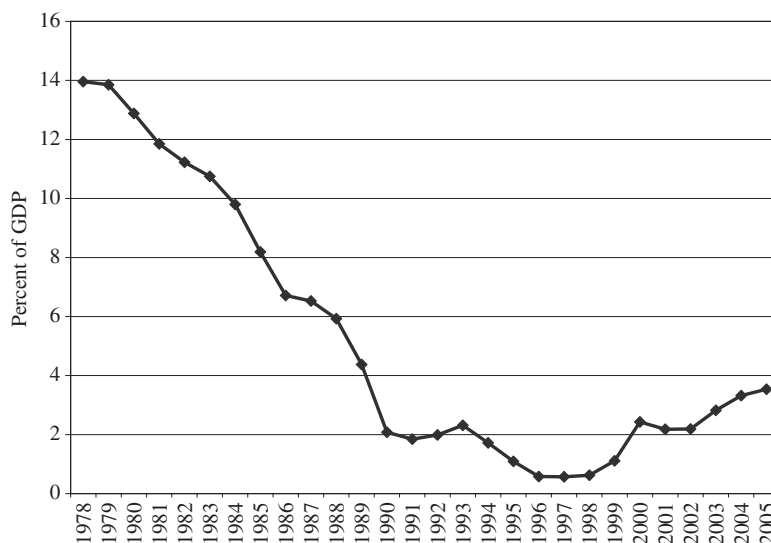
<sup>28</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 99.

<sup>29</sup> Bruce Gilley, "Legitimacy and Institutional Change The Case of China," *Comparative Political Studies* 41, no. 3 (March 1, 2008): 268.

depended in large part on performance legitimacy, tensions between the twin planks of this strategy became ever more apparent.

One of the most dramatic developments in urban areas that highlighted the tension between stability and reform was when the state leadership committed to privatizing all but a handful of SOEs. At the start of the reform, much of the urban population worked in state-run factories that had bloated payrolls and generous social welfare provisions, making them economic albatrosses around the neck of the state. During the 1980s in the initial round of reforms, in theory these SOEs were meant to shed some extra workers, become more efficient, and continue operating while providing much of the traditional safety net that they had previously provided. In reality, most of the SOEs, excepting a few large key state enterprises, were run politically rather than economically and became progressively loss-making, as shown in Figure 3.2 below.

Figure 3.2: SOE Profits as a Share of GDP



Source: Barry Naughton.<sup>30</sup>

<sup>30</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 305.

In 1995, Zhu Rongji, the premier, finally committed to privatize these enterprises, with a strategy to keep the largest SOEs in state control but fully privatize smaller ones (in Chinese, *zhuadafangxiao* 抓大放小, or grasp the large and let go of the small).<sup>31</sup> Many of the smaller SOEs were not economically sustainable and were therefore shut down, unable to provide for the workers who had previously assumed lifetime employment with the firm. The end result of this period of reform was major layoffs in urban employment, creating a class of seriously aggrieved former high-status workers.<sup>32</sup>

While the reform worked in getting the state out of the way in non-strategic sectors so as to allow the private sector to take off, it undercut one of the last Maoist claims to legitimacy: the right of the worker to feel secure and have social welfare provided by the state. Economic growth managed to mop up many of the able-bodied unemployed SOE workers, but the pact between the state and the laborer, in which they both supported each other, had been broken. Jiang Zemin's Three Represents (*sangedaibiao* 三个代表), introduced in 2000, perhaps best symbolized this reorientation of the state toward capitalist growth without consideration of the Communists' traditional key ally, the worker. Seeking to co-opt new capitalists, Jiang thought that the party ought to represent "the demands for the development of advanced social productive forces, the direction of advanced culture, and the fundamental interests of the greatest majority of the people."<sup>33</sup> Advanced social productive forces, in this context, included managers and entrepreneurs who brought development to China. Conspicuously absent from this list is the worker; no longer did the party claim specially to represent labor – instead, it is

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<sup>31</sup> Xiaobo Hu, "The State, Enterprises, and Society in Post-Deng China: Impact of the New Round of SOE Reform," *Asian Survey* 40, no. 4 (July 1, 2000): 644.

<sup>32</sup> Yongshun Cai, "The Resistance of Chinese Laid-off Workers in the Reform Period," *The China Quarterly*, no. 170 (June 1, 2002): 327.

<sup>33</sup> *Xinhua*, February 25, 2000.

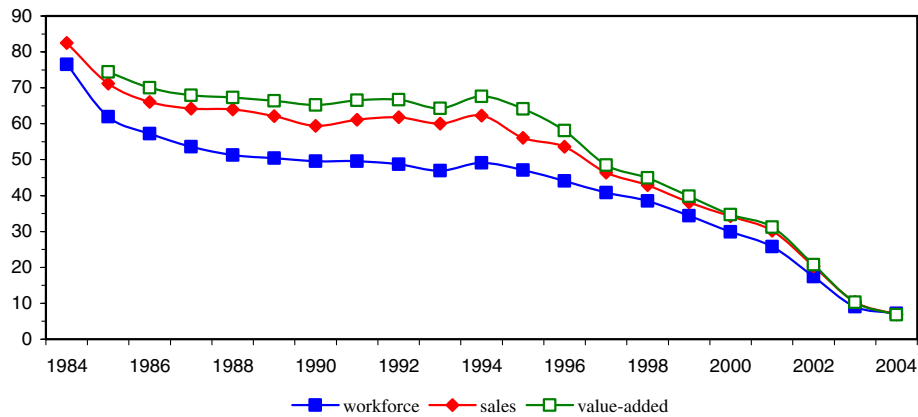
merely included as part of the greatest majority of the people. The Three Represents can thus be seen as the final culmination of the changing bases of legitimacy, from one in which the state saw itself as leading an ideological proletariat revolution to one that drew support from its ability to produce economic growth.

A side effect of the growth of the private urban sector and the mass closure and bankruptcy of the urban SOEs was a collapse of the township and village enterprises. These enterprises had, in part, depended upon connections with urban managers and retailers to sell extra inputs and finished products outside of the plan. As urban SOEs collapsed and the private marketplace took off, the need for such secondary producers disappeared. Moreover, most township and village enterprises were undercapitalized and were thus unable to reach economies of scale or import advanced production technologies, making them uncompetitive with new private urban factories financed by overseas money.<sup>34</sup> As Figure 3.3 shows below, these twin developments lead to a collapse of the TVE sector.

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<sup>34</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 285.

Figure 3.3: TVE Statistics as a Percentage of the Rural Non-Farm Economy



Source: Kung and Lin.<sup>35</sup>

This collapse, combined with a fiscal system change discussed in section IV below, led to the impoverishment of many local governments. The central government at the same time began to push down many expenditure responsibilities to the lower levels, further placing additional burdens on already poor jurisdictions. The result of these pressures was that many jurisdictions turned to the collection of illegal taxes and fees to meet their budgetary responsibilities.<sup>36</sup> Rural residents had finally had enough and protests, euphemistically termed mass incidents by central record keepers, began to rise.

Thus, in the post-Tiananmen period, the regime clearly felt pressured on legitimacy. No longer could the regime rest on the laurels of its revolutionary heritage and early popular reforms. Nor could it depend upon citizens remembering a history of reform without losers. The two new bases of relegitimation grew into ever-tighter contradiction. Thus, while the central government’s position was stable in the short run, further reform would be needed and the central party leadership realized this. Bruce

<sup>35</sup> James Kai-sing Kung and Yi-min Lin, “The Decline of Township-and-Village Enterprises in China’s Economic Transition,” *World Development* 35, no. 4 (April 2007): 570.

<sup>36</sup> Thomas Bernstein, “Farmer Discontent and Regime Responses,” in *The Paradox of China’s Post-Mao Reforms*, ed. Merle Goldman and Roderick MacFarquhar (Cambridge, MA: Harvard University Press, 1999), 197–219.

Gilley recognizes these changes and notes that, “[t]he party itself is well aware of its dependence on popular legitimacy. In the post-Tiananmen period, the CCP has gradually repositioned itself as a ‘governing party’ responding to social demands instead of a ‘ruling party’ reshaping social demands.”<sup>37</sup>

Overall, the history of legitimacy in Communist China is suggestive evidence in support of the model outlined in Chapter 2. As traditional sources of legitimacy declined, the regime has generally responded with attempts to increase responsiveness. First, after the exhausting political campaigns and failed Maoist economic programs, the regime launched the 1979 opening up reform program. This program began a transition, initially very successful, of changing the basis of legitimacy of the state from ideology and revolution to limited levels of performance. As the consequences of rapid development became more evident, the regime faced the task of expanding responsiveness from simply providing economic growth to also providing social services and taking care of reform losers in order to maintain legitimacy. This continued process of relegitimation was the key dilemma that faced the Chinese leadership at the beginning of the 21st century.

#### *The Chinese Leadership’s Time Horizon*

The other key variable in the model predicting how responsive a regime will be, the leadership’s time horizon, has varied somewhat over time. Generally speaking, however, the Communist leadership has had the luxury of taking the long view with respect to solving China’s problems. In the early 1950s, the Chinese leadership was content to take a gradual path to full Communism, introducing collectives and implementing land reforms in a reasonably cautious way. The Great Leap Forward was

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<sup>37</sup> Gilley, “Legitimacy and Institutional Change The Case of China.”

an attempt by Mao to accelerate these reforms as Mao was impatient with the speed of change, a decision that can be viewed as a shortening of the regime's time horizon. After the failure of the Great Leap Forward, the more gradual, progressive strategy was reinstated, resulting in a resumption of economic growth. However, Mao, after being sidelined by the gradualists in the early 1960s, sought a way to return to the forefront and shake up politics again, thus precipitating the Cultural Revolution. The Cultural Revolution, as with the Great Leap Forward, can also be seen as a regime switching to a shorter time horizon.

Since the Cultural Revolution, the Chinese leadership has been fairly consistent in taking a long-term orientation towards policy. The reform and opening up started as the proverbial groping for stones to cross the river, meaning being without a long-term plan, but many of the changes have lacked any specific immediate benefit *to the regime* other than enhancing its long-term legitimacy. That is to say, while many of the reforms helped boost economic performance in the short term or immediately offered a new set of benefits to some underserved population, the policy innovations lacked a clear political rationale other than to increase long-term legitimacy. The one exception to this was the events surrounding Tiananmen. The initial decision to crack down and the later decision to retrench politically was a direct response to the events and showed little long-term thinking. However, by 1993 and Deng's tour south, the slow but steady economic reforms picked up again, forming continuity with 1980s-style policymaking.

There are many theories as to why the Chinese regime has been able to engage in such foresighted policies for such a long period of time, but one of the most likely is that the regime has been able to manage elite conflicts better than most autocracies. This is a

theory advanced by Frederick C. Teiwes and others that the periods of short-term regime thinking in modern Chinese history coincided with periods of elite conflict.<sup>38</sup> The Cultural Revolution was an attempt by Mao to play elite politics. Likewise, the delayed and ultimately harsh response to Tiananmen was the result of elite divisions regarding an appropriate response and the following policy retrenchment was similarly short-term minded. One of the contributors to current long-term thinking and policy foresightedness is the stability wrought by a general elite consensus on the right to rule.

Whatever the historical or theoretical case, the Chinese leadership in the modern era has maintained a consistently long-term outlook. Evidence that the regime is engaging in this kind of thinking abounds. Much has been written about how the regime has attempted to learn from and apply the lessons of Tiananmen and the fall of the Eastern Bloc. David Shambaugh describes an example of the central leadership's long-term thinking:

[a]fter a period of catharsis in the early 1990s, following the cataclysmic events of 1989 in China and the subsequent collapse of communist ruling parties in the Soviet Union and Eastern Europe, the CCP undertook very systematic assessments of the causes of collapse of these other ruling parties, as well as analyzing the range of internal and external challenges to itself. This process of understanding the reasons and precipitating causes for the collapse of these other party-states was protracted (resulting in more than a decade of introspection and debate.... What lessons should the CCP learn from the implosion and demise of these other regimes that might help it avoid a similar fate?<sup>39</sup>

Of course, these studies actually have to be used to be theoretically meaningful; the evidence that exists suggests that they are put to use. Shambaugh further describes the results of the post-Tiananmen studies as, “[t]hese assessments in turn have triggered a

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<sup>38</sup> Frederick C. Teiwes, “The Establishment and Consolidation of the New Regime, 1949-1957,” in *The Politics of China: The Eras of Mao and Deng*, ed. Roderick MacFarquhar (Cambridge: Cambridge University Press, 1997), 12.

<sup>39</sup> David L. Shambaugh, *China's Communist Party: Atrophy and Adaptation* (Berkeley: University of California Press, 2008), 2.

range of intraparty reforms, as well as reforms affecting other sectors of the state, society, and economy. While *reacting* to the events in former communist party-states, the CCP has been very *proactive* in instituting reforms within itself and within China. The reforms have been sweeping in scope” (emphasis in original).<sup>40</sup> Along similar lines, Andrew Nathan has argued that norm-bound succession politics are the result of a concerted long-range institutionalization plan to regularize a process that, in other autocracies, has led to crisis or the regime’s downfall.<sup>41</sup> Heberer and Schubert have examined the Chinese system of political reform and also found that a consistent, long-term outlook has produced significant results for the regime in terms of reforming the structure of government for the 21st century.<sup>42</sup>

These examples are not meant to prove that the regime solely acts for the benefit of future generations, making decisions with the wisdom of Solomon – the Chinese state and even the upper level of the regime is a many-headed hydra that in some cases may make decisions based on immediate political exigency while in other cases taking a longer-term perspective. On balance, however, and particularly with regard to policies core to the regime’s attempt to maintain legitimacy, the regime has taken the long view with respect to policy formation and choice. Legitimacy based on contingent and unproven performance-based factors combined with this long-term outlook puts modern China squarely within the theoretical square introduced in the previous chapter that predicts significant efforts (for an autocracy) towards responsive policymaking.

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<sup>40</sup> Ibid.

<sup>41</sup> Andrew Nathan, “Authoritarian Resilience,” *Journal of Democracy* 14, no. 1 (January 2003): 8.

<sup>42</sup> Thomas Heberer and Gunter Schubert, *Regime Legitimacy in Contemporary China: Institutional Change and Stability* (London: Routledge, 2008), 17.

### *Predicted Response*

Given the low to moderate level of regime legitimacy and the long time horizons, the model would predict that the regime should increase its exertions to be responsive. However, the particulars of how the central and local governments should respond and how they should design an effective response are very unclear in the case of an autocracy, a regime type in which accurate information about social needs is at a premium.

Dictatorships have long had a serious informational problem in that useful information to the regime does not easily flow upward due to inherent principal-agent problems. As Pablo Policzer notes about authoritarian regimes, “whoever the [authoritarian] rulers happen to be, and however they happen to rule, they face a common fundamental problem: that of monitoring the operations and behavior of their own agents.”<sup>43</sup> The dilemma arises because agents fear reporting unpleasant information to superiors that could reflect poorly on their own performance. In democracies, voters serve as the principals and can monitor their agents, politicians, via a variety of channels, including press reports, an objective view of the economic situation, speeches by opposition politicians, and so on.<sup>44</sup> So the opportunities for agents to engage in information hiding is low – politicians cannot delay release of GDP figures or lie about progress on major infrastructure programs without incurring a high degree of risk of their deception being uncovered.

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<sup>43</sup> Pablo Policzer, *The Rise and Fall of Repression in Chile* (South Bend, IN: University of Notre Dame Press, 2009), 6.

<sup>44</sup> The adequacy of these various channels in monitoring politicians’ behavior in a democracy is the subject of a vast and wide literature that is much too large to summarize accurately here. For a primer on this debate, see Herbert Kitschelt and Steven I. Wilkinson, *Patrons, Clients and Policies: Patterns of Democratic Accountability and Political Competition* (Cambridge: Cambridge University Press, 2007).

By contrast, in autocracies, who is the principal and who are the agents is more difficult to determine. At one level, the central government is the principal, in that it sets policy goals and directs agents to achieve those goals. On the other hand, as argued in the previous chapter,<sup>45</sup> the public does have a role in the eventual stability and success of authoritarian regimes, so the citizenry is also a principal and the central government an agent. However, the agent faces a problem not faced by similarly situated politicians in democracy – divining the wishes of the principal so as to avoid punishment. In democracies, such instructions are relatively straightforward – politicians campaign around election platforms and the politician with the most popular platform is elected. However, in an autocracy, such information is hard to discern, not only because there are no elections, but also because there is no freedom of the press or other analogous mechanisms that would allow information about the wishes of citizens to be transmitted to the rulers.

As the demands in China for the leadership to be more responsive grow, a better method of gathering information from the governed is therefore necessary. I argue that the most obvious way to gather this information in an autocracy is via civil society, in which it serves as a mechanism of responsiveness.

### **III. The Missing Piece of the Puzzle: A Mechanism of Responsiveness**

In previous periods, the Chinese party-state was not free from threats to its legitimacy, yet none confounded the party as much as its current situation. To grasp more fully how to respond to such a crisis, the regime has turned to civil society for answers, as

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<sup>45</sup> The alternative view discussed, an elite-centric view of the situation, would argue that elite dynamics keep the top leadership in power and so policy objectives flow from that elite management requirement. Principal-agent modeling would not be helpful in understanding such an arrangement.

a mechanism of responsiveness. The development of civil society may not solely be the result of central initiative, but the fact that the state has allowed civil society to exist, and in some cases nurtured it, signals its desire to build this type of mechanism.

In the previous chapter, I discussed several ways in which civil society-like entities may exist in authoritarian regimes. In China, anti-state or explicitly political civil society is effectively outlawed.<sup>46</sup> However, alternative forms of civil society are flourishing in modern China: non-political groups, ad hoc groups, and uncoordinated collective action all are heavily represented in modern Chinese society. The state has allowed them to exist in part as a means of allowing a mechanism of responsiveness to form. The message to the state coming from the growing pluralism in civil society is that social welfare spending must increase, local governments must become more capable and less corrupt, and economic justice and fairness must be made a fact. These demands, coupled with the toleration and even support of civil society and the objectively difficult legitimacy situation of the regime, help illuminate several potential test cases to test the validity of the authoritarian responsiveness theory.

### *History of Civil Society in China*

In the pre-reform era, there was no obvious mechanism of responsiveness and so there was no easy way to aggregate social desires and deliver them upwards towards the center. Social organizations were explicitly corporatist in construction. Rather than functioning as providers of information upwards, they generally served as unidirectional tools of indoctrination.

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<sup>46</sup> As both the China Democracy Party and the Falun Gong demonstrated, there exists little space within modern China for any form of organized dissent.

In the immediate post-revolution period, there was hope that some types of independent civil society might still be allowed. At first, Mao and the central leadership were careful only to move against the staunch KMT supporters and predatory capitalists. Friendly labor unions and business organizations were allowed to continue operations.<sup>47</sup>

However, those hopes were soon dashed as the Party began disbanding, amalgamating, or outlawing existing pre-revolutionary organizations that were not fully co-opted by the party.<sup>48</sup> The social organizations that were allowed to continue to exist were the ones that attempted to dominate, control, and reconfigure the population according to the needs of the Party, rather than representing the interests of the constituents of the organization. Sebastian Heilmann has noted how these keypoint organizations often served as a central mechanism to transmit Party-approved models for implementation, rather than serving as sources of upward knowledge transfer and sites for policy experimentation.<sup>49</sup>

However, these mass organizations were not easy for central leadership to control, as noted by Patricia Thornton, “in the decades following the revolution, the party’s own success at grassroots organizing proved a double-edged sword. The revolutionary masses, safely installed in any number of party- or state-sponsored mass organizations, were curiously apt at the articulation and pursuit of collective interests not in keeping with the ‘mass line’ defined by the center.”<sup>50</sup> In other words, the thing organizations excelled at were often the private articulation of interest rather than supporting the public good.

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<sup>47</sup> Thomas B. Gold, “The Resurgence of Civil Society in China,” *Journal of Democracy* 1, no. 1 (1990): 22.

<sup>48</sup> *Ibid.*, 23.

<sup>49</sup> Sebastian Heilmann, “Policy Experimentation in China’s Economic Rise,” *Studies in Comparative International Development* 43, no. 1 (March 1, 2008): 16.

<sup>50</sup> Patricia M. Thornton, “Retrofitting the Steel Frame: From Mobilizing the Masses to Surveying the Public,” in *Mao’s Invisible Hand: The Political Foundations of Adaptive Governance in China*, ed. Elizabeth Jean Perry and Sebastian Heilmann (Cambridge, MA: Harvard University Asia Center, 2011), 238.

Agents within the organization used it as a vehicle to build empires, secure promotions, trade illicitly, and curry favor with higher-level officials, all using the resources of their host organization. These private-minded goals undercut and worked often at cross-purposes with both the “official” (i.e., bottom up) and actual (i.e., centrally imposed) policy goals tasked to it by central leaders.

Civil society in the pre-reform era therefore had a confused existence. Officially, the organizations that were allowed to exist were to serve nominally as a classic example of corporatism and a mechanism of responsiveness. In fact, the state co-opted these organizations and set them to new goals, using them as a tool for state building. In reality, these new goals were substantially subverted by the private interest articulation of its own staff and members. In all cases, civil society within China only existed in hierarchical terms, as horizontal linkages between interest group members were strictly prohibited.<sup>51</sup>

The only organic form of civil society that existed was one of the most basic: individualized yet contemporaneous passive resistance to the state. This type of resistance was one of the key signals to state leadership that the Maoist state-building project had failed.<sup>52</sup> Overall, however, the capacity of civil society to send information upward remained weak and civil society itself remained generally atomized and focused on personal, private interest articulation.

### *Civil Society Takes Form*

In the post-Mao era of China, the state leadership engaged in a project of extricating the state from everyday life, a change that led directly to a flowering of civil

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<sup>51</sup> Mary E. Gallagher, “China: The Limits of Civil Society in a Late Leninist State,” in *Civil Society And Political Change In Asia: Expanding And Contracting Democratic Space*, ed. Muthiah Alagappa (Palo Alto: Stanford University Press, 2004), 423.

<sup>52</sup> Spence, *The Search for Modern China*, 603.

society.<sup>53</sup> After the events of Tiananmen, civil society growth did not slow but rather was transformed; the state increased regulations on civil society, driving organizations and individuals to act informally and with more respect for the state. However, increases in demand-side pressures for public interest articulation and advocacy meant that civil society's growth continued unabated. Civil society at the beginning of the millennium stood as the best and most authentic form of interest aggregation and articulation in China, setting up its role as a mechanism of responsiveness for a regime increasingly becoming cognizant of its crisis of legitimacy.

At first, as X. L. Ding has noted, the retreat of ideology was primarily taken advantage of by elements *within* the state.<sup>54</sup> State structures were taken advantage of by entrepreneurial reformers to advance their position against traditional and anti-reform elements. He gives the example of *New China Digest*, which had previously been a sleepy journal published by the central propaganda department. After the reform era began, an ambitious fan of humanism took over as editor-in-chief and soon the journal became one of the primary voices of the pro-reform academic community. This strategy of reusing existing state forms and institutions by civil society or civil society-like elements occurred in many post-ideological Communist regimes – the boundary between state and society became increasingly porous and difficult to define.

However, actors within the state were not the only ones to take advantage of the new permissiveness. One characteristic of the early reform years was a lack of regulation or rules for much of newly-permitted activity, as Qiusha Ma points out: “[f]rom 1978 to

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<sup>53</sup> These changes were not unambiguously positive; while the state no longer demanded routine ideological fidelity, it also withdrew from providing many basic services, such as health care and education.

<sup>54</sup> X. L. Ding, “Institutional Amphibiousness and the Transition from Communism: The Case of China,” *British Journal of Political Science* 24, no. 03 (1994): 293–318.

the eve of the 1989 students' democratic movement, the government started to allow associative activities outside of the state system.... During this period, the founding of SOs [social organizations] was almost unregulated. Any government bureau or organization, or even a social organization, could approve new organizations and place them under supervision."<sup>55</sup> Combined with this Wild West atmosphere for social groups was the fact that the withdrawal of the state from everyday life created a serious vacuum in associational and public life. This combination led to a dramatic increase in civil society and private associational life more generally. Again quoting Ma, "[a]s the state gradually withdrew – in part by design and in part by default – from many economic and social responsibilities, the Chinese people responded to this new situation with great energy and creativity. The appearance of voluntary organizations, private non-profit institutions, and all kinds of civil associations reflected a serious effort to address social needs, economic and social injustice, disadvantaged groups, and environmental degradation."<sup>56</sup>

The permissive attitude of the state toward political and intellectual liberalization came to halt after the events of Tiananmen in 1989, but the halt proved to be only temporary. After the state cracked down on the students in June 1989, the state leadership moved quickly to squelch any independent voices within and without the state, now fully aware of the potential that these voices had to undermine Communist party leadership. At the same time, the state began two processes that would later lead to a boom in civil society organizations, one on the supply side and one on the demand side. The first was the realization that while unregulated and unmonitored civil society was deeply

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<sup>55</sup> Qiusha Ma, *Non-Governmental Organizations in Contemporary China: Paving the Way to Civil Society?* (London: Routledge, 2005), 68.

<sup>56</sup> *Ibid.*, 7.

problematic, some form of pluralistic expression had to be allowed. To accommodate these organizations, the State Council in 1998 issued “Regulations for Registration and Management of Social Organizations.”<sup>57</sup> The requirements for registration were (and still are) fairly onerous for most organizations to meet,<sup>58</sup> which meant that few organizations took advantage of the ability to become officially licensed. Still, some have formally registered and now official space exists for independent social organizations and perhaps more importantly, official recognition of the *need* for civil society also exists.

The other factor that accelerated the development of civil society organizations came from the demand side. After a period of conservative retrenchment post-Tiananmen, Deng Xiaoping launched his famous Southern Tour in 1992, signaling new momentum for economic reforms. Most of the major economic reforms of the 1980s had previously only significantly impacted the reach of the state in the rural economy; while the state had tinkered around the edges of the urban economy, it had not altered its fundamental nature. Most urban workers still enjoyed an iron rice bowl (*tiefanwan* 铁饭碗), which is lifetime job security. The state domination of urban economic life via the work unit system (*danwei* 单位) meant that few workers had to face the vagaries of the private job market. The post-1993 reforms struck a fatal blow to this system as the central leadership proceeded to close down or sell off many state-owned enterprises, resulting in

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<sup>57</sup> Gallagher, “China: The Limits of Civil Society in a Late Leninist State,” 424.

<sup>58</sup> The requirements are many. Groups have to find two sponsor government bodies, one that serves as its regulator and the other to serve as a guarantor of the group’s behavior. Understandably, many government departments are wary of or unwilling to take on this responsibility. Additionally, *before* registering, groups have to show adequate fiscal resources, sufficient staff, 50 group members, and other criteria, creating a classic chicken and egg dilemma for groups contemplating forming. The end result is that many groups choose to operate in an unlicensed fashion, as discussed more fully in the following section.

the layoffs of millions of workers.<sup>59</sup> At the same time, private industry took off in coastal areas, drawing in untold numbers of migrant workers from the countryside, while local rural village enterprises floundered and economic conditions deteriorated for much of the countryside.<sup>60</sup> In this way, the economic reforms, while positive for creating wealth in China, also lead to major social distortions. What had previously been, as Lau et al. termed it, a process of “reform without losers”<sup>61</sup> now had a significant and growing number of citizens who felt the need to seek redress from the state about their social and economic position.

The signs that all was not well in society manifested themselves in many different forms. One of the most direct signs was the increase in the number of protests, or, as the central state euphemistically called them, “mass incidents.” Below in Figure 3.4 is a trend line of the number of mass incidents over time.<sup>62</sup>

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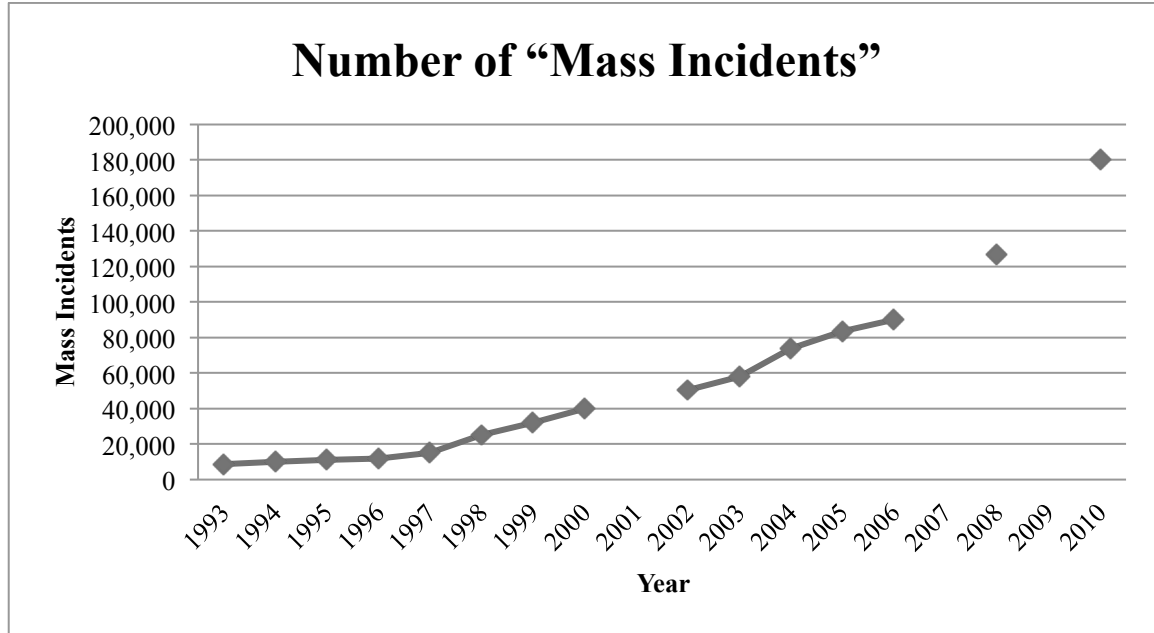
<sup>59</sup> Complicating the situation is that these laid-off workers were often not technically fired and allowed to register as unemployed, but were instead registered in a type of purgatory category that most scholars translate as laid off (*xiagang* 下岗) but more exactly means something like to go off duty. These workers had residual claims on the enterprise (if it still existed) for things like health care, housing, and other benefits, but were not provided a salary. So official unemployment statistics are highly misleading regarding urban employment during this period, as they do not include workers who were categorized as *xiagang*. Naughton, *The Chinese Economy: Transitions and Growth*, 185.

<sup>60</sup> Township and Village Enterprises (TVEs) had been major engines of economic growth in the countryside in the 1980s, but, for a variety of reasons discussed earlier in this chapter, their economic position deteriorated in the 1990s. This change led to many of them going bankrupt and leaving rural villages and townships in serious debt. Jean C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Berkeley: University of California Press, 1999).

<sup>61</sup> Lawrence Lau, Yingyi Qian, and Gerard Roland, “Reform Without Losers: An Interpretation of China’s Dual-Track Approach to Transition,” *Journal of Political Economy* 108, no. 1 (2000): 120–43.

<sup>62</sup> The data on mass incidents is problematic at best. The statistical term for it has changed several times and in some years the data was not reported. However, numerous Chinese top officials have been quoted as saying that the number has been increasing, so while it seems likely that the specific number of rural protests is unreliable, the general trend is not.

Figure 3.4: Number of Mass Incidents per Year



Sources: Data for 1993-2005,<sup>63</sup> 2006,<sup>64</sup> 2008,<sup>65</sup> 2010.<sup>66</sup>

These mass incidents are not, as Ho Fung Hom terms it, state-resisting protests<sup>67</sup> – they are not centered around calls to bring down the regime. Rather, they would be what he terms state-engaging protests, similar to what O’Brien and Li call rightful resistance.<sup>68</sup>

The protests are an attempt to engage higher levels of the state to obtain satisfaction about a local dispute. These are somewhat coarse signals by civil society to the central state about the roots of societal discontent, but also some of the most visible and direct methods of communication.

<sup>63</sup> Albert Keidel, “China’s Social Unrest: The Story Behind the Stories,” *Policy Brief: Carnegie Endowment for International Peace* 48 (2006).

<sup>64</sup> Edward Wong, “Chinese Question Police Absence in Ethnic Riots,” *The New York Times*, July 18, 2009, <http://www.nytimes.com/2009/07/18/world/asia/18xinjiang.html>.

<sup>65</sup> Ian Johnson, “China Sees Protest Surge By Workers,” *Wall Street Journal*, July 10, 2009, <http://online.wsj.com/article/SB124713050245617293.html>.

<sup>66</sup> Barbara Demick, “Protests in China over Local Grievances Surge, and Get a Hearing,” *Los Angeles Times*, October 8, 2011, <http://articles.latimes.com/2011/oct/08/world/la-fg-china-protests-20111009>.

<sup>67</sup> Ho-Fung Hung, *Protest with Chinese Characteristics: Demonstrations, Riots, and Petitions in the Mid-Qing Dynasty*, Reprint edition (New York, NY: Columbia University Press, 2013), 18.

<sup>68</sup> Kevin O’Brien and Lianjiang Li, *Rightful Resistance in Rural China* (New York: Cambridge University Press, 2006).

Protests are not the only expression of unrest within society. While they are among most commented upon by the foreign press, other indicators of unhappiness have seen increases in the last 15-20 years. Lawsuits against the state for failing to follow basic procedures have increased dramatically.<sup>69</sup> Letters and Visits Offices, the place for lodging official complaints about state actions, have seen a dramatic increase in correspondence and in-person complaints.<sup>70</sup> These more private forms of interest articulation also signal to any observer that all is not well in Chinese society. The key question of how, specifically, the central or local state should respond to these general trends is not entirely clear. The key linkage for state policy formation between this obvious discontent and actual actionable policy responses is the rising prominence of modern civil society in China; this linkage serves as the heart of a mechanism of responsiveness.

### *Modern Forms of Civil Society*

The pattern of allowed forms of civil society in modern China flows from the needs and the concerns of the state. The state has created a structure in which civil society can serve as a mechanism of responsiveness (in addition to other roles it may serve) but has not allowed it to develop into a vehicle to challenge the state. Organized civil society in China since 1990 has taken on many forms, from individualized collective behavior to ad hoc groups to formally constituted NGOs. This ascendant civil society also has a varied relationship with the state, from corporatism to small-scale independence to

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<sup>69</sup> This is not to say that most lawsuits are successful; the few cases that do make it to the courts at best have an average of a one in five chance of winning. Still, the number of suits filed has increased dramatically in the last decade and the types of cases have generally been about the same types of grievances that protestors have. Kevin J. O'Brien and Lianjiang Li, "Suing the Local State: Administrative Litigation in Rural China," *China Journal* 51 (January 2004): 76–96.

<sup>70</sup> O'Brien and Li, *Rightful Resistance in Rural China*, 182.

service contractor. In part, the decision on which form to take is a choice dictated by the central state and local state agents, which have had a variety of responses to the rising demand for pluralism in society. Moreover, a civil society organization in China also may, at different times and in different locations, form different associations with the local state, apart again from any relationship with higher levels of the state.

Central state responses to increasing demands for civil society have been many, but the overall trend of policy enforcement has been generally towards more toleration, a decision that the responsiveness theory would predict. Firstly, as noted in the previous section, the central government created a pathway to legalization for new civil society organizations, however onerous the requirements are. In addition to creating a legal status for civil society, the central state has issued numerous circulars about its desire to strengthen and promote civil society. One Ministry of Civil Affairs official went so far as to say, “now it is impossible not to develop NGOs.”<sup>71</sup> The reasons are many for the move away from antagonism to qualified support for civil society. For one, the central state was involved in a strategy of marketizing and deconstructing a Stalinist regulatory structure and civil society is envisioned as a way of transferring regulatory and supervisory responsibility from public to private entities.<sup>72</sup> Civil society groups also offer promise to the state in aiding in social management, as a type of auxiliary service provider that steps into fill the void left by a retreating state, either by explicitly contracting with the state<sup>73</sup> or via more autonomous charitable actions.<sup>74</sup> Both of these goals may be enough to allow

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<sup>71</sup> Ma, *Non-Governmental Organizations in Contemporary China*, 69.

<sup>72</sup> For an example of how this occurred in the agricultural sector see Scott Waldron, Colin Brown, and John Longworth, “State Sector Reform and Agriculture in China,” *The China Quarterly*, no. 186 (June 1, 2006): 277–94.

<sup>73</sup> Jessica C. Teets, “Reforming Service Delivery in China: The Emergence of a Social Innovation Model,” *Journal of Chinese Political Science* 17, no. 1 (March 1, 2012): 15–32.

<sup>74</sup> Ma, *Non-Governmental Organizations in Contemporary China*, 48.

some toleration of social pluralism, but would not likely have ensured the tacit acceptance of more contentious and advocacy-oriented forms of civil society.

The one other goal of the state, first enumerated first by Robert Weller, is to encourage upward and horizontal flows of information to the central and local states. As he notes, “[development of new feedback mechanisms] require[s] the government to allow some limited development of social forces that it does not directly control—NGOs, environmental protests, carefully limited local elections, even village temples or lineages.”<sup>75</sup> These upward flows of information can be initiated directly by the state, such as when it reaches out to civil society organizations for information or assistance with state projects. Lily Tsai has shown that local governments will often partner with civil society organizations as a way of increasing the chances of success in implementing government programs.<sup>76</sup> They can also be initiated by civil society directly lobbying the state for policy changes. Andrew Mertha has described how business organizations can campaign around an issue to force policy changes, as the cigarette lighter industry was able to do.<sup>77</sup> Vivienne Shue has described how certain farming organizations charged themselves with being the “voice and the advocate for member organizations” when dealing with the government.<sup>78</sup> This mode of sending information upward to the state is familiar to scholars of democracy and NGOs in China do seem to act in this role as direct interlocutors with the state.

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<sup>75</sup> Robert P. Weller, “Responsive Authoritarianism,” in *Political Change In China: Comparisons With Taiwan*, ed. Bruce Gilley (Boulder, CO: Lynne Rienner, 2008), 130.

<sup>76</sup> Lily L. Tsai, “Friends or Foes? Nonstate Public Goods Providers and Local State Authorities in Nondemocratic and Transitional Systems,” *Studies in Comparative International Development* 46, no. 1 (March 1, 2011): 46–69.

<sup>77</sup> Andrew Mertha, “Society in the State: China’s Nondemocratic Political Pluralization,” in *Chinese Politics: State, Society and the Market*, ed. Peter Gries and Stanley Rosen (London: Routledge, 2010), 69–84.

<sup>78</sup> Vivienne Shue, “State Power and Social Organization in China,” in *Strong Societies and Weak States*, ed. Joel S. Migdal, Atul Kohli, and Vivienne Shue (Cambridge: Cambridge University Press, 1994), 81.

Often, however, the channels of information transmission are not nearly so direct. The Chinese state's official ideology is that civil society organizations help manage society and essentially serve as a buffer or mediation layer between the local state and the citizen population. As Qiusha Ma puts it, "[i]n general, the government has taken a positive view of the entire NGO matter, believing that the state can obtain assistance from societal resources."<sup>79</sup> Moreover, ad-hoc and passive resistance civil society groupings do not have an obvious way to signal directly to the state what their policy interests are. However, in many cases, the state can and does learn from the awareness building, organizing, and focus of the civil society groups – this is the most common and prolific channel through which the Chinese state understands society. The central government is supremely concerned about stability and routinely monitors the media, research reports, and other sources to ascertain the needs of society.<sup>80</sup> For example, Zhao and Sun describe the case of Sun Zhigang, a migrant who was beaten to death in police custody for the want of an ID card. The case initially attracted little attention before organizers on the internet forwarded his story until it went viral and the media picked up on it. After the story gained widespread attention, the central government responded with a series of reforms about how rural migrants were to be treated by the police.<sup>81</sup>

In the case of protests and other acts of, as O'Brien and Li term it, rightful resistance, such indirect information flows are actually encouraged by the central state.

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<sup>79</sup> Ma, *Non-Governmental Organizations in Contemporary China*, 68.

<sup>80</sup> Examples of how the central government monitors the media and other sources can be found in the following sources: Xufeng Zhu and Lan Xue, "Think Tanks in Transitional China," *Public Administration & Development* 27, no. 5 (December 2007): 452–64.; Yuezhi Zhao and Wusan Sun, "Public Opinion Supervision: Possibilities and Limits of the Media in Constraining Local Officials," in *Grassroots Political Reform in Contemporary China*, ed. Elizabeth J. Perry and Merle Goldman (Cambridge, MA: Harvard University Press, 2009), 300–324.

<sup>81</sup> Zhao and Sun, "Public Opinion Supervision: Possibilities and Limits of the Media in Constraining Local Officials," 313.

The central government positions itself as the protector of the rights of local citizens and encourages them to report abuses and illegal acts of local officials to higher levels. This leads to cat and mouse games between local officials and ad-hoc organizations of villagers, as they describe:

...protest leaders from a village in Zhangjiakou (张家口), Hebei, mobilized hundreds of villagers to trek to Beijing to lodge a complaint against a county for allowing [a] private, under-financed company to seize a large plot of farmland without paying the promised compensation. The county government deployed hundreds of police to stop them. The police were stationed at railway ticket counters and long-distance bus stations to question passengers, and they guarded major intersections leading into Beijing to inspect suspicious vehicles. In spite of their efforts, hundreds of petitioners made it to the capital. It turned out that the lead complainants, upon learning of the county's plan to intercept the petitioners, had divided the villagers into dozens of small teams and instructed them to travel to Beijing by bicycle. To avoid unwanted attention, teams departed at different times and took different routes. The petitioners only reassembled at a pre-set time and place after they had passed the checkpoints the county police had set up around Beijing. By the time county officials learned what had happened, hundreds of villagers had made it to the State Council's Letters and Visits Bureau. Under pressure, the county swiftly took out a loan to compensate the farmers for losing a year's harvest and returned the land to them.<sup>82</sup>

The central government's primary goal in encouraging local officials to send information about misbehaving officials upward is to discipline local officials. However, it also serves the purpose of providing information about the state of society, about the kinds of issues with which local society is most concerned. For example, Bernstein and Lü note that many of the protests of the 1990s surrounded rural unrest over illegal taxes and fees.<sup>83</sup> Because of this upward information flow provided by protestors, the central government was able to respond by abolishing the ability for local officials to create arbitrary taxes

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<sup>82</sup> Lianjiang Li and Kevin O'Brien, "Protest Leadership in Rural China," in *Chinese Politics: State, Society and the Market*, ed. Peter Gries and Stanley Rosen (London: Routledge, 2010), 90.

<sup>83</sup> Thomas P. Bernstein and Xiaobo Lü, "Taxation without Representation: Peasants, the Central and the Local States in Reform China," *The China Quarterly* 163 (2000): 742–63.

and heavily publicized the news, so that rural residents could use the new policy language against misbehaving local officials.

The reason that the state can trust such indirect signals is because the signals are costly to those sending them. The fact that all forms of civil society are truly voluntary and have at least some component to the participant beyond simple private interest advancement is an expressive signal to the state. In the pre-reform era, the large state-run civil society organizations had compulsory membership and were arenas for private interest advancement. Thus, even if the state leadership had desired to aggregate information from these organizations, it is highly questionable how useful such a project might have been – disinterested members or self-aggrandizing ones are not likely to signal the issues within society accurately. Since the post-Tiananmen reforms, participation in most civil society activities, whether joining an ad-hoc group, setting up an unregistered NGO, or simply passively resisting state policy, is entirely voluntary. The fact that such behavior is, in rational choice terms, costly<sup>84</sup> sends a signal to the central leadership that such voluntary, costly behavior is an accurate depiction of the interests of the represented members of civil society.

The ability of organizations to take advantage of this new state toleration is, however, somewhat limited both for practical reasons and because many agents of the state remain wary of contentious civil society. Few organizations have had the resources

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<sup>84</sup> The literature is replete with stories of protestors braving long odds to fight for a cause that they deem just, as well as of stories of unregistered NGOs that are repeatedly harassed by the state for various reasons. Even in the case of passive resistance to state policies, acts that contain an element of spite (such as slaughtering animals rather than paying a perceived unjust animal head tax) are costly and thus signal the true depth of dissatisfaction to state policy. For examples of this type of behavior see Xi Chen, “Between Defiance and Obedience: Protest Opportunism in China,” in *Grassroots Political Reform in Contemporary China*, ed. Elizabeth J. Perry and Merle Goldman (Cambridge, MA: Harvard University Press, 2009), 267.; Anthony J. Spires, “Contingent Symbiosis and Civil Society in an Authoritarian State: Understanding the Survival of China’s Grassroots NGOs,” *American Journal of Sociology* 117, no. 1 (July 1, 2011): 12.; Bernstein and Lü, “Taxation without Representation,” 759.

or wherewithal to take advantage of the official registration process. Thus, most groups exist in a kind of marginal position, whereby they register as businesses but perform largely or solely civil society/interest articulation functions. As long as these groups do not cause problems for the local governments or the central state, these groups are allowed to exist as part of an implied strategic tolerance policy, or what Anthony Spiers terms “contingent symbiosis.”<sup>85</sup> This is much the same orientation that the state has toward ad-hoc groups. While protest leaders are usually arrested after a protest, most casual participants are not harassed or subject to sanctions, nor is the protest usually broken up or violence employed against demonstrators.<sup>86</sup> In all types of cases, toleration exists to the extent that the groups can be useful to the state, via sending signals upward and also as mechanisms for local residents to vent. Explicitly anti-state groups that threaten the central state, on the other hand, are explicitly banned and repressed, such as occurred in the 1998 attempt to form an independent political party, the China Democracy Party.<sup>87</sup>

Additionally, whatever the desired connection with the state, these organizations and civil society groupings are firmly aware of the importance of monitoring and managing their positions with their local state interlocutors, lest their activity be deemed as falling into the prohibited category. Because of this need to be closely associated with the state to survive, civil society organizations can, somewhat counter intuitively, serve

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<sup>85</sup> Spiers, “Contingent Symbiosis and Civil Society in an Authoritarian State,” 12.

<sup>86</sup> The fact that large protest gatherings are *de jure* illegal gives the local state many tools against protestors. Subtle psychological harassment of protest participants, outright violence against protest leaders, and veiled threats are often employed. But rarely is serious violence or lasting consequences enacted against protest participants – such acts would only further enrage protestors and also give notice to superiors that local leaders had not been able to contain protests. For more details, see, O’Brien and Li, *Rightful Resistance in Rural China*.; Bruce J Dickson, “Dilemmas of Party Adaptation,” in *Chinese Politics: State, Society and the Market*, ed. Peter Gries and Stanley Rosen (London: Routledge, 2010), 22–40.

<sup>87</sup> Teresa Wright, “The China Democracy Party and the Politics of Protest in the 1980s-1990s,” *The China Quarterly*, no. 172 (December 1, 2002): 914.

as a high-quality mechanism of responsiveness – civil society can raise issues with both the national and local governments through traditional attention-raising activism and media techniques, but also through back-channel government contacts.<sup>88</sup>

Overall, the breadth and depth of the forms of civil society strongly suggest that an active civil society has developed and is one that can regularly send information upward as part of a mechanism of responsiveness.

### *What are the Demands of Civil Society?*

One result of the state allowing an increasingly vibrant civil society to develop is that citizens are free to choose issues around which to focus their time, money, and efforts. This choice of issues and the attendant mobilization, education, and advocacy that such efforts produce is at the heart of civil society's role as a mechanism of responsiveness. The issues that dominate civil society organizations in China today are social safety net quality, environmental protections, and economic justice and fairness. Of course, it is problematic to speak as if civil society, in any society, speaks with one voice to articulate clearly its demands on government policy.<sup>89</sup> One of the challenges any government seeking to be responsive faces in ascertaining the demands of society is separating out themes from the cacophony of voices that civil society produces.

Nonetheless, the challenge is not an insurmountable one and in the case of China, the key interests of civil society are clear.

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<sup>88</sup> One can imagine other forms of civil society that do not wish to send signals upward. For example, secretive anti-state civil society would have much to hide from the central leadership. I am primarily concerned with the types of civil society that the central government purposely fosters or tolerates so as to gain information about the state of society.

<sup>89</sup> Reification of civil society, while much less of a problem in the literature than reification of the state, still exists in state-society literature. Below I use the term civil society in the singular sense for linguistic ease, but it is always important to remember that civil society consists of a panoply of actors with diverse, sometimes conflicting goals.

Increased social safety net protections are one of the most common types of issues that attract the interest of civil society, particularly well-organized groups. Many of the formally registered NGOs and also the small-scale local unregistered NGOs seek to serve as quasi-service providers, seeking to aid the disabled, elderly, or jobless, often for a nominal or not so nominal fee. Anthony Spires quotes a grassroots NGO head describing the role civil society organizations typically take: “[NGOs] are groups of people without any money trying to help other people without any money!”<sup>90</sup> Some NGOs have become official auxiliary service providers with the state, as Jessica Teets notes: “[increasingly] the [Chinese local] government contracts the provision of public goods and services such as education, healthcare, or infrastructure out to private firms or civil society groups such as charities or other non-profits.”<sup>91</sup> NGO interest spans a wide variety of issues, from helping the disabled to working with migrant workers to providing support for AIDS sufferers. Part of the goal of these organizations is raising awareness for their causes, both to increase donations/chance of gaining government contracts and to effect a change in policy.

Environmental civil society, in the form of both ad-hoc groups protesting localized pollution and formally constituted NGOs, has been able to articulate its demands successfully for both demand and supply reasons. As China’s environmental situation has worsened over the last 30 years, the demand for change and reform in this area has increased among the population. As Tang and Zhang note, “ordinary citizens, especially those in urban areas, have begun to feel the damaging effects of various types of environmental degradation. Increasing numbers of citizens began to feel distressed by

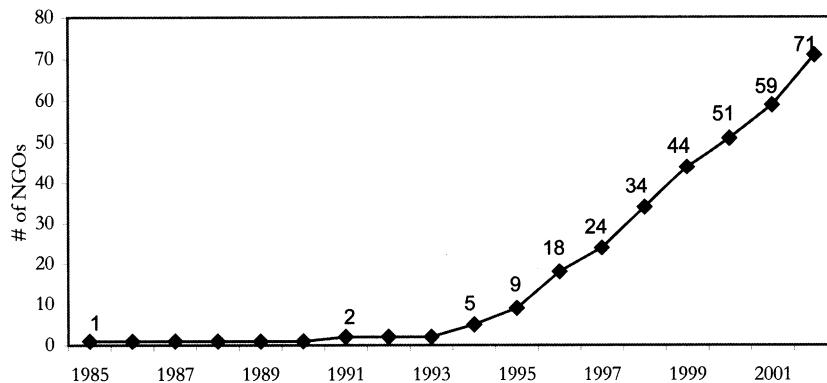
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<sup>90</sup> Spires, “Contingent Symbiosis and Civil Society in an Authoritarian State,” 11.

<sup>91</sup> Teets, “Reforming Service Delivery in China,” 12.

the ever-increasing amount of noise, air and water pollution which they experience daily.”<sup>92</sup> At the same time, the central government has become increasingly interested in taking measures to alleviate environmental problems and thus sees itself as, at the least, a cautious ally of environmentally organized civil society. The result has been a steady increase in the number and scope of organizations and groups taking action about the environment. Guobin Yang charts the growth of formally constituted environmental civil society organizations in Figure 3.5:

Figure 3.5: Growth of Non-Student Environmental NGOs, 1985-2002



Source: Guobin Yang.<sup>93</sup>

There is clearly strong demand for environmental justice in modern China and these organizations are advocating to the central and local governments for responsive behavior to achieve these goals.

More commonly advocated by ad-hoc and passive civil society groupings is the cause of economic justice and fairness. As shown in the previous section, the number of protests in rural areas has skyrocketed over the last 20 years. The proximate complaint

<sup>92</sup> Shui-Yan Tang and Xueyong Zhan, “Civic Environmental NGOs, Civil Society, and Democratization in China,” *Journal of Development Studies* 44, no. 3 (March 2008): 430.

<sup>93</sup> Guobin Yang, “Environmental NGOs and Institutional Dynamics in China,” *The China Quarterly*, no. 181 (March 1, 2005): 46–66.

that many of these protestors have is about land compensation – many are angry at their property being seized via eminent domain for less than what they consider to be fair market value. Before land issues came to the fore, most protestors were angry about unfair taxation. However, underlying many of these claims is the poverty and lack of opportunity that many poor rural residents face. Prosperous areas with significant wealth can afford to buy off the population with high quality services, adequate compensation for those whose livelihood is affected by government services, and above all, an aggressive economic development program.<sup>94</sup> Those in poor areas with relatively few services tend to be more resentful of government taxation and intrusion on their lives and are more likely to organize a grievance-related activity.<sup>95</sup> Moreover, while rural residents have not come to expect the local government to provide everything for them, in a study in 2004 over 70% of rural residents surveyed felt that the government should at least substantially subsidize education, health care, support for the elderly, and even employment.<sup>96</sup> The fact that local governments did not, at the time, offer significant subsidies for most of these services speaks to an aspirational gap that underlies much of the discontent in rural areas. Moreover, many of the civil society groups that are set up to do social justice work are doing so in a context where the state, since the 1980s, has generally shirked its responsibility to provide services.<sup>97</sup> Thus, economic fairness and justice are strongly linked to social safety net programs, even if civil society actors have raised these seemingly independent causes in different contexts.

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<sup>94</sup> Teresa Wright, “Tenuous Tolerance in China’s Countryside,” in *Chinese Politics: State, Society and the Market*, ed. Peter Gries and Stanley Rosen (London: Routledge, 2010), 114.

<sup>95</sup> *Ibid.*, 115.

<sup>96</sup> Martin King Whyte, “Do Chinese Citizens Want the Government to Do More to Promote Equality?,” in *Chinese Politics: State, Society and the Market*, ed. Peter Gries and Stanley Rosen (London: Routledge, 2010), 134.

<sup>97</sup> Ma, *Non-Governmental Organizations in Contemporary China*, 7.

Overall, civil society has fairly consistently demanded three things: better social safety net programs, improved environmental protections, and more economic justice and fairness. The need to respond to these demands is pressing, particularly in rural areas; as Teresa Wright notes, “in comparison with other socioeconomic sectors, peasant support for continued CCP rule in the late reform period has been tenuous and declining.”<sup>98</sup> The roots of these demands are historical – the ability of the local state to provide services collapsed after the decentralization of finance in the 1980s and has struggled to recover. The next section examines the extent to which evidence exists of responsiveness to these demands.

#### **IV. Circumstantial Evidence of Responsiveness**

According to the theory, China should be in an ideal place to increase its responsiveness to societal demands, especially after nurturing civil society as a mechanism of responsiveness. Circumstantial evidence from a number of different areas on the three major issues raised by civil society appears to support this hypothesis; however, more in-depth research is needed to provide a convincing case that the attempt at responsiveness is serious and substantive.

One of the most public manifestations of increased responsiveness is the Hu-Wen<sup>99</sup> Harmonious Society (*hexie shehui* 和谐社会) program, under which many important and responsive reforms were promised. These reforms were primarily an attempt to meet the demands for social safety net progress, although environmental

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<sup>98</sup> Wright, “Tenuous Tolerance in China’s Countryside,” 118.

<sup>99</sup> Hu-Wen, in this context refers to Hu Jintao and Wen Jiabao, the two highest leaders of China from 2003 to 2013. Many other leaders and scholars were involved in formulating and expanding upon the Harmonious Society concept, but the shorthand in the press and in academia has been to refer to the reforms as the Hu-Wen program.

reforms and economic fairness initiatives have also been included under the plan's aegis. In early 2005, Hu openly began to advocate for the plan in addresses to the press and to party cadres. The plan was introduced as a way to strengthen the party's rule by focusing attention on the social and human dimensions of development. As Hsing and Lee note, the Hu-Wen leadership has described the program as emphasizing "the primacy of social justice' and the need to 'let 1.2 billion people enjoy the fruit of socio-economic development'."<sup>100</sup> The overall aim of the program is not only to improve the economic well-being of the average Chinese citizen, but also to improve access to services and provide the stability of a social safety net. These are exactly the kinds of demands made by civil society in the previous section, underlying the connection between the mechanism of responsiveness and the actual response. Emphasizing how important Hu thought the turn toward responsive policymaking was, as quoted in Gilley and Holbig, "[h]e stated that the concept was 'essential for consolidating the party's social foundation to govern and to achieve the party's historical governing mission'."<sup>101</sup>

The Harmonious Society was launched with a large number of specific projects intended to improve the lives of Chinese citizens. Hsing and Lee again note that, "[the] shift in official discourse has been accompanied by a plethora of social policies, such as rural tax reform, pension funds for rural residents, education subsidies to poor families, reform of labor contract law, and access to AIDS treatment, to mention several of the most important."<sup>102</sup> Some of these reforms were outlined in the Eleventh Five Year Plan,

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<sup>100</sup> You-tien Hsing and Ching Kwan Lee, "Social Activism in China: Agency and Possibility," in *Reclaiming Chinese Society: The New Social Activism*, ed. You-tien Hsing and Ching Kwan Lee (London: Routledge, 2009), 1.

<sup>101</sup> Bruce Gilley and Heike Holbig, "The Debate on Party Legitimacy in China: A Mixed Quantitative/qualitative Analysis," *Journal of Contemporary China* 18, no. 59 (2009): 341.

<sup>102</sup> Hsing and Lee, "Social Activism in China: Agency and Possibility," 1.

which focused on rural finance issues, promising to help build a “new socialist countryside.”<sup>103</sup> In 2008, more policies were enacted to improve social welfare in rural areas and to increase education and health care provision. Along similar lines, in 2004 a major push was made to direct resources and investment to poorer western provinces, to bring their growth levels in line with prosperous eastern port cities. News reports of all of these initiatives were numerous and top leadership spoke out repeatedly about the importance of enacting these reforms.<sup>104</sup> As can be seen from the types of programs launched above, most focused on social safety net provisions. However, there were also some important reforms to the rules surrounding land acquisition, one of the biggest complaints with regard to economic fairness and justice.<sup>105</sup> Additionally, there have been a very large number of announced programs to restrict pollution since 2003, some that have come under the banner of Harmonious Society and some that have not. In particular, the Chinese authorities have announced that promotions for local leaders would at some point consider metrics such Green GDP rather than just economic development figures.<sup>106</sup> Additionally, the central government promoted the environmental protection agency to full ministerial level and gave it an increased budget and enforcement tools.

There are four possible interpretations of such policy proclamations. The first is that such initiatives are largely window dressing and that the real dynamics driving regime behavior and actual policy outcomes are the same as they ever were. This view is

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<sup>103</sup> Litao Zhao and Tin Seng Lim, “Introduction,” in *China’s New Social Policy: Initiatives for a Harmonious Society*, ed. Litao Zhao and Tin Seng Lim (Singapore: World Scientific, 2010), 2.

<sup>104</sup> Yongnian Zheng and Sow Keat Tok, “‘Harmonious Society’ and ‘Harmonious World’: China’s Policy Discourse Under Hu Jintao,” *Briefing Series (University of Nottingham)*, 2007, 4.

<sup>105</sup> Tania Branigan, “China Moves to Stop Developers Forcing People from Homes with Violence,” *The Guardian*, January 29, 2010, sec. World news, <http://www.theguardian.com/world/2010/jan/29/china-developers-compensation-demolition>.

<sup>106</sup> “Tired of Choking on Growth, China Launches Green GDP,” *Reuters*, November 4, 2010, <http://www.reuters.com/article/2010/11/04/china-economy-environment-idAFTOE6A304D20101104>.

hard to support given the amount of emphasis and publicity that such efforts have been given – at some point, citizens will realize that the proverbial emperor has no clothes and the regime will face significant consequences. Of course, such short-sided policymaking is possible, but that kind of behavior is also inconsistent with the observation that the regime is engaging in long-term thinking. Moreover, significant evidence exists that at least some attempts were made to enact beneficial policy reforms. Areas such as intergovernmental finance, health care, and education have all seen significant reforms since 2003, although the efficacy and reach of those reforms is debated.<sup>107</sup>

Second, the regime might have decided that these reforms were important, but not because of issues related to legitimacy and responsiveness. Firstly, there is strong evidence that Chinese think tanks recognize the importance of the legitimacy issue. Gilley quotes the key takeaway about the fall of the Eastern Bloc as, “[t]he deep reason for the disintegration of the Soviet Union lies in the exhaustion of political legitimacy.”<sup>108</sup> Chinese scholars also identify a similar cause for the decline in Chinese state legitimacy: “[m]ost of the authors believe that the weakening of ideology is one of the main challenges to party legitimacy. This is due to the fading of memories of the Communist revolution, the discrediting experiences of Maoist campaigns, the collapse of Soviet communism, the economic woes faced by workers and farmers, and the ideological pluralization that has come with marketization, economic globalization, new technology, and ‘Western culture’.”<sup>109</sup>

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<sup>107</sup> For a discussion of the debates around these various reform areas, see the corresponding chapters in Litao Zhao and Tin Seng Lim, *China's New Social Policy: Initiatives for a Harmonious Society* (Singapore: World Scientific, 2010).

<sup>108</sup> Gilley, “Legitimacy and Institutional Change The Case of China,” 271.

<sup>109</sup> Gilley and Holbig, “The Debate on Party Legitimacy in China,” 346.

The solution to the legitimacy problems, as identified by party theorists, has been to become more responsive to social development needs. Gilley and Holbig find, in a survey of Chinese think tank legitimacy literature, “half of all authors (50%) mention economic growth as a crucial component of a legitimation strategy, while over one third (35%) stressed the importance of social equality.”<sup>110</sup> Moreover, the explicitly announced goals for the launching over reforms have been repeatedly discussed by top leadership and in internal party communications as addressing the needs of society by implementing responsive policies. It would require a highly unusual set of circumstances, including a highly secretive top leadership cabal and an unseen and unobserved incentive set, to imagine a completely different basis on which these reforms were launched.

A third interpretation would be that the regime has, in fact, carried through on the reforms in a meaningful way. This would seem to be the case from the many reports of government initiatives to enact the Hu-Wen vision, but surprisingly large-scale tests of this proposition have been lacking. Furthermore, there is some skepticism in the literature that some important aspects of the reform, notably the fiscal changes geared toward supporting rural areas, has actually resulted in an improvement of the situation for the rural population.<sup>111</sup> If their skepticism is to be believed, the fourth interpretation would be that the state initiated the reforms, but has only implemented them in a piecemeal or haphazard way, indicating that the central leadership was not deeply serious about the

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<sup>110</sup> Ibid., 343.

<sup>111</sup> Christine Wong remains one of the chief critics of rural finance reform. To get a sense of her skepticism, see Christine Wong, “Rebuilding Government for the 21st Century: Can China Incrementally Reform the Public Sector?,” *China Quarterly* 200 (2009): 929–52. Victor Shih also remains skeptical about the impact of rural finance reforms for different reasons, as outlined in Victor Shih, “Partial Reform Equilibrium, Chinese Style Political Incentives and Reform Stagnation in Chinese Financial Policies,” *Comparative Political Studies* 40, no. 10 (October 1, 2007): 1238–62.

program and about being responsive more generally.<sup>112</sup> These two possibilities are the most reasonable hypotheses, and the existing circumstantial evidence does not effectively arbitrate between the two. To assess the relative likelihood of both possibilities, a large-scale and thorough test of the reforms is necessary.

## **V. Proposed Test**

To test the model and the alternative hypotheses, I propose to evaluate whether the regime has become more responsive by examining the Chinese fiscal system. So far it has been demonstrated that China is currently in a situation in which the model would predict a significant shift toward responsiveness. The growth of civil society (in some instances actively aided by the central and local leaderships) has also had the effect of developing a key mechanism of responsiveness. Civil society has articulated its demand for more social safety net spending, better environmental protection, and a fairer and more just economic system. Anecdotal data and rhetoric from the central leadership suggests that the state has become more responsive to these demands. However, a more definitive test is needed to arbitrate if the responsiveness hypothesis or the more traditional models of authoritarian behavior best explain the case of China.

Testing whether the environmental system has seen improvement or whether progress has been made toward a fairer and more just economic system is problematic and it would be difficult to discern government intentions given a measured outcome – even if cleaning up the environment were the key goal of the state, the ability of the state

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<sup>112</sup> Reasons for such an implementation strategy span a wide range of causes, from incompetence to disinterest to principal-agent and coordination problems. The goal of this work is to arbitrate whether the reforms were successfully carried out. If the evidence suggests that the reforms were substantially not implemented as designed, then interesting inferences might be made as to why. However, a deep investigation into these hypothetical causes is beyond the scope of the project proposed herein.

to control private companies is questionable. Having said that, there is already significant evidence of increased environmental controls and environmental responsiveness, however uneven and halting progress has been.<sup>113</sup> The central government and many local governments appear to be earnest in their efforts to improve the environment. However, rigorously testing whether such actions are serious efforts or merely window dressing would be difficult. The causes of pollution in China are partly due to lax environmental standards, but also partly due to the rapid increase in cars and population – a source of pollution that does not lend itself to administrative solutions. Moreover, environmental regulation is administered primarily at the firm level, making it difficult for outsiders to observe enforcement effectiveness of regulations.<sup>114</sup>

Similarly, a fairer and more just economic system – that is, one with less inequality and more economic fair play – would be difficult to operationalize and test. A fairer economic system would require improved behavior from local officials in terms of corruption and fair dealing with local residents. Thus, this policy goal would require significant work on improving cadre discipline. Cadre discipline is invisible to outsiders and conducting a large  $n$  test of whether discipline has increased would be exceptionally difficult.<sup>115</sup> On the more general issue of economic justice and equality, even with a major effort it is not clear that the government can substantially alter rising levels of

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<sup>113</sup> Bryan Tilt, “The Politics of Industrial Pollution in Rural China,” *Journal of Peasant Studies* 40, no. 6 (2013): 1150.

<sup>114</sup> *Ibid.*, 1157.

<sup>115</sup> In principle, one could examine whether protests have decreased as a proxy for improved cadre discipline. In fact, though, protests can be aimed at cadres’ perfectly lawful behavior. Moreover, cadres are often put in no-win situations whereby they lack funding to carry out central mandates. They then face the dilemma of fostering protests for not providing required services or instead encouraging riots and dissent for conducting illegal land seizures. In both situations, it is unclear what result to expect from increased cadre discipline. See David Zweig, “The ‘Externalities of Development’: Can New Political Institutions Manage Rural Development?,” in *Chinese Society: Change, Conflict and Resistance*, ed. Elizabeth J. Perry and Mark Selden (New York, NY: Taylor & Francis, 2010), 120.

inequality and deviate from the typical development path of industrializing countries, which is to see increasing economic inequality as a result of economic growth.<sup>116</sup>

Changes in inequality due to government policies would also be difficult to detect, as decomposing what component of changes in income inequality is due to policy change and what is due to organic economic growth would be much too taxing on existing data.

Testing the improvements in the social safety net via an examination of the fiscal system, on the other hand, does not suffer these defects. Since tax income has been growing rapidly at all levels, it is much less difficult to implement new programs and fiscal transfer regimes than it would be to implement reforms in the other two demanded areas. In a sense, the fiscal system changes can enable “responsiveness without losers.”<sup>117</sup> Moreover, since spending can be fairly directly measured, it is much easier to examine intent than the more opaque areas of environmental regulation enforcement or the disciplining of cadres. Thus on both the issue of government motivation and the issue of measurability, the fiscal system is the best of the three to test for responsiveness.

If the fiscal system is to be an adequate test, it must also fulfill three criteria. The first is that the fiscal system must be an important tool for central government policymaking. The second is that the fiscal system can actually serve as a channel through which the government can be responsive. The third criterion is that the fiscal data actually be observable. I argue below that the case of China after the introduction of new

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<sup>116</sup> This growth pattern is typically called the Kuznets Curve. As a country moves from traditional production to modern production, those who make the sectoral shift first receive world-competitive wages, while those in the traditional sector continue to earn subsistence wages. Once a majority of workers have left the traditional sector, income inequality begins to decline as an increasing number of workers earn market-competitive wages. Simon Kuznets, *Economic Growth and Structure* (New York, NY: WW Norton & Company, 1965).

<sup>117</sup> Economists would call this a Pareto-improving change. The other issues on which the government could be responsive require policy adjustments that directly hurt the interests of some subset of the population. This does not mean that the government will not be responsive to those issues, but the execution of such changes would undoubtedly be more complicated.

leadership in 2002 satisfies all of these criteria. At the end of this section, I propose a three-part test of the responsiveness hypothesis.

### *Suitability Requirements*

The Chinese fiscal system fulfills all three suitability requirements to be a good test of whether the regime has become more responsive. After the 1994 tax reforms, the fiscal system has had adequate capacity to respond to social pressures and their concomitant demands for spending. Since the late 1990s, the Chinese government had also taken steps to strengthen and regularize fiscal policies and institutions, making the fiscal system more effective at achieving desired policy goals. Finally, data does exist on the fiscal system. While it may be problematic in terms of reliability, the data sources are not fatally compromised by bias or other problems.

### Importance of the Fiscal System

The Chinese fiscal system has not always had the capacity to help achieve policy goals, but the 1994 fiscal system reform transformed the system to enough of an extent that now central policymakers have enough revenue to address whatever policy issues they feel are most pressing.

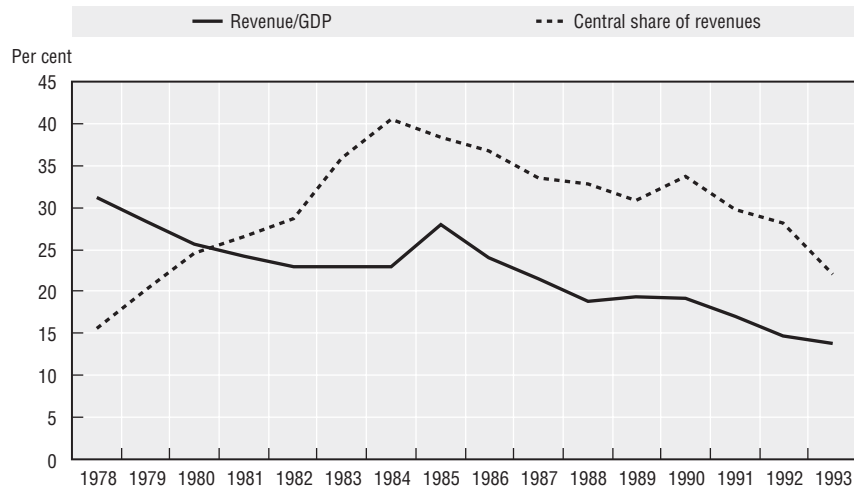
In the pre-reform planned economy period, the fiscal system was at best incidental to the actual operation of the economy. Prices and flows of funds were not nearly as important as allocations of material and production quotas. As Christine Wong notes, “[i]n the planned economy, all resource allocation decisions were made in the plan with the budget serving essentially as a secondary accounting device.”<sup>118</sup> After the onset of reform, the fiscal system began to grow in importance at the same time as the center

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<sup>118</sup> Christine Wong, “Budget Reform in China,” *OECD Journal on Budgeting* 7, no. 1 (July 4, 2007): 2.

began to lose control of revenue. The central state implemented a system of tax contracting with localities, in which the locality would promise the center a fixed amount of revenue while the local government was allowed to keep the rest. This system limited the center's ability to capture increasing rural and peri-rural tax revenues due to rapid GDP growth.<sup>119</sup> At the same time, traditional revenue sources for the central government, taxes on SOE revenues and SOE profits, declined dramatically as these firms began to face true market competition.<sup>120</sup> By 1993, as Figure 3.6 below demonstrates, central government revenue as a share of GDP and total government revenues were at all-time lows.

Figure 3.6: Central Government Revenues 1978-1993



Source: Christine Wong.<sup>121</sup>

<sup>119</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 432.

<sup>120</sup> Christine C. P. Wong and Richard M. Bird, *China's Fiscal System: A Work in Progress*, International Tax Program Paper (International Tax Program, Institute for International Business, Joseph L. Rotman School of Management, University of Toronto, 2005), 5, <http://ideas.repec.org/p/itp/itpwps/0515.html>.

<sup>121</sup> Christine Wong, "Budget Reform in China," 5.

If fiscal reforms had not been implemented, it would make little sense to examine responsiveness in the fiscal system, as government revenue would be insufficient to respond to the needs of society.

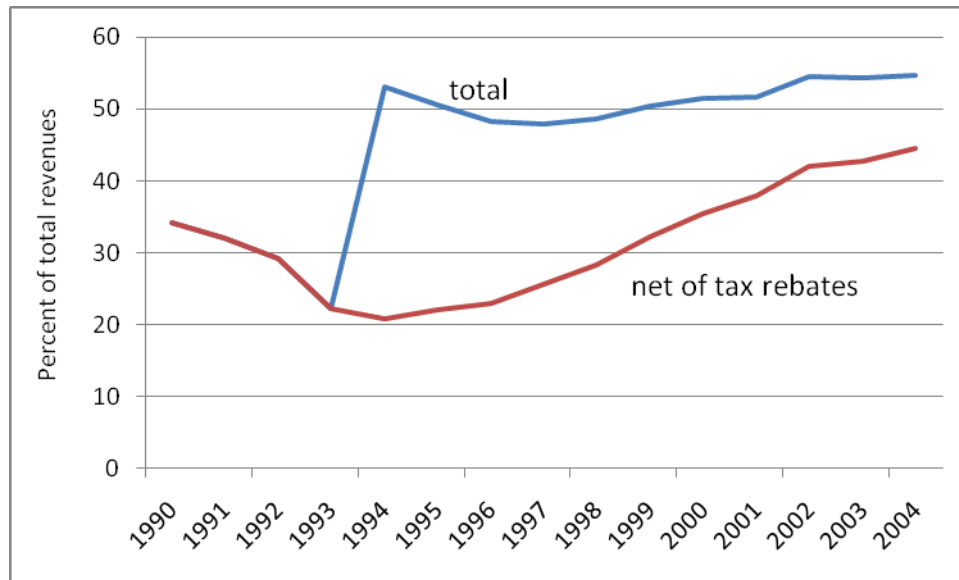
However, in 1994 the central government embarked on a major reform to re-centralize revenue, called the Tax Sharing System (TSS). Rather than engaging in tax contracting, the government instead implemented a system to share tax revenues between the center and the locality collecting the tax.<sup>122</sup> This kept in place the incentive to grow local revenue while ensuring the central government would share in local prosperity. At the same time, the central government also simplified the tax structure, helping to eliminate opportunities for local governments to game the tax system to keep revenues locally.<sup>123</sup> The results of these efforts can be seen below in Figure 3.7.

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<sup>122</sup> Wong and Bird, *China*, 5.

<sup>123</sup> The previous system was based on a Soviet model of turnover taxes with many different categories. Local governments could shift tax revenue into different, more advantageous categories to keep more revenue. The reform dramatically reduced the number of categories and equalized their rates. *Ibid.*, 6.

Figure 3.7: Central Government Percentage of Total Revenues



Source: Christine Wong.<sup>124</sup>

Even after subtracting taxes rebated to localities as part of the tax sharing pact, the central government's share of total revenue climbed from a low of 20% in 1994 to nearly 45% by 2004. Thus, while the TSS has its share of problems,<sup>125</sup> on the whole the fiscal reform was successful, increasing both total government revenues as a percentage of GDP and the central government's share of the revenue. Both of these changes were to a significant enough extent that the Chinese government, counting the resources of central and local governments combined, has enough fiscal capacity to be responsive if it so chooses. Thus, any barrier to using the fiscal system to be responsive is a political or institutional one, rather than being a question of capacity.

<sup>124</sup> Christine Wong, "Fiscal Management for a Harmonious Society: Assessing the Central Government's Capacity to Implement National Policies," *BICC Working Paper Series 4* (2007): 5.

<sup>125</sup> Some of the problems of the TSS include: (1) tax sharing is a pro-inequality strategy, as the rich provinces will receive a much higher rebate than poor provinces; (2) the TSS delinks expenditure responsibilities and revenue sources – most social service spending requirements were retained by localities while the center took an increasingly large percentage of revenue; and (3) decentralization of policy outcomes by default as local units become responsible for implementing services. Wong, "Rebuilding Government for the 21st Century: Can China Incrementally Reform the Public Sector?"

## Fiscal Institutions

While the fiscal system may have been recapitalized, it is important to show that (1) the fiscal system is a primary policymaking instrument and (2) effective and regular institutional channels exist to transform policy preferences into fiscal outcomes. The first point might seem to be obviously true for most democratic countries, but as noted earlier, in most socialist countries major economic decisions were made via the plan while the fiscal system served as an incidental accounting device. Moreover, in reference to the second point, in many less developed countries the fiscal system may be opaque to the leadership, it may be prone to corruption, and the relevant fiscal agencies may lack the institutional capacity to monitor, budget, or track funds.<sup>126</sup> However, as shown below, the Chinese government has increasingly used the fiscal system to achieve policy goals and has strengthened its monitoring and control of the revenue and expenditure channels as a means to achieve these goals. This development means that, if the central leadership desires to be responsive, evidence should exist in the fiscal system that it has chosen to do so.

In many ways, the fiscal system is the heart of policy-making in most countries. Harold Lasswell, one of the early political science pioneers, described the study of politics as asking the question “who gets what, when, and how.”<sup>127</sup> More specific to fiscal policy, Wong and Bird note, “[p]ublic finance matters. It matters for sustained economic growth. It matters for economic stability. It matters for the distribution of income and wealth. It matters for the delivery of such basic services as education and healthy. It

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<sup>126</sup> Anwar Shah, *Fiscal Decentralization in Developing and Transition Economies: Progress, Problems, and the Promise*, Working Paper, World Bank Policy Research, (April 2004).

<sup>127</sup> Harold Dwight Lasswell, *Politics: Who Gets What, When, How* (New York, NY: McGraw-Hill, 1936).

matters for political stability.”<sup>128</sup> While there may be other aspects of politics to study (international relations, political psychology, etc.), studying whether policy rhetoric has been transformed into policy outcomes invariably involves considering the fiscal system.

Beyond the generally stated fact that government policy is often largely about control over resources, in China the fiscal system is increasingly seen by policymakers as the primary tool in their arsenal to effect policy outcomes. Christine Wong spells out official thinking regarding the fiscal system:

To achieve the goals set out [in the Hu-Wen program] will require improving public expenditure management and ensuring that government spending is more tightly linked to priorities, improving budget processes and execution, and holding government accountable for improving its performance. Indeed, in a speech during 2002, (then) Vice Premier Li Lanqing called improving public expenditure management “an important guarantor for the achievement of *xiaokang* [well-off] society.” ... In sum, the pressure is on to improve public expenditure management.<sup>129</sup>

As she alludes to in the above passage, since 2003 and the introduction of the Hu-Wen program, many of the largest and most potentially pro-responsive promises made by the leadership require heavy use of the fiscal system. Providing free primary education to rural residents will be extremely expensive. Rolling out a new health care insurance scheme will also require significant state resources, not to mention the expense of implementing the guaranteed minimum income program (the *dibao* 低保). As noted in the previous section, it is clear that China can afford to make good on these promises. The unresolved question is whether there are formal channels through which these funds can be disbursed to achieve the central state’s policy goals. Fortunately for the Chinese leadership, such a channel does exist: the fiscal transfer system.

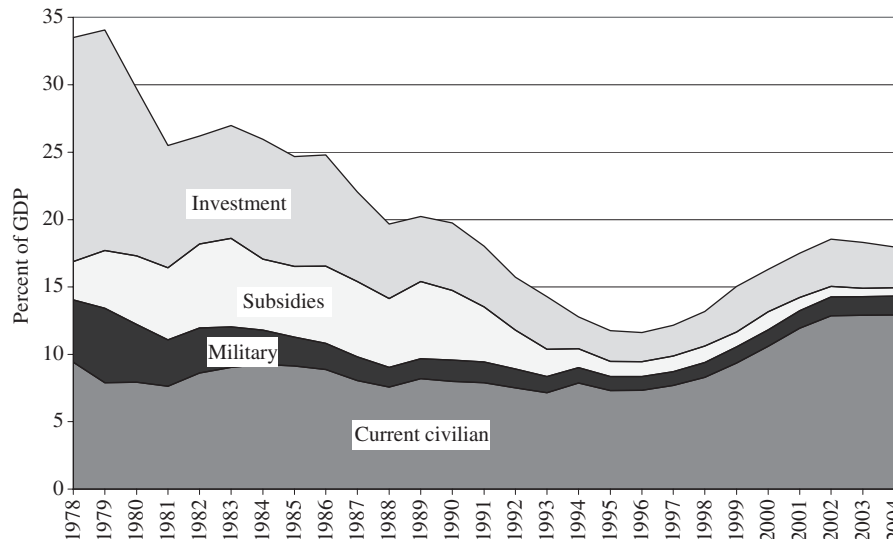
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<sup>128</sup> Wong and Bird, *China*, 2.

<sup>129</sup> Christine Wong, “Budget Reform in China,” 3.

China's system of transfers and decentralization means that existing fiscal pathways can be used to enact the promised increases in spending. Overall, the fiscal system in China has many moving parts, including outlays for things typically not thought of as spending on a domestic political agenda, such as defense, space exploration, government salaries,<sup>130</sup> and so on. Even with these miscellaneous expenses, most central government spending still generally revolves around civilian activities, as seen in Figure 3.8 below.

Figure 3.8: Components of the Central Budget



Source: Barry Naughton.<sup>131</sup>

Within the category of civilian, most of the funds go to inter-government subsidies and transfers.<sup>132</sup> In 2000, nearly 2/3 of the central budget went to transfers and tax rebates to

<sup>130</sup> Shih et al. have argued that actually government salaries can be considered, in some localities, to be effectively a jobs program, which is a type of responsiveness. But this argument is only true at the sub-county level at best. Victor Shih and Qi Zhang, "Who Receives Subsidies: A Look at the County-Level Before and After the 1994 Tax Reform," in *Paying for Progress: Public Finance, Human Welfare, and Inequality in China* (Oxford: Taylor & Francis, 2004), 145–65.

<sup>131</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 434.

localities and that percentage has held steady since. These fiscal transfers, which are discussed in more detail in the next chapter, make up a significant part of local governments' budgets. The fiscal transfer system works, in part, by a series of grants to a lower level of government, which then further disburse funds to the next level down. It also works in part by direct transfers from the central government to specific localities for earmarked projects. In recent years, the number of transfer categories for non-earmarked transfers has increased significantly as the fiscal transfer system has been employed to achieve new policy objectives. Most of these new fiscal transfers target the county level, which is the same level that is mandated to provide much of the newly announced social service provisions. As a result, county budgets have ballooned, indicating that the fiscal transfer system has been used as a tool for implementing the new, responsive policy regime.

Overall, the fiscal system shows evidence of having been employed to achieve policy outcomes and contains within it the necessary apparatus to deliver the funds to the relevant government levels that can achieve these outcomes. Whether the leadership and local leaders choose to follow through with the promises born out of their new policy direction is therefore testable via an examination of the fiscal system, provided the data exists to make such an examination.

### Is the Fiscal System Observable?

The last criterion of whether the fiscal system would be a good test is a practical one: is fiscal data actually available and reliable? In general, fiscal data on China has been more forthcoming over the last 15 to 20 years for several reasons. One is that the top

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<sup>132</sup> Zhihua Zhang and Jorge Martinez-Vazquez, "The System of Equalization Transfers in China," in *Georgia State University: Andrew Young School of Policy Studies*, vol. Working Paper 03-14, 2003, 18.

leadership themselves felt that they needed better data on which to base key economic decisions. The second is that data collection has improved in quality and quantity in the post-reform environment, as statistical bureaus gain expertise and resources. Several datasets are available that directly and indirectly indicate the size and amount of fiscal transfers, local expenditures, and popular opinions about local conditions. These datasets contain enough detail and enough control variables to conduct a rigorous test of the model.

However, data reliability is a major concern with all these sources and this problem manifests itself in several different ways. In the following chapters, I discuss more fully potential issues with each dataset and reasonable workarounds or additional cross-verification tests to ensure the integrity of the results derived from the data. Briefly, however, it is worth outlining the scope of the problem, and also describing mitigating factors and strategies to overcome the problems.

The first issue with the data is missingness. In many regression contexts where the number of missing data points is low, this problem is often ignored. However, in many less-developed regimes where the capability of the statistical bureau is weak or non-existent, statistical data is sometimes not reported for years at a time. This is the case with county-level data in China, particularly before 1998, when a series of statistical reforms were implemented.<sup>133</sup> If the missingness were random, then the problem would not be so severe, but as Michael Ross has noted, missingness in political science is almost never random.<sup>134</sup> That is, the missing data is likely from the poorest and least capable counties, potentially introducing bias into the dataset. This issue can be overcome in two ways. The

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<sup>133</sup> Naughton, *The Chinese Economy: Transitions and Growth*.

<sup>134</sup> Michael Ross, "Does Democracy Reduce Infant Mortality?," in *Workshop on Democratic Institutions and Economic Performance* (Duke University, 2005).

first is simply not to use county-level data from before 1998. Since the predicted level of responsiveness increased around the 2000s, the years from 1998 to 2002 should provide a useful baseline to test if an increase in social spending occurred in the following period. The second strategy is to use techniques to generate representative data to fill in missing values.<sup>135</sup> These processes use information such as the distribution of the variables and complex likelihood calculations to impute the value of the missing variable. By using these techniques, regressions including all cases can be run although the power of the resulting regression decreases somewhat – an acceptable tradeoff when datasets are large enough.

The second major issue, and more problematic one, is reporting error in the statistics.<sup>136</sup> There are several ways in which statistics can be misreported. The first occurs when statistical bureaus lack the ability to gather statistics accurately, but do their best to report the figures given their (limited) ability to observe and estimate them. This problem is worth considering but does not introduce bias into attempts to estimate regression parameters. This is because the data has simply become more “noisy,”<sup>137</sup> not that it has become biased toward a particular result. A common solution to this problem

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<sup>135</sup> The math behind these processes is fairly advanced, but the basic strategy is relatively intuitive: it uses other values in the dataset to generate a “best guess” of what the missing value should be. One approach is to use a maximum likelihood estimator, the other is to use a Bayesian multiple imputation approach. Both techniques are fairly well established in the statistical literature, although they are sadly under applied in the social science literature. For more information, see Craig K. Enders, *Applied Missing Data Analysis* (New York, NY: Guilford Press, 2010).

<sup>136</sup> Many China scholars have also examined the problem of bias in Chinese statistics and have generally found that upward bias in economic data does exist, particularly with respect to economic data.

<sup>137</sup> In other words, the data generating mechanism is  $\beta_i X + e_i$ , where  $\beta_i$  is the true coefficient value of the estimated parameter  $X_i$  for data point  $i$  and  $e_i$  the randomly introduced error in collection of data point  $i$ . As long as the mean of the  $e_i$  is 0 (i.e., the data collection is simply bad, but not bad in a particular direction), then the estimated parameter should still be correct. There is a somewhat subtler problem that can be introduced if the distribution for the  $e_i$  terms is heterogeneous across units in the dataset (heteroskedasticity), which might be the case if different types of units have different abilities to gather statistics (for example, if rich units had better data-collection capabilities). This problem would cause standard regressions to calculate improper standard error terms for parameter estimates, but the problem is also fairly straightforward to diagnose and there are standard regression techniques to account for the problem.

involves correcting the standard error term; overall it should make finding relationships in the data *more* difficult, meaning that relationships that are discovered in the data are potentially more meaningful.

The other, more pernicious, way in which statistics can suffer from reporting errors is if officials have an incentive to lie about statistics to help their promotion chances. In China, officials are promoted partially based on how well they have hit certain statistical targets within their area of responsibility,<sup>138</sup> so there is a natural inclination to over-report positive figures and under-report damaging figures.<sup>139</sup> Thus, figures like GDP growth can end up being distorted in ways that help the careers of officials. However, as long as the mis-reporting is being done equally by all officials (plus or minus some error term), then it should not affect comparisons between the two periods. That is to say, as long as everyone is lying by the same average amount (more or less), then comparing different places should not be overly problematic.<sup>140</sup>

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<sup>138</sup> The foundational paper on China's *nomenklatura* scheme, called locally in China the cadre responsibility system (*gangwei zerenzhi* 岗位责任制), is Maria Edin, "State Capacity and Local Agent Control in China: CCP Cadre Management from a Township Perspective," *China Quarterly*, 2003, 35–52. There is some debate whether numerical targets are useful for predicting promotion at the highest levels, but most research has since confirmed its applicability at the prefectural level on down. Relevant papers include Victor Shih, Christopher Adolph, and Mingxing Liu, "Getting Ahead in the Communist Party: Explaining the Advancement of Central Committee Members in China," *American Political Science Review* 106, no. 01 (2012): 166–87.; Hongbin Li and Li-An Zhou, "Political Turnover and Economic Performance: The Incentive Role of Personnel Control in China," *Journal of Public Economics* 89, no. 9–10 (September 2005): 1743–62.; and Eun Kyong Choi, "Patronage and Performance: Factors in the Political Mobility of Provincial Leaders in Post-Deng China," *The China Quarterly*, 2012, 1–17.

<sup>139</sup> This problem is a common one in Communist regimes, and is often cited as one of the key factors leading to disasters such as The Great Leap Forward and various Soviet agricultural famines. For a discussion of how this dynamic worked, see James Kai-Sing Kung and Shuo Chen, "The Tragedy of the Nomenklatura: Career Incentives and Political Radicalism during China's Great Leap Famine," *American Political Science Review* 105, no. 01 (2011): 27–45.; Justin Yifu Lin and Dennis Tao Yang, "Food Availability, Entitlements and the Chinese Famine of 1959–61," *The Economic Journal* 110, no. 460 (2000): 136–58. For a discussion of the Soviet case, see Selden, *The Political Economy of Chinese Socialism*, 43.

<sup>140</sup> If the biased reporting is done equally, plus some random error amount, then the reporting errors will lead to an inaccurate calculation of the standard error term of the regression coefficients. It should not, however, bias the estimates of the coefficients themselves. See the footnote in the previous section on noisy data for a fuller explanation.

Moreover, the figures that are often suspected of bias usually have correlating statistics that are not used for evaluation that can serve as a useful consistency check. For example, GDP figures are often found to correlate highly with power usage figures for a given region and so any regression equation with GDP included can be cross-checked by substituting power consumption figures. Additionally, while there may be evidence of upward reporting bias in the data, it is unlikely that this bias is strongly correlated with measures designed to show increased responsiveness.

However, even given all of these justifications for using data from China, there remains significant and deep skepticism from political scientists on using a quantitative research approach to study China.<sup>141</sup> To assuage these concerns but still use a data-centered approach, ultimately the most satisfying tests are the ones in which multiple datasets at different levels and using different data sources are employed. Doing so increases the difficulty in supporting a conclusion of responsiveness – to be convincing, multiple datasets of varying quality and provenance would all have to show signs of increased responsiveness. This is the strategy I use in constructing the tests outlined in the next section.

### *The Test, Restated*

The Chinese fiscal system thus serves as good test case to monitor if leadership responsiveness has increased, given a well-specified set of cases to examine. Overall, the fiscal system has sufficient capacity to respond to new social demands. Existing institutional fiscal channels and mechanisms are developed enough to execute a policy change. The data on the fiscal system that exists, despite whatever problems it may have,

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<sup>141</sup> This is a personal observation based on presenting many conference papers to audiences that are often skeptical of a data analytic approach to China, in part due to data reliability concerns.

is adequate to arbitrate between theories of authoritarian behavior. However, the Chinese fiscal system is large in scope, so it is necessary to specify specific cases in which responsiveness should be apparent. The three concrete areas of the fiscal system that I propose are good candidates to test whether the Chinese government has been more responsive are the following: (1) central government transfers, (2) local government spending patterns, and (3) popular response to increased responsiveness. These three cases should be enough either to add strong support to the authoritarian responsiveness hypothesis or to suggest that other theories may be better in understanding Chinese government behavior.

#### *1) Central Government Transfers*

These transfers are a direct expression of the will of the central government. While the tax rebate transfers are strictly by formula, all other transfers are at least somewhat discretionary in terms of the amount of money that the central government chooses to give to each locality.<sup>142</sup> Moreover, the division of transfers between different categories (say, education vs. general transfers) is also up to the central government. If central policymakers choose to be more responsive after the introduction of the Hu-Wen program, there are a number of changes that one should expect to see in the transfer system, including an increase in equalization transfers, more funds directed toward education, health care, and other social service spending, and a pro-rural tilt in transferred funds. Chapter 4 examines this issue more carefully and finds that the evidence does suggest that these changes in transfer policy occurred, a finding that lends significant support to the responsive authoritarian hypothesis.

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<sup>142</sup> Era Dabla-Norris, *Issues in Intergovernmental Fiscal Relations in China*, Working Paper, IMF Working Paper (IMF Institute, 2005), 11.

## *2) Local Government Spending Patterns*

Local government spending patterns, if the responsive authoritarian model holds for China, should also exhibit signs of becoming more responsive. In the earlier sections of this chapter, I was somewhat imprecise in describing who, exactly, would be responsive in the Chinese government. Most of the time I described the incentives for the central leadership to be responsive, but some of those same incentives exist at the local level. Moreover, the central government leadership has a strong interest in encouraging their agents to act in a responsive fashion. While principal-agent problems and cross-cutting incentive structures potentially serve to weaken local officials' motivation to respond to demands of society, overall the expectation is still that they have become more responsive. Chapter 5 examines this area of the fiscal system, finding support for both local government responsiveness and the responsive authoritarian hypothesis in general.

## *3) Evidence of Responsiveness*

While intentions are an important part of the responsiveness theory, truly being responsive would require that the leadership actually implement meaningful changes. Spending data is useful to determine intentionality, but showing that the money was spent in ways that significantly increased socially demanded services proves the central and local governments were also committed to execution of a responsive strategy. To measure whether the policy reforms have had significant impacts, I examine a number of data sources, including a detailed household survey dataset from 2002 and 2008, quantitative data on the number of social services provided, as well as public opinion

polling. Chapter 6 examines all of these and generally finds support for the hypothesis that the policy changes have had a significant impact in the direction of responsiveness.

## **VI. Conclusion**

It is now cliché to note that China has undergone rapid, dramatic changes since the introduction of the opening up policy of 1979. However, these reforms have also unlocked significant changes in the relationship between the rulers and the ruled, a set of changes that remain understudied and under theorized. Because of the combination of the decline in revolutionary/ideological legitimacy and the ability to maintain a long time horizon, the theory predicts the regime should become increasingly responsive, making China in the post-reform era an ideal test case. Moreover, as predicted by the theory, the Chinese leadership has been active in nurturing a nascent civil society (within limited bounds) that could serve as a mechanism of responsiveness.

Circumstantial evidence does exist that the regime has become more responsive, but this purported responsiveness has not been rigorously tested. There are three areas in which civil society has voiced a demand for change, and the one most easily amenable to testing is the fiscal system, for three reasons. One, the fiscal system has a significant impact on the lives of Chinese citizens. Two, evidence exists that the central and local governments can (and do) manipulate the fiscal system to reach specific outcomes. Three, the fiscal system is observable – data is available to examine the extent to which it has been reoriented toward responsiveness since the early 2000s. Within the fiscal system, three issues serve as useful specific tests of responsiveness. First is an examination of central-local transfers since the late 1990s. Second is local government spending patterns since the early 2000s. Last is data about local citizen satisfaction with these

responsiveness initiatives. The three tests, taken together, should either lend strong support to the responsiveness theory or offer enough evidence to reject it. The next three chapters are therefore devoted to examining how the fiscal system has been shaped by the Harmonious Society and the central leadership's purported drive to increase responsiveness.

## **Chapter 4: Central Government Transfers: Evidence of Responsiveness**

### **I. Introduction**

Building on the theoretical literature, the data on fiscal transfers in China generally supports the authoritarian responsiveness hypothesis over other existing theories of transfer motivations. From a theoretical perspective, a number of hypotheses have been suggested as to why central governments might favor or initiate transfers to specific groups or subunits. These range from the authoritarian responsiveness hypothesis, which suggests support for education, elderly residents, and rural residents, to the view that transfers are made on the basis of economic efficiency and equality.

Summary data regarding transfers generally suggests that transfers in China have been less pro-rich and more pro-poor and pro-responsive. However, existing econometric results have not reached a similar conclusion, likely because of model misspecification and inappropriate variable choice. After carefully reviewing available variables and selection of a proper model fitting the likely underlying data-generating process (an understanding gained from review of summary data), the regression results generally support the authoritarian responsiveness hypothesis. However, additional investigations are necessary to accept this hypothesis fully and those explorations of related financial policy topics are completed in the following two chapters.

### **II. Theoretical Considerations**

Fiscal transfers are an important tool for almost every major government to achieve policy goals. The current literature has two major areas of disagreement about how transfers are used. Some scholars see transfers as a means to achieve standard policy goals. Other scholars, mostly economists, tend to view transfers as a means to overcome

specific failures of a fiscal system. I argue that while these two points of view are informative, a possibly more useful conceptualization of transfers should see them as a politically efficient form of long-term legitimacy building, with China serving as particularly useful test case.

### *What is a Fiscal Transfer?*

Definitionally, fiscal transfers are simply the movement of money from a superior level of government to a subordinate unit, but in that definition lies significant complexity. First, what exactly constitutes a transfer is not something that can be neatly delineated. Bahl and Linn divide transfers into four categories: by formula, ad hoc, reimbursement-based, and rebating a share of revenue to jurisdictions (such as returning a share of gasoline tax paid to each relevant subunit).<sup>1</sup> Refunds and, to an extent, formula transfers can arguably be said not to be transfers, given that a (possibly) large percentage of the funds is simply a return of taxes previously remitted to the center. The question of whether a rebate should be properly considered a transfer is also one that arises in China, given that the tax refund is one of the largest sources of funding for many local governments.

In general, the more discretion the central government has over the transfer, the more interesting the transfer is from a policy analysis perspective. Some countries, such as Brazil,<sup>2</sup> have constitutionally mandated transfer percentages, which, while perhaps attractive to study from an institutional design perspective, offer little in the way of insight into regime policy choice. The question of fiscal transfers is also deeply entwined

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<sup>1</sup> Roy Bahl and Johannes Linn, "Fiscal Decentralization and Intergovernmental Transfers in Less Developed Countries," *Publis* 24, no. 1 (1994): 6.

<sup>2</sup> Christopher Garman, Stephan Haggard, and Eliza Willis, "Fiscal Decentralization: A Political Theory with Latin American Cases," *World Politics* 53, no. 2 (2001): 228.

with the literature on decentralization. Fiscal transfers necessarily imply giving some agency to lower-level officials to spend the money (else why not have the central government spend the money directly?), but the literature is not clear on whether fiscal transfers are the primary goal of decentralization (for efficiency or other political reasons) or are instead a *result* of previous, unrelated decisions to decentralize.

One major issue with political explanations is that most authors fail to consider why transfers were the chosen policy instrument. The relevant question is not whether transfers are used for political purposes, but rather *why* transfers are used rather than other policy instruments. Answering that question requires taking a wider perspective than simply looking at yearly transfer allocations by also examining what the alternative policy instruments were and what institutional constraints state actors had on modifying transfers versus other potential policy channels. No doubt transfers are an appealing policy channel for politicians because one can specifically target desired constituencies. However, this then raises the issue of the durability of institutional transfer arrangements – in systems where changing transfer arrangements is difficult because of preexisting bargains or institutional constraints, then the choice to use transfers as a way to promote policy is endogenous to institutional design.

However, it is also somewhat dangerous (particularly in the context of autocracies) to assume institutional designs are given exogenously and are immutable. Nonetheless, it should at least be recognized that major changes that introduce new transfers in the fiscal system require a heavier lift from regimes than altering ongoing flows of transfers. These two concerns, one of short-run transfer decisions versus long-

run institutional design, shape the tone and tenor of the literature from political science and economics on transfer design.

### *Motivations for Transfers*

The focus of political science literature on transfer motivations varies significantly in time horizon and scope from economics literature on transfers. Political scientists tend to be most interested in one-off modifications to the yearly transfer scheme to generate additional votes or other political benefits. Economists concerned with the economic benefits of transfers are more interested in long-run system design. However, much of the literature fails to account for the fact that transfer funds can be subverted or otherwise repurposed in developing countries. Nor does it consider the incentive set for transfers in autocracies. Still, when carefully considered, both of these frameworks generate a number of testable hypotheses that might be applied to a test case of China.

Political use of transfers has its roots in the political business cycle literature of William Nordhaus and others. Nordhaus argued that political leaders could manipulate the economic system via cutting interest rates before an election in an attempt to win votes.<sup>3</sup> While he did not directly address how transfers may play a political role, the implication of his research is straightforward – fiscal flows matter for the reelection of politicians. Numerous authors have debated the specific strategy a government might take

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<sup>3</sup> The mechanism of action in his argument is that cutting interest rates adjusts the jobs/inflation equilibrium along the Phillips Curve, with the key insight being that jobs are gained in the short run while inflationary pressure only appears in the medium to long run. William D Nordhaus, “The Political Business Cycle,” *The Review of Economic Studies* 42, no. 2 (1975): 169.

to influence the economy as a means to a political end<sup>4</sup> and a few have tested how these strategies might apply to intergovernmental transfers.<sup>5</sup>

One of the divisions in this literature is the debate between those who argue that transfers are/should be primarily targeted at regime or administrative supporters and those who think transfers ought to go to those that are unhappy with the party or regime in power. Cox and McCubbins are most strongly associated with the first view,<sup>6</sup> arguing that coalition politics are essential to winning elections. Proponents of the latter view can be traced back to the median voter theory of Meltzer and Richard.<sup>7</sup> They would argue that the key motivator for transfers is trying to capture the median voter, hence the need to convince just enough people with fiscal transfers to create a majority.

Working from a more prescriptive and normative framework, some economists have argued for the potential for transfers to solve fiscal failures that commonly occur in modern states. Among these failures, efficiency is one of the largest considerations. For scholars interested in efficiency, the goal of fiscal transfers is to be part of an incentive matrix to encourage optimal government spending. As Wallace Oates, one of the most preeminent economic scholars of fiscal decentralization put it, “[t]he basic issue [for designing a fiscal system] is one of aligning responsibilities and fiscal instruments with

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<sup>4</sup> The two sides of the debate are roughly those who believe that the government should target swing voters and those who believe governments target supporters. For the former view, see Assar Lindbeck and Jorgen W Weibull, “Balanced-Budget Redistribution a the Outcome of Political Competition,” *Public Choice* 52 (1987): 273–97; Avinash Dixit and John Londregan, “The Determinants of Success of Special Interests in Redistributive Politics,” *The Journal of Politics* 58, no. 04 (1996): 1132–55. For the latter view, see Gary W. Cox and Mathew D. McCubbins, “Electoral Politics as a Redistributive Game,” *The Journal of Politics* 48, no. 02 (1986): 370–89.

<sup>5</sup> Some examples include Matz Dahlberg and Eva Johansson, “On the Vote-Purchasing Behavior of Incumbent Governments,” *American Political Science Review* 96, no. 1 (2002): 27–40; Linda Gonçalves Veiga and Maria Manuel Pinho, “The Political Economy of Intergovernmental Grants: Evidence from a Maturing Democracy,” *Public Choice* 133, no. 3–4 (December 1, 2007): 457–77.

<sup>6</sup> Cox and McCubbins, “Electoral Politics as a Redistributive Game.”

<sup>7</sup> Allan H. Meltzer and Scott F. Richard, “A Rational Theory of the Size of Government,” *Journal of Political Economy* 89, no. 5 (October 1, 1981): 914–27.

the proper levels of government.”<sup>8</sup> These arguments, to the extent that they attempt to offer descriptive theory, presuppose that the primary motivation of the central government is an Olsonian attempt to maximize economic growth potential and to do so primarily at a system design level.<sup>9</sup>

Within this literature, there exists significant debate about the appropriate type of transfer and the level of transfers necessary to stimulate ideal local government expenditures.<sup>10</sup> However, there is at least some agreement in the literature that fiscal decentralization produces a number of useful economic benefits and intergovernmental transfers can help realize efficiencies of government service provision.<sup>11</sup> Some of these efficiencies include providing government services at the appropriate level, better matching spending with revenue assignments, and less vulnerability to political grandstanding.<sup>12</sup> Others, such as Cai and Triesman, have argued from an economic geography perspective that the main benefit of decentralization is that some areas are naturally more productive; fiscal decentralization therefore speeds the flow of workers and capital to the most productive provinces, creating efficiencies.<sup>13</sup> Finally, a group of developmental economists sees fiscal transfers as a way to equalize government capacity.

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<sup>8</sup> Wallace E Oates, “An Essay on Fiscal Federalism,” *Journal of Economic Literature* 37, no. 3 (1999): 1120.

<sup>9</sup> This assumption is perhaps a slight extension of Olson’s argument that autocracies will offer secure property rights, but is generally in line with the incentive set he describes for autocrats. See Mancur Olson, “Dictatorship, Democracy, and Development,” *American Political Science Review* 87, no. 3 (1993): 571.

<sup>10</sup> See, for example, Santanu Chatterjee, Georgios Sakoulis, and Stephen J Turnovsky, “Unilateral Capital Transfers, Public Investment, and Economic Growth,” *European Economic Review* 47, no. 6 (2003): 1077–1103; Garman, Haggard, and Willis, “Fiscal Decentralization: A Political Theory with Latin American Cases”; Philip Hanson, “Federalism with a Russian Face: Regional Inequality, Administrative Capacity and Regional Budgets in Russia,” *Economic Change and Restructuring* 39, no. 3–4 (December 1, 2006): 191–211.

<sup>11</sup> Bahl and Linn, “Fiscal Decentralization and Intergovernmental Transfers in Less Developed Countries.”

<sup>12</sup> Anwar Shah, *Fiscal Decentralization in Developing and Transition Economies: Progress, Problems, and the Promise*, Working Paper, World Bank Policy Research, (April 2004).

<sup>13</sup> Hongbin Cai and Daniel Triesman, “Did Government Decentralization Cause China’s Economic Miracle?,” *World Politics* 58, no. 4 (2006): 505–35.

The economic argument is that poor areas can make the best use of any additional dollars; additional funds can go toward, e.g., hiring sufficient teachers in poor areas rather than outfitting classrooms in rich areas with marginally useful new technology, producing better overall social returns.<sup>14</sup>

These general frameworks are problematic when applied to autocracies and developing countries, as the assumptions that underlie them do not always hold in a non-Western non-democratic context. For one thing, it is unclear how one should apply the specific operational logic of transfer theories designed for democracies to autocracies and developing democracies. In these types of countries, even when elections are held, it is not necessarily clear that voters can truly hold those running accountable for transfer behavior. The economic models are also hard to assess in an autocracy, as it is not clear that regime leaderships are interested in maximizing public utility and growth instead of private benefits – transfers can serve as a way of rewarding elite favorites rather than an attempt to help the general public.<sup>15</sup>

Instead of these two models, I propose a meso-level theory of transfers in which the state uses transfers to gain longer-run stability enhancements. It does this by targeting those citizens who are most at risk to being a threat *in the future* rather than operating short-run strategies that attempt to buy off regime supporters or long-run strategies that seek optimal economic gain.<sup>16</sup> The assumption necessary to justify this model is that the

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<sup>14</sup> This would be similar to what Sen calls utilitarian equality. Amartya Sen, “Equality of What?,” in *The Tanner Lecture on Human Values* (Stanford University, 1979).

<sup>15</sup> Bruce Bueno de Mesquita et al., “An Institutional Explanation of the Democratic Peace,” *American Political Science Review* 93, no. 4 (1999): 791–807.

<sup>16</sup> It is important to be clear here about the distinction between private transfers and public transfers. Private benefits are insider transfers to those that the leadership wishes to reward for one reason or another, perhaps along the lines of Bueno de Mesquita’s selectorate model (see Bruce Bueno de Mesquita et al., “Political Competition and Economic Growth,” *Journal of Democracy* 12, no. 1 (2001): 58–72.). However, except in the case of extreme kleptocracies, private transfers do not obviate the possibility of public

state has a longer time horizon than the next election. Most autocracies have suitably long time horizons to satisfy this assumption,<sup>17</sup> as do some long-time, one-party, semi-democratic states such as postwar Japan, PRI-led Mexico, and many African states. Such a model also requires that the leaders have some faith that transfer monies will be used to achieve this purpose by local governments, which necessarily excludes many of the very poorest autocracies, who have low government capacity, but should include many lower-middle- and middle-income autocracies. This yields the following hypothesis.

**H1: Transfers in long time horizon autocracies should go to those who present the greatest potential threat to the regime (Authoritarian responsiveness hypothesis)**

Opposite this hypothesis are some ways in which one might try to map transfer logic to autocracies. With respect to rewarding supporters as a means to stay in power, Bueno de Mesquita argues for conceptualizing the leadership dynamic in autocracies as being supported by a selectorate, or small group, that the leadership must appease if it is to stay into power.<sup>18</sup> As discussed in previous chapters, most of this literature is very elite-centric.<sup>19</sup> However, one could also interpret the support group more broadly, as did

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transfers and usually both systems operate simultaneously. Fiscal transfers are thus a type of public transfer as they are open to observation and part of the formal accounting system, usually with explicitly public-minded purposes.

<sup>17</sup> The issues of time horizon and discount rate of autocracies have not been seriously studied, to my knowledge. However, both Wintrobe and Olson have considered the outlines of the problem in Ronald Wintrobe, "Dictatorship: Analytical Approaches," in *Handbook of Comparative Politics*, ed. Carles Boix and Susan Carol Stokes (Oxford: Oxford University Press, 2007), 363–98; Olson, "Dictatorship, Democracy, and Development." Moreover, from an empirical perspective, once an autocracy has become institutionalized, it tends to exist for significantly longer than a standard Western electoral cycle. Jennifer Gandhi and Adam Przeworski, "Authoritarian Institutions and the Survival of Autocrats," *Comparative Political Studies* 40, no. 11 (November 1, 2007): 1279–1301.

<sup>18</sup> Bueno de Mesquita et al., "An Institutional Explanation of the Democratic Peace."

<sup>19</sup> See, for example, Carles Boix and Milan Svolik, *The Foundations of Limited Authoritarian Government: Institutions and Power-Sharing in Dictatorships*, SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, March 2, 2009), <http://papers.ssrn.com/abstract=1352065>; Milan W. Svolik, "Power Sharing and Leadership Dynamics in Authoritarian Regimes," *American Journal of Political Science* 53, no. 2 (2009): 477–94.

earlier scholars of autocracy like Linz and Huntington, such that support groups might be drawn from a broader, but still privileged, level of society, such as party apparatchiks in the Soviet Union or whites in apartheid South Africa.<sup>20</sup>

**H2: Regime supporters receive the most transfers in autocracies** (Elite management hypothesis)

The economic models generate the following testable hypotheses, although to what extent an autocracy might pursue them is questionable.

**H3: Decentralization of the fiscal system should be observed to match expenditures to local conditions better** (Decentralization hypothesis)

**H4: Transfers should be increasingly pro-rich as it becomes clear which areas are winners and deserve additional investment** (Economic geography hypothesis)

**H5: Transfers should be generally pro-equality so as to provide the most optimal mix of government investment** (Equality hypothesis)

Given this set of hypotheses, the Chinese fiscal system is one of the best potential test cases. The Chinese state has been able to maintain a remarkably long time horizon since the reform era of 1979 began, allowing it to initiate several rounds of reforms to protect its legitimacy.<sup>21</sup> Additionally, after the 1994 round of fiscal reforms, the Chinese central state has demonstrated an impressive level of fiscal capacity and control that would make most other autocrats and many democracies jealous.<sup>22</sup> A thorough test of the Chinese fiscal transfer system should be able to demonstrate successfully whether the

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<sup>20</sup> Huntington gives an exhaustive catalog of possible semi-mass mobilized regimes in S. P. Huntington, "Social and Institutional Dynamics of One-Party Systems," in *Authoritarian Politics in Modern Society: The Dynamics of Established One-Party Systems*, ed. C. H. Moore (New York: Basic Books, 1970).

<sup>21</sup> Bruce Gilley, "Legitimacy and Institutional Change The Case of China," *Comparative Political Studies* 41, no. 3 (March 1, 2008): 259–84.

<sup>22</sup> The desirability of the recentralization of fiscal resources is debatable; the act of recentralization itself proved to be remarkably successful. Barry Naughton, *The Chinese Economy: Transitions and Growth* (Cambridge, MA: MIT Press, 2007), 435.

proposed theory has merit or whether the other theories are more applicable to an autocracy like China.

In sum, the interesting questions regarding fiscal transfers are twofold: (1) how and why the system was designed and (2) yearly allocation changes. Scholars have two primary theories to explain why regimes choose particular systems and distributions: short-run political benefits and long-run economic efficiency. I argue both theories are problematic in the context of authoritarian regimes. Instead, a theory based on authoritarian responsiveness that focuses on long-run political benefit instead of short-run political benefit or pure efficiency is more effective at explaining the test case. The next section shows how the historical design of the Chinese fiscal system supports this view.

### **III. History of China's Fiscal Transfer System**

China's fiscal system history tentatively supports **H1**, the authoritarian responsiveness hypothesis. Historically, China's fiscal transfer system was simply an accounting device that played a secondary role to economic planning.<sup>23</sup> After the reform era began, fiscal transfers as a percent of total expenditure shrank rapidly due in large part to falling central government revenue. In response to this, in 1994 China underwent a major recentralization of revenue. At the same time, the central government began a push to increase several important policy programs that would be suggestive of a more responsive central government. However, there is some evidence that such programs often find their funds diverted in autocratic and developing countries.

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<sup>23</sup> Christine C. P. Wong and Richard M. Bird, *China's Fiscal System: A Work in Progress*, International Tax Program Paper (International Tax Program, Institute for International Business, Joseph L. Rotman School of Management, University of Toronto, 2005), <http://ideas.repec.org/p/itp/itpwps/0515.html>, 3.

During the Maoist era, fiscal transfers were only accounting artifacts to accommodate planning goals. Allocation decisions for the central government were made according to planning department goals that were then transmitted to secondary units. Money in this context served as an accounting device and, as in many Communist states, artificial price wedges were instituted so that most profits from economic activity accrued not to farmers or natural resource producers but rather to urban factories.<sup>24</sup> In real terms, resource transfers were generally organized to send grain and other products from the countryside to the urban areas in a bid to boost industrialization.<sup>25</sup> Maoist China generally followed a program of urban industrialization first, with rural development to occur later.

After the beginning of the reform in 1979, the rural to urban transfer system began to break down, as agricultural policy moved from a model in which all surplus grain (beyond what was necessary for living standards) was captured by the state to one in which the state only captured a contracted share, leaving the surplus in the countryside.<sup>26</sup> Thus, any growth above the state target was now the right of the farmer rather than the state under the new “household responsibility system.” This change, as well as several other changes to state agricultural procurement policy, helped significantly raise rural GDP.<sup>27</sup> Urban areas experienced a similar boom due to the increasing numbers of *getihu* (个体户) or private entrepreneurs and other various urban marketization reforms.<sup>28</sup>

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<sup>24</sup> Alwyn Young, “The Razor’s Edge: Distortions and Incremental Reform in the People’s Republic of China,” *The Quarterly Journal of Economics* 115, no. 4 (November 1, 2000): 1093.

<sup>25</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 239.

<sup>26</sup> *Ibid.*, 242.

<sup>27</sup> Growth slowed after only a few years due to the need for more structural reforms, but the one-off effect of the change was very large, in terms of not only boosting grain crops, but also encouraging the rapid growth of cash crops. *Ibid.*, 242.

<sup>28</sup> *Ibid.*, 94.

However, as the economy became increasingly monetized, the central and local states lacked an effective taxation method to collect a percentage share of the new growth.<sup>29</sup> As a result, tax collection stagnated. Without an effective method of taxation and lacking the previous transfers from the planned economy, the commune level of government, the chief administrative level in the countryside, collapsed. Provincial and national leaders scrambled to reconfigure their revenue-collection system away from primarily drawing upon profits of SOEs to provide operating funds. The end result of these fiscal changes was that public service provision cratered in rural areas, urban areas were left to fend for themselves fiscally, and the central government became increasingly irrelevant to policy implementation in most areas, lacking both fiscal and disciplinary levers over local governments.<sup>30</sup>

To arrest this situation, the central government implemented a tax recentralization scheme in 1994. Rather than each superior unit of government contracting individually with local governments for a fixed amount of tax revenue per annum, as had previously been the case, each local government remitted a percentage share of taxes collected to its parent unit. This system change eliminated much of the incentive for local governments to hide revenue from the central government (previously motivated by the desire to avoid increasing the next year's contracted amount) and it also dramatically increased the total amount of tax revenue moving upwards. The magnitude of the recentralization of revenue

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<sup>29</sup> Wong and Bird, *China*, 4.

<sup>30</sup> For a discussion of the collapse of the communes, see David Zweig, "Opposition to Change in Rural China: The System of Responsibility and People's Communes," *Asian Survey* 23, no. 7 (July 1, 1983): 879–900. Jean Oi et al. explain the process by which the central government lost control over local governments in Jean C. Oi et al., "Shifting Fiscal Control to Limit Cadre Power in China's Townships and Villages," *The China Quarterly* 211 (2012): 653.

and decentralization of expenditure responsibilities post-1994 is dramatic. Table 4.1 below shows the share of revenues and expenditures over time.

Table 4.1: Share of Revenue and Expenditure by Level of Government

<b>Revenue</b>	<b>1993</b>	<b>1998</b>	<b>2004</b>
Central Government	22%	50%	55%
Provinces	13%	11%	11%
Prefectures	34%	20%	17%
Counties	19%	12%	12%
Townships	13%	9%	5%
<b>Expenditure</b>			
Central Government	34%	29%	28%
Provinces	11%	19%	19%
Prefectures	29%	24%	22%
Counties	16%	20%	25%
Townships	11%	8%	6%

Source: Wong and Fock<sup>31</sup>

The central government doubled the share of tax revenue under its control while at the same time decreasing its expenditure share by nearly 20%. Revenue under the control of the prefecture, county, and township levels all collapsed post-1994. At the same time, both provinces and counties experienced a near doubling of their expenditure responsibilities.<sup>32</sup> The key question then becomes toward what end did the central government use this newfound revenue?

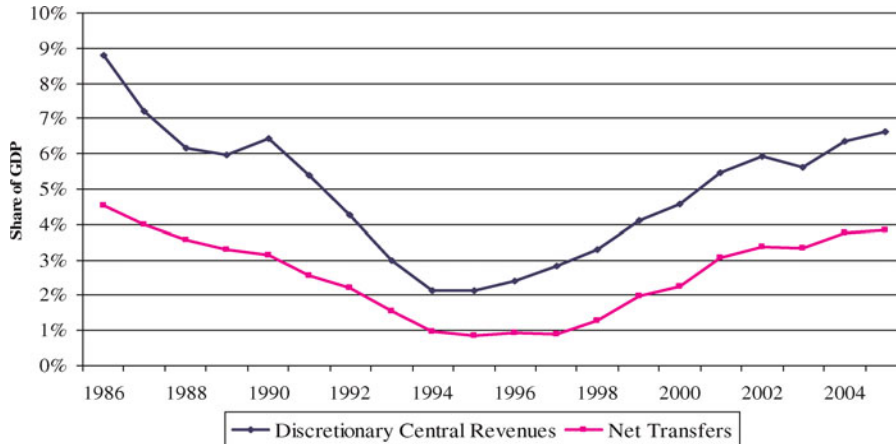
To a degree, the central government used the additional funds to bolster central-level expenditures. However, evidence shows that most of the new revenue went towards

<sup>31</sup> Christine Wong and Achim Fock, "Financing Rural Development for a Harmonious Society in China: Recent Reforms in Public Finance and Their Prospects," in *The World Bank*, vol. Policy Research Working Paper 4693, 2008, 7.

<sup>32</sup> As part of a largely unrelated set of reforms aimed at eliminating unnecessary levels of government, the township level has essentially ceased to exist as a meaningful level of government. The county-level government has assumed most of the functions of townships. Oi et al., "Shifting Fiscal Control to Limit Cadre Power in China's Townships and Villages."

additional fiscal transfers to lower level units. As shown in Figure 4.1 below, central government transfers fairly closely tracks central government revenue after 1994.

Figure 4.1: Central Government Revenue and Transfers as a Percentage of GDP



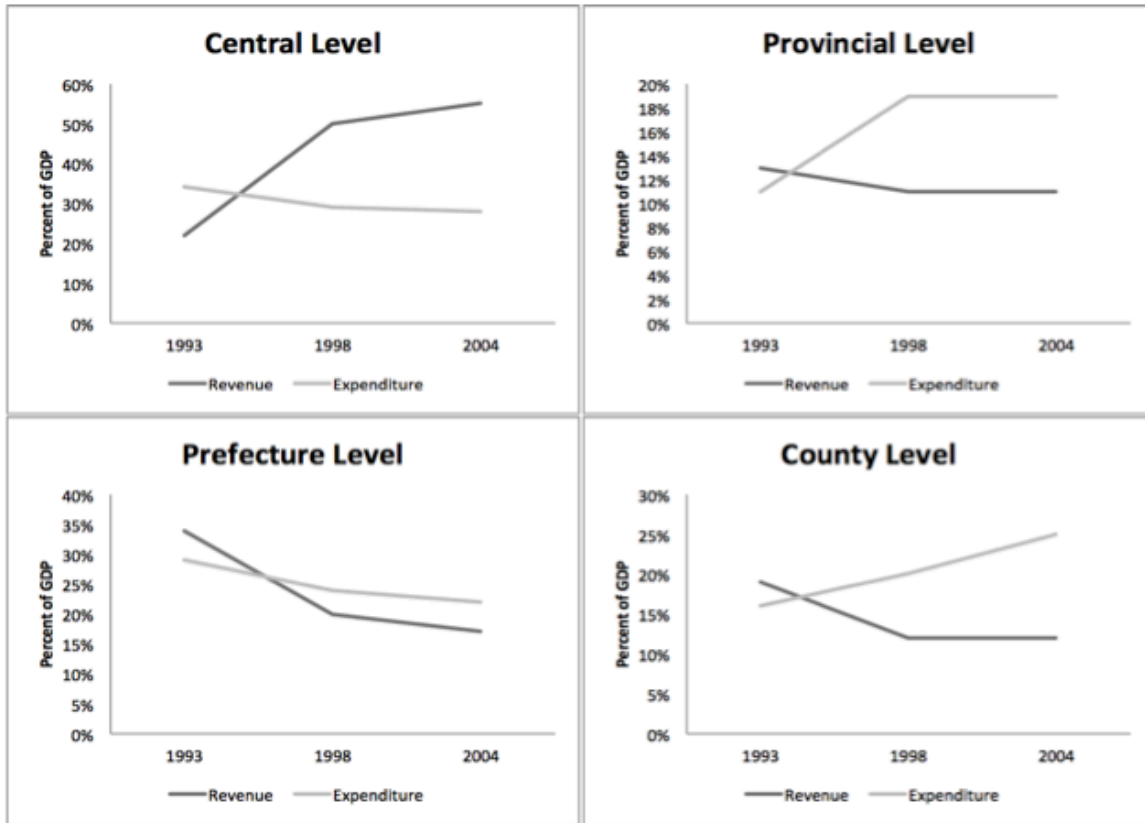
Source: Christine Wong<sup>33</sup>

Figure 4.2 also highlights the increase in transfers, as can be seen by the increasing mismatches between revenue and expenditure at all levels of government.<sup>34</sup>

<sup>33</sup> Christine Wong, "Rebuilding Government for the 21st Century: Can China Incrementally Reform the Public Sector?," *China Quarterly* 200 (2009): 937.

<sup>34</sup> It should be noted that there is no consensus that there should be a mismatch between revenues and expenditures.

Figure 4.2: Revenues Compared to Expenditures by Level of Government



Source: Wong and Fock<sup>35</sup>

The cause of this mismatch is likely partly explained by the tax-sharing structure of the reforms. To obtain buy-in from lower level governments, the central government promised to rebate a fixed share of the taxes collected to lower level governments. So some of the fiscal gap here may be due to a round-tripping of funds. However, the promised percentage of the rebate was relatively low, so much of the tax sent upward was available for general redistribution. The question then arises as to who received these additional funds and to what use they were put.

<sup>35</sup> Wong and Fock, "Financing Rural Development for a Harmonious Society in China: Recent Reforms in Public Finance and Their Prospects," 25.

### *Repurposing Transfers Toward Social Needs*

With the onset of the Hu-Wen program, significant additional transfers were promised to rural and poor areas to offset the consequences of uneven development. Specifically, there have been promises of increased transfers to help pay for new social services such as education, health care, and retirement funds. There have also been promises to help fund rural areas after the central government banned local governments from collecting agricultural taxes and fees. If implemented properly after 2002, the existence of increasing transfers for these functions would provide strong support to the authoritarian responsiveness hypothesis.

With regard to social services, the central government mandated several new programs and the expansion of others. Firstly, the leadership launched several initiatives to provide fully for compulsory rural education, including subsidies for rural teachers, a program to allow for the construction of rural schools, and the total elimination of school fees.<sup>36</sup> Secondly, the central government expanded the *dibao* guaranteed income program. This helps the poorest residents afford basic necessities. Introduced in the late 1990s, the program was slowly expanded until it became mandated nationwide in 2007.<sup>37</sup> The central government committed to providing a majority of the funding for the program, especially for poorer areas. Finally, the central leadership also announced a program to expand health care coverage dramatically to rural residents and those previously excluded from the health care system. To do this, the central government agreed to help fund a major expansion of health insurance coverage, with fairly dramatic

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<sup>36</sup> Lisa Yiu and Jennifer Adams, "Reforming Rural Education in China: Understanding Teacher Expectations for Rural Youth," *The China Quarterly* 216 (2013): 995.

<sup>37</sup> Lina Kuhn and Stephan Brosig, "Social Assistance in Rural China: Identifying and Supporting the Needy" (presented at the 9th International Conference on the Chinese Economy, Clermont-Ferrand, France, 2013), <http://cerdi.org/uploads/sfCmsContent/html/437/Kuhn.pdf>.

results: “[in 2000], only 15 percent of all Chinese had healthcare insurance; ten years later, that has risen to 95 percent, with plans for complete coverage by 2020.”<sup>38</sup>

At around the same time, the central leadership promised to eliminate all agricultural taxes and fees, a system of taxation that had existed for thousands of years (and had been the source of numerous farmer rebellions).<sup>39</sup> This change was in response to large amounts of rural unrest over arbitrary and illegal taxes and fees often levied by poor local governments.<sup>40</sup> The central government has justified both sets of reforms as necessary to solve the problem that Wen Jiabao called “one long leg, one short one”<sup>41</sup> (一条腿长, 一条腿短), or uneven development, and to promote social stability.<sup>42</sup>

If enacted, these programs would represent a major increase in responsiveness to the needs of society by the Chinese central government. All of these reforms were meant to have funding provided via fiscal transfers; the central government, as noted above, implements very little of the social service spending, so funds must be transferred to the service implementation level if it is actually to provide for the service. If the central government were serious about implementing them, then evidence should exist in the fiscal transfer data.

On the face of it, these announced reforms would seem to argue strongly in favor of **H1**. Some scholars of Chinese fiscal policy have been skeptical of both the government’s fiscal capacity and its ability to use the fiscal system to promote goals like

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<sup>38</sup> Ling Li, Qiulin Chen, and Dillon Powers, “Chinese Healthcare Reform: A Shift toward Social Development,” *Modern China* 38, no. 6 (November 1, 2012): 635.

<sup>39</sup> Ho-Fung Hung, *Protest with Chinese Characteristics: Demonstrations, Riots, and Petitions in the Mid-Qing Dynasty*, Reprint edition (New York, NY: Columbia University Press, 2013).

<sup>40</sup> Thomas Bernstein, “Farmer Discontent and Regime Responses,” in *The Paradox of China’s Post-Mao Reforms*, ed. Merle Goldman and Roderick MacFarquhar (Cambridge, MA: Harvard University Press, 1999), 197–219.

<sup>41</sup> Li, Chen, and Powers, “Chinese Healthcare Reform: A Shift toward Social Development,” 639.

<sup>42</sup> Bruce Gilley and Heike Holbig, “The Debate on Party Legitimacy in China: A Mixed Quantitative/qualitative Analysis,” *Journal of Contemporary China* 18, no. 59 (2009): 353.

Harmonious Society. Christine Wong has argued that central government transfers are part of a broken fiscal system. As she puts it, “[t]hrough the transition period, the piecemeal, incremental reforms had steadily chipped away the coherence of the intergovernmental fiscal system, and the recentralization of revenues under the Tax Sharing System reform in 1994 greatly exacerbated the mismatch between revenue and expenditure assignments.”<sup>43</sup> Era Dabla-Norris also critiques the ad-hoc nature of Chinese fiscal system reforms by noting that, “[r]eforms in [the intergovernmental finance system], however, have been gradualist and incremental in scope, and the design and implementation of the system of [the new fiscal system] have not kept pace with the challenges posed by the process of transition to a market economy. Moreover, reforms to date have generally responded to only the most immediate problems, with ad hoc short-term fixes.”<sup>44</sup>

These scholars’ conclusions are in line with the findings of those studying developing countries, who have found that transfer programs are often subverted for local purposes, with little coherence between the stated will of the central government and the actual outcome of transfer decisions. As Reinikka and Svensson found in their investigation of education spending in Uganda, “[r]esources are therefore not allocated according to the rules underlying government budget decisions, with substantial equity implications.... We have also shown that local capture is not a specific problem for Uganda. In fact, local capture in educational programs appears to be a serious problem in

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<sup>43</sup> Wong, “Rebuilding Government for the 21st Century: Can China Incrementally Reform the Public Sector?,” 943.

<sup>44</sup> Era Dabla-Norris, *Issues in Intergovernmental Fiscal Relations in China*, Working Paper, IMF Working Paper (IMF Institute, 2005), 3. See also Anwar Shah and Chunli Shen, *The Reform of the Intergovernmental Transfer System to Achieve a Harmonious Society and Level Playing Field for Regional Development in China*, Working Paper, World Bank Policy Research (World Bank, December 2006).

all other African countries where similar public expenditure tracking studies have been implemented.”<sup>45</sup> While China is a relatively richer country than most African nations and has better quality institutions, it is still possible to have a fiscal system that cannot implement the desired changes with which the leadership has tasked it. That leads to the following additional hypothesis.

**H6: Transfers should show no consistent fiscal policy direction (Fiscal failure)**

The sum total of all of these hypotheses is displayed in Table 4.2 below along with the predicted effect in the context of China.

Table 4.2: Hypotheses and Predicted Effects

Hypothesis	Predicted Effect
<b>H1: Authoritarian Responsiveness</b>	Increased transfers in areas with higher social service needs, more rural areas since 2002
<b>H2: Elite Management</b>	Increased transfers in areas with regime supporters
<b>H3: Decentralization</b>	Evidence of fiscal decentralization
<b>H4: Economic Geography</b>	Increased amounts of pro-rich transfers
<b>H5: Equality of Service</b>	Transfers should be pro-poor
<b>H6: Fiscal Failure</b>	No strong evidence of a consistent fiscal policy

The history of the fiscal transfer system, which moved from being very weak in the post-reform period toward an attempted strengthening in 1994 to a repurposing in 2002, provides a good test case for the above hypotheses. In the next section, I test these hypotheses against provincial data using both descriptive statistics and a regression approach, both of which generally find in favor of **H1**.

<sup>45</sup> Ritva Reinikka and Jakob Svensson, “Local Capture: Evidence from a Central Government Transfer Program in Uganda,” *The Quarterly Journal of Economics* 119, no. 2 (2004): 700.

#### IV. Provincial Statistics

Reviewing provincial statistics as a means to understanding central leadership policy intentions has both strengths and weaknesses, but on the balance should provide enough evidence to help mediate between the various hypotheses listed in Table 4.2. The main strength is that transfers from the central government to the provinces can be viewed as a direct expression of central leadership will in a way that transfers to lower level units cannot. Transfers within China are done according to government hierarchy, with each unit required to pass along transfers destined for lower level units according to central formulas and mandates.<sup>46</sup> In theory, this should be according to central government guidelines, but recent research has suggested that provinces sometimes resort to the “grabbing hand” and help themselves to funds intended to reach lower levels.<sup>47</sup> Presumably, those levels below the province may also engage in the grabbing hand themselves. Thus, at least in the domain of fiscal allocations, central transfers to the provincial level can be seen as the most ‘pure’ expression of central leadership will.<sup>48</sup>

The downsides to reviewing provincial statistics are twofold. First, many provinces are large agglomerations of vastly different locations, from areas of desperate poverty to relatively modern capital cities. Several scholars have provided evidence that within-province variation on many measures is greater than between-province measures.<sup>49</sup> It may be more difficult to determine central policy when provinces

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<sup>46</sup> Shah and Shen, *The Reform of the Intergovernmental Transfer System to Achieve a Harmonious Society and Level Playing Field for Regional Development in China*, 2.

<sup>47</sup> Alfred M. Wu and Wen Wang, “Determinants of Expenditure Decentralization: Evidence from China,” *World Development* 46 (June 2013): 176–84.

<sup>48</sup> Central will in many other areas can be observed by examining how central policymakers choose to delegate powers and responsibilities rather than simply just observing changes in central-level spending. These issues are explored more fully in the following chapter.

<sup>49</sup> See, for example, Xiaobo Zhang and Ravi Kanbur, “Spatial Inequality in Education and Health Care in China,” *China Economic Review* 16, no. 2 (2005): 201; John Knight, Li Shi, and Lina Song, “The Rural-

aggregate important differences, masking variation in transfer amounts due to central policy. The second, related issue is that provinces do not conduct most of the expenditure for social services. Therefore, it may be difficult to tell whether transfers are going to address needs or not.

However, these weaknesses are not so serious. The masking effect of being an aggregate level will weigh findings toward **H6**, no observable fiscal policy, rather than any of the more theoretical hypotheses. With respect to social spending, the main interest in this investigation is the motivation of central leadership when assigning transfers – which level actually spends the funds is an interesting but unrelated research project.<sup>50</sup> Therefore, even with these issues, an investigation of transfers to the provincial level should still help arbitrate between the competing theories of transfer motivation. In the next section, I review descriptive data and then turn to an econometric approach. Both find significant evidence in favor of the responsiveness hypothesis.

### *Descriptive Statistics*

Examining two-way statistics and the changing makeup of transfers over time generally lends support to **H1** and **H5**, the authoritarian responsiveness and equality of service hypotheses. The changing makeup of transfers generally tilts the system towards poorer provinces, which is visible through several different statistical views. The available statistics do not give much support for the decentralization or the elite

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Urban Divide and the Evolution of Political Economy in China,” in *Human Development in the Era of Globalization: Essays in Honor of Keith B. Griffin*, ed. James K. Boyce et al. (Cheltenham, UK: Edward Elgar Publishing, 2006), 44–62.

<sup>50</sup> Perhaps some of the same hypotheses may also explain spending patterns at lower levels, although the incentive set of local officials, who face a monolithic party apparatus as its principal, is fairly distinct from that of central policymakers.

management hypotheses. Given the evidence of purposeful change in the system, the hypothesis of no meaningful direction in the fiscal system also seems unlikely.

Fiscal transfers at the provincial level can be broken down into three basic types. The first is compensation, which rebates provinces a fixed amount of tax revenue. The central government decided after the 1994 to compensate the lost local revenue of governments heavily according to the following formulae:<sup>51</sup>

$$TR_{1994} = (CT + 0.75 \times VAT)_{1994} - S_{1993}$$

$CT$  is consumption tax and  $VAT$  is the VAT tax from 1994.  $S_{1993}$  is the amount of revenue retained by the province under the previous fiscal contracting arrangement. In essence, this formula implies that any extra revenue above the previously retained amount would be returned to the province in 1994. After 1994, the formula became:

$$TR_{i,t} = TR_{i,t-1} \left[ 1 + 0.3 \times \frac{(CT + 0.75VAT)_{i,t} - (CT + 0.75VAT)_{i,t-1}}{(CT + 0.75VAT)_{i,t-1}} \right]$$

This ensured that the province retained 30 percent of all new tax revenue generated each year.

While these tax rebates are done through the formal fiscal system, it could be argued that it is something of a stretch to consider them to be a true transfer or part of central transfer motivations. Before 1994, these funds largely belonged to the province where the taxes were generated, with no need to involve the intergovernmental transfer system. Simply rebating the funds to the same province can be viewed as an accounting trick rather than a true use of the transfer system. On the other hand, the formula can and has been modified by the central government as needed to achieve policy goals, with

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<sup>51</sup> Formulae are from Bihong Huang and Kang Chen, "Are Intergovernmental Transfers in China Equalizing?," *China Economic Review*, Special Issue: CES 2010 & Special Issue: SBICCI, 23, no. 3 (September 2012): 537.

several examples of changes since 1994.<sup>52</sup> So while the rebate may have started out as compensation for lost revenue initially, the ability (and shown willingness) to manipulate it has made it an important part of the transfer system.

The next major category of transfer types is the general-purpose transfers that include an equalization transfer meant to assist poorer provinces and a transfer to compensate those provinces that lost special assistance in the 1994 reforms.<sup>53</sup> These types of transfers are meant to be done according to formula and are intended to be highly redistributionary. The final category of transfers is ad-hoc transfers, sometimes called earmarked transfers. These are meant to be for specific projects or initiatives that the central leadership deems a priority and the number of these transfers ranges well into the double digits.<sup>54</sup> How these types of transfers contribute to responsiveness or not are still largely unclear; given the wide degree of purposes and sizes of the earmarked transfers, such an analysis would be difficult.

Overall, the breakdown of transfers does not help in providing a clue to transfer motives. One set of transfers, the tax rebate, is highly pro-rich. Another set of transfers, the general transfer, ought to be highly pro-poor. A third set of transfers has an indeterminate effect on overall fiscal policy outcomes. The balance of these transfers has also changed over time, as shown in Figure 4.3 (note the graph depicts transfers as a percent of total revenue).

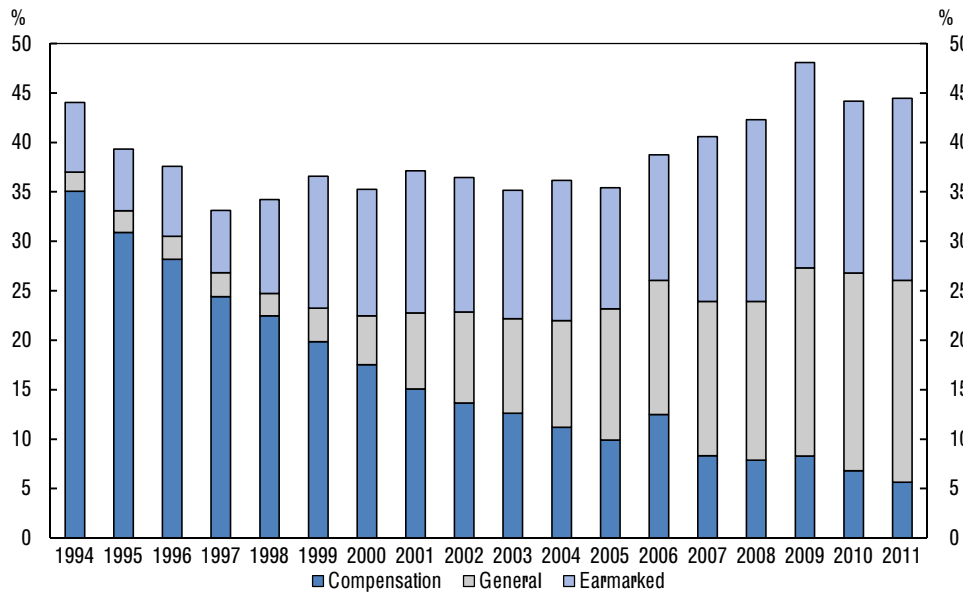
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<sup>52</sup> The main changes include shifting the ratio of taxes returned over time and also including personal income tax in the formula. *Ibid.*, 538.

<sup>53</sup> Shah and Shen, *The Reform of the Intergovernmental Transfer System to Achieve a Harmonious Society and Level Playing Field for Regional Development in China*, 3.

<sup>54</sup> There are also a number of transfers outside of the control of the Finance Ministry offered by line ministries to their lower level counterparts. However, the size of these is believed to be relatively small. Meiduo Zhou and Xueyong Yan, "The political logic of earmarked transfers in China," *当代财经*, no. 09 (2008): 35–40.

Figure 4.3: Different Types of Transfers as a Percentage of National Tax Revenue



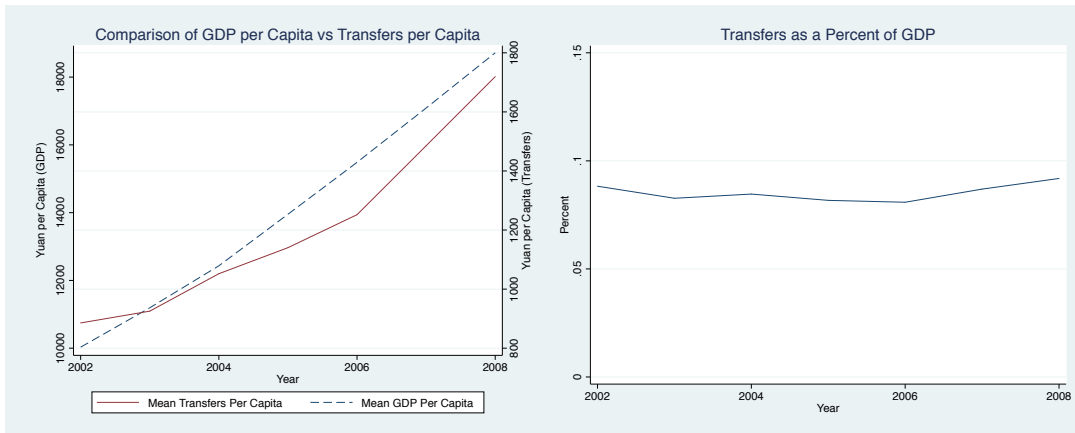
Source: Herd and Wong<sup>55</sup>

The balance of transfer types seems to be shifting in a generally pro-poor direction, as compensation transfers become less important over time: beginning around 2001 to 2002, the general transfers begin to take over a significant percentage share of total transfers. Earmarked transfers also exhibit slow but steady growth, while the heavily pro-rich compensation transfers decline steadily over time. Overall, this shift is at least suggestive that transfers have become more pro-poor and maybe more pro-responsive over time. It also casts doubt on the pro-rich efficiency hypothesis, as compensation transfers have declined significantly.

Generally, transfer growth has roughly kept pace with GDP growth during the last decade, as seen in Figure 4.4 below.

<sup>55</sup> Richard Herd and Xiao Wang, *The System of Revenue Sharing and Fiscal Transfers in China*, OECD Economics Department Working Papers (OECD, February 27, 2013), 19, <http://dx.doi.org/10.1787/5k4bwnwtmx0r-en>.

Figure 4.4: Transfer Growth and GDP



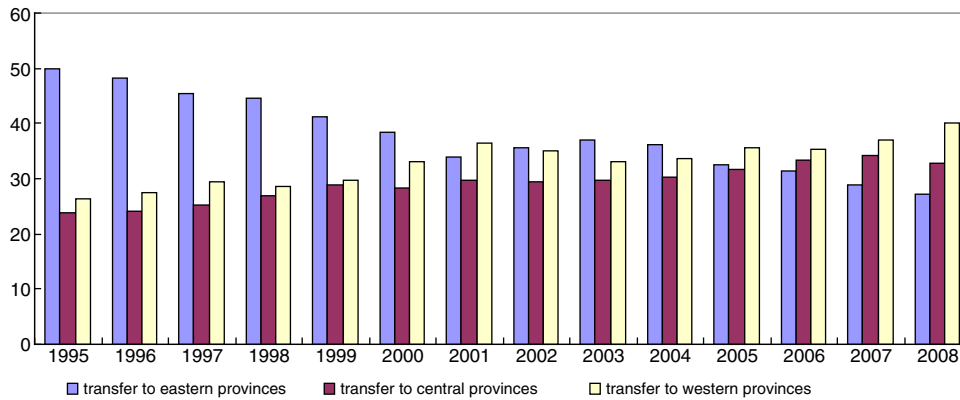
Source: *China Statistical Yearbook*

This suggests that transfers have not played a larger part in local government financing since 2002 and the onset of the Hu-Wen reforms, contrary to the fiscal decentralization hypothesis. Transfers are still a very high percentage of total central revenue, but as the previous graph, Figure 4.4 showed, the percentage has not changed much since the fiscal recentralization in 1994. It does not appear that the central government has used the transfer system during this period to further decentralization, contra **H3**.<sup>56</sup>

There is also significant geographic variation in transfers over time, as shown below in Figure 4.5.

<sup>56</sup> The argument about whether China is becoming increasingly decentralized is a complicated one; whether China has a federalist system has sparked much debate. From the perspective of the fiscal system, the only major shift in assignment of revenues and expenditures occurred in 1994, as can be seen in Table 4.1. See also Hehui Jin, Yingyi Qian, and Barry R. Weingast, “Regional Decentralization and Fiscal Incentives: Federalism, Chinese Style,” *Journal of Public Economics* 89, no. 9–10 (September 2005): 1719–42.

Figure 4.5: Share of Transfers by Region



Sources: Ministry of Finance, *Finance Yearbook of China* 1996-2009

Source: Huang and Chen<sup>57</sup>

The share going to western provinces has been increasing over time while the share to eastern provinces has been declining. While the central leadership sometimes talks explicitly in terms of a west/central/east divide,<sup>58</sup> likely the reason for increasing percentage of transfers going to the west is the declining percentage of tax rebates and the increase in balancing transfers, as western China is poorer than the relatively rich eastern provinces. Further illustrating this shift is Table 4.3 below, showing the provinces receiving the most and least amount of transfers per capita over time.

<sup>57</sup> Huang and Chen, “Are Intergovernmental Transfers in China Equalizing?,” 541.

<sup>58</sup> Nancy Huang, Joie Ma, and Kyle Sullivan, “Economic Development Policies for Central and Western China,” *China Business Review*, November 1, 2010, <http://www.chinabusinessreview.com/economic-development-policies-for-central-and-western-china/>.

Table 4.3: Transfers per Capita for Top Five and Bottom Five Provinces

Year	Province	Transfers Per Capita	Year	Province	Transfers Per Capita
2002	Henan	350	2008	Guangdong	589
2002	Shandong	355	2008	Jiangsu	594
2002	Jiangsu	389	2008	Shandong	691
2002	Anhui	413	2008	Zhejiang	737
2002	Hebei	437	2008	Fujian	793
2002	Inner Mongolia	1191	2008	Xinjiang	2283
2002	Ningxia	1501	2008	Inner Mongolia	2309
2002	Shanghai	1612	2008	Ningxia	2799
2002	Qinghai	1894	2008	Qinghai	3994
2002	Tibet	4767	2008	Tibet	8850

*all figures deflated to 2000*

*Source: Finance Yearbooks of China*

While the provinces receiving the most transfers have barely changed over time (except the curious inclusion of Shanghai in 2002), the list of provinces receiving the least transfers per capita has shifted significantly. Provinces like Henan, Hebei, and Anhui are significantly less wealthy than Guangdong, Zhejiang, and Fujian, but were losers in transfers in 2002. At the high end, the outsized transfers to Tibet signal that the province is perhaps a special case, an issue that will return in the regression context. Also interesting to note is that the ratio between the 3rd highest and 3rd lowest transfer recipients stayed essentially fixed in the six-year period at about 25%. That indicates that the distribution shape of transfers per capita is likely not changing very much, but rather the specific recipients are changing.

Finally, summary data casts some doubt on **H2**, the argument that transfers may be being distributed towards provinces that have a lot of regime supporters. What constitutes a regime supporter is a difficult variable to operationalize. Certainly party membership has to count, but there are likely more easily identifiable regime supporters than just party members. Those employed by local governments or state-run corporations

would also be very heavily vested in the current regime and therefore would likely, according to **H2**, be targeted for additional transfers. However, as shown below in Table 4.4, the actual correlation between number of state workers of all types and transfers per capita is low.

Table 4.4: Correlation of State Workers per Capita and Transfers per Capita

<b>Year</b>	2002	2003	2004	2005	2006	2007	2008
<b>Correlation</b>	0.15	0.20	0.23	0.22	0.24	0.21	0.21

*Source: China Statistical Yearbooks, Finance Yearbooks of China*

There is some variation in the correlation statistic, but the overall correlation amount is low and none of the correlations obtains statistical significance. While not definitive proof, it seems unlikely that the two variables are related.

Overall, descriptive statistics generally tend to support **H1** and **H5**, the responsiveness and the pro-poor hypotheses. None of the other hypotheses found much support in the two-way relationships examined above. Descriptive statistics are a very useful analytic tool and the results of analyzing provincial statistics on transfers above tentatively find in favor of the increasing responsiveness hypothesis. However, descriptive statistics can also easily mislead if there are important confounding effects occurring in the data and so to increase confidence in the results, an econometric analysis is necessary. In addition, as shown in the next section, the results of existing attempts are problematic for several reasons.

## **V. Regression Results**

Along with summary data, regression results also support **H1**. Existing economic analyses have not generally found in favor of **H1**, but for various reasons these attempts were significantly flawed. After careful selection of variables and appropriate model

choice, the results give much more support for the authoritarian responsiveness hypothesis.

### *Previous Econometric Analyses*

A number of scholars have examined some part of the transfer system in China, from the central level to the provincial level, but unfortunately even the most thorough and direct analysis of transfer behavior, that of Huang and Chen, falls short for several reasons. Analyzing transfer behavior requires careful thought into some subtle problems that are difficult to resolve econometrically. Few have made explicit those problems and none have worked through all of them.

Many of the econometric approaches to transfer data use fairly basic modeling techniques. Several of the papers simply use a decomposition of inequality effects, either via a Theil index<sup>59</sup> or by using a more sophisticated approach introduced by Shorrocks to assess transfer equity over time. Liu found, using both a Theil index analysis and an application of the Shorrocks approach,<sup>60</sup> that transfers are still generally unequal over time. Even though transfers superficially appear to be equalizing, a decomposition analysis indicates the opposite.<sup>61</sup> Zhao also uses the Shorrocks and Theil strategies; he

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<sup>59</sup> The Theil index is superior to the GINI coefficient when assessing spatial inequality. Typically, the authors discussed in this section view inequality of transfers over time at the provincial level rather than inequality of income, a task for which the Theil index is more appropriate than the GINI coefficient. Pedro Conceicao and James K. Galbraith, *Constructing Long and Dense Time-Series of Inequality Using the Theil Index*, SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, December 1, 1998), <http://papers.ssrn.com/abstract=148008>.

<sup>60</sup> A. F. Shorrocks, "Inequality Decomposition by Factor Components," *Econometrica* 50, no. 1 (January 1, 1982): 193–211.

<sup>61</sup> Liang Liu, "The Decomposition and Changing Tendency of Regional Financial Disparity in China," *财贸研究*, no. 01 (2007): 65–72.

concludes that transfers generally have been less equalizing since the fiscal reforms in 1994.<sup>62</sup>

Dabla-Norris conducts an even more basic review of the equality of the fiscal transfer system by examining two-way data and concludes that “[t]he failure of the 1994 reforms to bring about adequate equalization and put in place a transparent and efficient system of transfers also suggests that adopting a comprehensive approach will make it easier to undertake reforms that may be politically unfeasible or unwieldy if taken in isolation.”<sup>63</sup> These approaches are obviously limited in speaking about factors driving transfers other than inequality, but they generally agree that inequality in transfers is an enduring feature of the system. Given the limited nature of their investigations, it is hard to assess any of the proposed transfer motivation hypotheses; a more powerful analysis is needed.

Those using regression techniques offer more potential explanatory power, but various ways in which the regressions are employed limit their ability to speak to the hypotheses specified above. Ahmad et al. conduct a basic simulation test to see whether transfers have been equalizing, when accounting for financial need, from 1994 to 2000 and conclude that they generally have not.<sup>64</sup> While they do pay close attention to fiscal needs, a point many other authors do not,<sup>65</sup> their simulation only concerns itself with equity and does not consider the possibility of change over time in how transfers are

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<sup>62</sup> Zhirong Jerry Zhao, “Fiscal Decentralization and Provincial-Level Fiscal Disparities in China: A Sino-U.S. Comparative Perspective,” *Public Administration Review* 69 (December 1, 2009): S67–S74.

<sup>63</sup> Dabla-Norris, *Issues in Intergovernmental Fiscal Relations in China*, 24.

<sup>64</sup> Ehtisham Ahmad, Raju Singh, and Mario Fortuna, “Toward More Effective Redistribution: Reform Options for Intergovernmental Transfers in China,” in *IMF Fiscal Affairs Department*, vol. WP/04/98, 2004.

<sup>65</sup> A point that An and Ren also make, that scholars should be thinking in terms of equality after accounting for fiscal needs rather than strict equality. Tifu An and Qiang Ren, “Equity of Public Service: Theory, Problem and Policy,” *财贸经济*, no. 08 (2007): 48–53+129.

applied. Moreover, their modeling technique is basic at best. Cao and Liu employ a simple panel data regression with several financial variables to explain transfer outcomes.<sup>66</sup> The lack of any inclusion of political variables or sophisticated error checking means their conclusion, that within-region inequality of provinces has increased, lacks strong support.

Vazquez, Qiao, and Zhang conclude, based on a pooled OLS regression of data from 2000 and 2001, that the transfer system generally neither helps nor hurts inequality of fiscal resources between provinces.<sup>67</sup> Besides the fact that the authors do not include any political variables of interest, they also use only two years of data, making it very difficult to analyze change over time or understand whether these two years are representative of overall central government fiscal policy. Tochkov conducted a fairly sophisticated regression approach to try and understand to what degree fiscal transfers can help smooth provincial expenditures and found that the ability of transfers to compensate for revenue shocks has decreased over time.<sup>68</sup> This is an interesting result that suggests a deliberate policy choice, but does not directly speak to any of the hypotheses above. All of these authors generally find that transfers have not been equalizing over time. However, all of the regression approaches listed above have problems and they do not directly speak to most of the hypotheses of transfer motivations.

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<sup>66</sup> Junwen Cao and Liangqing Luo, “The experimental analysis of fiscal equalization effect of transfers,” *统计研究*, no. 01 (2006): 43–45.

<sup>67</sup> Jorge Martinez-Vazquez, Baoyun Qiao, and Li Zhang, “The Role of Provincial Policies in Fiscal Equalization Outcomes in China,” *China Review* 8, no. 2 (Fall 2008): 135–67.

<sup>68</sup> Kiril Tochkov, “Interregional Transfers and the Smoothing of Provincial Expenditure in China,” *China Economic Review* 18 (2007): 54–65.

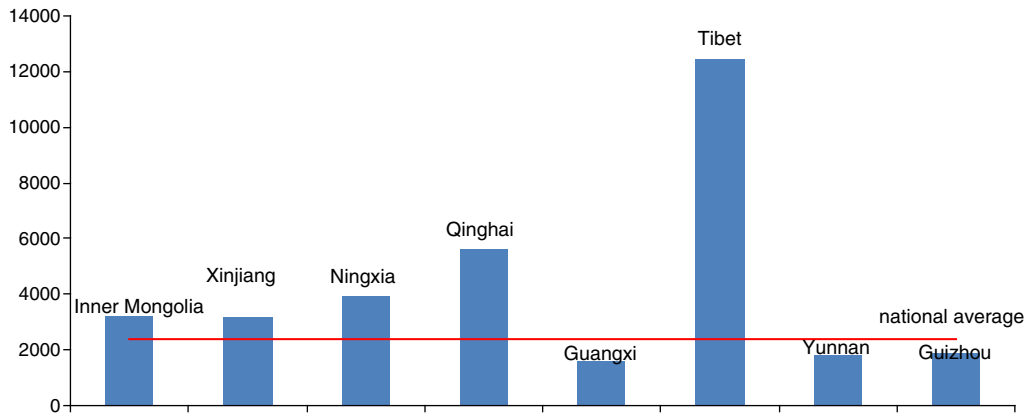
Huang and Chen provide perhaps the most thorough attempt to understand the distributional impact of transfers in China, so their paper is worth examining in some detail.<sup>69</sup> It argues that, overall, fiscal transfers are still dis-equalizing and bases this claim upon a panel data regression analysis, even when accounting for a variety of confounding factors, including political ones. Overall, they are very careful to examine descriptive data regarding the various types of transfers within a province and how the makeup of these transfers changing over time likely impacts how (dis)equalizing they are. Unfortunately, this solid descriptive work is undercut by a poor regression approach that fails because they do not select the right cases, variables, and model. These problems fatally flaw their attempt to understand rigorously whether transfers contribute to inequality or interact with any political variables.

On a practical level, they make an error with respect to data choice and another mistake with regard to regression form. In their selection of cases to include, they include all cases except Chongqing, for which they have no data. However, their own descriptive analysis suggests that Tibet is a significant outlier, but they do not attempt to control for it or test the sensitivity of their model towards it. Figure 4.6 below is a look at transfers per capita in minority regions.

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<sup>69</sup> Huang and Chen, “Are Intergovernmental Transfers in China Equalizing?”.

Figure 4.6: Transfers Per Capita to Minority Regions in 2008



Sources: Ministry of Finance, *Finance Yearbook of China 2009*

Fig. 9. Transfer per capita to Ethnic Minority Regions, 2008.  
Sources: Ministry of Finance, *Finance Yearbook of China 2009*.

Source: Huang and Chen<sup>70</sup>

Tibet has over twice the value of transfers per capita of the nearest minority province and this cannot be accounted for in their model via variation in other relevant variables – if anything, according to the results of their model, Tibet should have a *lower*, not higher, level of transfers than a province like Xinjiang or Inner Mongolia. The fact that they do not test the sensitivity of their model to the inclusion or exclusion of this clear outlier is problematic and, among other problems it might induce, likely drives their finding that the size of the minority population within a province matters, even when controlling for GDP per capita.

Their second practical error relates to their choice of variables to include in their regression. For their regression specification, they adopt the dynamic panel data model described by Arellano and Bond in 1991.<sup>71</sup> Within this model, they chose the options of orthogonal deviations and two-stage errors, both reasonable selections. However, the

<sup>70</sup> Ibid., 547.

<sup>71</sup> Manuel Arellano and Stephen Bond, “Some Tests of Specification for Panel Data: Monte Carlo Evidence and an Application to Employment Equations,” *The Review of Economic Studies* 58, no. 2 (1991): 277–97.

Arellano-Bond model uses a first-differencing approach to control for fixed effects and to produce instruments to account for auto-correlation in the error term. What this means is that variables that are fixed over time (such as status as a minority province or a variable denoting whether a province is a city) cannot be included as predictor variables, since the estimator will remove these types of differences. The authors, however, wish to test whether minority status matters and do so by including a variable that measures the percentage of minorities living within a province, a variable that presumably changes by some very small percentage each year. This is a serious mistake on the part of the authors and can result in highly unstable parameter estimates. As Plümper and Troeger note “[a]n inefficient estimation [by including nearly time-invariant data] is not merely a nuisance leading to somewhat higher [standard errors]. Inefficiency leads to highly unreliable point estimates and may thus cause wrong inferences in the same way a biased estimator could.”<sup>72</sup>

Either of these practical errors could call into question their regression results, but even more serious are their more theoretical mistakes regarding regression specification. The first is whether the model should be represented as a dynamic, autoregressive process at all. The authors give no indication as to whether they investigated whether there was a strong justification in including a lagged dependent variable in the regression specification. Their choice to include such a term no doubt influenced their selection of the dynamic modeling approach suggested by Arellano and Bond. A dynamic model is an appropriate choice if the underlying data-generating mechanism is autoregressive in nature, but such models are highly complex and can be sensitive to minor adjustments in

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<sup>72</sup> Thomas Plümper and Vera E. Troeger, “Efficient Estimation of Time-Invariant and Rarely Changing Variables in Finite Sample Panel Analyses with Unit Fixed Effects,” *Political Analysis* 15, no. 2 (March 20, 2007): 125.

specification.<sup>73</sup> Moreover, including a lagged dependent variable when no autoregressive process exists can cause inefficient and unstable parameter estimates. It is not a functional form to be chosen without significant theoretical justification.

In the case of transfer data, the argument for modeling transfer as an autoregressive process is limited. An autoregressive process is one in which previous values of the lagged dependent variable predicts current values of the dependent variable. One common example of an autoregressive process is an exchange rate. The exchange rate receives a shock (perhaps a currency devaluation or poor GDP figures being released) and requires some time to reach its new equilibrium. Old values of the dependent variable in that case help predict future movements of the variable along with systemic factors that determine the actual outcome; processes that follow this model can be viewed as having a lagged response to changes in predictor variables.

It seems rather implausible that the transfers variable follows this data-generating model. Transfer decisions are made yearly by the central government. Responses to GDP data in the rebate transfer are essentially automatic. Moreover, even if there is some lag in responding to changes in demographic data, it is highly unlikely that this can be modeled as a consistent and simple one-year lag, as Huang and Chen have done. Finally, as noted above, the Arellano-Bond technique is highly complex and can give poor estimates if care is not taken specifically to model the lag structure of the data process, which Huang and Chen do not appear to have done.

The second error, and the one most relevant to the problems discussed in other literature on the same subject, is that even though the authors acknowledge that the

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<sup>73</sup> D. Roodman, "How to Do xtabond2: An Introduction to Difference and System GMM in Stata," *Stata Journal* 9, no. 1 (2009): 86–136.

makeup and nature of transfers has been changing over time, their regression model assumes a static data-generating process. That is to say, they assume that the process by which transfer decisions are made has not changed from the start of their dataset (1997) until the end of their dataset (2008). Given all of their descriptive data, this is also a highly problematic assumption. Multiple graphs within their paper show that the basis of transfers is shifting from being dominated by revenue-sharing funds to more general, pro-equity transfers. From a theoretical point of view, I have argued that policy variables such as the desire to be more responsive play a very important role in this shift, but alternative hypotheses for such a shift are also a possibility (such as a change in the finance ministry formula), yet the prospect of these changes were not tested. One set of basic statistical tests to assess whether such a shift has occurred is structural break tests, like the Chow test for structural stability, although there are others.<sup>74</sup> The authors do not appear to have used any of these tests to justify not incorporating the potentiality of structural change that was suggested by their descriptive data.

Finally, the authors also take the same point of departure that many authors before them have used in implicitly assuming that the central goal of any transfer regime ought to be pro-equalization and then judging whether or not the regime has succeeded on that basis. Instead, and perhaps more interestingly, one might ask a more open-ended question of what actually determines transfer outcomes: economic variables, political variables, or both. Huang and Chen add in two policy variables, which is at least an improvement over previous economics-based approaches that do not incorporate political and policy

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<sup>74</sup> Badi H. Baltagi, *Econometric Analysis of Panel Data*, Third Edition (London: Wiley, 2005), 75.

variables. However, their investigation is limited and the variables serve largely as unremarked upon control variables rather than variables of interest.<sup>75</sup>

The goal of this exploration of the flaws in existing works is not to cast aspersions on the authors, but rather to demonstrate how difficult it can be to wade through the various factors necessary to develop a high-quality regression specification for a potential policy change with unknown parameters. Overall, a high-quality regression specification for provincial transfers needs to account for the following factors:

1. The shape and quality of both the independent and dependent variables.
2. A regression form appropriate for the proposed underlying data-generating process.
3. An appropriate variable selection given the regression functional form.
4. Tests for the possibility of structural change over the time period of the dataset.

The existing literature that has employed advanced econometric techniques to predict transfer outcomes has generally not fully accounted for all of these factors, including the most current of the research projects, that of Huang and Chen.

Furthermore, researchers generally start with the rather reductive approach of asking whether transfers are equalizing rather than asking what constellation of factors actually predicts transfers. Generally, the authors above do not ask what other goal transfer distribution might be trying to achieve. Failure to achieve equality is seen as an implicit lack of will of the central government; there seems to be little space for other

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<sup>75</sup> Moreover, the variables suffer from the same problem of being rarely changing variables as their ethnicity measure, but not to the same degree.

intentional choices,<sup>76</sup> even for the alternate of efficiency goals rather than equality concerns.<sup>77</sup>

Given all of these problems, both theoretical and practical, and in conjunction with the previously examined descriptive statistics, in the next section I propose a carefully considered regression design that incorporates the improvements suggested in this section.

### *Proposed Regression & Results*

Given the problems of the above studies, it is imperative to select the variables judiciously, define exactly how each hypothesis predicts their movements, and conscientiously specify the regression form. Doing all of this careful analytic work buttresses the final conclusions drawn from the regression results.

The first issue is variable selection, an issue that is often under-considered in the case of China.<sup>78</sup> The theoretical priors about what drives transfer behavior shape the selection of variables, but the conceptual idea of what should be measured can map to several different possible measured variables. Among those variables, careful selection is

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<sup>76</sup> Wang Shaoguang's work in this area is the one exception. See Wang Shaoguang, "The Political Logic of Fiscal Transfers in China," in *Global Development Network Conference Proceedings*, 2005.

<sup>77</sup> Indeed, much of the China-specific literature is fairly confused as to whether inequality or efficiency ought to be the primary goal of a transfer regime. Dabla-Norris and Ahmed et al. both heavily criticize the existing system based on equality grounds, but in their recommendations to improve the system, they include efficiency improvements, not recognizing that they likely trade off against their purported goal of equality of transfers. The idea that efficiency might trade off with equality with respect to transfers is outlined by, among others, Oates and also Cai and Triesman. Oates, "An Essay on Fiscal Federalism"; Cai and Triesman, "Did Government Decentralization Cause China's Economic Miracle?"

<sup>78</sup> As several authors have pointed out and as discussed in the previous chapter, certain statistics in China are highly problematic. Jeremy L. Wallace, "Juking the Stats? Authoritarian Information Problems in China," *British Journal of Political Science* FirstView (2014): 1–19.

important to ensure validity of results, a problem that has led to problems with several research efforts on transfers.<sup>79</sup>

The independent variable selection is relatively straightforward – transfers per capita. However, to make the variable meaningful, it is necessary to calculate it in per capita terms. The problem is that Chinese official population statistics are problematic, experiencing several discontinuities across time. Hoshino corrects for these discontinuities by combining several data sources over time; the only previous research attempt that utilizes this data is Huang and Chen.<sup>80</sup> Without the corrections, population is overestimated for poorer provinces and underestimated for rich provinces, artificially increasing transfers per capita in rich areas and decreasing them in poor areas. This may account for some of the findings in the past that transfers are generally pro-rich.

Being pro-responsive, **H1**, implies that the government is more responsive to the demands of civil society, which are generally in favor of better quality education, health care, and improved living standard in rural areas.<sup>81</sup> These are, however, difficult concepts to operationalize in China. Huang and Chen, as well as several previous research projects, attempted to define social service need, a similar but equally difficult to define variable.

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<sup>79</sup> Beyond the Huang and Chen paper, there are several others with similar problems, including Martinez-Vazquez, Qiao, and Zhang, “The Role of Provincial Policies in Fiscal Equalization Outcomes in China”; Haiyan Duan and Jing Vivian Zhan, *Fiscal Transfer and Local Public Expenditure in China: A Cross-County Study of Shanxi Province*, SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, 2009), <http://papers.ssrn.com/abstract=1450290>.

<sup>80</sup> Masashi Hoshino, *Measurement of GDP per Capita and Regional Disparities in China, 1979-2009*, Discussion Paper Series (Research Institute for Economics & Business Administration, Kobe University, 2011), <http://ideas.repec.org/p/kob/dpaper/dp2011-17.html>.

<sup>81</sup> The improved living standard in rural areas largely arises from the fact that outright unrest and protests are primarily a rural activity. The reasons for this are several, but tend to come from the lack of privileges afforded to rural residents and their ease at networking and mobilization as compared to city residents. Interestingly, a similar phenomenon exists in democracies whereby rural areas have outsized political influence. See Thomas P. Bernstein, *Unrest in Rural China: A 2003 Assessment*, Working Paper, CSD Working Papers (Center for the Study of Democracy, August 1, 2004), <http://escholarship.org/uc/item/1318d3rx>; Adam D. Sheingate, *The Rise of the Agricultural Welfare State: Institutions and Interest Group Power in the United States, France, and Japan* (Princeton, NJ: Princeton University Press, 2003).

Provincial datasets generally tend to be rather sparse regarding educational and health data and the definition of rural is a moving target in urbanizing China.<sup>82</sup> One typical variable used in many research projects is primary GDP over total GDP. Primary GDP includes economic output from the agriculture, forestry, fishing, and mining sectors. The problem with this definition is that mining has a relatively low labor intensity for the amount of value produced. Rural, in the context of transfer motivations, is interesting because of the large number of underprivileged farmers and workers, not because of the economic percentage of output.

Percentage of the population that is rural is also an alternative, but this figure is also problematic because the figures are drawn from household registrations and largely do not account for the large number of migrants who have moved from poor rural areas to rich urban areas. Moreover, data on rural population is not available for the entire panel and appears to be reported only sporadically. One other possible variable is percentage of electricity consumed in rural areas compared to total electricity consumption. One of the problems with GDP figures is that provincial leaders have an incentive to manipulate them according to the promotion schedule.<sup>83</sup> Electricity figures, as Wallace has found, may better track underlying economic activity and so percentage of rural electricity use to total use may be a better figure than primary to total GDP.<sup>84</sup>

Perhaps the best rural statistic may be percent employed in rural areas versus urban areas. Pizzoli and Gang ran several regressions on rural variables in China and compared them to similar figures in OECD countries; they found that the percentage of

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<sup>82</sup> Edoardo Pizzoli and Xiaoning Gang, "How to Best Classify Rural and Urban," 2007, [http://www.researchgate.net/publication/228466634\\_How\\_to\\_Best\\_Classify\\_Rural\\_and\\_Urban](http://www.researchgate.net/publication/228466634_How_to_Best_Classify_Rural_and_Urban).

<sup>83</sup> Gang Guo, "China's Local Political Budget Cycles," *American Journal of Political Science* 53, no. 3 (July 1, 2009): 621–32.

<sup>84</sup> Wallace, "Juking the Stats?"

people employed in rural areas had the most similarities to rural figures in the West and therefore likely best captured the concept of rural in China.<sup>85</sup> The difference between all of these variables is not trivial, as shown below in the correlation Table 4.5

Table 4.5: Correlation Between Variables Measuring Rural

	Rural Employment Percent	Electricity Use - Percent Rural	Primary to Total GDP
Rural Employment Percent	---		
Electricity Use - Percent Rural	-0.2	---	
Primary to Total GDP	0.62	-0.47	---

Source: *China Statistical Yearbooks*

Rural electricity is generally poorly correlated with the other variables and primary to total GDP is only modestly correlated with the percentage employed in rural areas. Given the theoretical priors about what is important about “ruralness,” percentage employed is the better choice. However, an alternate specification using primary to total GDP is also included in the regression results.

Demand variables are more difficult to select. Huang and Chen use a fiscal burden measure of number of state employees divided by the provincial budget. This is a strange measure of fiscal burden. While there is evidence that local governments are overburdened in paying public salaries,<sup>86</sup> likely this does not extend to the provincial level. Most of the burden generated by overstaffing, if it is a serious problem, generally comes from the public service units (*shiyè danwèi* 事业单位),<sup>87</sup> which primarily exist at

<sup>85</sup> Pizzoli and Gang, “How to Best Classify Rural and Urban.”

<sup>86</sup> Victor Shih, “Partial Reform Equilibrium, Chinese Style Political Incentives and Reform Stagnation in Chinese Financial Policies,” *Comparative Political Studies* 40, no. 10 (October 1, 2007): 1238–62.

<sup>87</sup> Wong, “Rebuilding Government for the 21st Century: Can China Incrementally Reform the Public Sector?,” 940.

the county level.<sup>88</sup> Rather, more objective factors such as total number of children, retired people, disabled, and so on would potentially be more useful as a population group requiring government responsiveness. Such variables are difficult to gather reliably. Number of school-aged children per province is not a published yearly figure; nor is the number of retired persons.

However, possible reasonable proxies are the birthrate of a province lagged six years and a province's death rate. A high birthrate six years previous would imply many children who are ready to enter school, while a high death rate implies a large number of elderly people. Both measures have some problems. The birthrate likely undercounts students, particularly in rural areas, as those evading the one-child policy do not register their second child.<sup>89</sup> However, the direction of the bias in this case would find against responsiveness, as those areas with greater need would be undercounted. Death rates are influenced by quality of medical care, which is likely significantly lower in rural areas, although this may be counteracted by the fact that rural residents may develop medical needs at an earlier age due the manual labor nature of the work in which most are engaged.<sup>90</sup> Overall, while not perfect, they should in some way capture social needs.

A good measure for elite management, as discussed in the previous section, is somewhat difficult to develop, but likely the closest approximation is number of public sector employees. Figures are available across the entire panel and thus serve as the best proxy available for the underlying concept. For the hypothesis that the government is

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<sup>88</sup> There is, to be sure, plenty of questionable spending and make-work jobs in PSUs at the provincial level. However, the bulk of the PSUs exist at the county level.

<sup>89</sup> Tyrene White, *China's Longest Campaign: Birth Planning in the People's Republic, 1949-2005* (Ithaca, NY: Cornell University Press, 2006), 187.

<sup>90</sup> Judith Banister and Kenneth Hill, "Mortality in China 1964-2000," *Population Studies* 58, no. 1 (2004): 55-75.

trying to reinforce economic winners, there are several potential variables. The standard variable would be GDP per capita, although as Wallace points out, this variable can be problematic due to its political nature. Wallace quotes Li Keqiang from 2007 claiming that he follows GDP growth in China by observing electricity consumption, volume of rail cargo, and amount of loans disbursed.<sup>91</sup> Provincial revenue per capita is another, alternative measure of economic activity, although it too likely suffers from some of the same inflationary political pressures as GDP per capita.<sup>92</sup> FDI per capita has also been suggested as an alternative potential measure of the type of economic behavior that the central government wishes to promote.<sup>93</sup> Below is the correlation matrix for these sets of variables.

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<sup>91</sup> Wallace, "Juking the Stats?," 1.

<sup>92</sup> Susan Whiting, *Power and Wealth in Rural China: The Political Economy of Institutional Change* (New York: Cambridge University Press, 2001), 101.

<sup>93</sup> Wu and Wang, "Determinants of Expenditure Decentralization," 178.

Table 4.x Correlation of Pro-Development Variables

	FDI Per Capita	GDP Per Capita	Electricity Production Per Capita	Local Revenue Per Capita	Rail Traffic Per Capita	Loans Per Capita
FDI Per Capita	---					
GDP Per Capita	0.92	---				
Electricity Production Per Capita	0.30	0.37	---			
Local Revenue Per Capita	0.87	0.96	0.30	---		
Rail Traffic Per Capita	-0.02	0.08	0.47	0.02	---	
Loans Per Capita	0.82	0.94	0.26	0.96	0.07	---

*Source: China Statistical Yearbooks*

In general, the four financial variables all have reasonably high correlations with each other. FDI per capita has the least correlation with the others, but these four variables appear to be measuring roughly the same thing. Electricity production is a problematic figure because electricity can flow across provincial boundaries, meaning certain provinces can specialize in electricity production, skewing the figures. More useful would be electricity consumption figures, but unfortunately such data is not available across the entire panel. Rail traffic figures are only modestly correlated with electricity production and nothing else. This probably indicates that rail traffic figures are higher in industrial provinces like the ones that specialize in electricity production. Returning to the theoretical prediction, likely the most interesting among the financial variables are: (1)

GDP per capita, (2) FDI per capita, (3) local revenue per capita, and (4) loans per capita. In the tests below, all of the variables are tested but loans per capita.

The pro-poor transfer hypothesis, **H5**, has the same theoretically interesting variables as **H4**, just with different predicted signs. **H6** would predict no variable as being consistently significant. Finally, as shown in the descriptive statistics section, there is no significant evidence of decentralization and no meaningful way that decentralization can be tested in a regression context, so therefore **H3** is excluded from further tests. The full set of predicted movements in the discussed variables is therefore listed below in Table 4.6:

Table 4.6: Predicted Movement of Variables

Hypothesis	Variable(s)	Predicted Movement
<b>H1: Authoritarian Responsiveness</b>	% Rural Employed	Higher % Rural Employed -> More Transfers
	Primary to Total GDP	Higher Primary to Total GDP -> More Transfers
	Death Rate	Higher Death Rate -> More Transfers
	Birth Rate	Higher Birth Rate -> More Transfers
<b>H2: Elite Management</b>	Number of State Employees	More Employees -> More Transfers
<b>H3: Decentralization</b>	None	None
<b>H4: Economic Geography</b>	GDP Per Capita	Higher GDP Per Capita -> More Transfers
	FDI Per Capita	Higher FDI Per Capita -> More Transfers
<b>H5: Equality of Service</b>	GDP Per Capita	Higher GDP Per Capita -> Less Transfers
	FDI Per Capita	Higher FDI Per Capita -> Less Transfers
<b>H6: Fiscal Failure</b>	All	No Consistent Predicted Relationship

However, this table is still incomplete – the authoritarian responsiveness hypothesis also includes a change over time element. The period from 2002 to 2008 is the beginning of the period under which the regime began to change behavior due to concerns about legitimacy.

Unfortunately, there is no variable that captures policy change except for the year variable. Each year, according to the authoritarian responsiveness hypothesis, the policy changed to a small degree to be increasingly more responsive. To measure this, one can insert dummy variables for years. However, only adding dummy variables for years

simply measures the change in intercept of transfers for each year – whether each year received a higher total amount of transfers than other years, for whatever policy reason. The effect hypothesized is that the slope of the authoritarian responsiveness variables changed over time, becoming increasingly more responsive over time. The way to account for this is to interact the year dummy variables with the variables of interest, so that the impact of responsiveness variables does not depend simply on the parameter estimate of the variable, but instead also depends on the year. According to the authoritarian responsiveness hypothesis, the transfers should be becoming increasingly responsive each year, so the slope of the interaction term between the responsiveness variables and year should increase in magnitude each year.

Note that for the hypothesis to be true, the transfers do not generally have to start as pro-responsive, only that they have to be *increasingly* responsive – an important distinction that no other scholar of transfer behavior has yet captured. In a similar fashion, it seems likely from the descriptive data that transfers are becoming increasingly less pro-rich due to the reduction in size of the rebate transfer. Whether they are still pro-rich does not necessarily impact on the theoretical implication of them becoming *less* pro-rich. The result of these additional considerations is displayed below in Table 4.7.

Table 4.7: Revised Predicted Movement of Variables

Hypothesis	Variable(s)	Predicted Movement
<b>H1:</b> Authoritarian Responsiveness	% Rural Employed	Higher % Rural Employed -> More Transfers <i>Over Time</i>
	Primary to Total GDP	Higher Primary to Total GDP -> More Transfers <i>Over Time</i>
	Death Rate	Higher Death Rate -> More Transfers <i>Over Time</i>
	Birth Rate	Higher Birth Rate -> More Transfers <i>Over Time</i>
<b>H2:</b> Elite Management	Number of State Employees	More Employees -> More Transfers
<b>H3:</b> Decentralization	None	None
<b>H4:</b> Economic Geography	GDP Per Capita	Higher GDP Per Capita -> More Transfers
	FDI Per Capita	Higher FDI Per Capita -> More Transfers
<b>H5:</b> Equality of Service	GDP Per Capita	Higher GDP Per Capita -> Less Transfers
	FDI Per Capita	Higher FDI Per Capita -> Less Transfers
<b>H6:</b> Fiscal Failure	All	No Consistent Predicted Relationship

After accounting for all of these factors, there are also a few variables that are worth considering outside of **H1-H6**. Huang and Chen have indicated that having a provincial leader on the Central Committee may help a province win additional transfers.<sup>94</sup> As Yu and Tsui point out, area of a province may also matter in transfers – provinces with low density may have above average infrastructural needs.<sup>95</sup> Likewise, whether the province is a minority province may also matter. All of these variables are therefore part of the regression exploration below.

In sum, after careful analysis of the available variables, reasonable proxy variables have been chosen to map closely onto the relevant theoretical concepts. This variable set therefore provides a solid basis upon which to arbitrate between the competing hypotheses.

### *Data & Regression Results*

Regression results from both pooled OLS regressions and fixed effects regressions generally tend to support **H1**, while other theories find less support. Data for all of the regressions was gathered from *China Data Online* service (which primarily uses China Statistical Yearbooks), *China Statistical Yearbooks* directly, and the *Finance Yearbook of China*.<sup>96</sup> Special adjustments were made for population figures as suggested by Hoshino to correct for the problem of migrant workers and all data measured in *yuan* were deflated to 2000 levels.<sup>97</sup> Overall, the data is not perfect but provides enough information to test the suggested hypotheses plausibly.

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<sup>94</sup> Huang and Chen, “Are Intergovernmental Transfers in China Equalizing?,” 548.

<sup>95</sup> Qing Yu and Kaiyuen Tsui, “Factor Decomposition of Sub-Provincial Fiscal Disparities in China,” *China Economic Review* 16, no. 4 (2005): 409.

<sup>96</sup> “China Data Online,” accessed May 5, 2014, <http://chinadataonline.org/>.

<sup>97</sup> Hoshino, *Measurement of GDP per Capita and Regional Disparities in China, 1979-2009*.

The simplest regression form is pooled OLS. This method simply pools all the available data together and runs standard OLS regressions on the result. The basic form is as follows:

$$(1) \quad transfers_{it} = \alpha + x_{it}\beta + \varepsilon_{it}$$

The advantage of such a regression form is that it imposes few restrictions on the  $i$  and  $t$  dimensions of the panel and it is relatively simple to apply and interpret. Below are the results of several different pooled regressions (Table 4.8).<sup>98</sup>

Table 4.8: Pooled Regression Results

Variable [10% - 90% range]	(I)	(II)	(III)	(IV)
gdp_capita [.63 - 2.73]	<b>-286 (0.00)</b>	-	-	<b>-20.6 (0.79)</b>
revenue_capita [404 - 2788]	-	-0.11 (0.01)	-	-
fdi_capita [3.74 - 205]	-	-	-1.45 (0.04)	-
area [3.4 - 72.1]	0.55 (0.61)	0.38 (0.74)	0.67 (0.55)	1.92 (0.07)
rural_employed [.53 - .84]	<b>-3406 (0.00)</b>	-2771 (0.00)	-2655 (0.00)	-
primary_industry [.04 - .21]	-	-	-	-2383 (0.00)
state_workers [.04 - .09]	1490 (0.64)	4474 (0.10)	2935 (0.40)	<b>1266 (0.00)</b>
lagged_birthingrate [8.3 - 19.5]	<b>38.2 (0.00)</b>	49.8 (0.00)	48.6 (0.00)	44.8 (0.00)
deathrate [5.08 - 6.75]	<b>132 (0.02)</b>	135 (0.02)	137 (0.02)	50.1 (0.36)
is_ethnic [0 - 1]	-253 (0.01)	-252 (0.01)	-229 (0.03)	-240 (0.02)
province_has_cc [0 - 1]	-247 (0.11)	<b>-370 (0.02)</b>	-230 (0.15)	-234 (0.14)
2002	<i>omitted</i>	<i>omitted</i>	<i>omitted</i>	<i>omitted</i>
2003	109 (0.29)	119 (0.24)	92 (0.38)	127 (0.22)
2004	296 (0.00)	298 (0.00)	284 (0.00)	327 (0.00)
2005	392 (0.00)	394 (0.00)	358 (0.00)	413 (0.00)
2006	571 (0.00)	576 (0.00)	534 (0.00)	580 (0.00)
2007	815 (0.00)	816 (0.00)	767 (0.00)	794 (0.00)
2008	1043 (0.00)	1027 (0.00)	990 (0.00)	1015 (0.00)
constant	2406 (0.00)	1363 (0.00)	1315 (0.08)	-355 (0.49)
r2	0.54	0.53	0.53	0.53
transfers_per_capita [485 - 1946]				

<sup>98</sup> These regressions were conducted by excluding Tibet, due to its status as an outlier described above. Including Tibet strongly increased the significance of the area variable and decreased the significance of other variables, but did not change the signs of any of the coefficients or substantively change the interpretation of the data.

The regression results proved to be relatively robust to changes in measurement of wealth of a province – very few variables changed signs or significance across models I-III, excepting the case of whether a province has a central committee member. As predicted by **H5**, GDP per capita proved to negatively predict transfers. `state_workers` seemed to predict increased transfers modestly, partially validating **H2**, although the magnitude of the coefficient was small. Transfers also generally grew over time, as the magnitude of the year dummies indicate.

For the evidence of responsiveness, **H1** finds mixed support. Both `lagged_birtrate` and `deathrate` are consistently significant across all regressions and in the expected direction. `rural_employed` and `primary_industry` are both in the opposite of the expected direction. When `primary_industry` is employed in model IV, it also impacts the significance of `gdp_capita`, likely due to the fact that the two variables are relatively collinear. However, as discussed above, it is not the sign of `rural_employed` or `lagged_birtrate` that matters, but whether it changes over time and to assess whether applying time interaction effects, a structural change test is useful.

One way to test if there are important changes to coefficients is to use a Chow test to determine if there is a structural break in the data. The basic operation of the Chow test is to test if running a regression on the first time period results in coefficients that are statistically significantly different from the second period.<sup>99</sup> The Chow test is calculated as follows:

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<sup>99</sup> One has to be careful about fishing for Chow structural breaks, as with any data mining technique. There are other strategies more appropriate when the specific date of the structural break is unclear, such as the one proposed by Andrews: Donald W. K. Andrews, “Tests for Parameter Instability and Structural Change With Unknown Change Point,” *Econometrica* 61, no. 4 (July 1, 1993): 821–56.

$$(2) \quad \frac{(ESS_T - (ESS_1 + ESS_2))/k}{(ESS_1 + ESS_2)/(N_1 + N_2 - 2k)}$$

Where  $ESS$  is the estimated sum of squares,  $N$  is the number of observations in each set,  $k$  is the degrees of freedom and the groups are *total*, *group 1*, and *group 2*. The result of the Chow test on the base model of whether the period for 2002-2004 was statistically significantly different from 2005-2008 is shown below in (3), using data from the appropriate partial regressions.

$$(3) \quad \frac{47388251 - (28238520 + 6875103)/8}{(28238520 + 6875103)/(90 + 119 - 2(8))} = 8.4$$

The critical value for  $F(8, 196) = 1.74$ , so we can reject the null hypothesis of structural stability. This suggests that adding in terms that help to explain better why the coefficients might vary over time can enhance the regression. To investigate this, I conducted a series of interactions of time and the relevant **H1** variables and then ran similar pooled regressions, the results of which are shown below in Table 4.9.

Table 4.9: Interaction Effects in a Pooled Regression

Variable [10% - 90% range]	(I)	(II)	(III)	(IV)
gdp_capita [.63 - 2.73]	-149 (0.31)	-258 (0.01)	-239 (0.31)	-303 (0.00)
area [3.4 - 72.1]	0.82 (0.45)	0.45 (0.68)	0.80 (0.45)	0.47 (0.67)
rural_employed [.53 - .84]	-2983 (0.00)	-2774 (0.00)	-3196 (0.00)	-3515 (0.00)
state_workers [.04 - .09]	2165 (0.50)	2380 (0.47)	1743 (0.50)	1221 (0.71)
lagged_birthrate [8.3 - 19.5]	46.3 (0.00)	40 (0.00)	34.2 (0.00)	37.9 (0.00)
deathrate [5.08 - 6.75]	112 (0.05)	134 (0.02)	125 (0.05)	153 (0.23)
is_ethnic [0 - 1]	-239 (0.02)	-252 (0.01)	-242 (0.02)	-254 (0.01)
province_has_cc [0 - 1]	-320 (0.05)	-356 (0.03)	-276 (0.05)	-243 (0.12)
2002 x gdp_capita	<i>omitted</i>	-	-	-
2003 x gdp_capita	<b>115 (0.41)</b>	-	-	-
2004 x gdp_capita	<b>100 (0.46)</b>	-	-	-
2005 x gdp_capita	<b>1.59 (0.99)</b>	-	-	-
2006 x gdp_capita	<b>-67.3 (0.61)</b>	-	-	-
2007 x gdp_capita	<b>-99.4 (0.45)</b>	-	-	-
2008 x gdp_capita	<b>-224 (0.08)</b>	-	-	-
2002 x rural_employed	-	<i>omitted</i>	-	-
2003 x rural_employed	-	<b>-761 (0.25)</b>	-	-
2004 x rural_employed	-	<b>-879 (0.19)</b>	-	-
2005 x rural_employed	-	<b>-818 (0.23)</b>	-	-
2006 x rural_employed	-	<b>-561 (0.41)</b>	-	-
2007 x rural_employed	-	<b>-649 (0.37)</b>	-	-
2008 x rural_employed	-	<b>127 (0.85)</b>	-	-
2002 x lagged_birthrate	-	-	<i>omitted</i>	-
2003 x lagged_birthrate	-	-	<b>-17 (0.48)</b>	-
2004 x lagged_birthrate	-	-	<b>-12 (0.41)</b>	-
2005 x lagged_birthrate	-	-	<b>3.09 (0.99)</b>	-
2006 x lagged_birthrate	-	-	<b>9.9 (0.99)</b>	-
2007 x lagged_birthrate	-	-	<b>22.7 (0.61)</b>	-
2008 x lagged_birthrate	-	-	<b>57.1 (0.45)</b>	-
2002 x deathrate	-	-	-	<i>omitted</i>
2003 x deathrate	-	-	-	41.7 (0.80)
2004 x deathrate	-	-	-	53.3 (0.77)
2005 x deathrate	-	-	-	-26.9 (0.87)
2006 x deathrate	-	-	-	-8.95 (0.95)
2007 x deathrate	-	-	-	-97.5 (0.57)
2008 x deathrate	-	-	-	-60.4 (0.70)
constant	2268 (0.01)	1834 (0.06)	2268 (0.01)	-1834 (0.06)
r2	0.55	0.55	0.56	0.54
transfers_per_capita [485 - 1946]	<i>year dummies omitted for brevity</i>			

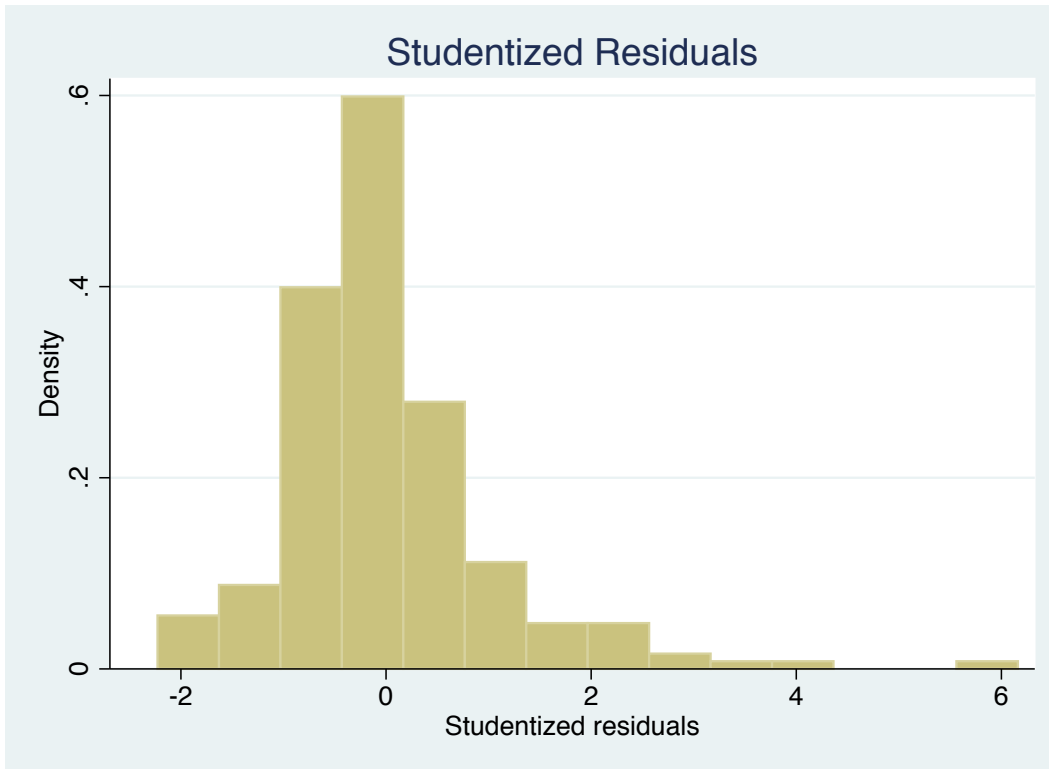
The results of this test are unfortunately inconclusive and this is likely due to weaknesses in the pooled OLS specification.<sup>100</sup> `gdp_capita` does appear to become more pro-poor over time, although only modestly so. `rural_employment` is generally insignificant in the interaction terms and appears to have a u-shaped trajectory over time. `deathrate` appears to decline modestly over time, although none of the interaction terms are significant. `lagged_birthrate` is the only variable that is in the expected direction and is significant in the interaction term.

Moreover, there are not enough observations to include all the interaction terms and still retain useful amounts of statistical power. Future observations and work can hopefully work on ways to extend this regression to test multiple interactions at the same time, but with the data available, such tests would be impractical. However, even without being able to run all of the interactions at the same time, diagnostics of the regressions are relatively unproblematic, suggesting that the regression form is correct but the power of the test is problematic. For example, the residuals of model I are shown below (Figure 4.7).

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<sup>100</sup> To interpret interaction coefficient, one first notes the value of the coefficient of the non-interaction term and then adds that to the value of the coefficient for the year multiplied by variable interaction term.

Figure 4.7: Studentized Residuals



This graph of the studentized residuals looks relatively normally distributed, although it does have a somewhat troublesome right tail. All of the cases in the right tail are in Qinghai, although removing Qinghai from the regressions does not substantively change the results.<sup>101</sup>

Whatever the diagnostics of the pooled OLS regression, the basic regression form does not exploit all of the information in the dataset, thus calling for more sophisticated panel data techniques that can help overcome some of the issues with finding significance in the above regression. Panel data exploits the fact that units have structure over time, thus enabling one to control for unit-level heterogeneity much more easily.<sup>102</sup> Panel data techniques are also much more efficient than standard OLS regressions, allowing for

<sup>101</sup> The predicted values of Tibet generate Studentized residuals ranging from 2 to 22, demonstrating that the province is truly an outlier.

<sup>102</sup> This is among other benefits. For a full list see Baltagi, *Econometric Analysis of Panel Data*, 3.

more precise parameter estimates. The two most common panel data approaches are fixed effects and random effects. From a theoretical perspective, a dataset that consists of the total universe of cases (such as the case of provinces in China) generally calls for a fixed effects approach rather than random effects, although a random effects regression is more efficient.

The usual suggestion to select between the models is to run a Hausman test comparing the results of a fixed effects regression and a random effects regression.<sup>103</sup> Examples in the literature in which the author or authors simply run both models, examine the results of the Hausman test, and then choose a model accordingly are numerous. Running the Hausman test on the base model with no interaction terms gives a result suggesting that fixed effects is a more appropriate estimation strategy. However, Clark and Linzer have found, via Monte Carlo simulations, that the Hausman test is often problematically applied in small and medium  $n$  cases.<sup>104</sup> Their findings suggest that for cases in which the *within* variation dominates (as is the case with the provincial transfer dataset) the choice of estimation strategy likely will produce similar estimates, assuming unit effects are not large.

Therefore, as noted above, fixed effects is the approach taken in the following regressions, although the results do not change substantially if a random effects estimation strategy is instead employed (validating Clark and Linzer's observation). One of the consequences of using fixed effects is that time-invariant characteristics are automatically controlled for due to the way the regression is calculated. There are ways to

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<sup>103</sup> For example, see Marno Verbeek, *A Guide to Modern Econometrics*, 3rd ed. (Chichester, UK: John Wiley & Sons, 2008), 351.

<sup>104</sup> Tom S. Clark and Drew A. Linzer, "Should I Use Fixed Effects or Random Effects?," n.d., <http://www.tomclarkphd.com/workingpapers/randomeffects.pdf>.

re-include such variables, but neither of the two time-invariant variables used in the previous regressions (area and is\_ethnic) are substantively interesting; their inclusion was largely as a control and therefore they are excluded from the following regressions. The final form of the regression is:

$$(4) \quad y_{it} = \mathbf{X}_{it}\beta + u_{it}$$

The results of the non-interacted version of the model are shown below in Table 4.10.

Table 4.10: Fixed Effects Regression

Variable [10% - 90% range]	(I)	(II)	(III)	(IV)
gdp_capita [.63 - 2.73]	<b>-465 (0.00)</b>	-	-	-561 (0.00)
revenue_capita [404 - 2788]	-	-0.30 (0.01)	-	-
fdi_capita [3.74 - 205]	-	-	-1.89 (0.00)	-
rural_employed [.53 - .84]	1695 (0.01)	1499 (0.01)	<b>2086 (0.00)</b>	-
primary_industry [.04 - .21]	-	-	-	-3323 (0.04)
state_workers [.04 - .09]	-2002 (0.62)	<b>-9357 (0.02)</b>	-496 (0.90)	-8936 (0.01)
lagged_birthrate [8.3 - 19.5]	<b>-42 (0.01)</b>	-24.5 (0.14)	-48.9 (0.00)	-46 (0.01)
deathrate [5.08 - 6.75]	18.4 (0.73)	18.8 (0.70)	45.2 (0.39)	5.8 (0.91)
province_has_cc [0 - 1]	252 (0.04)	38 (0.75)	<b>246 (0.05)</b>	198 (0.11)
2002	<i>omitted</i>	<i>omitted</i>	<i>omitted</i>	<i>omitted</i>
2003	53 (0.29)	20 (0.75)	6.04 (0.90)	-5.16 (0.97)
2004	242 (0.00)	162 (0.00)	183 (0.00)	165 (0.01)
2005	332 (0.00)	235 (0.00)	213 (0.00)	206 (0.00)
2006	486 (0.00)	382 (0.00)	323 (0.00)	297 (0.00)
2007	723 (0.00)	629 (0.00)	519 (0.00)	530 (0.00)
2008	1008 (0.00)	885 (0.00)	767 (0.00)	798 (0.00)
constant	718 (0.44)	890 (0.27)	-125 (0.88)	3160 (0.00)
transfers_per_capita [485 - 1946]				

Again, all the measures of wealth remain negative and are relatively stable across different measures. Interestingly, rural\_employed is positive but primary\_industry is not, perhaps suggesting that areas with significant extractive industries receive fewer transfers while areas that are truly rural are receiving more transfers. state\_workers remains hard to interpret, but in the models where it finds statistical significance, the sign is the opposite of the expected sign for **H2**. lagged\_birthrate is the opposite of the expected sign now, but

again, its change over time is more relevant than the absolute direction of the coefficient. deathrate is largely insignificant, but the direction of the coefficient is in the expected direction. In any case, the results are substantively very different from the pooled OLS strategy, although again there is a lack information about changes over time.

Change over time requires use of interaction terms, the results of which are below in Table 4.11.

Table 4.11: Fixed Effects Interaction Regressions

<b>Variable [10% - 90% range]</b>	<b>(I)</b>	<b>(II)</b>	<b>(III)</b>	<b>(IV)</b>
gdp_capita [.63 - 2.73]	564 (0.00)	-427 (0.00)	-179 (0.10)	-472 (0.00)
rural_employed [.53 - .84]	1389 (0.00)	2676 (0.00)	1905 (0.00)	1618 (0.02)
state_workers [.04 - .09]	-11191 (0.59)	2867 (0.59)	-4996 (0.20)	-1119 (0.79)
lagged_birtherate [8.3 - 19.5]	-8.2 (0.02)	-40.1 (0.02)	-48.8 (0.01)	-42 (0.02)
deathrate [5.08 - 6.75]	29.9 (0.68)	21.5 (0.68)	70 (0.18)	31.9 (0.67)
province_has_cc [0 - 1]	-73.9 (0.61)	74.7 (0.23)	112 (0.37)	264 (0.04)
2002 x gdp_capita	<i>omitted</i>	-	-	-
2003 x gdp_capita	<b>-29.1 (0.23)</b>	-	-	-
2004 x gdp_capita	<b>-116 (0.71)</b>	-	-	-
2005 x gdp_capita	<b>-261 (0.38)</b>	-	-	-
2006 x gdp_capita	<b>-302 (0.08)</b>	-	-	-
2007 x gdp_capita	<b>-437 (0.14)</b>	-	-	-
2008 x gdp_capita	<b>-535 (0.04)</b>	-	-	-
2002 x rural_employed	-	<i>omitted</i>	-	-
2003 x rural_employed	-	<b>399 (0.23)</b>	-	-
2004 x rural_employed	-	<b>193 (0.71)</b>	-	-
2005 x rural_employed	-	<b>446 (0.38)</b>	-	-
2006 x rural_employed	-	<b>646 (0.08)</b>	-	-
2007 x rural_employed	-	<b>617 (0.14)</b>	-	-
2008 x rural_employed	-	<b>926 (0.04)</b>	-	-
2002 x lagged_birtherate	-	-	<i>omitted</i>	-
2003 x lagged_birtherate	-	-	<b>-5.13 (0.64)</b>	-
2004 x lagged_birtherate	-	-	<b>-4.16 (0.72)</b>	-
2005 x lagged_birtherate	-	-	<b>12.4 (0.31)</b>	-
2006 x lagged_birtherate	-	-	<b>14.7 (0.31)</b>	-
2007 x lagged_birtherate	-	-	<b>40 (0.00)</b>	-
2008 x lagged_birtherate	-	-	<b>57.6 (0.00)</b>	-
2002 x deathrate	-	-	-	<i>omitted</i>
2003 x deathrate	-	-	-	-9.68 (0.90)
2004 x deathrate	-	-	-	-5.80 (0.94)
2005 x deathrate	-	-	-	-47.4 (0.52)
2006 x deathrate	-	-	-	-45.6 (0.58)
2007 x deathrate	-	-	-	-29.8 (0.70)
2008 x deathrate	-	-	-	-29.8 (0.70)
constant	2268 (0.01)	-421 (0.69)	272 (0.31)	622 (0.54)
transfers_per_capita [485 - 1946]	<i>year dummies omitted for brevity</i>			

The two variables that symbolize responsiveness all have signs in the expected direction.

deathrate does not appear to be a strong predictor of transfers. Given that most of the government funds have gone to education and rural improvement projects, it is perhaps

not surprising that the two variables measuring those concepts turn out to be the most significant. *gdp\_capita* turns out to correlate with transfers, but, over time, becomes more associated with providing extra funds to poor regions. This result likely stems from the decline in tax rebate transfers since 2002. These results are relatively robust to the exclusion of Qinghai and standard tests indicate no serial correlation, problematic heteroskedasticity, or unit root processes.

Overall, the results are generally in favor of **H1**, that the Chinese government has become more responsive over time. This finding is robust to specification changes and is strengthened by careful model selection and appropriate variable choice. The full results of the various hypotheses tests are listed below in Table 4.12.

Table 4.12: Final hypotheses results test.

<b>Hypothesis</b>	<b>Findings</b>
<b>H1: Authoritarian Responsiveness</b>	General support across both the youth and rural variables, less support for elderly
<b>H2: Elite Management</b>	No consistent support
<b>H3: Decentralization</b>	Not tested
<b>H4: Economic Geography</b>	No support
<b>H5: Equality of Service</b>	Transfers were generally pro-poor, but result was not consistent
<b>H6: Fiscal Failure</b>	Fiscal policy evident through changes across time being reflected in data

## **VI. Conclusion**

When all the relevant theoretical perspectives are considered, authoritarian responsiveness still seems to be the best model to understand Chinese government transfer behavior. As with most political science phenomena, many models of transfer behavior have been postulated over time, including models primarily relevant to democracies and those more specific to China. Summary data is supportive of both the

authoritarian responsiveness hypothesis and a pro-poor hypothesis. Existing econometric accounts, however, are skeptical that the central government transfer program is strongly pro-poor, although most such accounts are either relatively unsophisticated or have methodological issues.

Regression results, when the variables are carefully examined and the proper model is selected, provide support for the **H1** model and somewhat more qualified support for the **H5**, or equality of service, hypothesis. Given that the authoritarian responsiveness hypothesis suggests that the central government changes its behavior in response to threats of unrest and dissatisfaction, it seems also plausible that the central government would, for reasons of combatting unrest, also seek to send funds to poorer areas. Proponents of **H5** argue that the government would seek such transfers for reasons of economic efficiency. However, given the support found in the results for **H1**, it seems more likely that evidence of pro-poor transfers is also likely done to increase responsiveness rather than economic efficiency, particularly given the existence of pro-responsiveness programs that are also pro-poor such as the *dibao* and others. To explore this issue and others, the next chapter examines central and provincial-level spending over the same time period.

## **Chapter 5: Spending Patterns at the Central and Provincial Levels**

### **I. Introduction**

Spending patterns at both the central and local levels add additional confirmation to the authoritarian responsiveness hypothesis. A multitude of authors have proposed various theories for how authoritarian regimes structure their expenditures, from those that focus on spending to ensure the loyalty of elite supporters to those that predict authoritarian regimes will adopt spending patterns that are economically optimal. Section II of this chapter has a full review of the competing theories, including specific predictions with respect to China. Following section II, a review of the evidence from national- and provincial-level spending lends support to the authoritarian responsiveness hypothesis and (partially) to the increased repression hypothesis.

However, the central and provincial spending data is unfortunately rather coarse. A closer examination of the two areas with the highest predicted increases in responsiveness, health care, and education corroborates the aggregate spending results. This finding is visible in two ways, via a qualitative review of policy and also by examining detailed quantitative expenditure data. All of these results suggest that the changes in transfer patterns were not an anomaly, but rather are part of a major reorientation of state spending policy in a more responsive direction.

### **II. Authoritarian Spending Theories**

Authors seeking to explain authoritarian government spending behavior generally follow the same theoretical frames as with fiscal transfers; however, there are some different analytic approaches and a few interesting distinctions. There is again the authoritarian responsiveness hypothesis indicating total soft government spending has

increased and an elite management hypothesis predicting increased spending on government services that can easily be diverted to regime supporters. There are also theories predicting an increase in the repressive apparatus of the state and decreases in public spending as the regime's time horizon recedes. Finally, economists of developing countries predict increased total government spending. These theories all relatively directly map to specific predictions about China, albeit with some complications given the vertical structure of the Chinese state.

The theoretical literature on authoritarian spending patterns is nearly as slim as that on authoritarian fiscal transfers. This is to be expected: transfers are really just a special subset of total government spending. The importance of transfers in many authoritarian systems and the ease with which they can be directed to favorite causes makes them especially interesting to study. However, it is also important to view categories of spending and how they change over time, to better understand autocratic regime intentions.

The lack of theoretical understanding is all the more surprising given the vast and wide literature on spending and public goods provisions in democracies. Nearly every dimension or differentiation between democratic regimes has been analyzed to understand which type of regime provides what and how many public goods.<sup>1</sup> Scholars

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<sup>1</sup> The literature on this subject is much too vast to list here, but a sampling includes Torsten Persson and Guido Tabellini, "The Size and Scope of Government: Comparative Politics with Rational Politicians," *European Economic Review* 43, no. 4–6 (April 1999): 699–735; Alberto Alesina, Edward Glaeser, and Bruce Sacerdote, *Why Doesn't the US Have a European-Style Welfare System?*, Working Paper (National Bureau of Economic Research, October 2001), <http://www.nber.org/papers/w8524>; Gian Maria Milesi-Ferretti, Roberto Perotti, and Massimo Rostagno, "Electoral Systems and Public Spending," *The Quarterly Journal of Economics* 117, no. 2 (May 1, 2002): 609–57; Torben Iversen and David Soskice, "Electoral Institutions and the Politics of Coalitions: Why Some Democracies Redistribute More Than Others," *American Political Science Review* 100, no. 02 (2006): 165–81; Andrew Pickering and James Rockey, "Ideology and the Growth of Government," *Review of Economics and Statistics* 93, no. 3 (August 25, 2010): 907–19.

have discussed whether presidential regimes spend more on social welfare than parliamentary regimes<sup>2</sup> and have also debated the composition of spending between left- and right-wing governments.<sup>3</sup> However, few have extended the logic of democratic theories to autocratic regimes. Those that have thought about authoritarian spending have generally followed similar lines to those thinking about transfers in authoritarian regimes, with some significant differences noted in the following paragraphs.

Authoritarian responsiveness, the main argument of this project, leads to a prediction that the central government increasingly prioritizes spending on categories such as education and health care. The reasons for this are straightforward according to the theory advanced in Chapter 3: the central government is increasingly concerned about the possibility of unrest and the declining saliency of the social contract between state and society. However, since the regime's time horizon is long, it can afford to address the underlying root causes of distress in society, which include deep insecurities about ability to pay for health care and education.<sup>4</sup> This hypothesis leads directly to **H1**:

**H1: Soft public services, such as health care and education, increased as a percentage of expenditure after 2002 (Authoritarian responsiveness hypothesis)**

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<sup>2</sup> Alessandro Lizzeri and Nicola Persico, "The Provision of Public Goods under Alternative Electoral Incentives," *The American Economic Review* 91, no. 1 (March 1, 2001): 225–39.

<sup>3</sup> Timothy Besley and Anne Case, "Political Institutions and Policy Choices: Evidence from the United States," *Journal of Economic Literature* 41, no. 1 (March 1, 2003): 7–73.

<sup>4</sup> With respect to health care, the insecurity is very real for the population: "[m]ore than 35% of urban households and 43% of rural households have difficulty affording health care, go without, or are impoverished by the costs." Education has provided a different set of anxieties, as local governments struggled to fund centrally mandated educational access targets, resulting in a large increase in illegal taxes and fees in the 1990s. See Shanlian Hu et al., "Reform of How Health Care Is Paid for in China: Challenges and Opportunities," *The Lancet* 372, no. 9652 (November 28, 2008): 1846; Litao Zhao, "Between Local Community and Central State: Financing Basic Education in China," *International Journal of Educational Development* 29, no. 4 (July 2009): 366–73.

As is the case with transfers, some scholars, such as Deacon, have argued that autocrats ought to favor public good provision that benefits regime supporters.<sup>5</sup> This is in line with the general hypothesis of Bueno de Mesquita of autocrats favoring their selectorate, as discussed in the previous chapter.<sup>6</sup> However, in the case of transfers, such a hypothesis would predict that fiscal transfers would be aimed at a larger class of regime supporters, as the dispersed funds are given to a diffuse and geographically dispersed selection of counties. In the case of government spending at the higher levels, the spending can be more narrowly tailored to support a much smaller class of recipients, such as relatives or clients of the ruling clique.<sup>7</sup>

There are two predictions possible from such a model, particularly with respect to spending at higher levels of government. The first is that infrastructure spending ought to be prioritized. For those interested in using spending to accrue private benefits, infrastructure provides the ability to direct funding to favored clients much more easily than is the case with spending on education, health care, and so on.<sup>8</sup> The second, and more straightforward hypothesis, is that one would expect spending to be directed towards exclusive goods, such as entertainment budgets, new government offices, and so on rather than towards public goods. Seeing continued, high levels of either infrastructure

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<sup>5</sup> Robert T. Deacon, "Public Good Provision under Dictatorship and Democracy," *Public Choice* 139, no. 1–2 (April 1, 2009): 241–62.

<sup>6</sup> Bruce Bueno de Mesquita et al., "An Institutional Explanation of the Democratic Peace," *American Political Science Review* 93, no. 4 (1999): 791–807; Bruce Bueno de Mesquita et al., "Political Competition and Economic Growth," *Journal of Democracy* 12, no. 1 (2001): 58–72.

<sup>7</sup> Practices such as outright corruption and siphoning of funds for private benefits are unlikely to show up in official spending data, although no-bid contracts to supporters and similar purchasing malfeasance may inflate costs and decrease the quality of public goods provided.

<sup>8</sup> See Vito Tanzi and Hamid Davoodi, "Corruption, Public Investment, and Growth," in *The Welfare State, Public Investment, and Growth*, ed. Hirofumi Shibata and Toshihiro Ihori (Tokyo: Springer Japan, 1998), 41.

spending or government administration would therefore support such a hypothesis, leading to **H2**.

**H2: Regime supporters receive, via infrastructure spending, a disproportionate percentage of spending** (Elite management hypothesis)

Another hypothesis offered to explain authoritarian spending derives from those who have argued that regimes generally sustain themselves via their ability to employ their repressive apparatus effectively. Eva Bellin, Charles Boix, and others have all argued that understanding the dynamics of repression is key to understanding how regimes fail.<sup>9</sup> Regimes that are weak in repression are more likely to democratize over time, so the size and efficacy of the repression apparatus are key to preventing democratization.<sup>10</sup> As Eva Bellin notes, “the stubborn persistence of authoritarianism in the Middle East and North Africa highlights an equally powerful lesson. Where patrimonial institutions are wedded to coercive capacity, authoritarianism is likely to endure. In this context, regime elites possess both the will and the capacity to suppress democratic initiative.”<sup>11</sup>

There is no strict analog to this hypothesis in the transfer literature; the closest equivalent would be a variation on authoritarian responsiveness, that areas generating the

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<sup>9</sup> Eva Bellin, “The Robustness of Authoritarianism in the Middle East: Exceptionalism in Comparative Perspective,” *Comparative Politics* 36, no. 2 (January 1, 2004): 139–57; Charles Boix, *Democracy and Redistribution* (Cambridge: Cambridge University Press, 2003). For other variations on this argument, see Charles Tilley, *Coercion, Capital, and European States, A.D. 990-1990* (Oxford, UK: Basil Blackwell, 1990); Michael L. Ross, “Does Oil Hinder Democracy?,” *World Politics* 53, no. 3 (April 1, 2001): 325–61; Daron Acemoglu, *Economic Origins of Dictatorship and Democracy* (Cambridge, UK: Cambridge University Press, 2006); Michael Albertus and Victor Menaldo, “Coercive Capacity and the Prospects for Democratization,” *Comparative Politics* 44, no. 2 (2012): 151–69.

<sup>10</sup> Some scholars have attempted to nuance this understanding of the role of repression in autocracies, but generally accept the general point that repression is key to regime survival. Examples include Ronald Wintrobe, *The Political Economy of Dictatorship* (Cambridge, UK: Cambridge University Press, 2000); Pablo Policzer, *The Rise and Fall of Repression in Chile* (South Bend, IN: University of Notre Dame Press, 2009).

<sup>11</sup> Bellin, “The Robustness of Authoritarianism in the Middle East,” 152.

most threat to the regime will receive the most transfers. Indeed, there is some similar logic in this argument as in authoritarian responsiveness; both take as their point of departure that authoritarian regimes are ultimately fearful of the population and then describe the mechanism by which regimes decrease the threats to themselves. However, for authors who place the emphasis on the coercive capacity of the state, there is little space for a gradual decrease in legitimacy that prompts a regime crisis, as was the case in the Soviet bloc and which I argue China is facing. The repressive apparatus has no causal channels through which it can build legitimacy, and therefore must be endowed with ever-greater resources as regime legitimacy declines.

With regard to spending expectations, the two theories therefore offer a clearly distinct set of predictions. Authors in favor of the coercive capacity argument generally claim that any rational regime with sufficient funds will increase spending on repressive power in response to increases in citizen complaints. During the period of this study, one should expect an increase in funding related to security services and public order, leading to **H3**.

**H3: In response to decreasing legitimacy, a regime will respond with increased spending on security services (Repressive Apparatus)**

Another set of scholars who study autocracies has taken a more economic approach to government spending and public goods provisions. Scholars like Mancur Olson have suggested that autocracies provide public goods and public good spending as a way to maximize returns to the leadership of the regime.<sup>12</sup> In this conception of an

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<sup>12</sup> Mancur Olson, "Dictatorship, Democracy, and Development," *American Political Science Review* 87, no. 3 (1993): 567–76. Others making similar arguments include Douglass C. North, John Joseph Wallis, and Barry R. Weingast, *A Conceptual Framework for Interpreting Recorded Human History*, Working Paper (National Bureau of Economic Research, December 2006), <http://www.nber.org/papers/w12795>; Daron

autocratic regime, the central goal of the autocrat is to maximize profit. Public goods increase the total economic pie, which allows the autocrat to take an even larger slice of taxation profit than would have otherwise been the case. As Olson puts it, “[s]ince the warlord takes a part of total production in the form of tax theft, it will also pay him to provide other public goods whenever the provision of these goods increases taxable income sufficiently.”<sup>13</sup>

In this model of authoritarian regime behavior, the main difference between autocracies and democracies is that democracies have a longer time horizon. Democracies therefore invest more heavily in public goods as the return to public goods can be spread over a longer period. Autocracies are more prone to invest only in public goods that have a relatively short return period. This theory raises two important points. It may be that the key differences between regimes concern not the composition of spending, but instead the level. Autocracies of different types may spend more than autocracies of other types, holding composition of spending constant. The longer the time horizon of the regime, the more public goods the regime is willing to provide.

Second, autocracies may also invest more in projects with immediate returns than those with long-term returns. Typically, spending categories like health care, education, and other so-called soft public goods are considered to have longer return periods, while investments like infrastructure offer more immediate returns.<sup>14</sup> These two observations lead to the following two hypotheses.

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Acemoglu, Simon Johnson, and James A. Robinson, “Institutions as a Fundamental Cause of Long-Run Growth,” in *Handbook of Economic Growth*, ed. Philippe Aghion and Steven N. Durlauf, vol. Volume 1, Part A (Amsterdam: Elsevier, 2005), 385–472.

<sup>13</sup> Olson, “Dictatorship, Democracy, and Development,” 568.

<sup>14</sup> Albert Saiz, “Dictatorships and Highways,” *Regional Science and Urban Economics* 36, no. 2 (March 2006): 187–206.

**H4: Authoritarian regime public good spending is higher the longer the regime's time horizon** (Economic maximization)

**H5: The longer the regime's time horizon, the more the composition of spending shifts to soft public goods** (Economic maximization)

**H5** is very similar to **H1**, authoritarian responsiveness, so adjudicating between the two is difficult. **H1** does not necessarily predict that the composition will shift away from infrastructure, just that responsive spending will increase as a total share of spending. **H1** is also relatively agnostic about the level of government spending over time, although increases in citizen demands would imply that the state demands a higher share of economic resources, as health care and education move from being privately provided to publicly guaranteed. Differentiating between these two hypotheses is discussed in more detail later in this chapter.

The issue of levels versus composition raises one more potential explanation for spending patterns in China. Instead of dividing by regime type, some scholars, such as Lindauer and Velenchik, have conceptualized spending as being determined by development status.<sup>15</sup> Developing countries, according to these scholars, have different levels of public good provisions than developed countries. A few scholars writing about expenditures in developing countries have attempted to link variance in spending ratios (rather than levels) to developing country status.<sup>16</sup> However, most literature on developing country finances attempts to assess whether Wagner's Law is supportable in various contexts.

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<sup>15</sup> David L. Lindauer and Ann D. Velenchik, "Government Spending in Developing Countries: Trends, Causes, and Consequences," *The World Bank Research Observer* 7, no. 1 (January 1, 1992): 59–78.

<sup>16</sup> See, for example, Niloy Bose, M. Emranul Haque, and Denise R. Osborn, "Public Expenditure and Economic Growth: A Disaggregated Analysis for Developing Countries," *The Manchester School* 75, no. 5 (September 1, 2007): 533–56.

Adolph Wagner argued that as states develop, the percentage of GDP dedicated to public expenditure also increases.<sup>17</sup> There has been significant debate since he made his prediction in 1911 as to whether the relationship still holds, with somewhat mixed results.<sup>18</sup> Overall, however, many scholars studying developing countries have found that the relationship does exist; that there is a strong relationship between GDP and total government spending, with some complicating factors. Lindauer and Velenchik noted that developing countries generally have a lower level of public expenditure than developed countries, but that overall government spending across all nations is increasing over time.<sup>19</sup> Akitoby et al. found that government spending generally ratchets upward over time, as spending increases more during expansionary periods than it contracts during recession periods.<sup>20</sup> Fan et al. remarked that the composition of spending changes during periods of retrenchment, but overall Wagner's Law holds for developing countries.<sup>21</sup>

Given that there is a relatively high correlation between poor regimes and autocracies<sup>22</sup> (although the causation is certainly debatable),<sup>23</sup> this also an interesting prediction of autocratic regime behavior. Accordingly, many of these scholars would

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<sup>17</sup> Alan Peacock and Alex Scott, "The Curious Attraction of Wagner's Law," *Public Choice* 102, no. 1–2 (January 1, 2000): 1–17.

<sup>18</sup> For an exhaustive list of authors examining Wagner's Law in various contexts, see Bernardin Akitoby et al., "Public Spending, Voracity, and Wagner's Law in Developing Countries," *European Journal of Political Economy* 22, no. 4 (December 2006): 909.

<sup>19</sup> Lindauer and Velenchik, "Government Spending in Developing Countries: Trends, Causes, and Consequences."

<sup>20</sup> Akitoby et al., "Public Spending, Voracity, and Wagner's Law in Developing Countries."

<sup>21</sup> Shenggen Fan, Bingxing Yu, and Anuja Saurkar, "Public Spending in Developing Countries: Trends, Determination, and Impact," in *Public Expenditures, Growth, and Poverty: Lessons from Developing Countries*, ed. Shenggen Fan (Baltimore, MD: Johns Hopkins University Press, 2008), 20–55.

<sup>22</sup> Elias Papaioannou and Gregorios Siourounis, "Democratisation and Growth," *The Economic Journal* 118, no. 532 (October 1, 2008): 1520–51.

<sup>23</sup> See Adam Przeworski et al., *Democracy and Development: Political Institutions and Well-Being in the World, 1950-1990* (Cambridge, UK: Cambridge University Press, 2000); David L. Epstein et al., "Democratic Transitions," *American Journal of Political Science* 50, no. 3 (July 1, 2006): 551–69.

argue that as existing social needs become filled by government programs and rents begin to be collected by specific constituencies, it becomes very hard to reduce or roll them back over time, even in autocratic regimes. This leads to **H6**:

**H6: As autocracies experience economic growth, the total amount of public goods provided relative to GDP increases over time (Wagner’s Law)**

These six hypotheses give a variety of predictions about public goods provisions, summarized in Table 5.1 below:

Table 5.1: Hypothesis Predictions

Hypothesis	General Prediction
<b>H1:</b> Authoritarian Responsiveness	Soft public services, such as health care and education, increased as a percentage of expenditure after 2002
<b>H2:</b> Elite Management	Regime supporters receive, via infrastructure spending, a disproportionate percentage of spending
<b>H3:</b> Repressive Apparatus	In response to decreasing legitimacy, a regime will respond with increased spending on security services
<b>H4:</b> Economic Maximization (1)	Authoritarian regime public good spending is higher the longer the regime’s time horizon
<b>H5:</b> Economic Maximization (2)	The longer the regime’s time horizon, the more the composition of spending shifts to soft public goods
<b>H6:</b> Wagner's Law	As autocracies experience economic growth, the total amount of public goods provided relative to GDP increases over time

*Application to China*

These hypotheses are fairly easily mapped to specific predictions regarding Chinese government public service provision, although with some interpretability issues. Authoritarian responsiveness would predict increased spending on education and health care and within the education and health care categories, one should expect to see more spending on rural health care and rural and primary education. As indicated in the transfer data, rural areas and poorer areas have seen more investment, as well as areas with high birthrates. Moreover, the central government announced plans for a serious

revamp of the healthcare and education system in the mid-2000s, most of which depends on increased central and provincial funding.<sup>24</sup>

Elite management would predict high and perhaps increasing spending on infrastructure and government administration. Chinese local government budgets are known for including high levels of spending on administration<sup>25</sup> and the large number of infrastructure megaprojects is very well documented in the press.<sup>26</sup> Strong evidence of high and increasing spending on these two budget categories at the central and provincial level would provide strong evidence in favor of this hypothesis. Similarly, the repressive apparatus hypothesis would predict that, as the Chinese government perceives its legitimacy to be declining, one should expect that spending on security services should be increasing.

The economic maximization theories argue that longer time horizons would induce more public goods spending and also shift spending toward more soft public goods. Previously, this work has argued that the Chinese leadership has generally maintained a long time horizon. To the extent that is true, it is difficult to argue that the regime's time horizon has increased since the start of the 2000s. With the pressure of a perceived legitimacy crisis, there is some more urgency in the planning and

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<sup>24</sup> For details of these reforms, see Christine Wong, "Rebuilding Government for the 21st Century: Can China Incrementally Reform the Public Sector?," *China Quarterly* 200 (2009): 929–52.

<sup>25</sup> Haiyan Duan and Jing Vivian Zhan, *Fiscal Transfer and Local Public Expenditure in China: A Cross-County Study of Shanxi Province*, SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, 2009), <http://papers.ssrn.com/abstract=1450290>.

<sup>26</sup> See, e.g., Trefor Ross, "More Megaprojects? What China's Rebalancing Means for Asia," *The Diplomat*, accessed August 22, 2014, <http://thediplomat.com/2013/09/more-megaprojects-what-chinas-rebalancing-means-for-asia/>; Vivian Giang and Robert Johnson, "108 Giant Chinese Infrastructure Projects That Are Reshaping The World," *BusinessWeek*, accessed May 25, 2014, <http://www.businessinsider.com/108-giant-chinese-infrastructure-projects-that-are-reshaping-the-world-2011-12?op=1>.

implementation of policy that did not exist in the same way in the 1990s and before.<sup>27</sup>

Given that it is possible that the regime's time horizon is slightly decreasing, one should expect, under the economic maximization theory, public good provision to decline and the share of soft public goods provision also to decrease. It may also be that central policymakers' time horizon has not shifted as much, in which case the prediction would be a static allocation of public goods.

As for Wagner's Law, the general prediction would be to expect a strong correlation between total government spending levels and economic growth. The Chinese economy has exhibited nearly constant levels of high economic growth, so the specific expectation would be for relatively high and constant growth in government spending relative to GDP. If Akitoby is correct, one might also expect to see high levels of government spending growth, with little reduction in spending during slow-growth periods.<sup>28</sup> Unfortunately, there is little variation in growth over the period studied in the following sections, so there is no basis to judge his hypothesis. The sum total of these predictions is found below in Table 5.2:

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<sup>27</sup> Dingxin Zhao, "The Mandate of Heaven and Performance Legitimation in Historical and Contemporary China," *American Behavioral Scientist* 53, no. 3 (November 1, 2009): 427.

<sup>28</sup> Akitoby et al., "Public Spending, Voracity, and Wagner's Law in Developing Countries."

Table 5.2: Application of Hypotheses to China

Hypothesis	Specific Prediction
H1: Authoritarian Responsiveness	Increased spending on education, and health care; both should take up larger shares of the budget
H2: Elite Management	Increased spending on administration and infrastructure
H3: Repressive Apparatus	Increased spending on security and policing
H4: Economic Maximization (1)	Public good spending should be the same or perhaps declining
H5: Economic Maximization (2)	Soft public good provision should be the same or perhaps declining
H6: Wagner's Law	Total government spending should increase over time

There is some complication in testing these theories due to the vertical structure of the Chinese government. Most of the hypotheses should apply to direct central government spending, as the central leadership has complete control over expenditures at the top level. However, top-level officials have less ability to direct spending by subordinates at the provincial level and lower. While China is often portrayed as a unitary state, with growing fiscal decentralization the central leadership has to rely increasingly upon subordinates to spend allocated funds.<sup>29</sup>

The central government has two main mechanisms to direct lower-level spending, the first being the cadre evaluation system. This system controls the incentive set of local officials, but it is difficult to attach too many goals to the cadre evaluation system without risking attenuating the importance placed on any particular goal.<sup>30</sup> The second system is direct instructions concerning the required behavior. The central government has made use of this tool repeatedly, but its effectiveness, particularly when it is employed to combat behavior that local officials have countervailing incentives to continue doing, is

<sup>29</sup> Christine Wong and Achim Fock, *Financing Rural Development for a Harmonious Society in China: Recent Reforms in Public Finance and Their Prospects*, Policy Research Working Paper (The World Bank, 2008).

<sup>30</sup> Susan Whiting, *Power and Wealth in Rural China: The Political Economy of Institutional Change* (New York: Cambridge University Press, 2001), 72.

at best unclear and often seemingly ineffective.<sup>31</sup> The classic principal-agent solution is to monitor agents closely when their incentives are misaligned with the principal, but such solutions are costly and the top level has had significant difficulty in conducting such monitoring.<sup>32</sup>

Therefore, at the central level, public goods provision should closely track central government preferences. At the provincial level and lower, one would expect less adherence to spending guidelines given the sometimes contradictory incentive structure of local officials. Testing spending pattern changes at the central level is free from such issues and is part of the analysis in the following sections. A second reasonable test, beyond the central level, would be to see whether the spending patterns hold at the provincial level. The provincial level is not so distant from the center that monitoring is difficult and many of the most pernicious countervailing incentives are not operational at the provincial level.<sup>33</sup>

In general, the central government has a strong interest in seeing its preferences for spending carried out at the lower levels. If there is evidence that lower levels are matching the spending preferences of the top level then it indicates that the central government has likely expended significant resources to ensure their compliance. Doing so would therefore provide evidence of the seriousness the central leadership places on its preferred spending patterns. To test these various hypotheses, in the following sections I

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<sup>31</sup> See, for example, the resistance of cadres to implement satisfactory land compensation reforms: David Zweig, “The ‘Externalities of Development’: Can New Political Institutions Manage Rural Development?,” in *Chinese Society: Change, Conflict and Resistance*, ed. Elizabeth J. Perry and Mark Selden (New York, NY: Taylor & Francis, 2010), 120–42.

<sup>32</sup> A good example would be Kilkon Ko and Hui Zhi, “Fiscal Decentralization: Guilty of Aggravating Corruption in China?,” *Journal of Contemporary China* 22, no. 79 (2013): 35–55.

<sup>33</sup> Provincial-level officials, particularly including the Party Secretary and Governor, are rotated out of the province after a fixed period of time, limiting their ability to engage in long-term corruption. Moreover, there is less incentive to divert funds from central government priorities since provincial governments are rarely the implementation level of policies.

examine central government spending, provincial government spending, and the types and levels of education and health care spending. Examining these various areas should provide strong evidence to help arbitrate between the various hypotheses.

### **III. Central and Local Government Spending**

Central and provincial level spending patterns reveal that policymakers have increasingly tilted funding toward education and healthcare, lending support to the authoritarian responsiveness hypothesis. These spending changes have occurred in an environment in which budgeting and spending practices and reporting have been made more rigorous, meaning that the figures are likely to be important pieces of evidence to arbitrate between the various hypotheses. Perhaps surprisingly, few authors have commented on shifting spending patterns, although the ones who have remarked upon them have generally been skeptical of the central government's motivations and ability fully to enact the Harmonious Society programs. Using a dataset and variables drawn from the *Finance Yearbook of China*, a careful review of changing categories of spending lends support to **H1**.

Two important reforms in the last two decades have strongly influenced central and provincial government spending patterns. The first among these is the central government's reform of the budgeting process. Before the budget reforms, it was difficult to say with any certainty how much was spent on any one budget item. Local bureaus were allocated a certain amount of funds from the finance bureau but they also controlled their own bank accounts, into which they could deposit any extrabudgetary fees collected

and expend from that account as they wished.<sup>34</sup> There was also no requirement that departments submit unified budgets, so that once the funds were allocated to local units, a secondary budgeting process typically occurred, by which the department specifically allocated the funds received from the finance bureau.<sup>35</sup> These practices made it very difficult for the central or provincial governments to assess how line ministries were spending money.

In 1999, the finance officials in the central government initiated a major reform of the budgeting process, through which all funds collected had to be delivered to the finance bureau. Moreover, to receive any funds, local bureaus had to send their budgets for approval and to spend any money, the local finance bureau would have to match up the spending request with a budget category. As Christine Wong notes, the impact of this on budgeting was dramatic: “[s]ome localities have followed suit to such an extent that in January 2003, delegates to the Guangdong Province People’s Congress were surprised and delighted to be presented with a 600-page provincial budget for discussion.”<sup>36</sup> Thus what was previously nearly unmeasurable (spending patterns) now was well defined and widely reported. This gives confidence that the reported figures for budget categories align with actual spending.

The second major development was the planned implementation of the Harmonious Society, which the central leadership intended to be channeled primarily through the fiscal system. Many of the new programs, for the first time, had central government or provincial government matches or subsidies to accompany local

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<sup>34</sup> Jun Ma, “‘If You Can’t Budget, How Can You Govern?’-A Study of China’s State Capacity,” *Public Administration and Development* 29, no. 1 (February 2009): 14.

<sup>35</sup> Jun Ma, “The Dilemma of Developing Financial Accountability without Election – A Study of China’s Recent Budget Reforms,” *Australian Journal of Public Administration* 68 (March 1, 2009): 63.

<sup>36</sup> Christine Wong, “Budget Reform in China,” *OECD Journal on Budgeting* 7, no. 1 (July 4, 2007): 8.

government spending mandates.<sup>37</sup> This change of expenditure responsibility upended years of decentralization, by which the central government had pushed responsibility for service provision downward. The extent to which the central and provincial governments took responsibility to help provide for education, health care, and other services therefore serves as good test case for the responsive authoritarian hypothesis.

### *Existing Literature*

Perhaps because the data is difficult to interpret, few scholars have considered how spending patterns have changed over time or assessed the theoretical impact of any changes. Hussain and Stern noted that until about 2005, soft public good provision levels at the central and provincial level remained low.<sup>38</sup> Cai found large disparities in how different provinces allocated funds from 2001-2006.<sup>39</sup> Sun also found that in Western provinces, spending remained tilted very strongly toward infrastructure from 1994-2004.<sup>40</sup> Others have examined related questions, such as the size of government<sup>41</sup> or whether government spending has increased inequality.<sup>42</sup> Thus, what evidence does exist suggests that the central and local governments have not been using their funding in a manner consistent with responsive authoritarianism. However, there is little analysis of

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<sup>37</sup> Programs such as the *dibao* and the rural free education system were heavily subsidized for poor provinces by the central government.

<sup>38</sup> Athar Hussain and Nicholas Stern, "Public Finances, the Role of the State, and Economic Transformation, 1978-2020," in *Public Finance in China: Reform and Growth for a Harmonious Society*, ed. Jiwei Lou and Shuilin Wang (Washington, DC: World Bank Publications, 2008), 24.

<sup>39</sup> Xiang Cai, "A Study on the Efficiency of Local Government Financial Expenditure in China," *海南大学学报(人文社会科学版)*, no. 05 (2010): 74-79.

<sup>40</sup> Xin Sun, "Comparative study of financial expenditure of the Western regions before and after Western development," *重庆工商大学学报(西部论坛)*, no. 01 (2007): 65-68.

<sup>41</sup> Alfred M. Wu and Mi Lin, "Determinants of Government Size: Evidence from China," *Public Choice* 151, no. 1-2 (April 1, 2012): 255-70.

<sup>42</sup> Zhiming Wang and Xiang Cai, "Fiscal Expenditure Structure and The Income Gap Between Urban and Rural Residents: Empirically Analyse Based on Provincial Panel Data of Eastern, Central and Western Regions in China," *上海财经大学学报*, no. 05 (2010): 73-80; Xuan Deng, "Effects of Level and Composition of Public Spending on Urban and Rural Income Inequality: The Empirical Study from Provincial Panel Data in China," *经济评论*, no. 04 (2011): 63-69.

changes in spending during the implementation period of the Harmonious Society program. Therefore, a well-specified hypothesis test could help shed significant light on which theoretical expectation is best supported since 2006.

### *Assessing the Hypotheses*

With an appropriate dataset and considering some complicating factors, testing of the competing hypotheses should be relatively straightforward. Data to analyze spending changes over time is drawn from the *Finance Yearbook of China* (中国财政年鉴). The *Finance Yearbook* contains both central and provincial spending data and the years of data collected span 2002 to 2009. Spending categories include general administration (consisting of government administration and capital construction), social security (consisting of payments to government retirees, general old persons' pension, and other social welfare spending), education, health, and public security, among others. These categories map well on to the predicted movements in spending patterns. Below in Table 5.3 is a review of the hypotheses with specific variable predictions based on the categories available.

Table 5.3: Variable Predictions

<b>Hypothesis</b>	<b>Variable Prediction</b>
<b>H1: Authoritarian Responsiveness</b>	Increases in education and health care, maybe also social security
<b>H2: Elite Management</b>	Increased spending on general administration
<b>H3: Repressive Apparatus</b>	Increased spending on public security
<b>H4: Economic Maximization (1)</b>	Total spending should be the same or perhaps declining
<b>H5: Economic Maximization (2)</b>	Education, health care, and social security should be the same or perhaps declining
<b>H6: Wagner's Law</b>	Total spending should increase over time

The one prediction that is less clear is the increase in social security in the authoritarian responsiveness hypothesis. While conceptually, spending on retirees and welfare for the poor is directly in line with the demands of civil society, the regressions in the previous chapter did not find a relationship between a proxy for elderly and transfer amounts. Moreover, a significant share of social security spending is for government retirees (although the percentage share spent on this group is declining over time).<sup>43</sup> So there is some theoretical expectation that spending will increase, but weakness in the definition of the variable and previous evidence suggests that it may not increase.

In terms of predicting central- and provincial-level spending patterns, extrabudgetary funds remain something of a barrier to assessing the various hypotheses. This is because extrabudgetary expenditure is much more poorly documented than official expenditure and it is possible that an increase in education spending might be offset by a corresponding decrease in extrabudgetary funds spent on education. However, such a development seems unlikely. As Jing Vivian Zhan has shown, the percentage of extrabudgetary funds relative to the total budget has been relatively stable or even shrunk over the period being tested.<sup>44</sup> Moreover, much of the extrabudgetary funding has tended to be used for administrative purposes, a pattern that does not appear to have changed in recent times.<sup>45</sup> Therefore, it seems unlikely that extrabudgetary funds would lead to problems assessing the direction in which spending patterns have changed.

One additional complication is that the definition of general administration has changed over time. In the 2007 yearbook, there was a shift in the categories included in

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<sup>43</sup> Unfortunately social security spending was no longer broken out by type starting in 2007, making it difficult to isolate just the welfare component of spending in this category.

<sup>44</sup> Jing Vivian Zhan, "Strategy for Fiscal Survival? Analysis of Local Extra-Budgetary Finance in China," *Journal of Contemporary China* 22, no. 80 (2013): 189.

<sup>45</sup> *Ibid.*, 188.

the definition. For most provinces, these changes make little difference, but in the case of Shanghai they dramatically change the yearly total spending for this category. Therefore, in the provincial analysis that follows, Shanghai is generally excluded. With these complications in mind, the analysis in the next section finds evidence strongly in favor of the authoritarian responsiveness hypothesis.

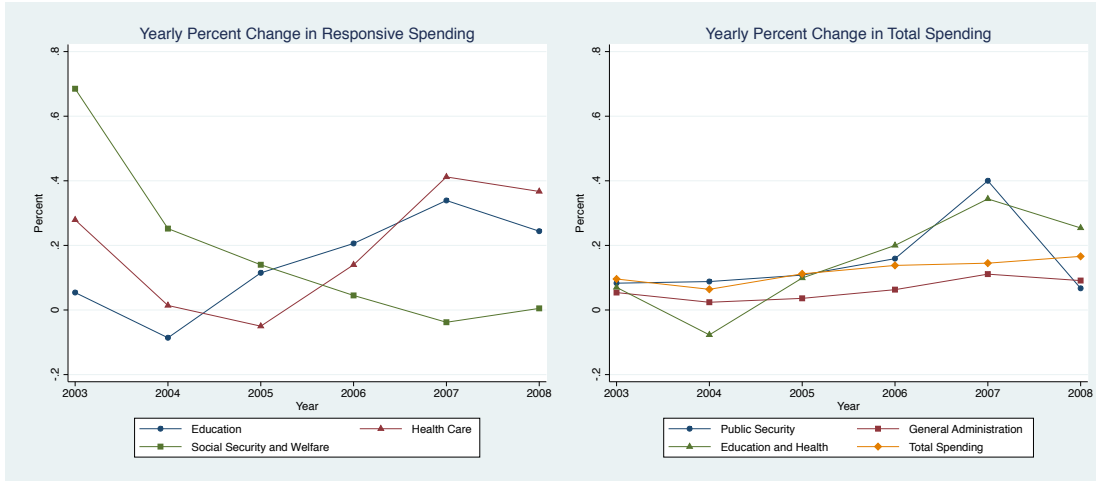
### *Central Level*

Central level changes in spending generally support the authoritarian responsiveness hypothesis, although the overall composition of spending at the top level is not an ideal test for the various hypotheses. The central policymakers should have the most direct influence over the spending patterns of the central government, but this is also the level at which the fewest social services are provided, with most of the provision of those services having been decentralized in the 1980s.<sup>46</sup> Nonetheless, education and health care spending have grown at a rapid pace since the mid 2000s, indicating a change in priorities at the center.

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<sup>46</sup> Wong, "Rebuilding Government for the 21st Century: Can China Incrementally Reform the Public Sector?," 935.

Figure 5.1: Central Government Spending Growth Rates by Category



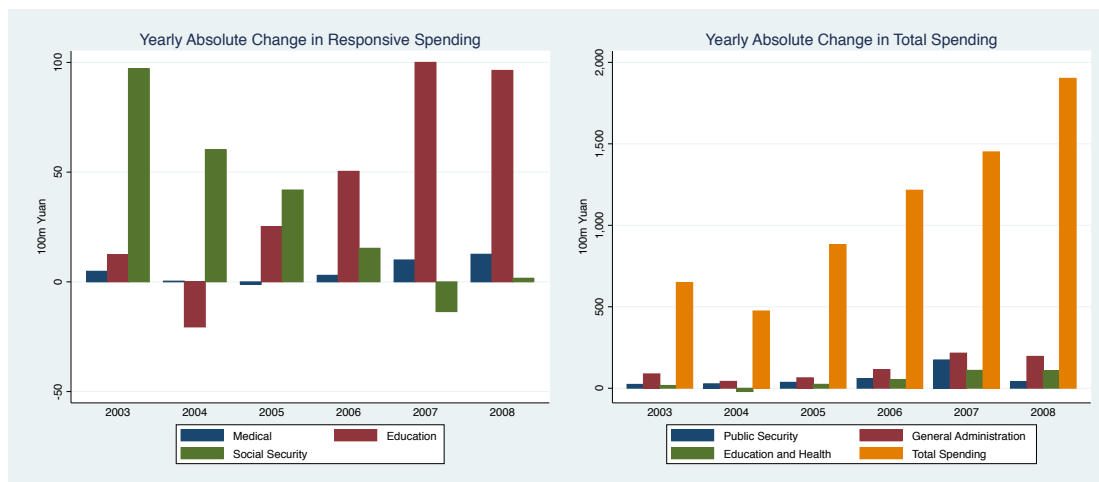
On the left hand side of the graph are the various categories of responsive government spending. Interestingly, education and health care spending growth initially slowed during the Hu-Wen handover period before accelerating as the Harmonious Society program began to take effect. This spending change is consistent with the U-shaped regression coefficients found in the previous chapter with respect to changes in responsive transfers over time. However, the percentage change increase in the later period are dramatic: yearly increases of 40% or more on education and slightly lower increases in health care spending indicate a major change in central government spending priorities. However, agreeing with the regression results in the previous chapter, social security does not appear to have substantially increased after 2002, with spending held nearly steady.

The right hand side of Figure 5.1 compares health care and education spending with other categories of spending. Responsive spending clearly outpaces overall budget growth in the later period, as well as general administration, both of which remain relatively constant over the period being studied. Public security spending growth

generally tracks total spending growth except for the anomalous year of 2007. Given that growth for public security drops to nearly zero the following year, it may be that there was some shifting of public security expenditure from 2008 to 2007. Nonetheless, the average increase of public security expenditure from 2006 to 2008 (roughly 20%) was somewhat above the rate of increase of total spending.

The slight drop in growth percentage increase for health care and education spending in 2008 is more easily interpretable when viewing absolute increase in spending from 2002 to 2008, as shown in Figure 5.2.

Figure 5.2: Central Government Absolute Change in Spending by Category



The first thing to note is that social security spending change amounts are roughly offsetting with increases in education spending. On the face of it, this relationship would seem to militate against the authoritarian responsiveness hypothesis. However, much of the social security spending is related to a series of urban pension reforms, reforms that largely affected former SOE workers.<sup>47</sup> These expenditures can be considered a one-off

<sup>47</sup> Jiange Li, Mark Dorfman, and Yan Wang, "Notional Defined Contribution Accounts: A Pension Reform Model Worth Considering," in *Public Finance in China: Reform and Growth for a Harmonious Society*, ed. Jiwei Lou and Nicholas Stern (Washington, DC: World Bank Publications, 2008), 290.

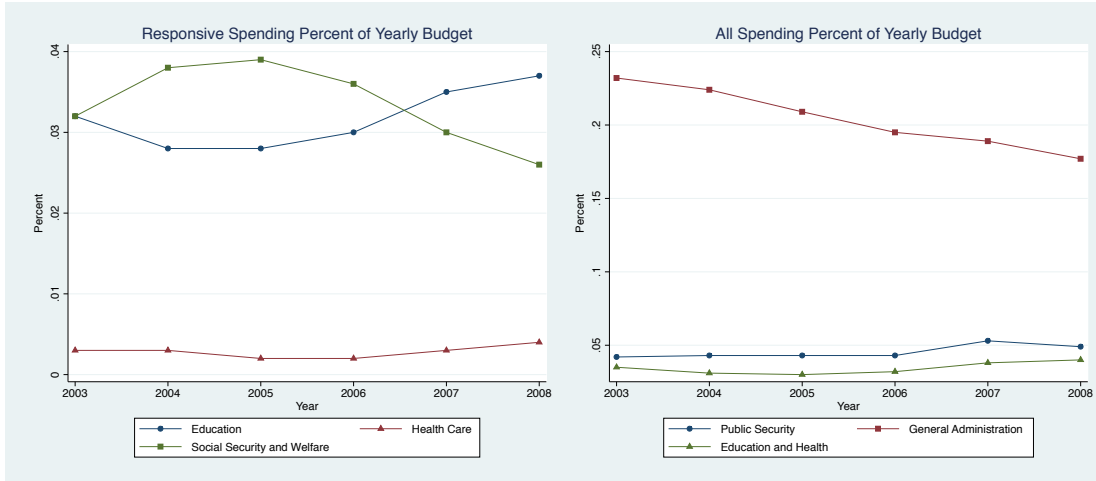
transition expense as China moves to an employer-pays individual account system of retirement. Arguably these reforms are outside the scope of responsive authoritarianism – the impacted parties were those who considered themselves owed by the state. While these workers are making demands for greater expenditure on social services, their demands are limited to individualistic redress claims. There is no attempt to articulate their claims through civil society or as part of a larger social movement. Nonetheless, some of the same logic of authoritarian responsiveness applies here: none of the other theories would predict large but declining increases in social security expenditure at the central level given the demands of these workers.

The second thing to note is that education spending at the central level currently dwarfs health care spending, although both are increasing at a rate above that of total spending. Total spending growth, as shown in the right hand graph, is much larger than any particular category. This relates to a common criticism of the central government that the share of total spending taken up by soft services has been significantly below developing country averages.<sup>48</sup> Changes in the percentage of the total budget at the central level are shown in Figure 5.3.

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<sup>48</sup> Wong, “Rebuilding Government for the 21st Century: Can China Incrementally Reform the Public Sector?,” 939.

Figure 5.3: Central Government Category by Percent of Budget



There is little surprising in these graphs given the information contained in the previous two figures. Perhaps deeply troublesome for elite management hypothesis is the dramatic decline of administration and infrastructure as a share of the budget.

Overall, at the central level education and health care play a small part of total spending – much of the central government spending remains aimed at providing for defense, customs, and other traditional national-level services.<sup>49</sup> However, the spending in responsive categories has increased rapidly since the onset of the Harmonious Society and likely has continued to increase beyond the time range of the available financial data. Other hypotheses besides responsive authoritarianism find less support. Elite management theories would have trouble explaining the continuing decline in general administrative spending. Theories about repression have a little more support, but much of this is based on one possibly anomalous data point. Economic maximization theories

<sup>49</sup> One might argue that defense spending should be included as part of the analysis of the repressive capacity of the state. However, the Chinese military has rarely played a role in domestic political affairs (the exception being the Tiananmen events) since 1979. Moreover, the military has little capacity to monitor and repress more common forms of unrest. Therefore, I argue that it should not be included in the analysis of the repressive apparatus of the state. For more information, see James Tong, “Anatomy of Regime Repression in China: Timing, Enforcement Institutions, and Target Selection in Banning the Falungong, July 1999,” *Asian Survey* 42, no. 6 (December 1, 2002): 795–820; Neil J. Diamant and Kevin J. O’Brien, “Veterans’ Political Activism in China,” *Modern China*, May 16, 2014, 1–35.

would predict steady or declining levels of soft government spending, which is at odds with the large increases in soft spending since 2006. However, the central level has relatively less responsibility for responsive spending than the provincial level, which should provide a better test of the competing hypotheses.

### *Provincial Level*

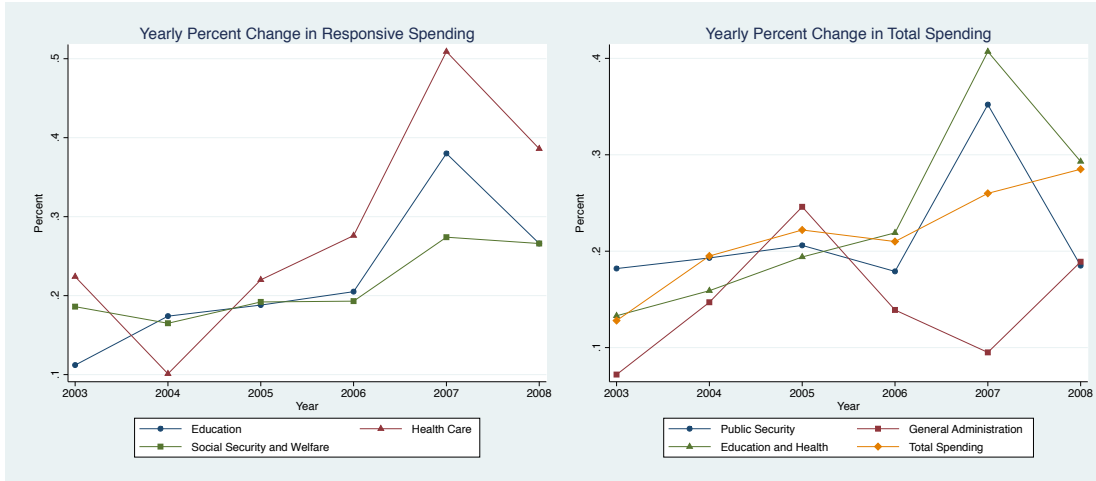
The provincial level provides more support for the authoritarian responsiveness hypothesis and this support is particularly evident among the subset of poorer provinces. The provincial level has a much higher percentage of expenditure on all four spending categories of interest and therefore provides a clearer signal of changes in policy. At the same time, the provincial level is neither so distant from the central level that it becomes difficult for central policymakers to monitor its behavior, nor is its incentive set highly misaligned with the central government, as is the case at the county and lower levels.<sup>50</sup> Changes in spending patterns at the provincial level should therefore give a relatively clear signal as to central government policy preferences.

Figure 5.4 analyzes the changes in aggregate spending across provinces by spending category type.

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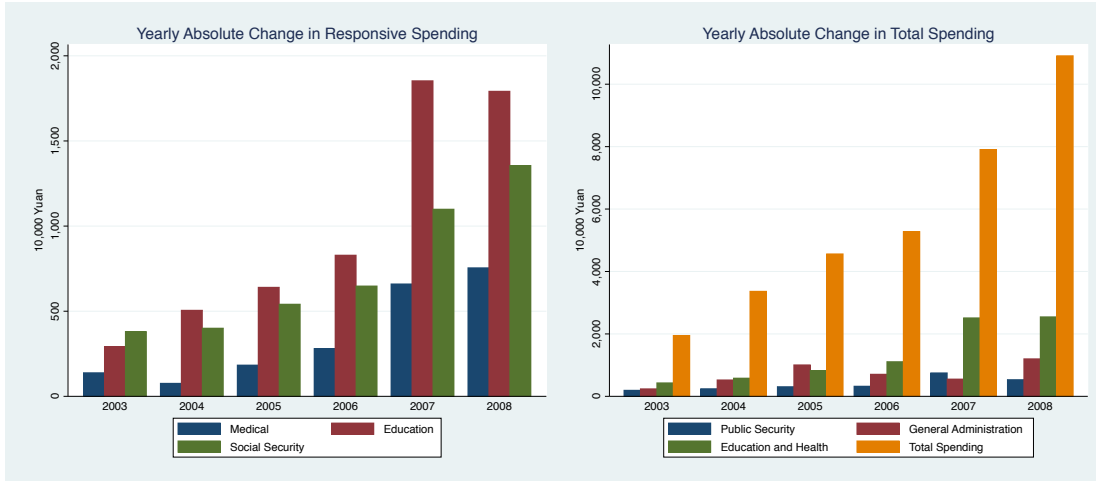
<sup>50</sup> There is a great deal of debate about what variables predict the promotion of provincial leaders, from explanations that focus on economic performance to those that emphasize factional ties. However, ability to implement and success in implementing central government policy priorities is almost certainly part of the promotion story. For further reading, see Hongbin Li and Li-An Zhou, "Political Turnover and Economic Performance: The Incentive Role of Personnel Control in China," *Journal of Public Economics* 89, no. 9–10 (September 2005): 1743–62; Eun Kyong Choi, "Patronage and Performance: Factors in the Political Mobility of Provincial Leaders in Post-Deng China," *The China Quarterly*, 2012, 1–17; Victor Shih, Christopher Adolph, and Mingxing Liu, "Getting Ahead in the Communist Party: Explaining the Advancement of Central Committee Members in China," *American Political Science Review* 106, no. 01 (2012): 166–87.

Figure 5.4: Provincial Government Spending Growth Rates by Category



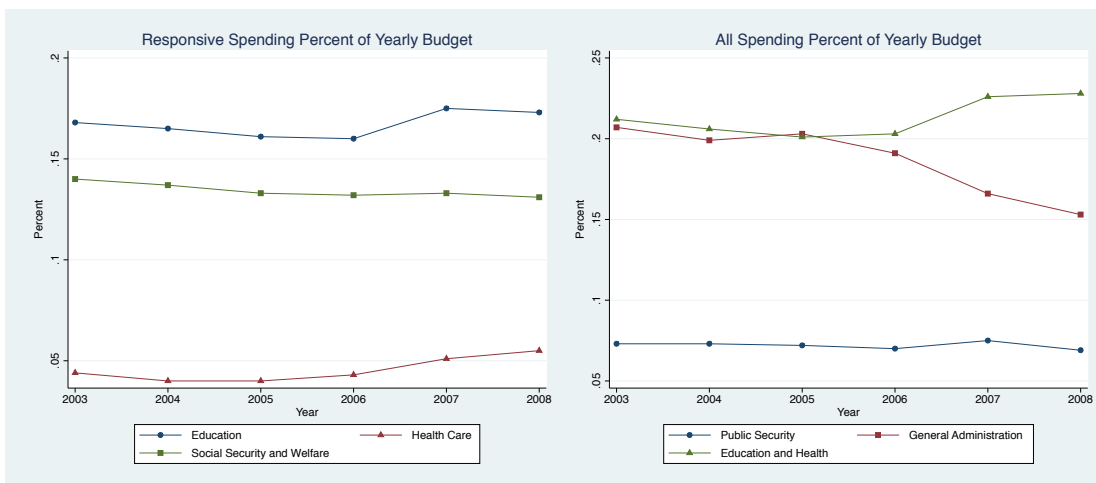
The figures for provincial spending generally tracked expenditure patterns at the central level. Education and health care both experienced large rises in total expenditure beginning around 2005-2006. Social security spending at the provincial level also began to increase rapidly around 2007. Relative to all other forms of spending, education and health care is the only category of spending that has a general upward trend across time. Public security again saw a big spike in 2007, but generally increased more slowly than total expenditure. General administration averaged one of the slowest increases in spending over time. A clearer picture emerges after examining absolute changes in spending in Figure 5.5.

Figure 5.5: Provincial Government Absolute Change in Spending by Category



These two figures show how rapidly education and health care spending increased relative to other categories of spending. In 2003, the increases in spending on education and health care were only about double that of general administration. By 2007, education was increasing by about five times that of general administration. The rate of increase of education and health fell a little in 2008, but still demonstrated a major infusion of cash for education, above and beyond the rate of increases of any other category. These changes are reflected in the share of total budget allocated to each item.

Figure 5.6: Central Government Category by Percent of Budget



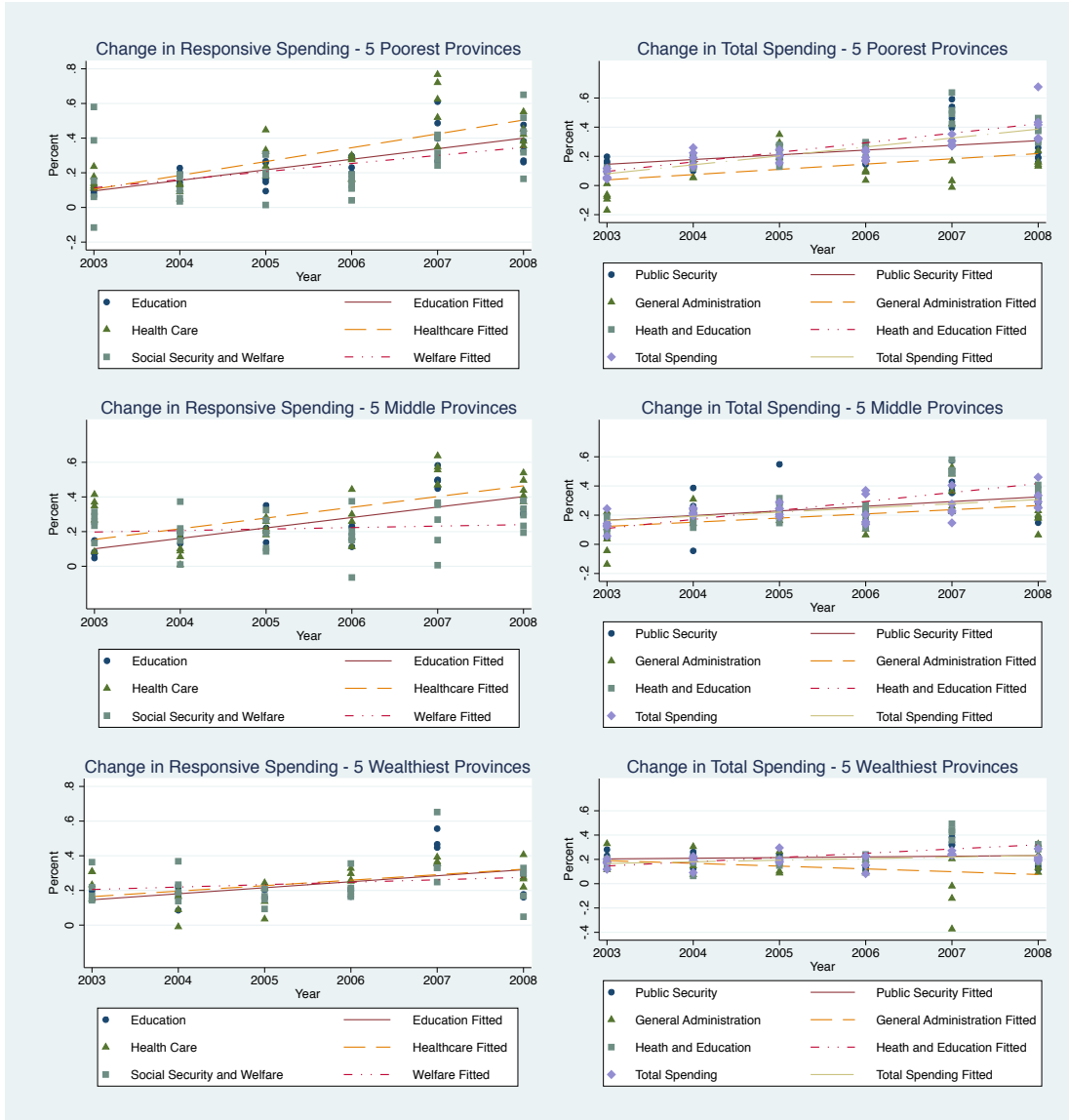
Education occupied a slowly shrinking share of the total budget until the Hu-Wen reforms begin to take effect. Health care spending began to increase as a share of budget around the same time as well. These changes lifted the share of responsive spending from about 20% in 2005 to 23% in 2008, a percentage that seems likely to continue to grow as implementation of the responsive reforms take effect. That 3% increase in the share of budget, while seemingly small in percentage terms, means many millions of additional *yuan* to be spent on education and health care each year. General administration, as a share of budget, fell dramatically across time, while public security spending stayed relatively flat. Social security spending also remained relatively flat, reconfirming a trend seen in central spending data.<sup>51</sup>

Changes in spending broken down by province also support the responsive authoritarian hypothesis. Figure 5.7 gives a collection of figures broken down into three categories by 2002 per capita GDP: the five poorest provinces, the five median income per capita provinces, and the five wealthiest provinces (excluding Shanghai).

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<sup>51</sup> Retirement savings plans, the bulk of social security spending, were transitioned from state-pays to employer-pays after a series of reforms in the late 1990s. The percentages that employers were meant to contribute were higher in theory than under the previous system, but implementation has been spotty at best. Meanwhile, there is some evidence that general welfare spending (for programs such as the *dibao*) increased as a percentage of social security spending over time. However, the data is not complete enough to provide strong evidence that this definitely occurred. In general, the policy direction with respect to social security is in the direction of responsiveness. Evidence that this has been achieved is lacking, unfortunately. See Martin Feldstein and Jeffrey Liebman, “Realizing the Potential of China’s Social Security Pension System,” in *Public Finance in China: Reform and Growth for a Harmonious Society*, ed. Jiwei Lou and Shuilin Wang (Washington, DC: World Bank Publications, 2008), 309–16.

Figure 5.7: Changes in Spending by Province Type



As can be seen in the figures, the rate of growth for education spending in the poorest provinces has accelerated the most over time. Education and health care spending barely outpaced the growth of other types of spending in the wealthier provinces, while in poor provinces the growth rate of responsive spending is significantly above and growing faster than other types of spending. Middle-income provinces are generally more similar

to poor provinces,<sup>52</sup> although growth in welfare and social security spending was lower than in poor provinces. In all cases, the rate of growth of general administration spending lagged overall spending growth, while public security spending growth did not accelerate over time to the same degree as responsive spending.

To investigate these trends further, I also conducted a regression analysis using change in responsive spending per year as the dependent variable. The independent variables are the same suite used in the regression in the previous chapter, with an exception being that rather than interacting year with relevant predictor variables, I only include year dummies to see if there was one-off year effects. The expectation, given the above graphs, is for poorer and more rural provinces to experience the largest rates of growth in responsive spending. The results of the regression are given in Table 5.4.

Table 5.4: Regression Results for Dependent Variable: Change in Responsive Spending

<b>Variable [10% - 90% range]</b>	<b>(I)</b>
gdp_capita [.63 - 2.73]	<b>-0.11 (0.02)</b>
rural_employed [.53 - .84]	<b>0.41 (0.19)</b>
state_workers [.04 - .09]	0.27 (0.89)
lagged_birthrate [8.3 - 19.5]	-0.01 (0.96)
deathrate [5.08 - 6.75]	-0.01 (0.51)
province_has_cc [0 - 1]	0.15 (0.08)
2004	0.05 (0.01)
2005	0.12 (0.00)
2006	0.15 (0.00)
2007	0.48 (0.00)
2008	0.28 (0.00)
constant	-0.01 (0.97)

*dependent variable: [.11-.49]*

<sup>52</sup> This finding is likely related to the fact that the gap between per capita GDP is closer between poor and middle-income provinces than middle-income and wealthy provinces. Middle-income provinces are essentially more like poor provinces than rich provinces.

Overall, the results accord with expectations. The more rural and poorer a province is, the higher the expected increase in responsive spending. While `rural_employed` is not conventionally significant, the sign is in the expected direction and the coefficient is substantively large. Also interesting to note is that the year dummies for 2007 and 2008 show a large increase in responsiveness, as was seen in the previous graphics. Finally, if the provincial party secretary is on the central committee, expected responsive spending goes up. While finding (near) statistical significance on this variable is surprising, it may indicate that those on the committee have a stronger commitment to central priorities than those not on the committee. One should not place too much faith in the regression results, as the  $n$  is not large enough to perform more detailed statistical tests, but overall the results can be seen as confirmation of the graphical results shown previously.

Taken together, the results of these investigations strongly support the authoritarian responsiveness hypothesis and lend less support to the competing hypotheses. A full review of the support for each hypothesis is found in Table 5.5.

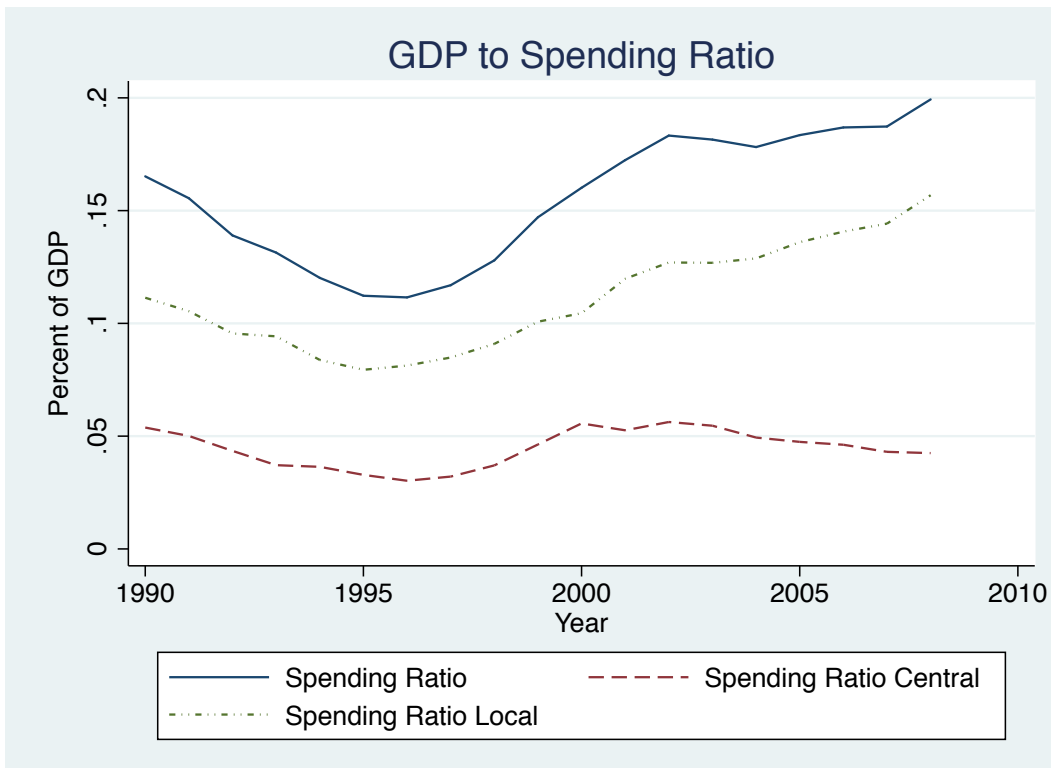
Table 5.5: Hypothesis Review

Hypothesis	Testing Result
<b>H1:</b> Authoritarian Responsiveness	Strong evidence found that responsive spending increased
<b>H2:</b> Elite Management	No evidence in favor of hypothesis; spending on elite management actually decreased as share of spending
<b>H3:</b> Repressive Apparatus	Partial evidence in favor; public security spending generally only grew at the rate of total spending
<b>H4:</b> Economic Maximization (1)	No evidence in favor of hypothesis; total spending increased
<b>H5:</b> Economic Maximization (2)	No evidence in favor of hypothesis; soft spending increased
<b>H6:</b> Wagner's Law	Not evaluated

The one hypothesis not evaluated was Wagner's Law: that total spending as a share of GDP should increase over time. Other research has generally found that spending has

increased as a share of GDP over time, with other indicators of state size, such as number of state employees per capita also increasing.<sup>53</sup> Comparing total spending to GDP calls into question these results, as shown in Figure 5.8.

Figure 5.8: Wagner’s Law Test



Total spending has increased since the fiscal recentralization, but before the recentralization, the total spending was nearly as high as it was post-recentralization. Local spending, largely financed by transfers from the central government, takes up an increasing percentage of expenditure after 2002, but in general total expenditure ratio has not increased much during the period of the Harmonious Society. The lack of clear evidence in favor of Wagner’s Law in China is probably the result of China previously

<sup>53</sup> Christine Wong, “Fiscal Management for a Harmonious Society: Assessing the Central Government’s Capacity to Implement National Policies,” *BICC Working Paper Series 4* (2007): 1–20; Wu and Lin, “Determinants of Government Size.”

implementing a Stalinist economic system though which nearly all spending could be classified as state spending. The post-Mao reforms therefore reduced the role of state spending at the same time economic growth occurred, which is a different growth pattern than what has been observed in other developmental states.

An implication of the fact that the total spending ratio stayed constant during the period of the Harmonious Society is that increases in responsive spending relative to GDP must also necessarily indicate decreases in the ratio to GDP for other categories of spending. Since overall spending has increased rapidly, there need not necessarily have been any absolute tradeoffs in terms of decreasing total spending on some other category to fund responsive spending. Nevertheless, an increase in the responsive spending to GDP ratio implies that the central and local governments prioritized spending on that category relative to the alternatives.

Given the evidence from spending categories, it therefore seems likely that the category of spending that has experienced the smallest increases over time is general administration, indicating that the central leadership has been successful at reorienting spending from hard spending categories (like infrastructure and government administration) to softer categories like education and health care. These predictions are exactly in line with the responsive authoritarian hypothesis. To explain these changes better, the next section examines education spending and the following section examines health care spending. Changes in types of spending in both of these areas further support the responsive authoritarian hypothesis.

#### **IV. Education Spending**

As shown in the previous section, education is one of the largest categories of expenditure for the local state in China. Nearly 25% of the provincial budget is spent on education, a figure that is broadly the same at the county and township levels. Given that local spending is increasing faster than central-level spending, changes in the pattern of local education spending are an essential part of responsive authoritarianism. Policy reforms since 2003, as part of the Hu-Wen program, have increased the responsiveness of educational funding. Evidence for this change is present in a qualitative review of changes in the education system since 2003, as well as via a quantitative review of education financing.

##### *History of Education Financing*

The history of education financing in China generally follows the contours of overall spending; from a decline in spending levels after the Maoist period to a resurgence beginning in the Harmonious Society period. Within that history are also issues of decentralization and politics that strongly inform China's current configuration of education provision.

During the early Maoist period, education was still primarily urban and elite-oriented; the goal of the regime was to produce experts for industrial expansion, not to provide mass education.<sup>54</sup> Once the Cultural Revolution period began, however, education became one of the primary sites of ideological contestation. One plank for the radicals was expanding education to the masses, completing a program that began in the

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<sup>54</sup> Jonathan Unger, *Education Under Mao: Class and Competition in Canton Schools, 1960-1980* (New York: Columbia University Press, 1982), 50.

early 1960s with the commune system providing basic education.<sup>55</sup> At the same time, those in power at the top showed a great deal of skepticism towards experts. In the education sector, this dynamic resulted in mass protests against those perceived to have put knowledge ahead of revolutionary ideals, leading to the closure of universities as well as many high-quality high schools.<sup>56</sup> Programs such as education through labor became more common during this period, as well as sending urban children to experience life in the countryside (so-called sent down children). While the later Cultural Revolution period saw the reversal of some of these programs, the general structure of the system did not change. Thus, by the end of the Maoist period, the education system had been developed to provide mass education but only at a very rudimentary level of service and it was moreover highly dependent upon local communes for financing.

The end of the communes in the reforms initiated at the beginning of the 1980s also signaled a major change in the way education was to be provided. The central level had already begun to shift away from the mass-education model to one that emphasized producing elite students.<sup>57</sup> However, it was the end of the commune system and the decline in employment at urban SOEs that most radically altered the Chinese educational system. As has been discussed previously, the elimination of the commune in rural areas meant that the services it provided were now turned over to local governments that were ill-equipped to finance such large expenditures.<sup>58</sup> The increasingly secondary role played by urban SOEs in employment was the urban marker for the end to the Maoist provision model of education, although urban governments were comparatively financially better

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<sup>55</sup> Ibid., 51.

<sup>56</sup> Jonathan D. Spence, *The Search for Modern China*, Second Edition (New York, NY: Norton, 1999), 601.

<sup>57</sup> Unger, *Education Under Mao*, 207.

<sup>58</sup> Barry Naughton, *The Chinese Economy: Transitions and Growth* (Cambridge, MA: MIT Press, 2007), 243.

equipped to pick up the resulting slack. The end result of these changes was the shift in education funding locus from relatively high-level communes and large SOEs to township-level governments and urban districts.

One result of this decentralization of funding was that there was less ability to redistribute between rich and poor localities. Local governments without the resources to fund schools turned to assessing illegal taxes and fees to fund school operations. The share of non-budgetary funds (i.e., fees and other miscellaneous forms of revenue) used to operate schools increased over time, reaching a high of 23% in 1997. At the same time, tuition rates rose as a complementary way to help fund rural education. The result of these changes was that education was very unequally provided, with rich areas able to subsidize education for all, while children in poor areas faced high fees for attending school while their parents were often assessed heavy tax burdens themselves.<sup>59</sup> Partially as a result of these fees, rural unrest began to rise, with rural protests against illicit cadre behavior becoming part of the fabric of rural life.<sup>60</sup>

In response, the central leadership initiated a series of reforms to alleviate the burdens faced by poor and rural citizens. Particularly with respect to education, the central government eliminated the ability for schools to charge tuition for compulsory education, reduced then eliminated the ability of local governments to charge for books and other school supplies, enacted a scheme to provide housing for needy students to attend boarding school, and started a program to repair poorly built school buildings.<sup>61</sup> On the finance side, the main focus of education spending and control shifted from the

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<sup>59</sup> Zhao, "Between Local Community and Central State," 369.

<sup>60</sup> Thomas P. Bernstein and Xiaobo Lü, "Taxation without Representation: Peasants, the Central and the Local States in Reform China," *The China Quarterly* 163 (2000): 742–63.

<sup>61</sup> Zhao, "Between Local Community and Central State," 368.

township to the county level in most rural areas in an effort to make funding more equitable.<sup>62</sup> Perhaps most importantly, the central government promised to increase education funding dramatically beginning around 2006, the results of which can be seen in the previous section's graphs.<sup>63</sup>

The structure of these reforms also reflected the desire to assist poorer and more rural areas. In the 2005 the central government agreed to help fund local education. Local education systems in Western and rural provinces were funded according to a ratio of 8:2 central funds to local funds, while richer provinces were assigned a 6:4 funding ratio.<sup>64</sup> At the same time, the central government also agreed to provide full funding of miscellaneous educational expenses, such as textbooks, for Western provinces, while Eastern provinces received no subsidy. Additionally, the central government began a program to standardize funding levels across the country in 2009, with a promise to backfill any local area lacking in the resources to meet this standard, potentially committing itself to a major new budgetary outlay.<sup>65</sup>

While the education system remains significantly more decentralized than was the case under the Maoist era, as the preceding paragraphs indicate there is a return to an emphasis on education for all, rather than education for a select few, a development that parallels some aspects of Communist education policy. Only this time the demand for such policies has primarily been driven by bottom-up dissatisfaction with the status quo, rather than top-down ideology, as was the case in the 1960s. Signs of this demand were

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<sup>62</sup> Mingxing Liu et al., "Education Management and Performance after Rural Education Finance Reform: Evidence from Western China," *International Journal of Educational Development*, Education and Development in Contemporary China, 29, no. 5 (September 2009): 465.

<sup>63</sup> Ibid.

<sup>64</sup> Martin Painter and Ka Ho Mok, "Reasserting the Public in Public Service Delivery: The de-Privatization and de-Marketization of Education in China," *Policy and Society* 27, no. 2 (November 2008): 146.

<sup>65</sup> Ibid.

evident via several sources. Above and beyond rural resident dissatisfaction with illegal extractions, parents routinely report that one of their largest concerns is how to afford education for their children.<sup>66</sup> Moreover, the number of NGOs relating to some aspect of education policy has increased rapidly, as the need to fill gaps and articulate needs to the government has grown.<sup>67</sup>

This brief review of the history Chinese education policy fits very well with the responsive authoritarian hypothesis and matches general spending patterns documented in the previous section. More detailed data in the following section confirms this finding.

### *Existing Literature and Data*

Education spending has perhaps seen the most dramatic increase in growth since 2002, the results of which can be seen in both existing accounts post-2006 regarding expenditures and via descriptive statistics. The existing research on education spending has a significant divide in conclusions. Most research conducted before 2006 has found that education resources are distributed across China highly unequally. Those published since 2006 have noted the government's attempt to equalize them and have generally found that the effort has worked.

In earlier literature on education financing, the debate largely centered on the way in which funding was unequally distributed. Tsang and Ding found that from 1997 to 1999, per-pupil education disparities grew between urban and rural areas and coastal and inland areas, with the former difference dominating the latter. In their findings, a significant part of unequal spending was due to intraprovincial differences, implying that

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<sup>66</sup> Xiaobo Zhang and Ravi Kanbur, "Spatial Inequality in Education and Health Care in China," *China Economic Review* 16, no. 2 (2005): 194.

<sup>67</sup> Qiusha Ma, *Non-Governmental Organizations in Contemporary China: Paving the Way to Civil Society?* (London: Routledge, 2005), 60.

the rural-urban gap within provinces can be just as important as differences between Western and Coastal provinces.<sup>68</sup> Zhang and Kanbur take a slightly wider perspective and note that educational outcomes have become progressively more unequal since 1978, which they link to the collapse of the redistributive ability of the central government to provide funds evenly across jurisdictions.<sup>69</sup> Hannum and Wang reach a similar conclusion, noting that “with expansion to near-universal access to primary school in many parts of China, those who lack access are, and are increasingly, concentrated in certain provinces.”<sup>70</sup> These authors are all generally pessimistic about the ability of the Chinese state to overcome these educational inequalities after reviewing the evidence from the pre-2006 period.

On the other hand, scholars examining evidence after 2006 have been markedly more optimistic about the ability of the state to respond to demands for greater equality in education. Jerry Zhao notes the scale and scope of the reforms and places them in historical context, emphasizing how radical the proposed changes are. He specifically finds that “[t]he overall pattern is clear: the rural-urban gap in budgetary expenditure declined earlier and to a larger extent than the rural-urban gap in total spending, suggesting that policy changes in the last decade have played an equalizing role in the distribution of financial inputs between rural and urban areas.”<sup>71</sup> Liu et al. are cautiously optimistic about the reforms that shifted educational funding and control from township level to the county level, especially given the additional resources counties have

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<sup>68</sup> Mun C Tsang and Yanqing Ding, “Resource Utilization and Disparities in Compulsory Education in China,” *China Review*, 2005, 1–31.

<sup>69</sup> Zhang and Kanbur, “Spatial Inequality in Education and Health Care in China.”

<sup>70</sup> Emily Hannum and Meiyang Wang, “Geography and Educational Inequality in China,” *China Economic Review*, Symposium on Inequality, Market Development, and Sources of Growth in China under Accelerating Reform Technology, Human Capital, and Economic Development, 17, no. 3 (2006): 261.

<sup>71</sup> Zhirong Jerry Zhao, “Fiscal Decentralization and Provincial-Level Fiscal Disparities in China: A Sino-U.S. Comparative Perspective,” *Public Administration Review* 69 (December 1, 2009): 370.

to work with post-2006.<sup>72</sup> Xiaoyu Chen notes how local schools are increasingly depending on public finance for their operation, which gives policymakers more of a chance to address fundamental structural issues in the education sector.<sup>73</sup> Xianzuo Fan reviews the relative successes of the recent education policy changes while also noting the remaining challenges to providing a high-quality rural education.<sup>74</sup>

The optimism of these studies is generally echoed in the data on how education spending and finance has changed over time. Data used to examine education finance is drawn from the *Education Finance Yearbook* (中国教育财政年鉴). One way to examine whether the reforms have been implemented is to view sources of education funding by type over time, as shown in Figure 5.9.

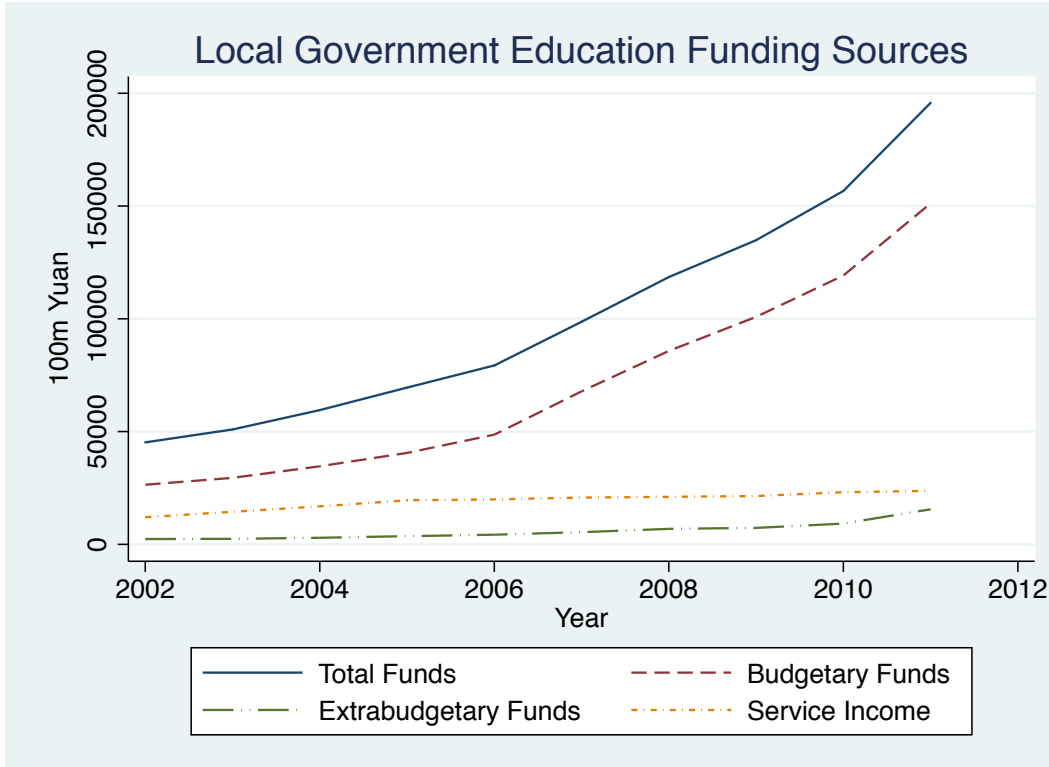
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<sup>72</sup> Liu et al., “Education Management and Performance after Rural Education Finance Reform.”

<sup>73</sup> Xiaoyu Chen, “Structure of China Education Finance: Issues and Prospects,” *教育与经济*, no. 01 (2012): 21–28.

<sup>74</sup> Xianzuo Fan, “The Balanced Development of Compulsory Education and Breaking the Difficulties of Rural Education,” *华中师范大学学报(人文社会科学版)*, no. 02 (2013): 148–57.

Figure 5.9: Local Government Education Funding by Source

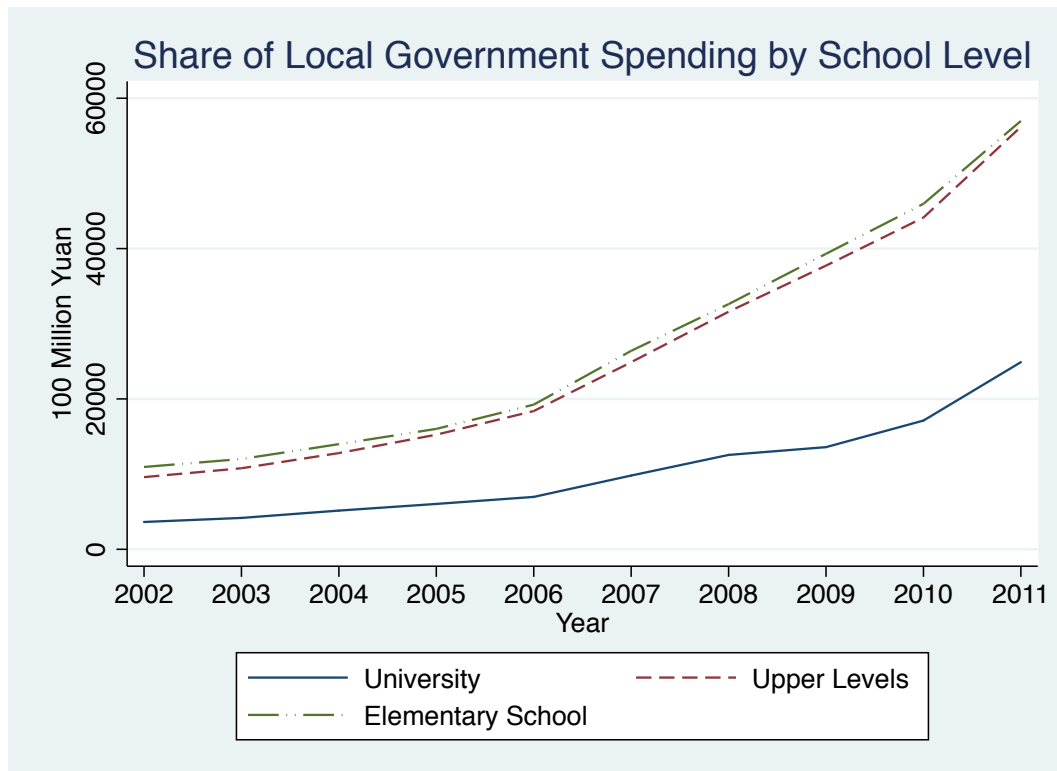


In 2002, extrabudgetary funds and service revenue were a non-trivial part of financing for local governments. However, these sources of funding stayed flat (even losing value in real terms) over time, while government subsidies and budget funds made up an increasingly large share of the total funds available for local governments.

This graph indicates two things. One is that the plan to decrease schooling fees has largely been successful. By 2011, the majority of service revenue received was for higher education fees; the share of fees for elementary schools was nearly nil. Middle-school education fees per capita were also essentially trivial. The second thing the graph implies is that the relative importance of government funding has increased over time. The plan by central government policymakers to wean educational institutions off of sideline activities and generally to increase the provision of education (particularly after 2006) has largely been successful.

Another way to examine the promises of the Harmonious Society is to see the extent to which education spending has spread to the masses and away from elite institutions. While details about school quality are scarce, in the post-Maoist era local and central governments comparatively overinvested in high-quality universities while failing to fund lower-level schools adequately.<sup>75</sup> One of the promises of the Hu-Wen program was to expand lower-level schooling, which should be visible in expenditure data. The changing ratio of expenditure on various levels of education is shown in Figure 5.10.

Figure 5.10: Share of Local Government Spending by Level

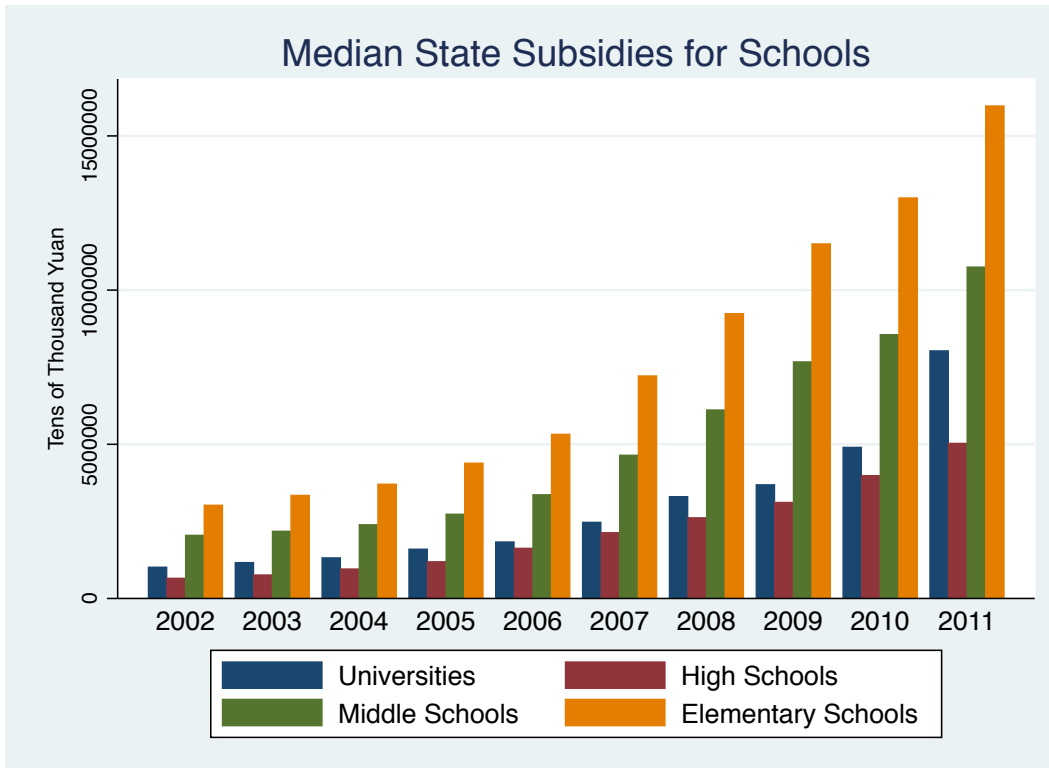


While spending on universities was growing across time (particularly after 2009), its growth rate is dwarfed by that of elementary and upper-level school spending, an expenditure group that quintupled in size over a ten-year period. This provides relatively

<sup>75</sup> Xiaoyan Wang and Jian Liu, “China’s Higher Education Expansion and the Task of Economic Revitalization,” *Higher Education* 62, no. 2 (August 1, 2011): 216.

strong evidence of a move away from an elite-centric education model. Another way to view this is to examine the median subsidy on education at the province level by schooling level, as seen in Figure 5.11.

Figure 5.11: Median State Subsidy by Level



This provides a slightly different view than the preceding graph, in that it is a view of subsidies, not total expenditure, and it is for the median value of each category, not a total figure. However, the results are similar. Elementary school and middle school subsidy growth accelerated rapidly after 2006, while university subsidies did not see large rises until 2011. High-school subsidy growth appears to be relatively constant. A simple regression also underlines some of these changes, the results of which are displayed in Table 5.6.

Table 5.6: Regression Results on Elementary School Spending Per Capita

<b>Variable [10% - 90% range]</b>	<b>(I)</b>
gdp_capita [.63 - 2.73]	238 (0.74)
rural_employed [.53 - .84]	-1148 (-0.87)
lagged_birthrate [8.3 - 19.5]	34 (0.05)
2004	132 (0.00)
2005	346 (0.00)
2006	639 (0.00)
2007	1287 (0.00)
2008	1809 (0.00)
2004 x gdp_capita	37 (0.33)
2005 x gdp_capita	0.14 (0.99)
2006 x gdp_capita	-26 (0.69)
2007 x gdp_capita	-43 (0.67)
2008 x gdp_capita	-49 (0.61)

*dependent variable [839-2942]*

This specification examines the impact of how GDP per capita changes on elementary-school spending per capita over time. It is important not to place too much weight on these results, as the regression parameters generally do not reach conventional levels of significance, even with standard control variables excluded (likely due to the small size of the dataset). On the other hand, no matter how much the specification is altered, the pattern of higher levels of GDP per capita predicting lower levels of elementary-school spending over time remains unchanged. All of these findings, taken together, indicate that education spending has increased radically since 2006, but the burden of paying for this increase has largely fallen on central and local governments. Increases in education subsidies have also been generally targeted at lower levels, shifting education policy to a mass-provision model. There is also some evidence that these subsidy target areas are shifting from richer to poorer regions over time. Many of these same trends can also be seen in health care spending.

## V. Health Spending

Health spending has historically occupied a smaller share of government financing, but the rate of growth of government spending, as indicated in Chapter 3, was in some cases faster than that of education funding. These changes underline how central health care policy is to central government policymakers. After a review of changes to the health care system and an exploration of quantitative changes in health care spending, it becomes clear that health care is another area in which responsive authoritarianism holds useful explanatory power.

### *History and Background*

The history of health care financing and provision generally parallels that of education. In the beginning of the Maoist period, health care was largely treated as a private matter and the government funded very little in the way of public health services.<sup>76</sup> After the Korean War, the government began to establish various accounts to pay for health care for war veterans and other members of vulnerable populations.<sup>77</sup> Once the cooperative movement began, so did local government initiatives to provide publicly funded health care. As cooperatives transformed into collectives, health care became an official part of their service mandate by 1960.<sup>78</sup> Urban areas followed a similar development path, except that SOEs served as the service providers.

Thus, for most of the Maoist era, *danwei* work units of large state-run SOEs provided most health services in urban areas. In rural areas, communes developed a

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<sup>76</sup> Ling Li, Qiulin Chen, and Dillon Powers, "Chinese Healthcare Reform: A Shift toward Social Development," *Modern China* 38, no. 6 (November 1, 2012): 631.

<sup>77</sup> Shaoguang Wang, "Learning through Practice and Experimentation: The Financing of Rural Health Care," in *Mao's Invisible Hand: The Political Foundations of Adaptive Governance in China*, ed. Elizabeth Jean Perry and Sebastian Heilmann (Cambridge, MA: Harvard University Asia Center, 2011), 105.

<sup>78</sup> *Ibid.*, 107.

rudimentary medical system that relied in part on so-called barefoot doctors who had, at best, basic training in medical procedures.<sup>79</sup> These services were usually provided free of charge or at minimal cost to members of the commune or work unit, but were otherwise inaccessible to the rest of the population. Still, these two systems helped to improve the health of the Chinese population significantly, with life expectancy increasing to 67 by 1979, and served as a model for many other developing nations.<sup>80</sup>

With the beginning of the reform period and the collapse of the communes and the decline of SOEs, this model of provision fell apart rapidly. Health care in rural areas reverted to fee for service, as did the increasingly large number of privately employed individuals outside of the SOE *danwei* system in urban areas. Central leaders in the 1980s hoped that a private system would unleash significant progress in the quality and availability of health care, but the increasing costs of medical attention for poor citizens and the lack of a true insurance market forced many poor to do without service. The phrase *kanbingnan, kanbinggui* (看病难看病贵), which loosely translates as “getting sick is both difficult and expensive,” came to epitomize the system for many.<sup>81</sup>

Compounding the access problem for those outside of the state system, publicly owned hospitals saw their state operating subsidies shrink and to make up lost revenue, most began charging ever-higher fees to sustain themselves as business units. Yip and Hsiao note that for hospitals, “[a]s of the early 1990s, government subsidies for public

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<sup>79</sup> Keyong Dong, “Medical Insurance System Evolution in China,” *China Economic Review*, Symposium on Health Economics Issues in China Health Symposium, 20, no. 4 (December 2009): 593.

<sup>80</sup> *Ibid.*

<sup>81</sup> Winnie Yip and William Hsiao, “China’s Health Care Reform: A Tentative Assessment,” *China Economic Review*, Symposium on Health Economics Issues in China Health Symposium, 20, no. 4 (December 2009): 614.

health facilities have represented a mere 10% of the facilities' total revenues."<sup>82</sup>

Additionally, attempts to start a new cooperative insurance scheme partially funded by the state routinely floundered on the rocks of budget insufficiencies.<sup>83</sup> The central leadership did attempt to improve affordability of health care, but its primary policy implement to achieve this was price controls, the use of which created a number of negative second-order effects on availability and price of services.<sup>84</sup> By the mid-2000s, health care costs had become the number one financial concern of China's population, according to a survey of over 101,000 households.<sup>85</sup>

At the time of the launch of the Harmonious Society, the central government had realized how serious the problem had become and began the implementation of a number of reforms to rectify the situation. The reforms began by addressing the problem of affordability of health insurance. In 2003, the central government began a program to implement a modern version of the cooperative medical system (CMS) in which the central government would match contributions to a government-run medical insurance system run at the county level. Each rural resident would be responsible for a small premium, starting at 10 yuan per year for those living in the Western provinces, which was supplemented by central and local government funding allocations.<sup>86</sup> The amount of the central and local government subsidies has risen steadily over time to help fund an increasingly comprehensive menu of treatments.

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<sup>82</sup> Ibid.

<sup>83</sup> Wang, "Learning through Practice and Experimentation: The Financing of Rural Health Care," 121.

<sup>84</sup> Hufeng Wang, "A Dilemma of Chinese Healthcare Reform: How to Re-Define Government Roles?," *China Economic Review*, Symposium on Health Economics Issues in China Health Symposium, 20, no. 4 (December 2009): 600.

<sup>85</sup> Hu et al., "Reform of How Health Care Is Paid for in China," 1846.

<sup>86</sup> Wang, "Learning through Practice and Experimentation: The Financing of Rural Health Care," 124.

Reforms of the urban insurance system proceeded along a dual-track line. Urban workers, as of 1998, have been covered under an employer-pays system, by which workers had the premium for insurance deducted from their paycheck. This privately financed system covered about 28% of the urban population by 2006.<sup>87</sup> In 2007, central officials announced a new program to cover the remaining types of urban residents, such as students, retirees, and migrants. Under this program, which was to be rolled out fully by 2010, residents would be responsible for half the cost of the premiums while local governments were to provide matching funds for the other half. Therefore, with respect to insurance, the central government rolled out a generally pro-poor and pro-rural program. The urban component, compared to the rural programs, was both less generous and more reliant on residents' own funds to pay for coverage. However, these initial waves of reform only dealt with insurance, not the providers of care.

In 2009, central officials initiated another major round of reforms that dealt with the structure of the health care system. These reforms promised to reform the system of payment rates to medical service providers, develop a local network of government-funded primary care stations (primarily located in rural areas), and finally to revamp the public health system in light of deficiencies highlighted by SARS and the avian flu scare.<sup>88</sup> Beyond policy reforms, the central government also promised to double its spending on health care reforms. In education, the large takeoff in government expenditure occurred in 2006; in health care the major year of reform appears to have been 2009. While the reform effort lagged that of education by a few years, the overall policy direction has become increasingly responsive; it is very strong pro-poor and pro-

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<sup>87</sup> Hu et al., "Reform of How Health Care Is Paid for in China," 1848.

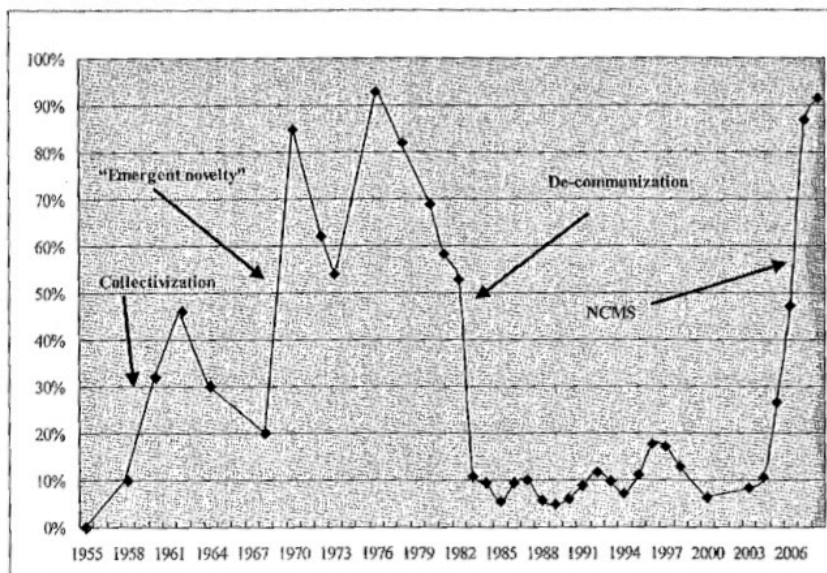
<sup>88</sup> Li, Chen, and Powers, "Chinese Healthcare Reform: A Shift toward Social Development," 634.

rural in structure. This type of policy formulation is directly in line with the responsive authoritarian hypothesis and implementation reports and statistical data further lend support to this conclusion.

### *Existing Evidence and Data*

Descriptive data largely confirms the narrative accounts that health care policy changes have shifted the health care system in the direction of responsiveness. As the first piece of evidence of this trend, scholarly research, while sometimes questioning whether reforms have gone far enough and noting work yet to be done, generally finds that the promised programs have been implemented widely and in a short period of time, highlighting the seriousness the regime attaches to the proposals. Shaoguang Wang has found that the implementation of the rural CMS program has been very rapid and has been enacted in similar percentages of rural villages to the old CMS programs during Maoist China, a trend displayed in Figure 5.12.

Figure 5.12: Rebirth of CMS Programs



Source: Shaoguang Wang<sup>89</sup>

However, Pan and Liu, while noting that transfers have, to a degree, helped equalize health expenditure from 2000 to 2006, find that provincial GDP per capita is still one of the largest determinants of health care spending, suggesting that publicly financed health care is still in its infancy.<sup>90</sup> Hu et al., while worrying about the implementation details of the insurance reforms, remark that one of the biggest hurdles to reforming the system has already been overcome: the central government has opened up its pocketbook. They are generally optimistic that policymakers have begun to focus on the correct problems in the system, noting that “[w]ith concerted effort in the years ahead, China is well placed to bring about the changes that will enable it to take its place among the nations that have completed the third great transition in health.”<sup>91</sup> Keyong Dong also examines some existing technical problems with the new insurance system, but overall finds the program a significant improvement on equity grounds compared to the previous status quo.<sup>92</sup>

Specifically regarding the 2009 reforms, Yip and Hsiao are skeptical that the announced reforms to service provisions will be effective, but are generally impressed by the increased financial commitment of the central government.<sup>93</sup> Li et al. are more enthusiastic about the potential of the reforms to improve quality and decrease costs in the health care sector and they also believe that the new funding will have a significant impact on health care equity.<sup>94</sup> Overall, those studying health care financing have found evidence that central government policy has become more responsive and that the central

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<sup>89</sup> Wang, “Learning through Practice and Experimentation: The Financing of Rural Health Care,” 108.

<sup>90</sup> Jay Pan and Gordon G. Liu, “The Determinants of Chinese Provincial Government Health Expenditures: Evidence from 2002–2006 Data,” *Health Economics* 21, no. 7 (July 1, 2012): 757–77.

<sup>91</sup> Hu et al., “Reform of How Health Care Is Paid for in China,” 1852.

<sup>92</sup> Dong, “Medical Insurance System Evolution in China.”

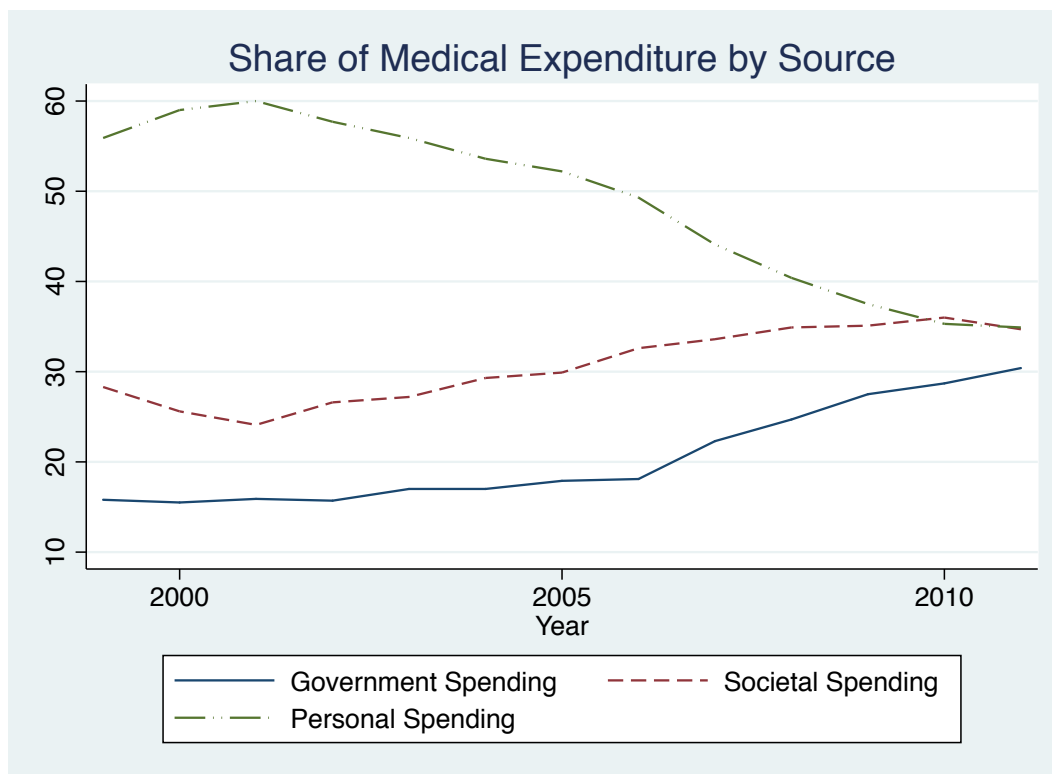
<sup>93</sup> Yip and Hsiao, “China’s Health Care Reform.”

<sup>94</sup> Li, Chen, and Powers, “Chinese Healthcare Reform: A Shift toward Social Development.”

leadership has made funding new programs a high priority since the beginning of the Hu-Wen era. Direct evidence, as shown below, bears out this conclusion.

One of the most striking demonstrations of the increased commitment to reforming the health care system is the decline over time in the personal share of health care expenditure, as can be seen in Figure 5.13.

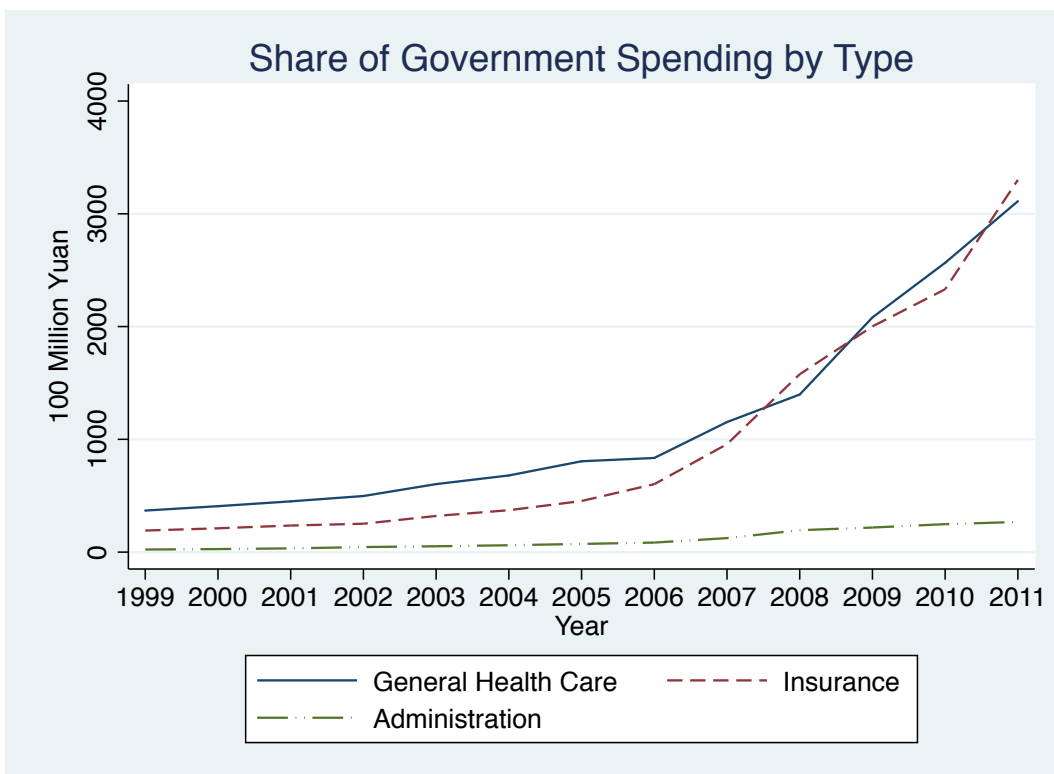
Figure 5.13: Medical Spending by Source



The data used to generate this graph and the following graphs are drawn from the *China Public Health Statistical Yearbook* (中国卫生统计年鉴). The personal share of health care expenditure reached a high of 60% near 2001 before declining rapidly to about 35% in 2011. Societal spending in the above graph represents the share of spending due to cooperative health care systems. Starting in 2003, as the rural CMS system began to be implemented, society's share of spending began to increase, from about 25% to nearly

35% by 2011. Overall, this graph demonstrates the major shift in how health care is paid for in China and indicates that government attempts to increase public provision of health services has been successful. A more detailed analysis of how the spending is distributed adds additional evidence in favor of the responsiveness hypothesis; a partial breakdown of spending is shown below in Figure 5.14.

Figure 5.14: Government Spending by Category



This graph also demonstrates the major financial commitment of government leaders to address the health care crisis. General health care expenses are largely composed of funding for hospitals. The large increases in funding starting in 2006 indicate that local and central governments have made good on their promise to help provide funds so that hospitals can move away from a fully user-pays system.

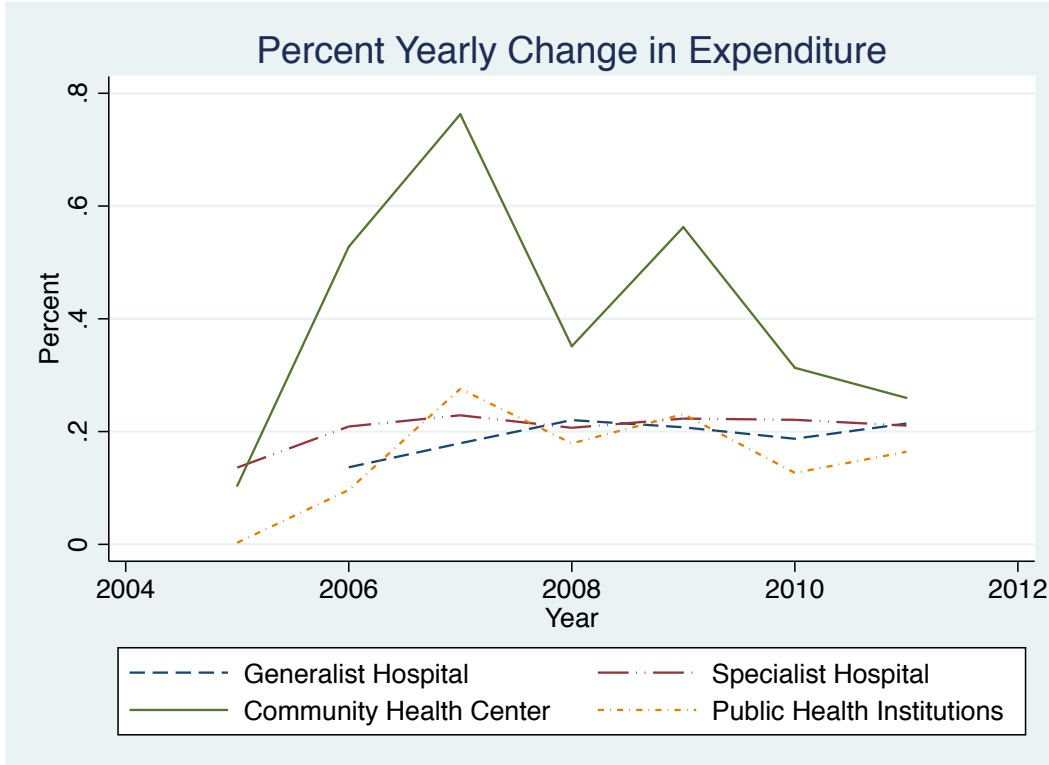
The changes in insurance funding are also remarkable, particularly since the shape of the change matches well with specific policy reforms. From 2007 to 2008, premium support levels for the rural medical cooperatives were increased from 20 RMB to 80 RMB.<sup>95</sup> This was also the same year that the urban insurance program for non-employed residents began. The result of these changes can be seen in the large increase of insurance spending from 2007-2008 in the graph. From 2010 to 2011, the premium support amount was increased again from 80 RMB to 200 RMB, which also helps explain the large increase in insurance expenditure during that period. These changes track very closely the central government's policy reforms and indicate that the implementation was likely successful.

Further analysis of the hospital component of general health care spending from the previous figure confirms this analysis, as shown in Figure 5.15.

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<sup>95</sup> Ibid., 635.

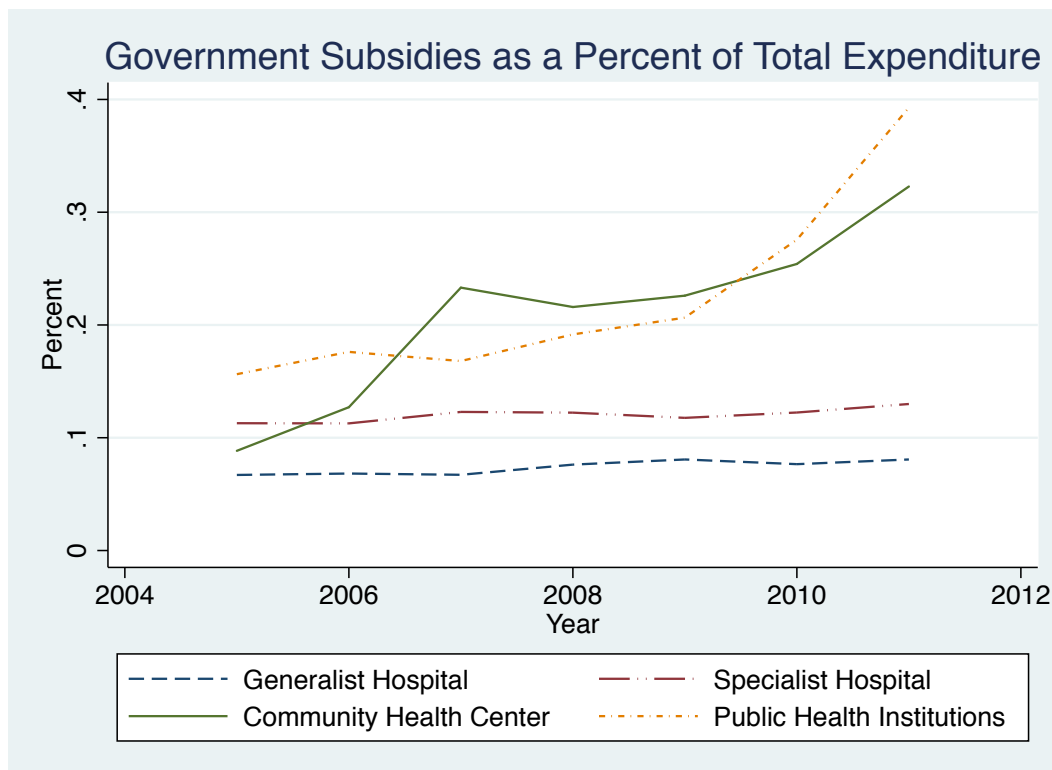
Figure 5.15: Percentage Change in Hospital Spending by Category



All categories of hospital spending increased by an average of about 20% a year during the period studied, indicating that total health care expenditures are well outpacing GDP growth rates. Generalist, specialist, and public health institutions had essentially constant growth rates during this period. Community health centers, on the other hand, experienced a meteoric growth in size. Yip and Hsiao describe the mission of these centers as serving “a gatekeeping function, managing referrals to specialist care and hospital use. The government will invest heavily in infrastructure for these facilities, and, more importantly, will provide full funding for their (*sic*) staff, with the goal of alleviating the need for primary-care facilities to generate their own funding. By doing so, the government hopes that providers will shift their attention to patient care and begin thinking in terms of the patients’ needs rather than in terms of increasing their own

income.”<sup>96</sup> The key question is to what extent was the rise in community health services the result of appropriate government funding and to what extent was it the result of these centers maximizing income from services to rural residents. Figure 5.16 explores this question.

Figure 5.16: Government Subsidies as a Percentage of Budget



Seen here, public health institutions (street clinics, rural clinics, and other miscellaneous health services) plus community health centers generally benefitted the most from increased government spending on health care. While even in these pro-responsive institutions, the share of the budget provided by government subsidies is still low relative to their total budget it is increasingly less so. These types of pro-responsive institutions can now afford to provide a significant amount of new services for no or nominal fees to

<sup>96</sup> Yip and Hsiao, “China’s Health Care Reform,” 616.

the poor and those who generally lack access to high-quality health care services. These institutions are doubly important in rural areas, as the cost of transportation and lodging to obtain services in county or provincial seats can nearly equal the cost of treatment itself.<sup>97</sup>

Overall, the health system has become remarkably more responsive over the preceding ten-year period. Insurance reforms have made health care increasingly more affordable for poor and rural residents. Share of personal expenditure relative to total spending has decreased significantly (likely as a related result). Government funding for insurance and health services has increased rapidly. The type of service seeing the largest increase in expenditure is community health centers, one of the most responsive components of the medical system. The increased expenditure on responsive forms of health care also appears to have been financed largely by the state, meaning that poor, rural, and Western residents are finally receiving better, more affordable care locally, rather than facing financially ruinous trips to standard hospitals. Moreover, while the dataset ends in 2011, these trends seem highly likely to continue into the future.

## **VI. Conclusion**

Total spending, education policy and expenditure, and health care reforms and increased funding all indicate that the central government has become more responsive since 2003. There have been a number of theories proposed to explain authoritarian spending, each with a different prediction about how Chinese expenditure patterns should change over time. The theory that best explains the existing central and provincial spending patterns is authoritarian responsiveness. These reforms are also evident in

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<sup>97</sup> Yuanli Liu, William C Hsiao, and Karen Eggleston, "Equity in Health and Health Care: The Chinese Experience," *Social Science & Medicine* 49, no. 10 (November 1999): 1354.

educational and health care reforms and spending, which provide additional support to the authoritarian responsiveness hypothesis. Of course, expenditure on services does not necessarily imply that the service was useful, high quality, or of the type desired by citizens. While central policymakers have shown the desire to increase responsiveness and have funded such programs effectively, implementation of the programs is key to them being perceived as such by citizens. In the next chapter, I examine outcomes of the newly responsive programs to see if the final link of the responsive chain has been fulfilled.

## **Chapter 6: The Effectiveness of Responsive Policies**

### **I. Introduction**

Evidence from various sources indicates that, as far as can be determined, the Chinese state has implemented its responsive agenda. While increased funding alone is a significant sign of intent to improve responsiveness, it is possible that some of these funds could be diverted to other purposes or otherwise wasted. Some have argued that assessing the policy priorities of authoritarian regimes by examining expenditure categories may be highly unreliable for exactly these reasons.

Chinese fiscal policy has been vulnerable to exactly these types of weaknesses in the past, so in addition to improving funding, improving state capacity is also an important element of building a responsive policy regime. Evidence so far, from areas including environmental enforcement and social welfare provision, seems to suggest that state capacity has increased in China, but the proof of the success of such efforts would lie in evidence that the programs have made a material difference in the welfare of Chinese citizens. Evidence from the health-care and education sectors indicates that the Chinese government has produced the expected outputs of its responsiveness program, including expanded availability of education, improved student-teacher ratios, construction of new schools, establishment of many new rural clinics, and an overall increase in the availability of rural health care.

Such quantitative outputs do not express the quality of these programs or their usefulness to rural residents. However, more individualized data, from both surveys and public opinion polling, strongly suggest that these outputs have had a real impact on the lives of many Chinese citizens. All these findings, taken together, strongly support the

notion that the Chinese leadership has been serious and thorough about implementing its responsive agenda, further supporting the general authoritarian responsiveness hypothesis.

## **II. General Evidence on the Effectiveness of Authoritarian Regimes**

Studies of authoritarian regime effectiveness, in the context of public goods delivery, have generally not considered how the type of and response to public pressure can shape the level and kind of public goods provided. The theory of authoritarian responsiveness helps to generate some useful policy expectations for a regime like China, for which existing theories offer few useful predictions. Within the existing literature, there has been significant debate among scholars regarding whether autocracies or democracies produce more public goods. Most of these studies have found that autocracies produce less public goods, but there is some disagreement regarding exactly what kind of goods autocracies produce less of and why non-democratic regimes achieve these inferior results.

Whereas an extensive literature has considered various kinds of democracies and the public goods they produce,<sup>1</sup> the parallel literature on autocracies and public goods provision is relatively small. Lake and Baum used a large-*n* regression approach and found that democracies provide a higher level of public goods than autocracies.<sup>2</sup> They suggest the explanation that competing for power in autocratic regimes is costly, but once power is achieved then maintaining power is relatively costless. Freed from the

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<sup>1</sup> A more complete list of such works is available in the previous chapter, but a good starting point on this literature see Torsten Persson and Guido Tabellini, "The Size and Scope of Government: Comparative Politics with Rational Politicians," *European Economic Review* 43, no. 4–6 (April 1999): 699–735.

<sup>2</sup> David A. Lake and Matthew A. Baum, "The Invisible Hand of Democracy Political Control and the Provision of Public Services," *Comparative Political Studies* 34, no. 6 (August 1, 2001): 587–621.

constraints of oversights, rulers then seek to maximize private benefits. This formulation of core regime logic has been adopted by several authors studying public goods provision and is a variation on the Niskanen bureaucratic private-benefit maximizer theory.<sup>3</sup>

Bueno de Mesquita et al. offer the main alternative formulation, arguing as part of what they call their “selectorate theory” that public goods are sacrificed in autocracies to provide excludable goods to a smaller group of regime supporters.<sup>4</sup> The authors then proceed to provide empirical support for their claim, also via a large-*n* cross-country regression. The main difference between the two approaches is that Lake and Baum assume that autocrats do not face serious competition for power and thus can pursue other (private) objectives. Bueno de Mesquita et al. argue that competition for power still exists, but the support group is smaller and therefore can be provided with excludable public goods rather than general goods for public welfare, as would be necessary in a democracy. However, both theoretical approaches agree that public goods provision in an autocracy ought to be lower.

Several other scholars have adopted one of these two analytic approaches to analyze autocratic spending, indeed finding that autocracies provide less public goods than democracies. Wigley and Akkoyunlu-Wigley found in two related papers that democratic regimes tend to have better health outcomes than autocratic regimes, a fact that they attribute to the distributional hypothesis of Bueno de Mesquita et al.<sup>5</sup> Deacon found that, on a measure of five different types of public goods, democracies produce

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<sup>3</sup> William A Niskanen, “Bureaucrats and Politicians,” *Journal of Law and Economics* 18, no. 3 (1975): 617–43.

<sup>4</sup> Bruce Bueno de Mesquita et al., *The Logic of Political Survival* (Cambridge, MA: MIT Press, 2005).

<sup>5</sup> Simon Wigley and Arzu Akkoyunlu-Wigley, “The Impact of Regime Type on Health: Does Redistribution Explain Everything?,” *World Politics* 63, no. 04 (October 2011): 647–77; Simon Wigley and Arzu Akkoyunlu-Wigley, “Do Electoral Institutions Have an Impact on Population Health?,” *Public Choice* 148, no. 3/4 (September 2011): 595–610.

better outcomes than autocracies, a result that he also attributes to the distributional hypothesis.<sup>6</sup> Bell, adopting Lake and Baum's theoretical framework, found that in consolidating regimes, the threat to authoritarian leaders is higher, so public goods provision is also higher.<sup>7</sup> Kudamatsu determined, by studying African infant mortality rates, that democratic institutions help to produce better health outcomes.<sup>8</sup> These studies illustrate the general tendency within the literature to conclude that democracies provide more public goods.

However, several scholars have challenged this prevailing conclusion, and their challenges reveal some of the problems entailed in the underlying assumptions of the debate. Mulligan et al. contended, contrary to the scholars cited above, that autocracies generally do not provide less public goods.<sup>9</sup> However, their finding was based on a large-*n* cross-country regression of *spending*, not of outcome variables. This result raises an interesting question. If autocracies are spending as much as democracies, then why are their outcomes worse? Is this result due to corruption, inefficiencies, or some other mechanism? Bueno de Mesquita et al. suggest, but do not rigorously pursue, the notion that corruption is primarily responsible for the lower level of delivery of public goods.<sup>10</sup> Daniel Treisman, among others, has argued that corruption is higher in autocracies,

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<sup>6</sup> Robert T. Deacon, "Public Good Provision under Dictatorship and Democracy," *Public Choice* 139, no. 1–2 (April 1, 2009): 241–62.

<sup>7</sup> Curtis Bell, "Buying Support and Buying Time: The Effect of Regime Consolidation on Public Goods Provision1," *International Studies Quarterly* 55, no. 3 (September 1, 2011): 625–46, doi:10.1111/j.1468-2478.2011.00664.x.

<sup>8</sup> Masayuki Kudamatsu, "Has Democratization Reduced Infant Mortality in Sub-Saharan Africa? Evidence from Micro Data," *Journal of the European Economic Association* 10, no. 6 (December 1, 2012): 1294–1317.

<sup>9</sup> Casey B. Mulligan, Xavier Sala-i-Martin, and Ricard Gil, *Do Democracies Have Different Public Policies than Nondemocracies?*, Working Paper (National Bureau of Economic Research, October 2003), <http://www.nber.org/papers/w10040>.

<sup>10</sup> Bueno de Mesquita et al., *The Logic of Political Survival*, 200.

although operationalizing corruption remains a difficult task.<sup>11</sup> Adam et al. argue instead that democracies are more efficient in providing public goods.<sup>12</sup> They note that “even though public production is always inefficient, democratic institutions are able to restrain inefficiencies due to electoral control.”<sup>13</sup>

Albert Saiz provides a perhaps more problematic challenge to the existing consensus that autocratic regimes provide less public goods.<sup>14</sup> He argues that autocratic regimes produce better-quality roads than democracies, indicating that possibly autocratic regimes produce different *kinds* of public goods, as opposed to providing less goods overall. Michael Ross reinforces this finding by remarking that while democratic regimes in Africa provide higher service levels overall, they do not provide better public goods to the poor than autocracies; rather, the main difference is that in democracies the rich are better served.<sup>15</sup> If autocracies are producing different kinds of public goods, or providing some public goods at differential levels, the models suggested by scholars of democracy and autocracy may need revision. Overall, the literature contains four proposed causal relationships:

1. Autocratic regimes produce less public goods because they spend less on public goods
2. Autocratic regimes produce less public goods because they spend the same amount (or more) as democracies on public goods but the spending is partially lost via corruption

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<sup>11</sup> Daniel Treisman, “What Have We Learned About the Causes of Corruption from Ten Years of Cross-National Empirical Research?,” *Annual Review of Political Science* 10, no. 1 (2007): 211–44.

<sup>12</sup> Antonis Adam, Manthos D. Delis, and Pantelis Kammass, “Are Democratic Governments More Efficient?,” *European Journal of Political Economy* 27, no. 1 (March 2011): 75–86.

<sup>13</sup> *Ibid.*, 76.

<sup>14</sup> Albert Saiz, “Dictatorships and Highways,” *Regional Science and Urban Economics* 36, no. 2 (March 2006): 187–206.

<sup>15</sup> Michael Ross, “Is Democracy Good for the Poor?,” *American Journal of Political Science* 50, no. 4 (October 1, 2006): 860–74.

3. Autocratic regimes produce less public goods because they spend the same amount (or more) as democracies on public goods but the spending is lost due to government inefficiencies and institutional weaknesses
4. Autocratic regimes produce the same amount of public goods as democracies—or more—but of a different kind

More generally, options 2 and 3 raise the question of what concept should be measured. If an autocrat spends equivalently to a democracy, but some of the spending is lost to corruption or via other means, to what extent can that be attributed to a high-level political choice of the autocrat? A failure to deliver more public goods than a democracy could, in these models, be more indicative of inherent principal-agent and other institutional weaknesses that may be endemic to autocracies than of important differences between autocratic and democratic leaders regarding their top-level priorities. On the other hand, corruption and institutional weakness may be the primary mechanism through which autocratic leaders attempt to divert standard public goods. The literature on public goods provision by autocracies and democracies is unclear on this point.

With respect to authoritarian responsiveness, as with many of the previously discussed theories of authoritarian behavior, few of these models offer any level of dynamism that would help to explain a shift in public goods provision outcomes as, according to the present hypothesis, has occurred in China. In most of the models discussed above, regime type is treated as a binary: either the regime is autocratic or it is not. To the extent that dynamism can be read into the models, it requires a change in leadership structure and coalition incentives, neither of which has occurred in China in the last 15 years. Thus most all of the above models would predict a flat (low) level of public goods in China since the 2000s.

However, as previous chapters have argued, public goods provision is not only good for the citizen; just as in democracies, but it can also be good for the autocrat if the public has any role in sustaining the regime. The more the regime feels the need to respond to citizen demands, the more public goods should exist. According to the authoritarian responsiveness hypothesis, this principle should be manifested in two ways: (1) spending increases like those demonstrated in China in the previous chapter, and (2) greater efforts to provide public goods, even where spending levels remain constant. If the regime truly desires to be responsive, then the state's capacity to provide public goods needs to be reformed, lest most of the new funds be lost to corruption and waste. These two reforms, or a combination of them, should lead to an observable improvement in outcomes.

If one does not observe an improvement in outcomes, even given the increase in spending and transfers observed in the previous two sections, it would be difficult to determine whether this result has occurred because top leaders ultimately did not want the initiative to succeed (or were indifferent to its success) or because they could not mobilize the state effectively. The former explanation would support the mainstream public goods theorists' views of autocrats' motivations, whereas the latter would be more consistent with the views of skeptics such as Mulligan et al.

The information presented in the following three sections suggests that in fact both state capacity and outcomes have improved in China, lending support to the authoritarian responsiveness hypothesis. The next section examines the existing literature on these two subjects.

### III. The Chinese Government's Effectiveness in Providing Public Goods

China's overall effectiveness at the state level in providing public goods has been one of the key concerns of central policymakers since 2002, further indicating the seriousness of their attempt to press ahead with major pro-responsive policy reforms. Besides health care and education, two other areas in which these efforts are visible are the environment and social safety-net programs. Although there were significant early problems in implementation, central policymakers have made strides in improving general policy enforcement and program effectiveness over the time period of the Harmonious Society.

#### *State Capacity*

State capacity at the national and local levels in China has arguably been on an upward track since 2002, lending support to the finding that state leadership cares about the success of its funding reforms.

Dali Yang provides one of the most comprehensive arguments that state capacity has increased in his book *Remaking the Leviathan*.<sup>16</sup> He describes a series of major administrative reforms aimed at increasing the state's effectiveness, such as a new review system for cadres, realigning the incentives of customs officials to prevent corruption, and the introduction of public hearings to increase accountability of officials. He concludes that the systemic plan to remake the state from a Stalinist producer model into something along the lines of a Western regulatory system has generally been succeeding.

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<sup>16</sup> Dali Yang, *Remaking the Chinese Leviathan: Market Transition and the Politics of Governance in China* (Palo Alto: Stanford University Press, 2004).

In his words, the Chinese state has made “substantial progress in improving the institutional framework for economic governance.”<sup>17</sup>

Yang’s work has generated a number of responses, several of them agreeing in part and disagreeing in part with the sweeping nature of his claim. While few have explicitly responded to his specific claims,<sup>18</sup> many have been skeptical about the purported increased capacity of the central and local state apparatus, particularly in the areas of economic and fiscal policy. Both Christine Wong and Victor Shih have written critically of the state’s ability to manage or follow through on key reforms designed to improve governance, budgeting, and local state capacity.<sup>19</sup> Cheng Li has also argued that many reforms designed to improve the state have failed due to continuing political weakness.<sup>20</sup> Minxin Pei has been even more critical of the central state’s reform capacity, suggesting that “these tensions [over capacity-build reforms] make the political and economic strategies adopted by post-Mao rulers appear increasingly unsustainable. China’s transition to a market economy and, perhaps potentially, to some form of democratic polity, risks getting trapped in a ‘partial reform equilibrium.’”<sup>21</sup> For these authors, China’s economic progress has been in spite of, rather than a result of, state capacity.

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<sup>17</sup> Ibid., 21.

<sup>18</sup> Kun-Chin Lin has produced a detailed and nuanced evaluation of Yang’s claims, finding that some of them have stronger support than others. Overall Lin concludes that Yang makes some interesting points and provides a clear argument that must be addressed when considering the issue of state capacity. Kun-Chin Lin, “Remaking the Chinese Leviathan” *China Review International* 12, no. 2 (2005): 578–87.

<sup>19</sup> Christine Wong, “Rebuilding Government for the 21st Century: Can China Incrementally Reform the Public Sector?,” *China Quarterly* 200 (2009): 929–52; Victor Shih, “Partial Reform Equilibrium, Chinese Style Political Incentives and Reform Stagnation in Chinese Financial Policies,” *Comparative Political Studies* 40, no. 10 (October 1, 2007): 1238–62.

<sup>20</sup> Cheng Li, “The End of the CCP’s Resilient Authoritarianism? A Tripartite Assessment of Shifting Power in China,” *The China Quarterly* 211 (September 2012): 595–623.

<sup>21</sup> Minxin Pei, *China’s Trapped Transition: The Limits of Developmental Autocracy* (Cambridge, MA: Harvard University Press, 2009), 8.

Part of the disagreement among the authors critiquing Yang stems from the fact that they are examining different parts of the proverbial elephant that is the Chinese state. It is entirely possible, indeed likely, that different aspects and levels of the state apparatus have developed along different paths, with some areas within the state developing high levels of capacity while other areas remain weak and underdeveloped. The internal variation in capacity has generated some interesting research projects seeking to explain localized disparities. Lily Tsai argues that state capacity is higher in areas with strong lineage groups that can threaten poorly performing leaders with moral sanctions.<sup>22</sup> Waldron et al., who focused on the Chinese agricultural sector, have suggested that the nature of the subject being regulated has a significant impact on the depth of reform proposed and the extent of success attained.<sup>23</sup>

More generally, breaking down the Chinese state into components and studying it in various specific contexts has offered more illuminating answers to the question of whether state effectiveness has increased. One area of particular interest to scholars is the question of whether China is becoming a more effective regulatory state, a central part of the Yang thesis. Margaret Pearson highlights efforts by party leaders to move the state in this direction, while also noting the incomplete nature of the reforms.<sup>24</sup> Christensen et al. note that the administrative reforms self-consciously follow a Western model, which may not be suited for the unique organizational structure of the Chinese state.<sup>25</sup> Roselyn

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<sup>22</sup> Lily L. Tsai, *Accountability Without Democracy: Solidary Groups and Public Goods Provision in Rural China* (Cambridge: Cambridge University Press, 2007).

<sup>23</sup> Scott Waldron, Colin Brown, and John Longworth, "State Sector Reform and Agriculture in China," *The China Quarterly*, no. 186 (June 1, 2006): 277–94.

<sup>24</sup> Margaret M. Pearson, "Governing the Chinese Economy: Regulatory Reform in the Service of the State," *Public Administration Review* 67, no. 4 (July 1, 2007): 718–30.

<sup>25</sup> Tom Christensen, Dong Lisheng, and Martin Painter, "Administrative Reform in China's Central Government — How Much 'Learning from the West'?" *International Review of Administrative Sciences* 74, no. 3 (September 1, 2008): 351–71.

Hsueh observes that, whereas some of the rhetoric regarding change in industrial regulation emanating from top leaders may sound radical, in fact many of the administrative reforms, while successful, have been more restrained than would appear at first glance.<sup>26</sup> This would imply that state capacity building has taken place more slowly than central policymakers would like to admit. In general, though, most scholars of regulatory reform would agree that state capacity has expanded; much of the disagreement concerns the rate of change and what type of capacity has been developed.

With respect to the main argument of this work, the most relevant area of state capacity is service provision. As most services are provided at the local level, a key question is whether local state capacity has increased, on balance, since 2002. The number of reforms issued by central policymakers in this area has been impressive, and all of them appear to reflect an attempt to improve local government quality. Village and local elections have been introduced and expanded as a way to promote local government accountability.<sup>27</sup> Local service organizations—the quasi-governmental bodies that have long served as the final destination for education and health-care funds and as the first level of service provision—have undergone significant reform.<sup>28</sup> State power has, in many instances, been centralized from local entities into county units, which are more professional and more accountable to central leadership.<sup>29</sup>

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<sup>26</sup> Roselyn Hsueh, *China's Regulatory State: A New Strategy for Globalization* (Ithaca, NY: Cornell University Press, 2011).

<sup>27</sup> There are still significant problems with the conduct of village elections, but their use has become nearly universal and election practices have been improving over time. Kevin J. O'Brien and Rongbin Han, "Path to Democracy? Assessing Village Elections in China," *Journal of Contemporary China* 18, no. 60 (May 19, 2009): 359–78.

<sup>28</sup> Linda Chelan Li, "State and Market in Public Service Provision: Opportunities and Traps for Institutional Change in Rural China," *The Pacific Review* 21, no. 3 (July 2, 2008): 261.

<sup>29</sup> Mingxing Liu et al., "Education Management and Performance after Rural Education Finance Reform: Evidence from Western China," *International Journal of Educational Development*, Education and Development in Contemporary China, 29, no. 5 (September 2009): 463–73.

While the reforms are important, whether they were implemented successfully is an open question. Here the evidence is more mixed and necessarily more tentative, as most works review results in only a single geographic area or at most a handful of areas. Nonetheless, most scholars have found that local state capacity has meaningfully improved since the early 2000s. A significant array of studies has examined the relationship between the local elections in China and service provision, generally finding that service provision improves with the introduction of representative elections. Luo et al. found that while the elimination of rural taxes and fees had a negative impact on township-provided public goods, the trend toward electing township head officials has helped to improve local government efficacy.<sup>30</sup> Wang and Yao reported a similar finding, indicating that increasing the number of elected local leaders tends to lead jurisdictions to provide higher levels of public goods.<sup>31</sup> Landry et al. found that while election winners in rural areas still tend to be party-selected favorites, the very process of conducting a competitive election has a positive impact on local governance.<sup>32</sup> Ye and Qin determined that elected local village heads tend to produce better public goods in the sanitation sector, *ceteris paribus*.<sup>33</sup>

Others who have focused more on the internal dynamics of local government rule have reached similar conclusions—namely, that many of the various reforms to improve local governments have resulted in better quality of public goods outputs from local cadres. Kamo and Takeuchi’s research indicates that local People’s Congresses are

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<sup>30</sup> Renfu Luo et al., “Elections, Fiscal Reform and Public Goods Provision in Rural China,” *Journal of Comparative Economics* 35, no. 3 (September 2007): 583–611.

<sup>31</sup> Shuna Wang and Yang Yao, “Grassroots Democracy and Local Governance: Evidence from Rural China,” *World Development* 35, no. 10 (October 2007): 1635–49.

<sup>32</sup> Pierre F. Landry, Deborah Davis, and Shiru Wang, “Elections in Rural China: Competition Without Parties,” *Comparative Political Studies*, March 8, 2010.

<sup>33</sup> Chunhui Ye and Ping Qin, “Provision of Residential Solid Waste Management Service in Rural China,” *China & World Economy* 16, no. 5 (September 1, 2008): 118–28.

becoming more active and activist, improving the quality of representation and of public interest articulation.<sup>34</sup> Tang and Lo examined local service organizations and the attempt to integrate them more fully into the state bureaucracy. Their key finding was that “although various political and institutional factors have remained key constraints, such transaction cost concerns as probity, accountability, legitimacy, efficiency, and reliability have increasingly been raised as criteria in deliberating institutional choices in China’s governance reform, paving the way for the gradual development of a more rational and accountable governance system.”<sup>35</sup> Even though township governments are generally believed to have lost significant capacity in the wake of the tax and fee reforms,<sup>36</sup> Oi et al. found that county governments have expanded their power to monitor and limit the discretion of townships and villages, strengthening the reach of the state.<sup>37</sup> They remark, “The state’s capacity to reach down to control local officials through the control of fiscal resources may be as strong as ever. The state has restructured fiscal and administrative control in rural townships and villages in response to problems of decentralization and cadre corruption. It is using its growing fiscal base to increase its administrative reach so as to ensure stability and more equitable distribution of public goods across villages and townships in China.”<sup>38</sup>

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<sup>34</sup> Tomoki Kamo and Hiroki Takeuchi, “Representation and Local People’s Congresses in China: A Case Study of the Yangzhou Municipal People’s Congress,” *Journal of Chinese Political Science* 18, no. 1 (2013): 41–60.

<sup>35</sup> Shui-Yan Tang and Carlos Wing-Hung Lo, “The Political Economy of Service Organization Reform in China: An Institutional Choice Analysis,” *Journal of Public Administration Research and Theory* 19, no. 4 (October 1, 2009): 762.

<sup>36</sup> John James Kennedy, “From the Tax-for-Fee Reform to the Abolition of Agricultural Taxes: The Impact on Township Governments in North-West China,” *The China Quarterly* 189 (2007): 43–59; Jean C. Oi and Shukai Zhao, “Fiscal Crisis in China’s Townships: Causes and Consequences,” in *Grassroots Political Reform in Contemporary China*, ed. Elizabeth J. Perry and Merle Goldman (Cambridge, MA: Harvard University Press, 2009), 75–96.

<sup>37</sup> Jean C. Oi et al., “Shifting Fiscal Control to Limit Cadre Power in China’s Townships and Villages,” *The China Quarterly* 211 (2012): 649–75.

<sup>38</sup> *Ibid.*, 672.

Whatever the specific reform or mechanism through which local government has improved, making local governments more accountable and incentivizing them to produce better-quality public goods has been a major project for the central government during the 2000s. Scholars have found that the results of such efforts appear to include increased local government capacity to provide public goods and improved compliance with central policy priorities, although these results should be interpreted with some caution due to the lack of representativeness of the findings. Still, there is evidence that this enhanced state capacity has been applied effectively in several policy areas, as research highlighted in the following section suggests.

#### *Evidence of Responsiveness Outside the Education and Health Sectors*

Outside the two key service areas (education and health care) for which local governments are responsible, two other important areas of responsibility have also seen evidence of new state capacity development in order to increase responsiveness. The realm of environmental protection has seen a number of reforms, some of them contrary to local government interests, that have been implemented with at least partial success. Safety-net programs, as briefly discussed in the previous chapter, have also undergone a major change in the 2000s. While not perfectly implemented, the new social safety net has provided basic necessities to a number of poor recipients who previously would have been consigned to destitution.

#### Environmental Protection

Civil society has paid increasing attention to environmental protection during the last 10 to 15 years, so the dynamic of authoritarian responsiveness should be evident in

this sector. Existing research suggests that while environmental problems have increased significantly in the last 15 years, government capacity has also grown, resulting in some successes in addressing key problems. Lo and Tang investigated environmental regulation in Guangdong, finding that local government officials are, for the first time, enforcing restrictive environmental legislation, even when it conflicts with their GDP growth goals. While overall China appears to view improving the environment as a long-term goal, the researchers note that some progress has already been made in implementing central-level environmental policies.<sup>39</sup> Bryan Tilt examined the process by which a Sichuan county decided to close a large factory, one of the county's main employers. The decision was assisted by citizen pressure but also came about because of renewed efforts by the central government to enforce environmental policy at the local level.<sup>40</sup> Tilt notes that this type of decision would not likely have been made even five years earlier.

Van Rooij et al. examined several cases in which factories polluted local farmers' lands near Beijing.<sup>41</sup> He and his co-authors argue that efforts to stop the pollution were stalled for a long period by the factory's willingness to offer substantial payments as compensation to local villagers. These payoffs shifted the issue away from regulation toward individual demands. Once local villagers became habituated to high pollution levels and accepted the cash payments, only investigations by the higher-level environmental bureau could stop some of the factory's more egregious practices. In this

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<sup>39</sup> Carlos Wing-Hung Lo and Shui-Yan Tang, "Institutional Reform, Economic Changes, and Local Environmental Management in China: The Case of Guangdong Province," *Environmental Politics* 15, no. 2 (April 1, 2006): 190–210.

<sup>40</sup> Bryan Tilt, "The Political Ecology of Pollution Enforcement in China: A Case from Sichuan's Rural Industrial Sector," *The China Quarterly* 192 (December 2007): 915–32.

<sup>41</sup> Benjamin Van Rooij et al., "Compensation Trap: The Limits of Community-Based Pollution Regulation in China, The," *Pace Environmental Law Review* 29 (2012 2011): 701–45.

case, the environmental agency was able to achieve some results despite active opposition from local citizens who had become accustomed to receiving regular payments from the factory. It is unlikely that a state regulator would have achieved similar results in any previous period.

On a more macroscopic scale, Zhang et al. thoroughly document the vast array of environmental challenges that China faces, along with the regime's increasing capacity and initial successes in combatting priority pollution targets.<sup>42</sup> Shixiong Cao reviews the central government's anti-desertification program and shows officials' increasing progress in implementing successful plans during the last 10 years (while also noting the remaining hurdles hindering efforts to fully address the problem).<sup>43</sup> He et al. examine changes in environmental administration over the years and summarize some of the major changes as shown in Table 6.1.

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<sup>42</sup> Junfeng Zhang et al., "Environmental Health in China: Progress towards Clean Air and Safe Water," *The Lancet* 375, no. 9720 (April 2, 2010): 1110–19.

<sup>43</sup> Shixiong Cao, "Impact of China's Large-Scale Ecological Restoration Program on the Environment and Society in Arid and Semiarid Areas of China: Achievements, Problems, Synthesis, and Applications," *Critical Reviews in Environmental Science and Technology* 41, no. 4 (January 13, 2011): 317–35.

Table 6.1: Shifting Environmental Administration Priorities

**Table 1**

Evolution of environmental management in China: from 1972 to present.

Period	Stage classification	Focus of management	Style of management	Instruments	Characteristics
Phase 1: 1972–1991	Shaping the environmental arena: improving environmental conditions for human health	Controlling air, water, and solid waste pollution from major industries	Top-down strategy; command and control, environmental standards; no stakeholder involvement	Legislation; regulatory enforcement by local authorities; add-on technology	End-of-pipe management, concentration-based control
Phase 2: 1992–2001	Encouraging pollution prevention: protecting environmental conditions for humans and ecosystems	Strengthening industrial pollution control, and rural, key cities, regional pollution control and conserving biodiversity	Internal integration: from reactive to proactive policies, integrated management at pollution source	Emission reduction targets; financial incentives, legal liability; stricter enforcement	Source-oriented pollution prevention, mass-based/total emission control
Phase 3: 2002–the present	Sustainable development: opportunities for multi-sectoral benefits	Energy saving and emission reduction, ecological conservation, integrated ecosystem management	Promoting? integration of environmental, economic and social interests	Market-oriented, technological, fiscal, social instruments	Integrated and comprehensive management, cleaner production, and life cycle control

Source: He et al.<sup>44</sup>

As the table illustrates, the previous two decades (i.e., the 1970s and 1980s) reflected a much more reactive form of pollution control, whereas after the start of the Hu-Wen program, the focus shifted to building a proactive, integrated environmental management system. While the actual implementation of the new system has featured various inadequacies, when compared to the system that preceded it the new one is much more comprehensive and capable. Bryan Tilt argues that although the environmental regulatory framework has been reformed in a responsive direction, enforcement remains the weakest link.<sup>45</sup> However, local Environmental Protection Bureaus, while possessing insufficient resources to monitor all the polluting activity in China, have a much wider set of powers and scope of authority than previously. In earlier times the main problems were lack of power and lack of political will; now the problem is lack of resources.

<sup>44</sup> Guizhen He et al., “Changes and Challenges: China’s Environmental Management in Transition,” *Environmental Development* 3 (July 2012): 30.

<sup>45</sup> Bryan Tilt, “The Politics of Industrial Pollution in Rural China,” *Journal of Peasant Studies* 40, no. 6 (2013): 1157.

While this is as best a cursory review of some important works regarding state capacity and environmental management successes, the themes throughout the works remain relatively constant: both the local government and central administration have been successfully building state capacity to control environmental problems, although ongoing management issues and local incentives remain problematic. To be sure, the administrative system and the local government are only two pieces of the environmental protection system.<sup>46</sup> Moreover, the scale and scope of economic growth have often overwhelmed positive improvements in addressing environmental issues. Finally, many local areas still consistently resolve conflicts between economic growth and environmental enforcement in favor of polluters. Nevertheless, the level of consciousness of and capability to enforce environmental laws has, according to scholarly reports, improved significantly in the last 10 years. Social safety-net programs have developed in a similar way, as discussed in the following section.

### The Social Safety Net

Social safety-net programs have had a more ambiguous impact, but overall they have helped to improve the standard of living of those receiving benefits. Social safety-net programs emerged in China as a response to a shift in poverty concentration. In the pre-reform era, poverty was generally concentrated in specific poor towns and villages. Since the commune provided for group welfare, workers and farmers were guaranteed a share of local income. How well the local commune performed set the local standard of living. In the post-reform era, poverty increasingly became an individual characteristic and often was transitory in nature. Whenever a rural or urban resident faced a serious

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<sup>46</sup> Other important actors in environmental preservation are the court system, NGOs, and local community groups.

health event or a bad harvest shock, running out of savings and falling into poverty were likely outcomes.

However, the nature of the central government's poverty eradication program did not change for a significant period of time; instead, it continued to subsidize officially poor villages rather than addressing individual circumstances. To redress this situation, central policymakers introduced a minimum income program (popularly called the *dibao* [低保]), first implemented in urban areas in 1999.<sup>47</sup> The program is designed to supplement income so that each household is brought up to the poverty line established by that household's locality. The state subsidy for urban areas was initially small but grew rapidly over time, expanding the scope of the program and the amount of benefits provided. Being approved to receive the *dibao* benefit also provided an increasing number of ancillary forms of assistance, such as exemptions from school fees and reduced-cost or free provision of other government services.<sup>48</sup>

However, this program was not seriously extended to rural areas until 2007, when central officials dramatically increased funding for the rural *dibao* program and mandated its adoption nationwide. The swiftness of the rollout was dramatic: within a few years, 8% of the rural population was qualified to receive *dibao* benefits. The enrollment numbers in Table 6.2 highlight the speed of the program's implementation.

Table 6.2: *Dibao* enrollment figures

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<sup>47</sup> Dorothy J. Solinger, "The Dibao Recipients. Mollified Anti-Emblem of Urban Modernization," *China Perspectives*, no. 2008/4 (December 1, 2008): 39.

<sup>48</sup> *Ibid.*, 42.

	2006	2007	2008	2009	2010	2011	2012	2013
rural dibao recipients (millions)	15.93	35.66	43.06	47.60	52.14	53.06	53.45	53.88
rural dibao transfers (million yuan)	na	10910	22873	36300	44500	66770	71820	86690
national average rural dibao threshold (yuan per person per year)	na	840	988	1210	1404	1718	2003	2434
national average rural dibao transfer (yuan per person per year)	na	466	605	816	888	1273	1344	1609

Source: Golan et al.<sup>49</sup>

Such a program has the potential to radically alter the experience of being poor in China. However, for a number of reasons, the program has not yet performed up to that potential. Dorothy Solinger has sharply criticized the implementation and details of the urban *dibao* program, presenting evidence that the application process is too arduous and the restrictions on recipient behavior too burdensome for the program to work effectively.<sup>50</sup> Some of her complaints regarding the program structure echo aspects of the debate among economists and policymakers in Western democracies about where to strike the balance between making grants widely available and versus implementing anti-fraud provisions; in fact, her recommended changes are not necessarily widely accepted practices even in the West.<sup>51</sup> Nevertheless, she also points out several other implementation problems and burdens imposed by many local governments that likely ought to be rescinded or modified.<sup>52</sup>

Another problem besetting *dibao* implementation has been mis-targeting, in that many of those poor enough to be eligible for benefits have not been included in the program while others who should be ineligible to receive benefits receive approval.

<sup>49</sup> Jennifer Golan, Terry Sicular, and Nithin Umapathi, *Any Guarantees? China's Rural Minimum Living Standard Guarantee Program*, Discussion Paper, Social Protection & Labor (Washington, DC: World Bank, August 2014), 43.

<sup>50</sup> Solinger, "The Dibao Recipients. Mollified Anti-Emblem of Urban Modernization."

<sup>51</sup> Solinger argues that the program should have much looser anti-fraud requirements so as to make it easier for poor residents to enroll.

<sup>52</sup> Such burdens include locally imposed requirements that recipients may not spend more than a fixed amount on electricity or mobile phone bills, so that funds are not wasted on unnecessary services. Solinger's research consists of case studies, however, so it is unclear how frequently the specific issues that she cites actually pose burdens in the typical experience of a *dibao* recipient.

Martin Ravallion depicted the seriousness of this problem by noting that as of 2003, nearly 75% of urban households who should have been eligible for benefits were not receiving them.<sup>53</sup> More recent research has suggested that this figure has improved, although mis-targeting remains a significant issue, particularly in rural areas.<sup>54</sup> Additionally, it is difficult to assess the impact of the *dibao* on poverty rates, because there is no easy way to separate the impact of the *dibao* subsidies from overall economic trends and other macrostructural factors. To the extent that authors have attempted this research task, the *dibao* has appeared to modestly improve poverty rates, although its effect is generally swamped by economic factors.<sup>55</sup>

Nonetheless, despite these flaws, the program has been reaching a wider range of beneficiaries and providing more cash (in both real and nominal terms) as central policymakers refine and improve its features. State leaders have shown a serious commitment to implementing the programs and reforming problem areas. Reforms have addressed various technical considerations such as determining an accurate poverty level, increasing publicity so as to attract applications from a larger group of deserving poor residents, and setting an appropriate year-to-year inflation adjustment factor.<sup>56</sup> Moreover, the program has become increasingly centralized, meaning more regularity and less locally conceived, burdensome regulations for program recipients. Finally, the total number of grant recipients has now reached nearly 80 million, including both rural and urban residents. These recipients represent the most vulnerable people in Chinese society,

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<sup>53</sup> Martin Ravallion, "Miss-Targeted or Miss-Measured?," *Economics Letters* 100, no. 1 (July 2008): 9–12.

<sup>54</sup> Golan, Sicular, and Umaphathi, *Any Guarantees? China's Rural Minimum Living Standard Guarantee Program*; Qin Gao, Sui Yang, and Shi Li, "Welfare, Targeting, and Anti-Poverty Effectiveness: The Case of Urban China," *The Quarterly Review of Economics and Finance*, 2014, 1–12.

<sup>55</sup> Gao, Yang, and Li, "Welfare, Targeting, and Anti-Poverty Effectiveness."

<sup>56</sup> Nithin Umaphathi, Dewen Wang, and Philip O'Keefe, *Eligibility Thresholds for Minimum Living Guarantee Programs*, Discussion Paper, Social Protection & Labor (Washington, DC: World Bank, November 2013).

and before the large increase in program capacity and funding during the Hu-Wen era, many would have faced incredibly desperate daily living conditions. The *dibao* has not been a panacea, but it has provided relief to many who otherwise would have had basic needs unmet.

Still, it is important not to overstate the impact of the *dibao* and other reforms. Many of the improvements of state capacity and policy reforms are tentative, and their implementation has been uneven. Significant work remains before Chinese local governments could be considered as responsive as even those of mediocre democratic regimes. Nevertheless, compared to the situation prior to 2002, these reforms and state capacity building efforts appear to have had a meaningful impact on public goods provision levels with regard to both environmental protection and the social safety net. This finding is useful in that it suggests that responsiveness has not simply been limited to financing education and health care. In the next section, I examine whether similar changes have resulted in actual, measurable output in the education and health-care sectors.

#### **IV. Results in Education and Health Care**

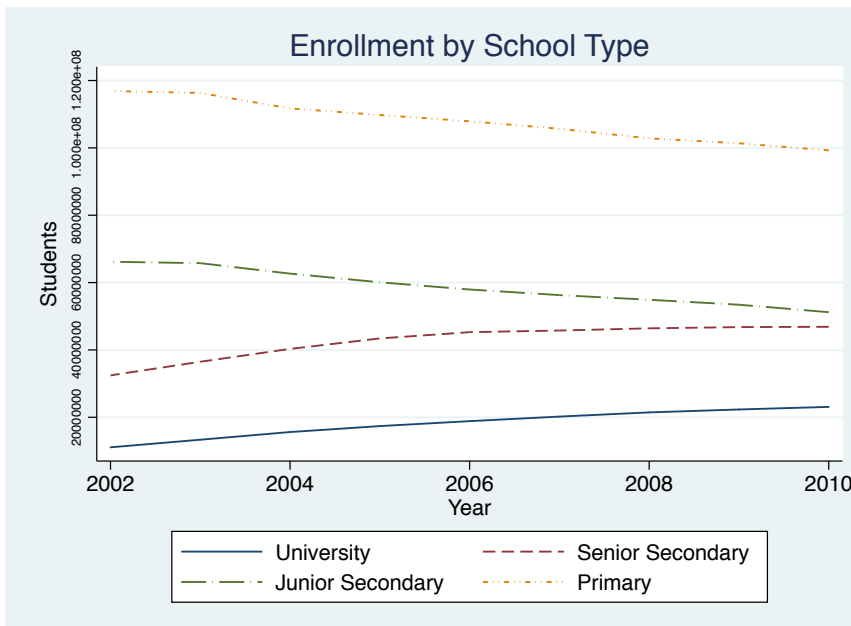
Both education and health care have seen major increases in financial inputs since 2002, and these inputs have yielded, according to the data shown in this section, have yielded significantly improved outputs of government services. In the education sector, the changes are less visible in the data, leading to a more tentative conclusion about the impact of increased funding. In the health-care sector, the dramatic increase in rural clinics and local hospitals strongly supports the authoritarian responsiveness hypothesis.

However, questions remain regarding the quality and impact of these additional government outputs.

Education policy during the 2000s centered around two primary goals: increased access and better quality education. Two ways to measure these concepts are enrollment rate and student-teacher ratios (although both enrollment and quality have many other potential metrics, unfortunately many of them remain unmeasured in existing data). In terms of enrollment, China's youth aged population has been shrinking, so even with the goal to increase enrollment, the overall number of students was expected to shrink.<sup>57</sup>

Figure 6.1 shows these enrollment trends over time.

Figure 6.1: Enrollment

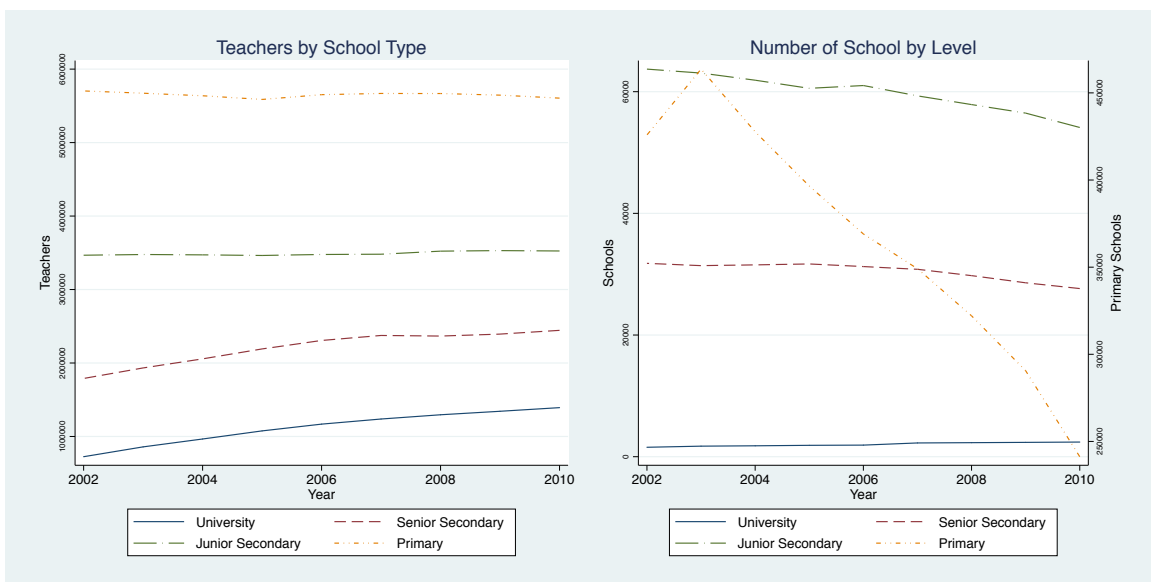


In primary and junior secondary schools, enrollment drifted lower over time, roughly in line with demographic trends, suggesting that peak enrollment in these areas has already been reached. However, in the priority areas of senior secondary and higher

<sup>57</sup> Fang Cai, "Demographic Transition, Demographic Dividend, and Lewis Turning Point in China," *China Economic Journal* 3, no. 2 (July 2010): 117.

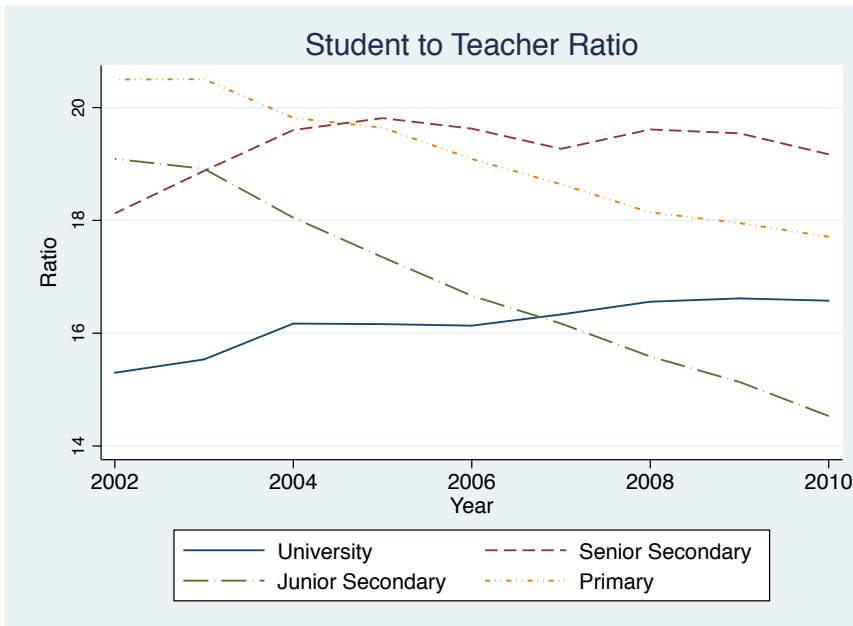
education, the number of enrolled students actually increased indicating that a higher percentage of the population gained access to a more advanced level of education. In the previous chapter, there was a substantially increased amount of funding for lower levels of schooling; Figure 6.2 examines if this funding was used to hire more teachers or build more schools.

Figure 6.2: Number of Teachers and Schools



The number of teachers during this period stayed relatively flat for both lower levels of schools and increased modestly in senior secondary and university schools. The number of primary schools decreased substantially and the number of senior and junior secondary schools trended lower. The decreased number of schools indicates that children are being placed in more centralized schools (as there are now more children per school), which is perhaps a positive achievement, allowing for them to have access to a wider variety of resources and subject matter. The relatively flat number of teachers, however, is unambiguously positive with respect to student to teacher ratio, as shown in Figure 6.3.

Figure 6.3: Student to Teacher Ratio



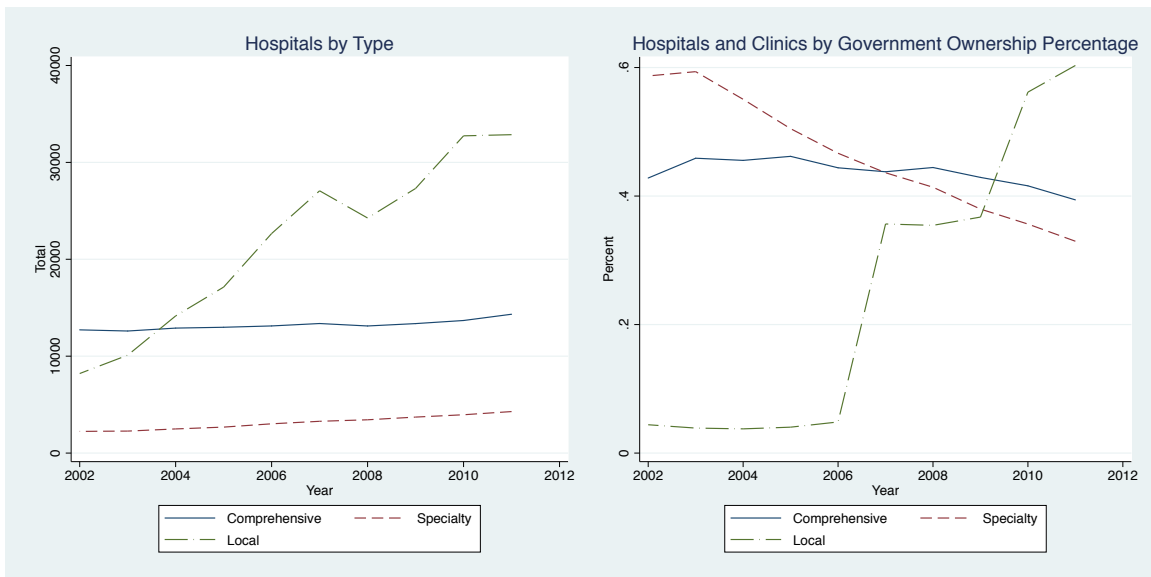
Student to teacher ratios plummeted in both primary and junior secondary schools, two of the priority investment areas for the central government. In senior secondary schools and in universities, the student to teacher ratio remained relatively constant. Overall, for education, access to advanced education was improved during this time period while student to teacher ratio and, presumably, quality was improved for the lower levels of education. However, this finding should be taken as tentative for three reasons; first, there has been some suggestion that despite the programs to increase teacher salaries in rural areas, many of the teaching jobs remain make-work jobs or are ineffective at educating the poorest children.<sup>58</sup> Second, these measures are very basic; additional output data would strengthen the findings presented here if such data were made available. Finally, additional research is needed to confirm whether the decrease in

<sup>58</sup> See Wong, “Rebuilding Government for the 21st Century: Can China Incrementally Reform the Public Sector?,” 948; Lisa Yiu and Jennifer Adams, “Reforming Rural Education in China: Understanding Teacher Expectations for Rural Youth,” *The China Quarterly* 216 (2013): 993–1017.

number of schools indicates that children are attending fewer but better equipped schools. Despite these caveats, the existing data does at the least suggest that education outputs have moved in the expected direction of responsiveness.

Health-care has also seen major changes, and these changes are more visible in the statistics than those in education. During this period, the two main policy goals for the central government were to increase availability of care to rural residents and to implement a comprehensive insurance scheme for all citizens. Data on the first goal largely comes from the establishment of rural clinics and basic township and county-level hospitals. The overall situation of hospitals is shown in Figure 6.4.

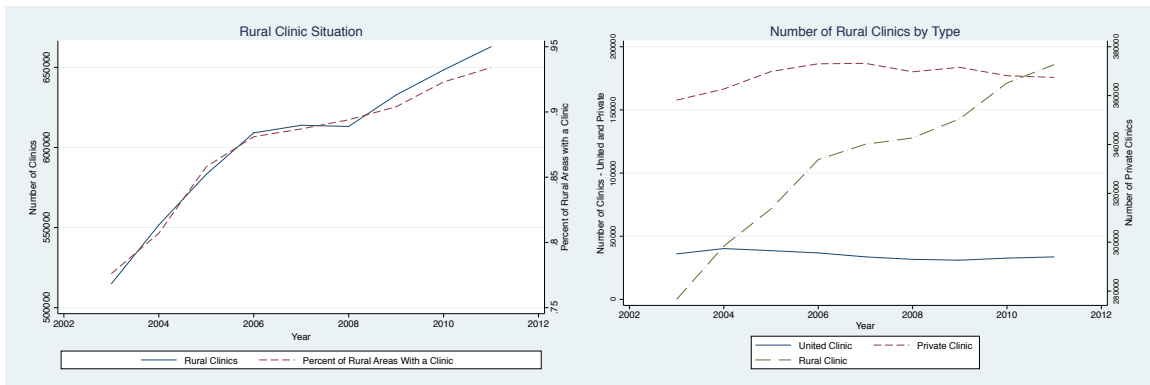
Figure 6.4: Hospital Situation



The number of hospitals has remained relatively flat for large, city-based comprehensive hospitals and similarly located specialist hospitals. However, for more-rural based hospitals, the growth rate has been dramatic, as has been the fact that most of the new locally-based hospitals are government owned, rather than private. This finding indicates that additional government funds flowing to the health care sector have been put

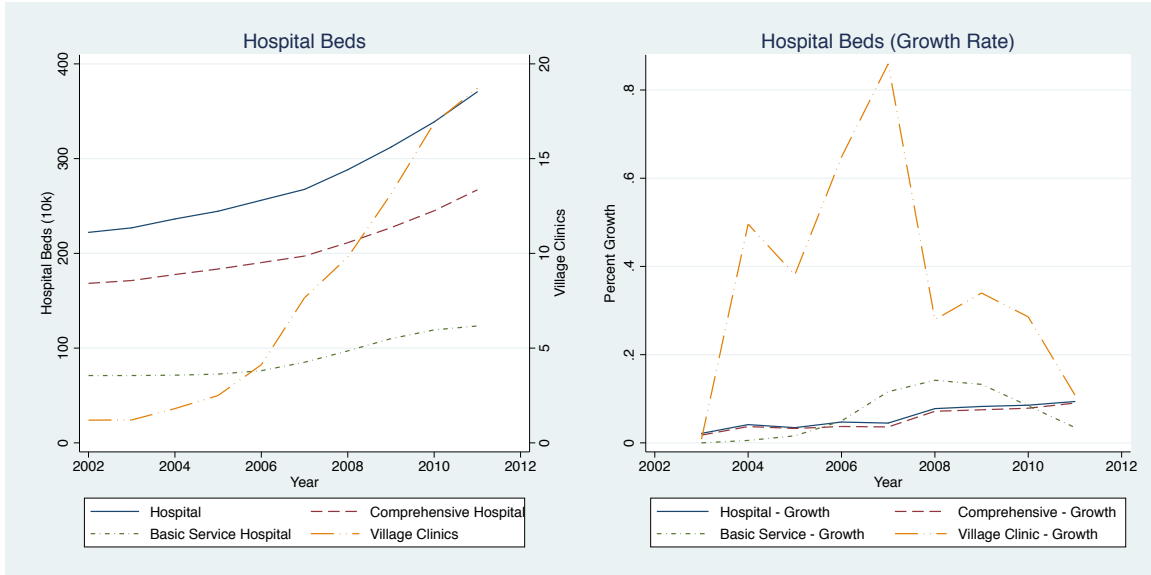
to use building hospitals that are more useful and convenient to the large number of poor and rural residents seeking health care, rather than simply bolstering the numbers of high-quality specialist and urban comprehensive hospitals. Further evidence of this trend can be seen below in Figure 6.5, which reviews the situation of rural clinics.

Figure 6.5: Rural Clinics



The same evidence of a shift toward better health care in poor rural areas is evident in statistics on rural clinics. The total number of rural clinics has grown rapidly over time, from roughly 525,000 in 2003 to more than 650,000 in 2011. The coverage rate in rural areas has also grown rapidly. In 2002, 75% of rural areas had access to some form of a clinic; by 2011 that number had risen to over 95%. The increase in clinics was largely due to an increase in government-run clinics, as the number of private rural clinics remained relatively steady, as did the number of an intermediate form of clinic, known as united clinics. Additional evidence of the substantive increase in services offered by these clinics appears in data on the number of beds available at all types of institutions over time, shown in Figure 6.6 below.

Figure 6.6: Hospital Bed Changes Over Time



The number of hospital beds has increased significantly since 2002, further indicating that the increased public spending on health care has yielded success. Although the number of village clinic beds started at a very low level, the growth rate has been tremendous, reaching nearly 80% (year over year) in 2007. The number of beds experienced the greatest growth rate after 2006, indicating that the additional financing provided by the Harmonious Society program had a major impact at that time. Even among established hospitals, the basic hospitals (often the kind found in rural counties or townships) experienced the highest rates of growth after 2006, suggesting that these institutions were prioritized for funding, as indicated in the previous chapter.

Finally, data presented in the previous chapter suggests that the rural cooperative medical system has reached nearly universal coverage. Government reported enrollment rates have skyrocketed. Li et al. report that, “in 2000, only 15 percent of all Chinese had [government-provided] healthcare insurance; ten years later, that has risen to 95 percent,

with plans for complete coverage by 2020.”<sup>59</sup> Furthermore, according to government statistics, the amount of premium support provided by local governments has been increasing, topping nearly 200 *yuan* a month in many areas, which is ten times the initial level of subsidy proposed.<sup>60</sup> However, because insurance is subsidized at the individual level, a better measure of its implementation is via survey data, which is reviewed in the next section.

Overall, education and health-care data tentatively indicate that the services slated for funding are actually being provided and that the increases in service provision have been greatest in the areas of highest need. However, the simple fact of providing more services does not necessarily indicate that these services are of high quality or value to residents (although it would seem likely that an increase in clinics and hospital beds would have at least some marginal value). The next section investigates to what extent these additional public goods have been meaningful to citizens.

## **V. Usefulness of Public Services and Public Opinion**

Both new public service implementation and public opinion research and data tentatively indicate that the Harmonious Society has been successfully implemented. Existing research has been limited by data availability but generally concludes that the programs have been meaningfully enacted. Data from two new data sources adds confirmation to these scholarly findings.

### Public Service Usage

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<sup>59</sup> Ling Li, Qiulin Chen, and Dillon Powers, “Chinese Healthcare Reform: A Shift toward Social Development,” *Modern China* 38, no. 6 (November 1, 2012): 635.

<sup>60</sup> *Ibid.*

Existing scholarly work has generally found in favor of successful useful provision of pro-poor public goods, albeit with limited datasets or with an overly economic approach. Several scholars have attempted to assess to what extent new public services in China have had an impact on the population in the areas of health and education, but their efforts have been, at best, cursory due to lack of data.<sup>61</sup> Beyond program evaluations, other scholars have focused more on whether general incidence of poverty has been on the decline in China.<sup>62</sup> Overall, they find that poverty has been decreasing, although none are able to make an explicit link between poverty alleviation programs and a decline in poverty rate, at least partly because economic growth is also a major factor in the decline of the number of destitute Chinese. In general, authors have found that the situation of poor and rural residents has improved, and that this is at least in part due to new government program and policies. However, with the data scholars had available, it is difficult to draw anything more than tentative conclusions.

A more appropriate dataset to study policy implementation has recently become available from the China Household Income Project (CHIP).<sup>63</sup> The project surveyed households across China to learn their objective economic circumstances in several waves, with the two most recent being in 2002 and 2007/8. One interesting question from

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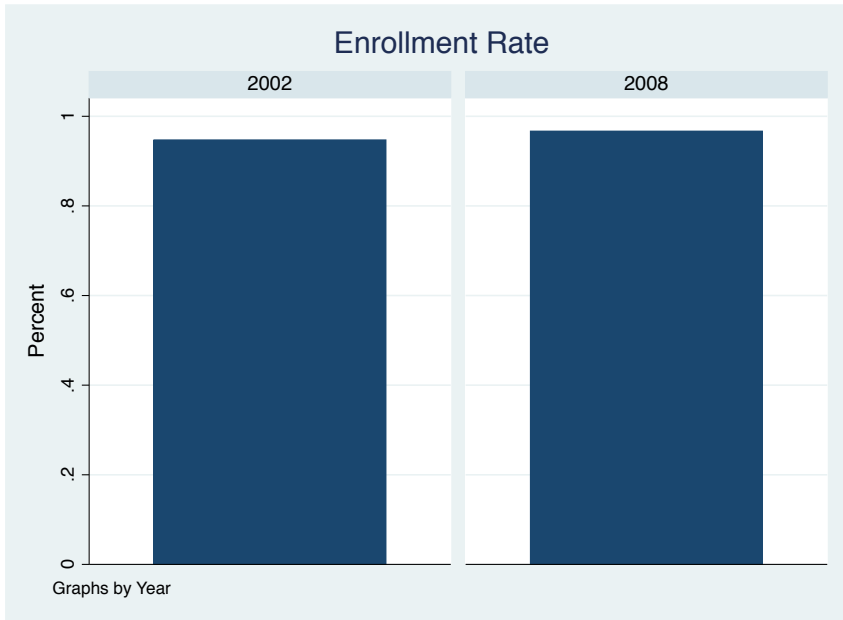
<sup>61</sup> See Hong Liu, Song Gao, and John A. Rizzo, "The Expansion of Public Health Insurance and the Demand for Private Health Insurance in Rural China," *China Economic Review* 22, no. 1 (March 2011): 28–41; Shaoguang Wang, "Learning through Practice and Experimentation: The Financing of Rural Health Care," in *Mao's Invisible Hand: The Political Foundations of Adaptive Governance in China*, ed. Elizabeth Jean Perry and Sebastian Heilmann (Cambridge, MA: Harvard University Asia Center, 2011), 102–37; Jay Pan and Gordon G. Liu, "The Determinants of Chinese Provincial Government Health Expenditures: Evidence from 2002–2006 Data," *Health Economics* 21, no. 7 (July 1, 2012): 757–77.

<sup>62</sup> Some examples of this work include Jose G. Montalvo and Ravallion, Martin, *The Pattern of Growth and Poverty Reduction in China*, Working Paper, Policy Research Working Paper (Washington, DC: World Bank, October 2009); John Knight, "The Economic Causes and Consequences of Social Instability in China," *China Economic Review* 25 (June 2013): 17–26; Martin Ravallion, *How Long Will It Take to Lift One Billion People Out of Poverty?*, Working Paper, Policy Research Working Paper (Washington, DC: World Bank, January 2013).

<sup>63</sup> The project website is located at <http://www.ciidbnu.org/chip/index.asp>

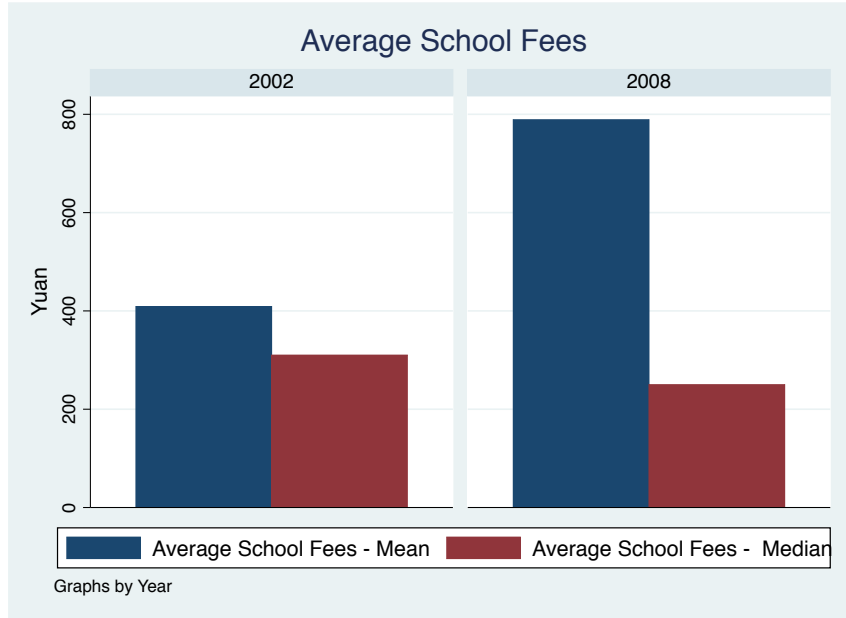
the survey is the percentage of school children aged 6 to 16 enrolled, the results of which are in Figure 6.7.

Figure 6.7: Percent of Children Enrolled



Perhaps not surprisingly, the enrollment rate has shown little change from 2002 to 2008, staying at nearly full enrollment. This statistic indicates, given the lack of funding for local schooling for students aged 10-16 in 2002, that parents were willing to likely go to great lengths to ensure their child remain enrolled despite the punishing financial costs for parents near the poverty line. Revealingly, the modal self-reported reason that, for parents with a child not attending school, they stopped was in 2002 because the school was unaffordable or too far away. In 2008, the modal reason was because the student was unwilling to attend classes. However, better evidence of the effectiveness of the responsive authoritarian reforms comes from reviewing the average amount of school fees paid, as shown in Figure 6.8.

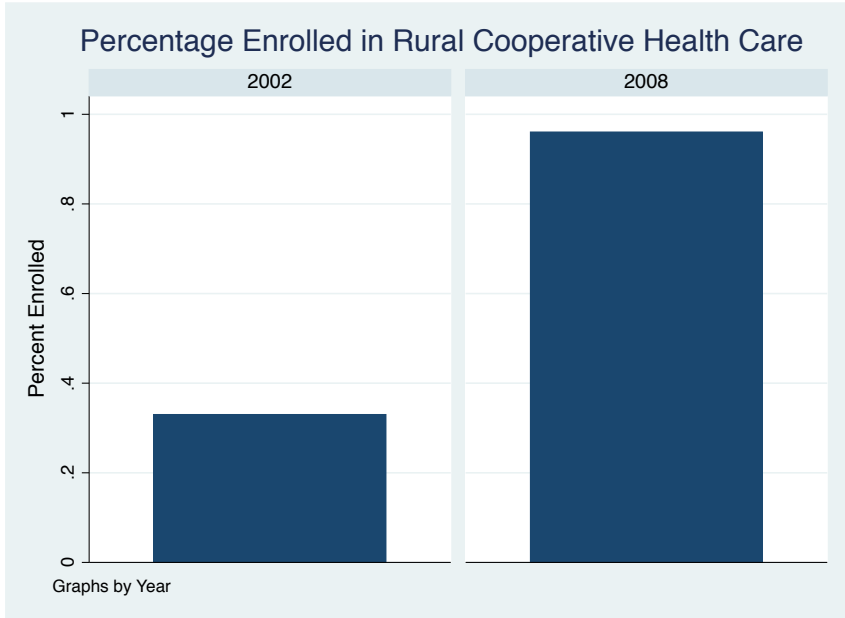
Figure 6.8: Average School Fees



Here the average fees paid, calculated by taking the mean value, has risen about in line with inflation. However, the median fee paid has dropped dramatically. This finding indicates that a few households, likely in urban areas and for private school, are paying a very high amount for their child’s schooling while the majority of residents are paying much less (in real and nominal terms) than they previously did, indicating that the plan to abolish fees can be seen as a success. Unfortunately data is not available regarding quality of education, but the CHIP project team did ask a number of questions regarding medical care. The first question bearing on implementation of the Harmonious Society was the percentage of the population enrolled in the cooperative health insurance system, as shown in Figure 6.9.<sup>64</sup>

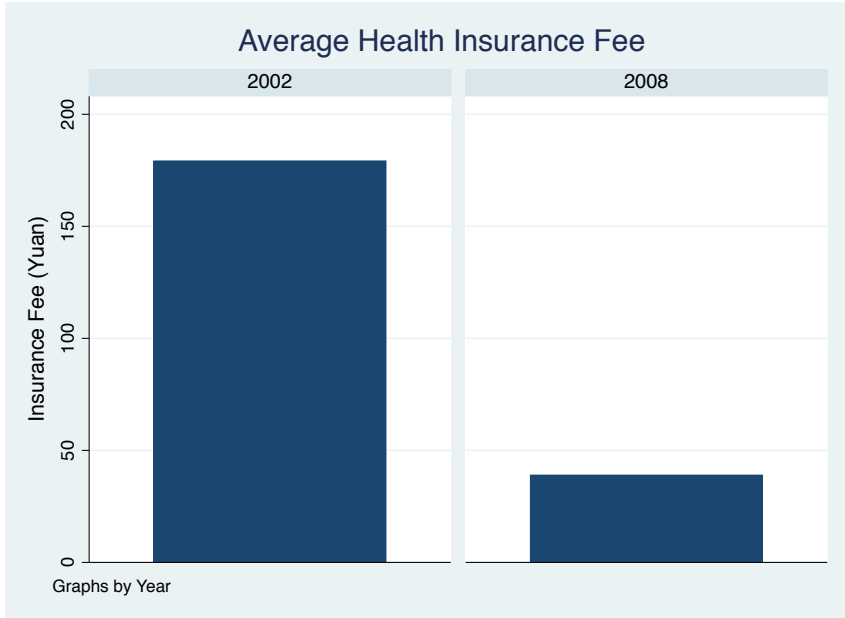
<sup>64</sup> Statistics in this figure and all other figures in this section have been calculated without weighting. Introducing basic weighting, advocated by Li and Sicular for CHIP does not change the results does make time comparisons more difficult. See Shi Li and Terry Sicular, “The Distribution of Household Income in China: Inequality, Poverty and Policies,” *The China Quarterly* 217 (2014): 1–41.

Figure 6.9: Enrollment Rate in the Cooperative Health Insurance System



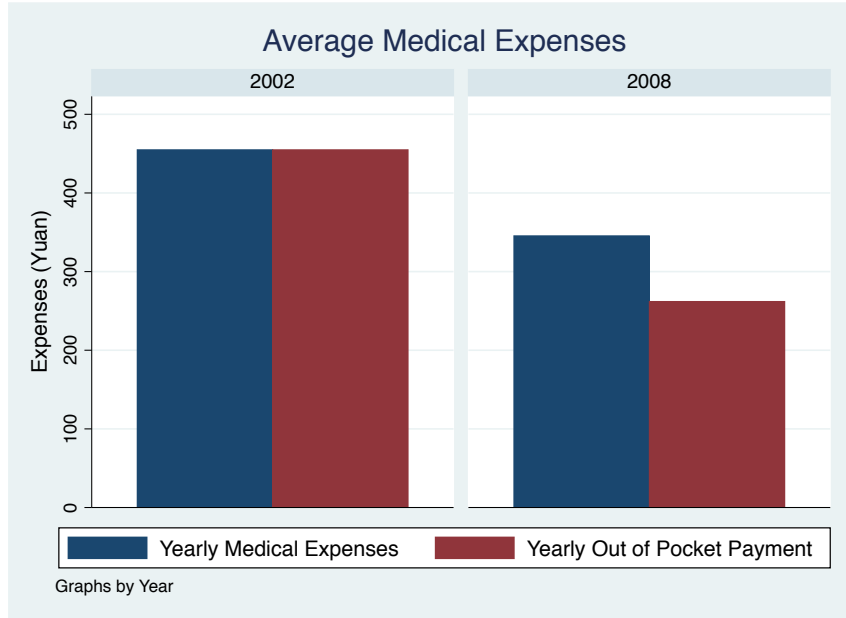
The growth in the enrollment of this program has been dramatic. In a six-year period, it reached almost universal enrollment, a very promising figure for central policymakers hoping to improve rural and poor citizens' health outcomes. However, it is possible that the insurance scheme's benefits are so meager that they do not make much of a difference in the financial burden of health expenses or that premiums are too high to be manageable. The responses to the next two questions, average insurance premium and yearly total expenses, dispel these concerns.

Figure 6.10: Average Insurance Premium Paid



Somewhat surprisingly, the total insurance premiums paid actually declined significantly from 2002 to 2008. In 2008, the *average* insurance premium paid was less than 50 *yuan* (keeping in mind the near universal coverage of the cooperative insurance system), an entirely manageable sum for most. The reason that the average fee declined was because only those with insurance in 2002 were asked what their average fee paid was and many people that had insurance in that year subscribed to private insurance, which had much higher fees. Insurance premiums therefore do not appear to be a significant burden to most citizens, rural or urban.

Figure 6.11: Average Health Care Expenses



As shown in Figure 6.11, yearly medical expenses also appear to have been impacted by the Hu-Wen reforms. Yearly expenses dropped in absolute terms in 2008, and stand at nearly half of the 2002 total when considering reimbursements that limit out of pocket payments. In the reverse of the education fees case, the median (as opposed to arithmetic mean shown above) amount of spending actually went up in 2008, but because the maximum paid by most was lower, the average dropped from 2002 to 2008. In other words, because citizens had insurance, the maximum top-end liability for medical expenses appears to have been successfully capped. Note that the potential of runaway expenses for major illness was a major source of concern for poor rural residents,<sup>65</sup> and this indicates that at least some of this worry has now been resolved with the rollout of near-universal health-insurance.

<sup>65</sup> Winnie Yip and William Hsiao, “China’s Health Care Reform: A Tentative Assessment,” *China Economic Review*, Symposium on Health Economics Issues in China Health Symposium, 20, no. 4 (December 2009): 613–19.

However, it appears that the new insurance system only covers about 1/3 of total out of pocket expenses, which, while an improvement (only 19 out of 9200 respondents in 2002 reported receiving any form of insurance reimbursement!) still indicates work to be done to improve access to health care for the very poorest, as 350 *yuan* is still an unreasonable burden for those below the poverty line. Nonetheless, both education and health-care data drawn from the CHIP database indicate that progress has been made in implementing the Harmonious Society programs. To see whether this successful implementation has altered citizens' perceptions and attitudes about the government's responsiveness, the next section examines public opinion research and data.

### Public Opinion

Broader public opinion in China is difficult to ascertain due to the limitations placed on public opinion polling. Establishing change in public opinion over time is even more difficult, as the few attempts to measure public opinion in published research did not adopt a multi-year approach. Moreover, as Vivienne Shue has pointed out, different levels of the state are very likely held at different levels of public esteem; specifically, the central state appears to be much more popular (for a variety of reasons) than local governments.<sup>66</sup> This complication confounds much survey work, as the simple question "Are you satisfied with the government?" can carry different meanings depending on whether the respondent has local or national-level performance in mind. Nonetheless, despite these limitations, tentative support for the authoritarian responsiveness hypothesis exists among extant survey work, with the Asian Barometer providing additional evidence, to suggest that the responsive policies are both desired and working.

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<sup>66</sup> Vivienne Shue, "Legitimacy Crisis in China?," in *Chinese Politics: State, Society and the Market*, ed. Peter Gries and Stanley Rosen (London: Routledge, 2010), 41–68.

One early attempt to understand public opinion was Shi Tianjin's surveys of Beijing residents in the late 1980s. He reported that residents were generally tolerant of state rule as long as the option of privately articulating concerns by lobbying local *danwei* leaders remained open.<sup>67</sup> Wang Zhengxu found via survey work that citizens were generally happy with the government's economic performance in the 1990s, and he speculated that this attitude should lead to increased government legitimacy. However, his work reflected the weakness of not addressing which level of government the residents were pleased with.<sup>68</sup> Tony Saich found in 2003 that citizens were relatively pleased with central government performance but mostly unhappy with local government, a troubling indicator.<sup>69</sup> Moreover, the main role that they envisioned for the government was to provide basic public goods such as education and health care—exactly the types of services most heavily supported by the Harmonious Society program. Martin Whyte, reviewing a survey conducted in 2004, found that citizens were generally demanding more public services from the government.<sup>70</sup> While most citizens do not desire to see major income redistribution, they do support a stronger role for the government in helping to cushion health and income shocks.

A better source of public opinion is the China component of the Asian Barometer.<sup>71</sup> This survey, based on the Euro Barometer and related surveys, has been run in three waves since 2002, allowing for limited examination of change over time. The

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<sup>67</sup> Tianjian Shi, *Political Participation in Beijing* (Cambridge, MA: Harvard University Press, 1997).

<sup>68</sup> Zhengxu Wang, "Explaining Regime Strength in China," *China: An International Journal* 4, no. 2 (2006): 217–37.

<sup>69</sup> Tony Saich, "Citizens' Perceptions of Governance in Rural and Urban China," *Journal of Chinese Political Science* 12, no. 1 (2007): 1–28.

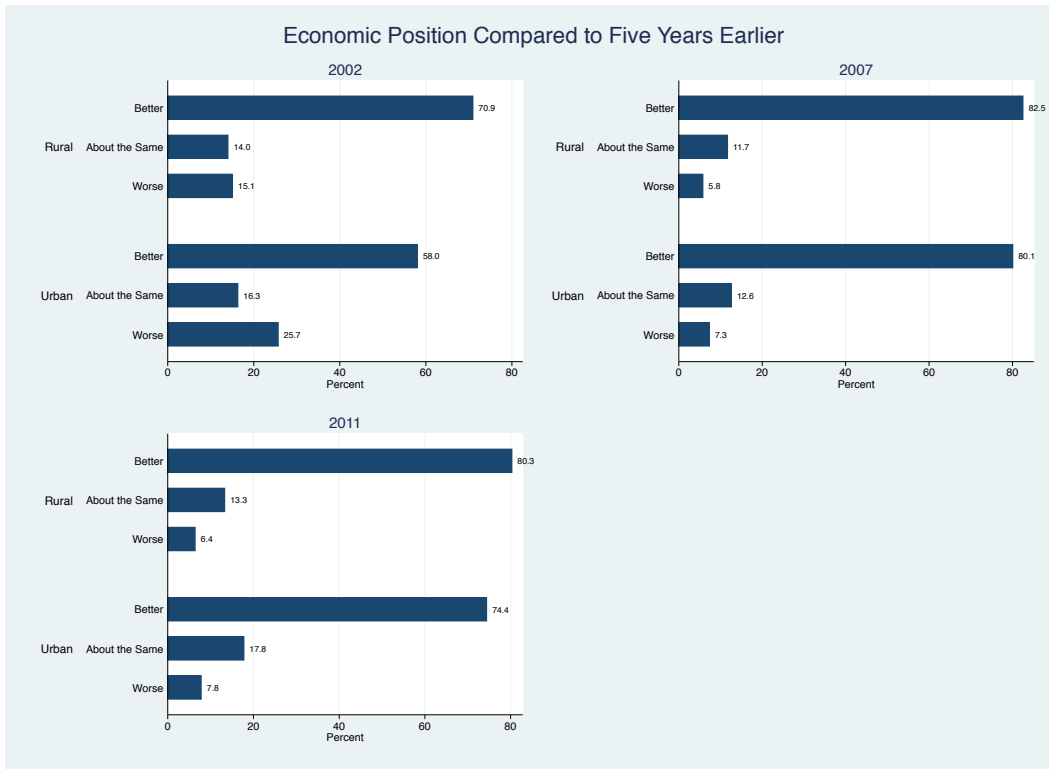
<sup>70</sup> Martin King Whyte, "Do Chinese Citizens Want the Government to Do More to Promote Equality?," in *Chinese Politics: State, Society and the Market*, ed. Peter Gries and Stanley Rosen (London: Routledge, 2010), 129–59.

<sup>71</sup> The Asian Barometer data are available from: <http://www.asianbarometer.org/>

results in the following pages are simply two-way associations and are not the product of a more rigorous regression environment. Nonetheless, they do offer at least a tentative window into popular perceptions and opinions about government legitimacy and pro-responsive policies.

One interesting question asked by the survey is whether residents feel better off now than compared to five years previously. The results of this question, divided by urban or rural status, are shown below in Figure 6.12.

Figure 6.12: Retrospective Economic Comparison



There is a noticeable shift in responses between 2002 and 2007, as more respondents, particularly in urban areas, felt Better or About the Same rather than Worse. While 15-20% of respondents felt worse off in 2002, almost all respondents seemed to be at least doing the same or better in 2007 and 2011 than compared to five years

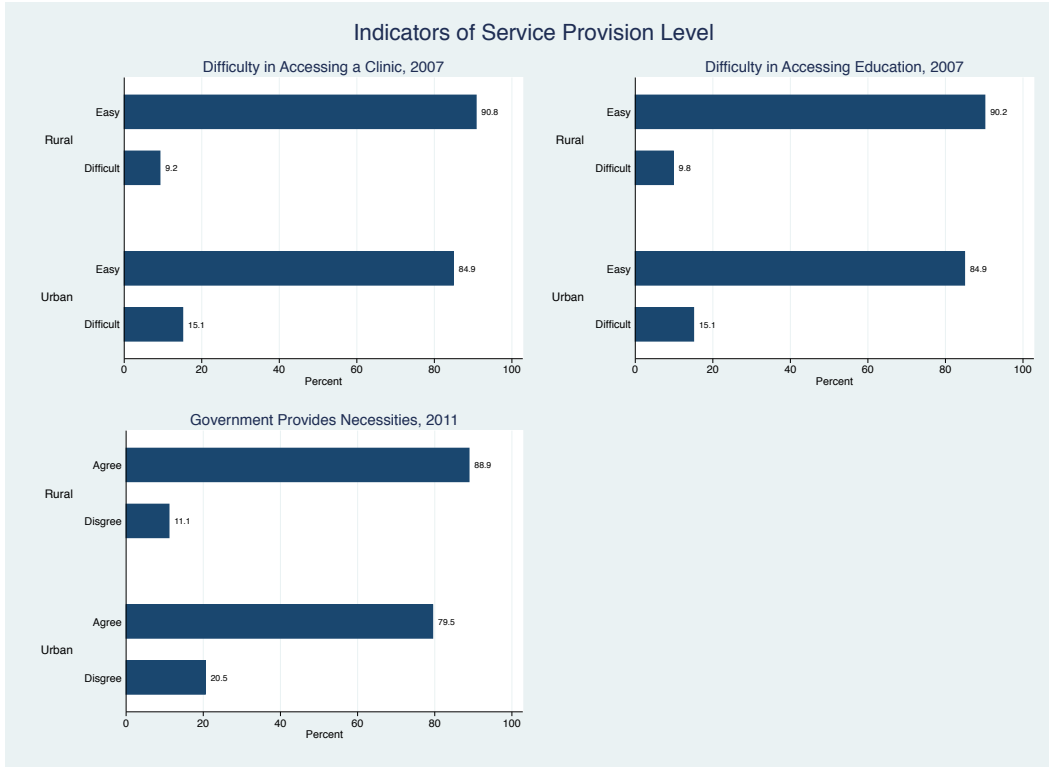
previously. Of course, much of this result may be driven by economic factors. However, GDP growth rate was roughly constant in China from 1995 to 2011. One possibility is that growth was more broadly shared, but this potential explanation is not consistent with the literature on income inequality.<sup>72</sup> Another is that more responsive policies prevented disaster outcomes (i.e. those that would answer “Worse”) for families after 2002. One indicator that can shed light on this is accessibility of public services.

Unfortunately, many of the public service questions were not asked in the first wave, limiting comparability. However, the positive responses in later waves to public service availability and government provision reach questions suggest that these services have been made widely available. The results of these questions are shown below in Figure 6.13.

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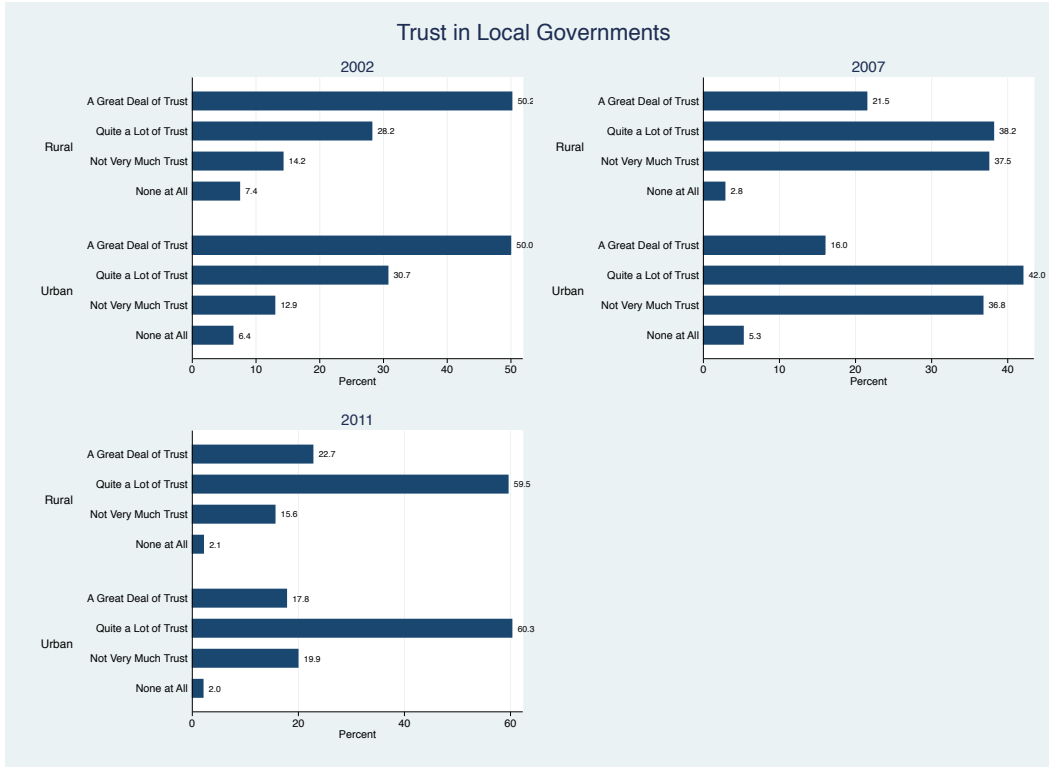
<sup>72</sup> See Li and Sicular, “The Distribution of Household Income in China.”

Figure 6.13: Public Service Provision Questions



By 2007, it appears that education and health clinics had become widely available (the availability percentages stay at roughly the same range in 2011). The more interesting question is whether the government provides necessities of daily life, to which almost 90% of rural residents responded positively in 2011. The positive response by rural residents was even higher than that of urban residents, suggesting perhaps that public services had perhaps even skewed pro-rural by 2011. If this result reflects reality, it would be a remarkable shift compared to the situation in 2002, when most major public goods were directed at urban residents. The results of these two previous graphs no doubt inform the responses to the third question, whether residents trusted local governments.

Figure 6.14: Trust in Local Government



The interesting result from this graph is that trust levels were very high in 2002, declined significantly in 2007, and rebounded somewhat by 2011. Moreover, rural respondents, by 2011, had a slightly greater amount of trust in their local governments than urban residents. It is possible that this result may be an artifact of survey data collection, but the survey designers went to great lengths to ensure representative sampling and the differences are statistically significant so that possibility seems unlikely.

The three graphs from the Asian Barometer offer imply that growth is now, more than previously, generating prosperity without losers. They also indicate that service provision is widely available, and that citizens believe that the government does provide a safety net for them. Finally, the Asian Barometer data suggests that trust in government, an indicator of legitimacy, has rebounded from a low found in 2007. Taken together,

these results support the claim the responsive authoritarian policy cycle was effective at re-earning legitimacy with the people by providing useful public services.

Overall, the data sources to investigate implementation and popular opinion are merely pieces of a puzzle and offer only a limited window into the implementation quality of new government program. However, those areas in which are illuminated by the data all indicate that it has been implemented successfully and has been interpreted as such by the population. However, to extend the metaphor, taken together with other pieces from government service provision statistics and spending data, the eventual picture painted by the puzzle has become much clearer: the Hu-Wen reforms have generally been successful. This result has several implications for the responsive authoritarian hypothesis, importantly including that the responsive cycle has likely been completed.

## **VI. Conclusion**

Evidence from multiple areas and datasets suggests that the Harmonious Society program has seen a relatively successful implementation. This result could not be deduced simply from evidence of increased spending in various categories of responsiveness, such as those described in the previous chapter, since expenditure increases sometimes fail to result in the desired service increases due to corruption, waste, and institutional weaknesses. Given that China suffers from corruption and has a history, during its post-reform era, of institutional weaknesses, effective implementation of a responsive agenda also requires central policymakers to build state capacity in order to improve public goods provision. Tentative evidence in the areas of environmental enforcement and social welfare provisioning indicates that such state-building work has

been underway. However, fuller proof would require examination of detailed implementation data, as effective program implementation would be the clinching sign that the state's efforts to build capacity had been successful.

Evidence from education and health-care outputs, individual surveys, and opinion polls indicates that many of these programs have been successful and have had a positive impact on the everyday lives of citizens. From reducing the possibility that income or health shocks will lead to severe poverty, to improving the quality of public education, to providing convenient and useful local clinics, it is clear that at least a share of the additional funding has been put to productive use. Overall, this evidence indicates that Chinese policymakers have completed the cycle of increased responsiveness. Chinese leaders have not only developed a new policy agenda designed to address the people's needs, but they have also shifted the key elements of the fiscal system to direct funds to the neediest areas. Finally, the evidence presented in this chapter suggests that they have efficiently (for an authoritarian regime) overseen implementation of their policy program. In short, the completion of this cycle in China indicates that a motivated regime can reorient the ship of state to new purposes when legitimacy is low, providing confirmation of the authoritarian responsiveness hypothesis.

## Conclusion

### I. Findings

This work has investigated many different areas of the Chinese fiscal and public goods delivery systems, reaching some novel and important conclusions, all of them generally supportive of the authoritarian responsiveness hypothesis. In the area of fiscal transfers, descriptive data regarding the categories of transfers suggest a significant shift away from tax rebate transfers to general transfers (which happen to be very pro-responsive). The provinces receiving the most and least per-capita transfers have shifted from 2002 to 2008 in a much more pro-poor and pro-rural direction. A regression approach yields several interesting insights, including the fact that the move toward responsiveness did not begin in earnest until 2006.

General spending data reinforce the findings regarding fiscal transfers. Health and education spending as a share of total central and provincial spending has increased significantly since 2002. This finding is even more apparent among the middle-income and poorest provinces, where the needs are greatest. Education spending has increased rapidly since 2006, and most of the funds for additional spending came from government subsidies, not additional fees. The biggest beneficiaries of increased subsidies have been primary and lower secondary schools, highlighting a shift of state subsidies from elite education institutions. Spending on health care has also seen big increases, beginning with the introduction of a new cooperative health insurance system, which has grown progressively more inclusive and generous thanks to increasing state subsidies. Moreover, spending on health services has increased rapidly, but this increase is also paid for by state subsidies. Additionally, as it promised, the state has also dramatically

increased funding for rural community health centers, which not only provide basic care at reduced or free rates but also save poor rural residents the potentially large expense of traveling to a nearby city for routine care.

Data examining the results of this additional funding tentatively confirm that the resources were put to productive use. Enrollment is up at senior secondary schools and universities. Teacher to student ratios are dropping (despite higher salary costs) at lower level schools. The number of rural hospitals and clinics experienced a significant increase in number after 2002. The number of hospital beds has grown well above the rate of population growth since 2002, particularly in rural areas. These changes have also been reflected in household surveys. School fees are generally decreasing. Enrollment in the cooperative medical system has boomed. Popular opinion also expresses more trust in local governments and places confidence in its ability to deliver necessary services.

Overall, these findings all strongly suggest that the Harmonious Society program has largely been implemented as promised. Undoubtedly, many problems remain in Chinese society, and this program and related initiatives are but a small step toward achieving Western levels of public goods provisions. Nonetheless, the policy reorientation in China from a growth-above-all attitude toward one that prioritizes social welfare is dramatic and contributes significantly to our understanding of authoritarian regimes and how they operate.

## **II. Understanding Authoritarian Regimes**

Authoritarian regimes have often been portrayed as static actors; absent any shift in elite composition or obvious democratizing pressures, regime policy is not predicted to shift significantly in any new direction. However, China in the 2000s has had neither of

these developments, and yet it still experienced a major policy change in the direction of becoming more responsive to social needs. This change illuminates several useful points regarding the existing literature:

1. Elite-based literature has a difficult time explaining significant policy changes within autocratic regimes
2. Repression-based literature has failed to examine the carrot due to its focus on the stick; repression is likely only one part of the equation for regime stability
3. Public goods provision levels matter in autocracies
4. Evidence from China suggests that effective provision of public goods in autocracies requires a mechanism of responsiveness

Elite-based theories of authoritarian regimes may have useful explanatory power for short time periods when regimes are close to collapse or when democratization pressures become nearly insurmountable. Or they may be applicable to regimes that, for exogenous reasons, have short time horizons. But their explanations do not seem to hold for the regime in China, which has a relatively long time horizon.

Literature that focuses on the protest-repression relationship likely does explain part of the power dynamic in regimes that have a long time horizon but low legitimacy. However, as a number of regimes now in the dustbin of history have shown, simply having an impressive secret police force is not enough to stave off eventual regime collapse resulting from popular discontent. Once the citizenry has decided to arise en masse, events can and often do spiral out of regime control, ending decades-long dictatorships in the span of a few days. For an authoritarian regime to maintain power, therefore, requires something more meaningful to the population than the threat of arbitrary detention or arrest.

The evidence from this test case in China indicates that the availability and quality of public goods can make a big difference even in autocratic regimes. In the 1990s, when the regime was not paying close attention to the quality of public goods provided, regime legitimacy declined. Once the regime felt that its legitimacy was under threat, it began to improve the financing and provision of social services in an attempt (which, thus far, seems to have been largely successful) to stabilize public support and thereby retain the consent of the governed. This dynamic seems even more important in autocratic states where the population has some level of wealth and an expectation that the government should provide something beyond basic economic growth.<sup>1</sup>

However, to provide these public goods requires some way for the regime to analyze and understand what to provide. In democracies, this linkage is fairly straightforward and has been studied extensively by political scientists. The interaction between interest groups, public opinion, and public policy is one of the most voluminously described subjects in the literature. However, public opinion is more difficult to perceive in autocracies, particularly when the regime is undergoing internal debates between various policy options. Without a robust public forum in which views can be catalyzed and refined, it is difficult to precisely understand citizens' views on public goods provision tradeoffs. A managed, organic civil society may help to fill this gap in autocratic states, as has been the case in China. Social organizations organized around citizens' interests and needs offer nearly the only authentic feedback that autocratic states receive from society, and thus they can be highly valued when such a state seeks to plan a responsive policy program. Other regimes may use alternative

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<sup>1</sup> In some failed or nearly failed autocratic states, public goods provisions may not be expected. However, providing higher-quality public goods can only help to shore up the regime's long-term legitimacy and sustainability, as is the case currently in several states such as Rwanda.

mechanisms, but given the information deficit that autocratic states typically face with regard to public opinion, such an alternative is hard to find.

The case of China therefore provides several interesting lessons about authoritarian regimes. It suggests that theories considering the role of popular consent in authoritarian regimes ought to yield fertile insights.

### **III. Implications and Future Research**

The implications of this work not only can improve theorizing about autocratic regimes but could also potentially inform the work of democracy scholars. First, the work should open up a new chapter in research on autocratic regimes. Scholars studying autocratic states' transitions to democracy have long ago noted an intermediate regime state, alternatively called transitional regimes, mixed democracies, or a variation on these terms.<sup>2</sup> The exact definition of this regime type is not clear, but the basic parameters indicate a regime that, while still lacking a full slate of democratic institutions, permits enough popular sovereignty to influence regime decisions. Many scholars have noted how unstable these regime types can be,<sup>3</sup> and one possible explanation of this instability can be drawn from the authoritarian responsiveness model.

Mixed regimes tend to have relatively unstable institutional arrangements, making their time horizon short. This situation leads to lack of attention to providing high-quality public goods, as regime leaders cannot be assured of receiving credit for providing services since their position may be tenuous at best. Social conflict also interrupts the standard mechanisms of responsiveness, further disrupting government service provision.

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<sup>2</sup> Larry Jay Diamond, "Thinking About Hybrid Regimes," *Journal of Democracy* 13, no. 2 (2002): 21–35.

<sup>3</sup> Adam Przeworski et al., *Democracy and Development: Political Institutions and Well-Being in the World, 1950-1990* (Cambridge, UK: Cambridge University Press, 2000).

Overall, such a regime, already short on legitimacy, is robbed of a key means of building popular support, usually leading to a series of short-term governments. The way forward for such a regime is thus to settle institutional arrangements relatively quickly so that reasonable means of providing public goods can reemerge, locking the regime into a virtuous circle according to which public goods provision increases regime legitimacy, which then extends stability and the regime's time horizon. Of course, many other factors, both case-specific and structural, are involved in the rise and fall of mixed regimes, but this narrative proposes an interesting and novel explanation that could be applicable to many cases and may yield fruitful research results.

Another area in which authoritarian responsiveness may add to scholarly understanding is in explaining regime longevity. A subfield of authoritarian studies has long been interested in why some regimes tend to last longer than others.<sup>4</sup> Many have posited a link between regime income and democratization outcomes,<sup>5</sup> but others have proposed different models of regime length.<sup>6</sup> Many of these models examine inter-elite competition, presuming that this factor is the key variable explaining regime durability.<sup>7</sup> However, as the events of recent democratization movements have made clear, elite-based stories cannot be the sole variable explaining regime survival. At the same time, the specific logics of how regimes manage a transition from a nonresponsive policy regimen to a more responsive one, how they identify a mechanism of responsiveness, and

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<sup>4</sup> Barbara Geddes, "What Do We Know About Democratization After Twenty Years?," *Annual Review of Political Science* 2 (1999): 115–44.

<sup>5</sup> Przeworski et al., *Democracy and Development*.

<sup>6</sup> Jennifer Gandhi and Adam Przeworski, "Authoritarian Institutions and the Survival of Autocrats," *Comparative Political Studies* 40, no. 11 (November 1, 2007): 1279–1301; Dan Slater and Sofia Fenner, "State Power and Staying Power: Infrastructural Mechanisms and Authoritarian Durability," *Journal of International Affairs* 65, no. 1 (Fall 2011): 15–29.

<sup>7</sup> See, for example, Jason Brownlee, *Authoritarianism in an Age of Democratization* (Cambridge: Cambridge University Press, 2007).

at what level of economic growth (or other important milestones) this shift becomes more likely are all open questions calling for further research. Although the test case of China as examined in this work provides some interesting examples that one might use as a starting point in considering these questions, much more work is needed in this area.

Like all theories in social-science research, the authoritarian responsiveness hypothesis remains tentative and subject to revision as more cases are examined or additional evidence is presented. However, China in the 2000s provides very strong evidence in favor of this hypothesis, not only supporting the main causal argument but also indicating that the specific mechanism through which the responsive cycle works, civil society, plays a crucial role. This research strongly suggests that although the role of popular consent has been a foundational concept in democracies, it should not be underestimated in autocracies.

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### *Conclusion*

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