

Government finances and public interests: perspectives on state-building

Jing Zhang

Department of Sociology, Peking University, Beijing, China

ABSTRACT

This article discusses the financial behavior of local governments and its political consequences in China. According to surveys conducted from 2006 to 2011, the author points out a trend: local governments have increasing awareness over the control of their 'financial assets,' they have increasing motives to pursue rewards, play active roles as investors expanding to broader economic realms, and market principles have been fully legitimized among official institutions and organizations within the system. With the strengthening awareness in the ownership and handling of political assets, the financial capacity of local governments—the ability to allocate resources and the ability to return incentives—have increased, but under the influence of historical perceptions and structure of institutional and regional finances, the local government's chain of benefits mainly extends along the official system, or its related economic departments. For the society, this encourages and also exacerbates the imbalance of opportunities to receive benefits, and the potential political consequences are damaging to the reputation of the government representing 'public interests'.

ARTICLE HISTORY

Received 17 September 2015

Accepted 20 December 2015

KEYWORDS

China; government finances; public interests; governance; state-building

Introduction

In state-building research, most people believe that government financial abilities consistently show a mutually supportive relationship with political order. The reason being that the redistributed capacity of a strong government can support actions for the consolidation of political power, and through 'rewards', benefits are distributed to supporters. The opposite situation would therefore trigger a crisis. According to Europe's historical experience, when regimes were weak and even turbulent, it most often stemmed from government financial crises (Norberg, 2008:279);² the transition in the post-Soviet Eastern European countries also shows that financial crises 'limit the quantity and quality of the administration'.³ Furthermore, research has shown that with the rise and fall of the Song, Ming, and Qing dynasties in Chinese history, they 'all follow a basic financial pattern: In the beginning of the dynasty, the national treasury is rich, gradually decreasing over time, and then with increasingly tight finances, unable to

salvage numbers in the red, ultimately leading to dynastic transitions'.⁴ Therefore, Deng Xiaoping's speeches were meaningful during his Southern Tour. A politician who had foresight, he was very concerned with the issue of obtaining support for the government, and in his speeches he especially emphasized that tackling economic issues is the key to political stability. For him, 'development is the absolute principle' is not only an economic issue, but also the political issues related to state-building.

Many years have passed since then. Economically, the reality that has become clear today is that economic development has rapidly grown, the accumulation of wealth has increased, and the financial capacity of the government has increased. But with regards to state-building, has it, as Deng Xiaoping had hoped, consolidated stable governance? This has turned into a question that cannot be easily answered. We have witnessed the increasing financial strength of the state, yet their dissatisfaction with society has also increased. This is demonstrated through the increase in conflicts/petitioning/Internet controversies, and correspondingly, the manpower deployed and expenses spent on preserving stability have also increased. Although it is normal to have social conflicts during transitional periods, we also often notice that many of these conflicts occur at the local level and at the grassroots; individual incidents easily become group incidents; legal conflicts easily turn into conflicts targeted at public institutions. The political meaning behind these characteristics is worth emphasizing: It demonstrates that there is not just an ordinary relationship between financial control and consolidating governance. A challenging question would be: Why is it that the theoretically mutually-constructive relationship between the two has now produced different outcomes?

Professor Andrew Walder once provided an enlightening explanation. He proposed that 'market-oriented reforms . . . very easily damage the rewards structure of administrative agencies, and gradually weaken the foundation of the huge governance system'. In his perspective, the channels through which this damage occurs is that market development provides an alternative source for rewards, therefore, some local cadres start to take advantage of organizational power and influence—becoming business owners or becoming corrupted and accepting bribes to increase their income and to compensate for the special privileges they have lost—and administrative staff who lack such opportunities, therefore, are powerless about the damage to their personal material interests. These two results both entail one of the foundations of the stabilization of political power: the decrease in the system's ability to effectively reward those who are politically loyal, and such an ability once served the function of encouraging administrative functions during a time when consumption was scarce and there were no other sources of alternative income in redistributive economics, the organizational dependence of the structure, was also an important foundation for the consolidation of power.⁵

The basic logic behind this explanation is, market development→the decrease of the function of the original rewards system→damage to the exchange between rewards and loyalty→swaying the political support based on this exchange→harming the consolidation of power. But the problematic issue today is, the 'exchange system of rewards and loyalty' not only still exists, but it is even more powerful than before: the stability of administrative staff's income has increased, people are scrambling for positions in administrative agencies, and government financial

capabilities are strong. Still, why has it produced different effects for the ‘consolidation of power?’

This article examines the financial behavior of local governments from 2006–2011 in attempts to answer the above question. The article elucidates that with the concept and structure of institutional and regional finances, the chain of benefits for local governments has a specific direction of extension, the beneficiaries are limited within the administrative system or related fields, causing the increasing imbalance of the opportunity structure. Those who can benefit from government finances, that is, the departments who share ‘public benefits’, are mostly the institutions within the government and other agencies within the system. The differentiation between the institutional society within the system and public society outside the system, demonstrates that the functional role that the structural environment played described above by Walder has already changed. Under these circumstances, the stronger the government’s ‘rewards and incentives’, the bigger the difference between the obtainment of ‘public benefits’⁶ for those inside and outside the system. This damages the government’s social reputation of ‘representing public interests’, bringing about opposite effects for the stabilization of political order.

The Concept of Government Finance and Implementation Structure

There are three research perspectives on local finances in China. One is an economic perspective: emphasizing the balanced analysis between income and expenditure, cost and output. The second is a management perspective: emphasizing professional assessments, measurements, and other technical aspects and personnel evaluations. The third is a political economy perspective: emphasizing power structure issues—focusing on the centralized and decentralized system of finances, discussing moderate centralization,⁷ decentralization,⁸ or the realization of, or reason for, a federal fiscal structure.⁹ These three perspectives reflect the particular foci of Chinese scholars. There are many differences between these scholars and Western research foci on the ‘public nature’ of finances (covering the public domain, public transparency, public accountability, and public supervision). These differences not only stem from the regime in power and the understanding of government responsibilities, but it also stems from history: the institutional fiscal system of ‘public’ agencies in China.

The characteristics of institutional finances in China are that they are regional, by industry and by department. Therefore, even though they are all public agencies, the financial control has formed a pattern of disparate control in accordance with administrative compartmentalization. For example, for a farmer in Guizhou applying for financial subsidies to establish a school for farmers’ children, if the school dorms were built locally in Guizhou, the chances of him receiving administrative approval are high, and it is even possible to receive the support of state venture capital funds. But if he was working in Beijing, establishing a school in Beijing, an event of the exact same nature, not only would he be unable to receive the support of venture capital funds, it could also become an illegal establishment, and be demolished or banned. Under this compartmentalized institutional fiscal system, this venture fund distribution reaches the Guizhou government, and the funds can only be applied for and used in Guizhou.¹⁰

This is evidently different from the Western sense of ‘public finances’. Under local or institutional finances, government finances enter the funds of local accounts, serving only as resources for local areas, not as public resources surpassing the one local department or institution. In this respect, ‘public’ is not in the general sense of the area being covered or usage rights, but rather a resource controlled and managed by ‘public’ departments; the beneficiaries of public finances are also not public, it is a special privilege for people such as those with local household registries. Since financial implementation goes alongside the administrative system, in terms of the qualifications of the beneficiary, it becomes very important whether they are subordinates of the department within the system. As for this meaning of it being ‘partially public’, the allocation of funds does need not be accountable to the public or society, even if it is legitimately distributed publicly, it definitely does not mean that it needs to face the public. Under these understandings, institutional power is public power, ‘public finances’ most importantly refers to the level and status of public institutions and the rights to using finances, and not to where the money goes.

This is, of course, not a phenomenon that only exists today. If we look at the ‘degree of expenditure principles’ in the historical records of ‘The Six Statutes of the Tang’, we can see from ‘the complete view and characteristics of three main types of expenditures’ that they are for the country, for the military, and for the imperial court (expended by the emperor).¹¹ From the perspective of ‘public budgets’ today, the basic content of these types of expenditures—treatment of officials, expenditures on etiquette and rituals, transportation, administrative fees, relief funds, commodity fees, hydraulics and civic infrastructure construction fees, education, books, historical compilation fees, religion fees, monitoring livestock, night guards, border military fees, the emperor’s personal fees, harem expenditures, crown prince expenditures, princes and princesses fees, etc.—counts as public welfare or ‘public expenditures’, part of it is needed for the functioning of official agencies, or even including the necessities of officials’ familial affairs, but this is regarded entirely as having a ‘public’ quality, following channels for financial allocation. In many places in China, we can still find various types of historical account records today, and their functions cover reporting and authorization, the distribution of resources, and the segmentation of officials’ rights. The reports still need to be responsible for the financial balance of their own institutions, but they do not need to bear the promise of public responsibility or the transparency of tasks. Under this type of segmented system of usage rights, even if it is for the provision of allocations for more public infrastructure, such as the reforms to ‘return meltagage fees to public coffers’—this action was evaluated by historians as the progress of modern state responsibility, but also ultimately ended up being a failure.¹² One of the reasons is that there exists a conflict of interest between unified public finance and segmented institutional usage rights. In this respect, the institutional or local finance we are discussing, although they are held by the ‘public sector’, it is hard to equate it to the stricter sense of ‘public finance’.

This situation is similar to a magnified version of ‘patrimonialism’ (Weber Terminology, 2003). In institutional financial systems, the sharing of ‘family property’ is the basic mechanism behind its sustainability. This ‘sharing’ is partially public, and it is internally public. The partially public nature supports and protects a large number of its members and their benefits within the departments, and an externally public nature

naturally threatens the control over institutional finances, it is damaging to the interests of all internal members. Therefore, public finance problems are different from the ethical principles of the public and private that are of primary focus in the West. In public departments in China, structural problems, which are the relationship between partially public and entirely public, should be the most important emphasis of the fiscal problems in our system.

The Financial Role of the Government

The tax-sharing system reform in 1994 established an income-sharing, expenditure-sharing system among the different levels of the government. Until today, finance researchers still hold this reform in high regard, saying it: not only eliminated local protectionism and fragmented economy, but also raised to a new level the handling of the two major sets of basic economic relationships between government and businesses, and the central and local, which adheres to the sustainable development of market economy.¹³ Worth noting is that, unlike the principles of modern state-building, striving for the separation of the roles of public and market organizations, local governments do not actually find their own economic, or even government-company roles, to be taboo, even more so is that the tax-sharing reform became the condition for the local governments' transition toward taking on economic roles.

The tax-sharing system reforms in 94 redivided local tax sources, implementing the separation of tax submission, shrinking local fund-managing rights, and giving it to higher levels—for example, township finances are managed by the county, the city establishes a unified account center, leading to the increase in the income of higher-level government agencies, and obtaining even more financial autonomy. In the interviews we did with local cadres, we heard much of the same content: complaints about the decrease in the freedom of their funds usage. Civil servants who were interviewed often viewed upper and lower-level administrative relations through the lens of money.

Now, the top makes the policies and the bottom pays for it. The municipal Party committee and the municipal government exert pressure on these tasks. . . . The money is collected locally and goes to the top, but expenditures are top-bottom. Once he is full, he will then be able to give you something.¹⁴

This complaint is a good representation, in that it demonstrates the financial understandings of local civil servants: we collect the money for the top from the bottom, but the top allocates the money. Therefore, for public expenditures, the convention is that if there is money, then it will be done, if there is not enough money, then it will not be done. With the launching of policies from upper-level agencies, such as transferred payments, project support, appraisals, and rewards between upper and lower-level organizations, the formation of 'economic relations' with the obtaining of funds as the goal is quickly accelerated. The personnel who are in contact with local agencies are most concerned with how to obtain funds outside of transferred payments.

'[The state] started asking for the complete amount of land-transferring fees to be collected and handed in to the national treasury starting in 2007, . . . for local finances, if the control is gone, then there is no money, (we) would have to attract businesses and investments'.¹⁵

'Attracting investments' is not only used for the functioning of an agency, it can also be a profitable action. In the words of local civil servants, it is 'first using various methods to find money, and then deciding how to spend it on our own'.¹⁶ Different from personal consumption tendencies, local governments are even more willing to attract projects that can allow the government to enjoy property rights and have long-term benefits. These can be economic benefits—such as, commercial cities (malls) and development areas that can produce a large amount of rental income and also contribute to political achievements—for example, letting upper-level agencies and citizens see projects related to urban regeneration and landscapes.

Attracting investments was mainly directed at social enterprises or external organizations in the past, but it is now unraveling within economic departments in the system, such as the 'financing platform'¹⁷ that has developed rapidly among each level of the government in the past few years.¹⁸ This money mostly comes from institutions with local government backgrounds, and cooperating through the exchange of resources on the financing platform. Their credibility does not come from market achievements, but rather from their relationship with the government. From known sources, so far in China, there are approximately 3000 local government financing platforms, and they are mainly concentrated at the county level. From the information published by each major bank, the sum of total government debt from local financing amounts to 7.1 trillion RMB, taking up about 15% of the level of the loan balance in the Chinese banking system.¹⁹ In regards to this, the media often focuses on aspects related to future banking risks, but we need to pay more attention to the nature of the above mentioned activities, which is the motive and role of government behavior: these government actions are much like the market sectors, with investments and income as the main goal. In our interviews, many local civil servants actually directly referred to upper-level authorities as 'boss', and even higher-level authorities as the 'big boss'. These titles can, at least partially, reflect that the clearly aware economic role of the government has spread widely. To many local officials, the central task of finances is economic development and earning profits, but not the provision of public goods.

The Urban Public Budget

From the comparison of the public expenditure (budget report) of two cities, we can see the focus of expenditure for local finances. According to the local government finances budget reports published on local government websites (Shenzhen [SZ] and Hong Kong [HK]), there are obvious differences as seen below.

Budget report length

For bureaus with the same function (health bureau and health department), the length of the budget report for HK was approximately 8–9 times the length of the one for SZ.

Content of report

For the same category of disease prevention, the budget for SZ only had 3 items: 2007 Budget Amount, 2008 Budget Amount, and 2008 Amount of Increase from

Previous Year. For the HK budget, there were 6 items: financial allocation amount, purpose, abstract, objectives, goals, and issues that require special attention, and there was even a note from the departmental person in charge. It is obvious that the HK government budget was not only a distribution of expenditures, but it was, furthermore, an allocation of duties, because it was mainly explaining the concrete tasks that needed to be taken on for a specific budget item, work goals, where the money is going, and the basis of how the allocation of the amount was calculated.

Direction of budget expenditure

The main direction of the public expenditure for SZ was in the area of infrastructure and urban development, for HK it was medicine, security, social security, environment, education, and other areas of public service. The main focus of SZ public expenditure was economic, most expenditure types were under the category of 'other' (the generic category for items that do not need to be clearly listed), and this part seems to account for 40% of the entire budget (Figure 1, Table 1).

Government Projects

Different from single administrative allocations in the past, local governments now obtain upper-level funds using two methods: the proportional division of taxes and applying to project funding. From local interviews we discovered that in recent years, the speed of government project expansions has been shocking, administrative incentives and economic investments are mostly carried out through various 'project' forms (Table 2). Many projects benefit the people, beautify the city, and make life convenient, but it is hard to distinguish whether they are social public goods or government economic products. Administrative staff at all levels believe that the two are mutually beneficial, and do not need to be differentiated. The following project report reflects their understanding:

Our city has always followed the idea that having a grasp on the market is having a grasp on the economy, cultivating the market is like cultivating the understanding of financial resources, following the policy of 'having water for the fish, having chicken for the eggs', conserving financial sources, and making sure that the market continues to develop prosperously. City finances successively invested in many projects, such as the International Logistics Center, ... every year, 1.5 million dollars are arranged for the special funds for the promotion of tourism, and used toward the 'packaging' of the entire image of the city, promoting and obtaining publicity, and rewarding shopping and tourism, so the overall environment for tourism is constantly improving.²⁰

The goals for the project funding directed toward the poor western regions are also management/development and market cultivation. Many of these places do not even have a chance to change their understandings before the arrival of a large number of projects. Frankly, for local leaders in these areas, when big projects continuously come, their main job is to change the perceptions of cadres, because many people 'do not know how to handle the economy, so there is a need to clear the obstacles in the system, obstacles within the cadre, and obstacles to departmental interests for the incoming projects'.²¹

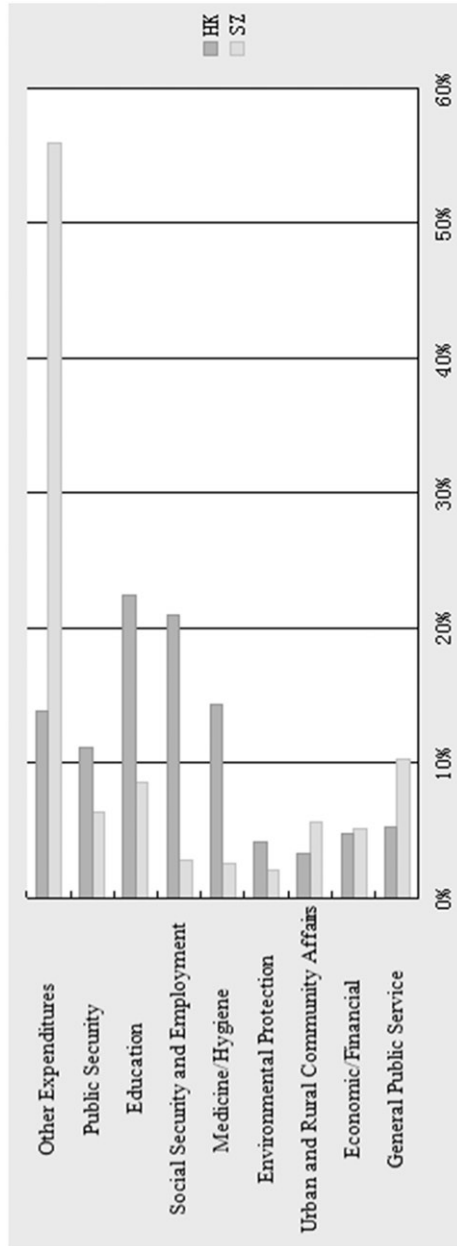


Figure 1 Comparison between Expenditure Projects of the SZ and HK Governments. (Information source: Han Jun Report, 2009)*

Table 1. Comparisons of the budget report of three departments.

SZ Department	Budget page number	HK Department	Budget page number
Health Bureau	2 pages	Health Department	16 pages
Education Bureau	2 pages	Education Bureau	18 pages
Audit Bureau	2 pages	Audit Department	6 pages

Source: Jun, Han. working paper: The Autonomy, Mode of Accountability, and Performance-Concept of Budgets. research report on Government Public Budgeting Behavior. Department of Sociology, Peking University, Beijing, 2009, p. 4.

Table 2. Comparing incentives systems.

	Leadership method	Lower-level motivation	Upper-level role	Lower-level role
Before	Instruction Approval	Obtaining promotions and recognitions	Leadership	Performance of instruction
Currently Increasing	Evaluating results Project rewards	Obtaining funds economic benefits	Monitoring and evaluating distribution of projects	Performance of projects innovative working methods

In the recent two or three years, the central and provincial governments have given us many projects, there are several hundred for just the expansion of domestic demands, with grant funding amounting to several hundred millions. In the past we thought about projects, hoped for projects, now we have so many, but how to implement them well is a new problem.²²

For the cities in the east, the fight for projects has led to a lot of intense competition among government agencies. The goal of the work exchange between upper and lower-level agencies is usually to obtain funding, and the principle of the exchange develops at each level of government organizations:

For example, ‘the state has agricultural projects, with the funding of 10 billion, four players are competing for it, who will it be given to? It is given to the one who runs more, finds more, or has better and deeper relationships. . . . Because of this, the head of the county often hangs out around upper-level agencies all day long’.²³

Even though there is still a lack of detailed information, it should be a correct assessment that the government expands economic development through the distribution of projects, because the big local projects often have the background of government support. In our research, we found that these construction projects: the waterfront development construction project in Zhejiang WL, the industrial park project in Anhui MG, the exhibition hall project in Zhejiang YW, and the drinking water project in Hubei WH, all applied for funding or project subsidies in the name of government projects. In this regard, each government level becomes the actual institution of economic project investment and operation. Some projects seem to be self-financed, but in actuality they have special subsidies given to them after passing government inspection:

Regardless of whether they first get their own loans or are self-financed, take out the money first to get things done. After we inspect it and approve, the money immediately goes into the account.²⁴ To obtain more surpluses of ‘project subsidies’, overreporting the budget is a prevalent strategy:

Our city established a branch of the Wahaha factory, the total environmental protection project budget that they formulated was 5 million, in reality the construction would cost about 800,000 Yuan.²⁵

Contrary to market behavior, government finances are even more lax, this indicates that the standards for the distribution of public finances are even lower:

Reporting budgets to the government and to businesses is very different, the former is more lax than the latter, in most situations, being off by about 15% is not a problem, it depends on what kind of project it is.²⁶

The result is obvious, the institutions that are able to receive government projects will become increasingly ostentatious. This has encouraged the local government behavior of 'tricking in' more funding. Their experience is that projects requiring a large amount of funding need to be successfully approved, so they should be reported with a lower amount. After the project is approved, more funding can be applied for with excuses, for example, as not being able to complete construction. Because the projects are already under way, in order to prevent stopping in the middle, most projects will receive further authorization from upper-level authorities.

They do not care how much money the project needs or how to formulate more reasonable budgets, they only care about the completeness of the authorization procedures, being accountable to (upper-level) people, and not having anything go wrong.²⁷

Allowing the government to deal with the economy has become the main phenomenon in rapidly-developing areas, especially in the Southeast region. One municipal-level management personnel in the eastern region mentioned that when he was participating in cadre training in Beijing, he discovered that there was 'a difference of more than 20 years' in the work content of cadres in the western region and his. Many of the things done in the eastern region, the western cadres would say that they 'do not even dare to think about'. This difference in the roles indicates that the originally similar nature of the work among government agencies has become dissimilar with the emergence of a series of new roles.

The Concentration of Non-Tax Revenues

The government economic behavior mentioned above could also be observed through local 'fiscal reforms'. Soon after implementing the tax-sharing system, the Zhejiang YIW Municipal government boldly started the 'government nontax revenue' reform.²⁸ Aimed at the phenomenon of subordinate agencies collecting fees or profiting for themselves, the municipal finance bureau issued orders that all the income of departments at each level would be incorporated into unified municipal finances.²⁹ In 1998 and 2003, the city was led twice by a discipline and inspection department, clearing out 2843 accounts in 339 administrative institutions, taking back all subordinate accounts related to administrative income or penalties, implementing a new 'financial evaluation and approval system' for accounts. In 2005, cooperating with the municipal people's bank, the finance bureau again cleared out all the bank accounts of the budgeting institutions in the city, reevaluating and approving 888 accounts to be established, decreasing individual accounts of local institutions by two-thirds.

This reform eliminated a large amount of local accounts that receive income, establishing a unified 'nontax revenue collection system', implementing a network of monitored and controlled tax collection: the entire city with 200 or so collection enforcement units, 26 penalty enforcement units, 23 bank collection locations that are

connected real-time to the municipal department of finance, implementing the management method of 'the separation of collection and payment, penalty and payment, bank-substituted collection, and unified financial management'. Each type of fee collection, penalty collection, and other nontax revenues has the entire amount incorporated into the specialized municipal finance account; the entire income of the government is collected into a 'cage'. One institution preserves only one expenditure account, the account can only accept funding allocations from the municipal finance department, all income other than budgets no longer enter an institution's account, but it is unified into an account managed by the municipal finance department.³⁰

Of course, a big obstacle is encountered here, because the funds coming in and out of subordinate units are all monitored by municipal bureaus.

Question: What if local institutions refuse to hand over their accounts?

Answer: Then they will lose their government organization status. Would you want to give up the power you have, your staff, administrative allocations, and welfare, to become a social organization? That would be a lot to lose.³¹

This means that the administrative fee collection rights of each institution has been reevaluated and reauthorized, allowing the administrative fee collection project to represent superior agencies, collecting upwards to upper-level agencies, and no longer being controlled by subordinate units themselves. The municipal finance department believes that such an action breaks the links between 'power' and 'interests', completely transforming the traditional understanding of 'the ownership of extra-budgetary funds'. The extra budgetary funds fully implement the two paths of revenue and expenditure, returning the redistribution function of national income to finance departments.³²

These revenues used to be invisible, but controlled by local departments. The method of the reauthorization of fee collection rights has allowed departmental fee collections to become centralized in regional governments, and a large amount of funds, therefore, entered municipal governments: In 2000, the available financial resources of the consolidated budget of this particular city amounts to 2.36 billion, in 2006 it reached 9.24 billion, 3.5 times the amount in 2000, with an average annual growth of 41.6%.³³ In another county-level city in Zhejiang, in 2007, the nontax revenues amounted to 879,068 Yuan, with a real growth of 269.6% compared to the year before.³⁴ Therefore, it is not baseless that the society generally believes that the government is rich. In the hands of the local government, this money is mostly used for consumption funds, but in the hands of the municipal government, this money can be transformed into capital.

The Inventory of Government Assets

In another city, an accounting system reform was occurring. In 2008, the Zhejiang JX municipal government discovered existing problems with the continual monitoring and preservation of government assets: The accounting habits of each section was split and disconnected, mixing up the differences between capital expenditures and administrative expenditures, unable to reflect the complete picture of the resources that the

government owns and controls. They believed that the vulnerability of this accounting system was due to it not being beneficial for the implementation of monitoring and ownership rights for accumulated earnings obtained by government investments, and, therefore, a reform was needed.

Before, financial budgets and accounts could not provide information regarding government assets; they are only reflected as general financial expenditures of that period. Once they are expended, it leaves the radar and control of the government, and this is not beneficial for the continual monitoring and preservation of government assets.³⁵

The finance department in this city suggested the establishment of the 'full budget management model,' horizontally covering all government resources, vertically expanding to the payment transaction process of local institutions. The main trait of this model is that it requires a comprehensive, systematic, and complete reflection of how governments use their obtained economic resources, especially in continuous activities and cumulative results with the government itself as the main subject.

The role of national assets in the national economy in China should not be neglected, whether it is in absolute terms or relative amounts, but yet it is not reflected in overall financial budget accounting. This indicates that the financial funds used to purchase government assets, once expended, leaves the accounting calculations and monitoring of the government.³⁶

Because of this, the direction of the reforms in the city of JX include making an inventory of government assets, establishing a public budget accounting system, incorporating 'income obtained from sources, such as acquisition, taxation, or service fee collections', . . . into the government public budget accounting calculations. The main focus is the source, usage, and balance of annual financial resources.³⁷ Interestingly, on the one hand, this reform claims that government activities are different from business activities, government goals are not to profit, and not market exchange; on the other hand, it also points out that government 'achievements' should be reflected through the 'economic, beneficial, and effective' nature of their activities.³⁸ The municipal government clearly realizes that as investors they need to connect the two accounts—the budget of asset revenues and the administrative budget of investments—controlling the wealth they own, in order to have greater abilities to redistribute the proportion of economic gains in government investment departments and industry operation departments.

Administrative Evaluations and Rewards

Contrary to the society's impression of government jobs—a cup of tea, reading a newspaper, playing mahjong, playing games—an impression of leisure, today, at the municipal level, local government departments have become surprisingly busy. What are they busy doing? Busy reaching work goals, which is, completing the demands of an evaluation index system. Many regional governments have established a new agency: A comprehensive evaluation committee to 'promote administrative evaluations in the direction of institutionalization, standardization, and professionalization'. The evaluation office in Zhejiang HZH city was established in 2006, with 5 agencies: a secretariat, goal management office, evaluation work committee, county work office, and performance

evaluation centers.³⁹ The contents of administrative evaluations are complicated, but two basic evaluation goals were formulated: developmental goals and work goals. The former includes economic development, social management, and development potential—three categories with 34 indicators—the latter includes the competition and rectification of major annual work goals.

Administrative evaluations heavily emphasize the reactions of upper-level authorities but not public reactions: Units that are evaluated must provide evidence of the reactions of upper-level authorities, such as awards, recognitions, media affirmation, etc.; materials of evidence must come from an official unit that is of an administrative level, the higher the level, the better the score. For example, documented affirmation from national ministries or evidence of broadcast from central media; documented affirmation from departments and bureaus of national ministries or evidence of broadcast from state trade media; documented affirmation from subordinates of national ministries that are the equivalents of department and bureau-level institutions (not including institutes, associations), or promotions from central-level media related Internet websites (not including reposting online), etc. Central media refer to the *People's Daily*, Xinhua News Agency, CCTV, China National Radio, *Guangming Daily Newspaper*, *PLA Daily*, and *Qiushi* magazine.⁴⁰ The members of the evaluation committee include more than 60% of upper-level or departmental heads, 20% academic professionals, 20% other evaluation office leaders from other provinces or cities. These demands have encouraged the cooperation among government units and the media along with government units and academic professionals.

Administrative evaluations categorize work results into concrete standards, and evaluations are held annually, with the results influencing the performance bonuses of the institution, and the order of their project applications. There is no information for us to estimate the overall scale of performance bonuses in administrative departments, but according to the annual rewards chart we obtained from one county-level bureau of industry and economics in the area, it clearly shows that in the 2009 fiscal year alone, this bureau received 13.3 million Yuan from upper-level agencies.⁴¹ We can see that the economic rewards following work evaluations are very impressive.

Conclusions and Discussion

From the perspective of 'state-building', what is the meaning of the above governmental financial behavior? First, it highlights the economic role of local governments, the expansion of their activities, the strengthening of financial allocation abilities, the complete establishment of action logics centered around economic principles: they gradually placed more emphasis on the control of government assets and revenue calculations; they expanded opportunities for fund-raising, management, and profiting, viewing investments, incentives, exchange, control of assets, and benefits as the government's own work; the goals of their actions are mainly economic, demonstrating the corporatization of local departments, their roles becoming a combination of being fund-raisers, property owners, commissioners, operators, and beneficiaries, and that redistributive power is itself also market power.

Second, the increase in the ability of local governments to allocate resources has led to the strengthening of their rewards and incentives system, with more centralized

methods. We can see that in a series of fiscal reforms, upper- and lower-level government relationships have been reorganized: upper-level agencies supervise through the exchange of funds, promoting economic incentives, evaluating work according to the desires of upper-level authorities, giving funding to lower-level agencies in exchange for choosing tasks in line with upper-level goals. A very different phenomenon in the government's incentive system has emerged.

Third, the changes in the power structure within the administration: Vertically we can see that administrative monitoring has strengthened, and the focus has shifted to the city-level. Municipal finances have become a more aggressive leading unit, and as for the organizations below the county-level, their activities have decreased, and they are more dependent on projects. Horizontally, we can see that the division of labor has gradually become obvious: Party departments are carrying out supervision and accountability, and government departments are carrying out economic development. The party departments manage personnel and financial decisions and supervision, but these activities are usually not in the economic realm. The relationship between the party and the government is like the relationship between the board and manager in an enterprise, but the power in party and government departments is even more explicitly divided. This structure provides a protective mechanism for the redistributed power to be directly involved in economic activities, allowing economic activities to face fewer risks that threaten party departments.

Fourth, local governments have directly entered the market, or entered the market through the subordinate organizations they established, resulting in the promotion of the connections of interests between the government, financial sector, and state-owned enterprises, forming a reciprocal relationship, promoting the organization of the market within the system, and realizing what we often call the 'powerful combination'. What a state-owned enterprise chairman called 'the market-oriented operation of government resources', is indeed the way to describe it.⁴²

From a macro perspective, this phenomenon promoted the formation of a type of structural trend: the economic realm inside and outside of the system is further differentiated, and the gap in the level of market organization in the two areas has gradually widened. The meaning of this change is that the most important unit of competition has changed: the main competition in the market is not only unraveled among single institutions with property rights, more importantly, it is unraveling between the two organized systems inside and outside the structure.

In addition, government finances have prominent regional and departmental traits, the usage and distribution of finances is dependent on historical structure: only through specific administrative projects can this be implemented. This means that the exchange of resources occurs through various organized channels within the system, resulting in the tilting of opportunities, the market, funding, and policies toward departments inside the system, greatly increasing the business cooperation and opportunities benefiting 'their own'. These opportunities are not only hard to share with departments or people outside the system, the competition among them have also become increasingly fierce. It is precisely because of the structural position and mutually beneficial connections that departments within the system have that allow them to have access to and use public resources, therefore becoming the beneficiaries of government finances.

The two newest examples illustrate this point.

Example 1: The leader of Santai County of Mianyang City in Sichuan instructed that the 90 million Yuan in postdisaster reconstruction funds distributed downwards from the government should be distributed to the county-government owned enterprise, Hongda Company, increasing the registered capital. The company then distributed 80 million Yuan downwards to their subordinate real estate development enterprise. This action allowed the company to make a profit of over 100 million Yuan in the year 2010.⁴³

Example 2: In the 19 listed road and bridge companies, 'Huajian' Company holds shares or is a stockholder of 12 of those companies. Whether it is in terms of scale or output value, Huajian Company was the strongest of all the listed roads and bridges companies in the country. The person in charge revealed that this was because of 'historical reasons': before, the company used to be the Huajian Transportation and Economic Development Center, authorized by the Transportation Ministry in 1993 to become a registered state-owned enterprise. In 1999, the Huajian Center was placed under the China Merchant Group Limited, no longer under the affiliation of their original leader, the Transportation Ministry, and officially changing its name on June 21, 2011. The chairman of Huajian Company has held the positions of deputy director and director of the Transportation Ministry of China, and deputy director and director of the comprehensive planning department within the ministry. The general manager of Huajian Company has held a position in the general office in the Transportation Ministry of China, and currently serves as the chair of the board for the Huabei Highway. In addition, as we all know, the profits from highway toll stations are among the highest in all industries. In addition, in the above 19 listed road and bridge companies, 17 of the chairmen used to hold positions in transportation departments at the local government level or in public security and transportation departments.⁴⁴

However, many professionals outside the system do not have such opportunities. They are dependent on 'outside market finances', and cannot have access to public resources through 'nonofficial channels'.⁴⁵ This demonstrates why in recent years, a large number of business people have hoped to swarm into 'public' institutions. This is because obtaining an established identity is the only way to have access to and use government finances and other 'public resources'.⁴⁶

From a sociological perspective, these facts reveal that this is not a simple issue of individual opportunities, but instead it is an organized differentiated opportunity structure phenomenon. On the one hand, public resources and benefits have tilted toward some people and organizations because they are historically linked to public power, or because they themselves are converted into economic organizations by public power; on the other hand, the differentiated structure limited the competitive energy of market participants outside the system, and these structural circumstances cannot be changed through eliminating corrupted individuals. The statistics in Figure 2 reflect the perceptions of citizens on 'opportunities to benefit'.

The key is not the amount of benefits, but the method. According to Buchanan's definition, goods and services provided through the market system are private goods, and those provided through the political system are public goods.^{47,48} The central task of modern state-building is to establish a channel for the fair access to public resources, and to establish a government organization that provides public goods and services.

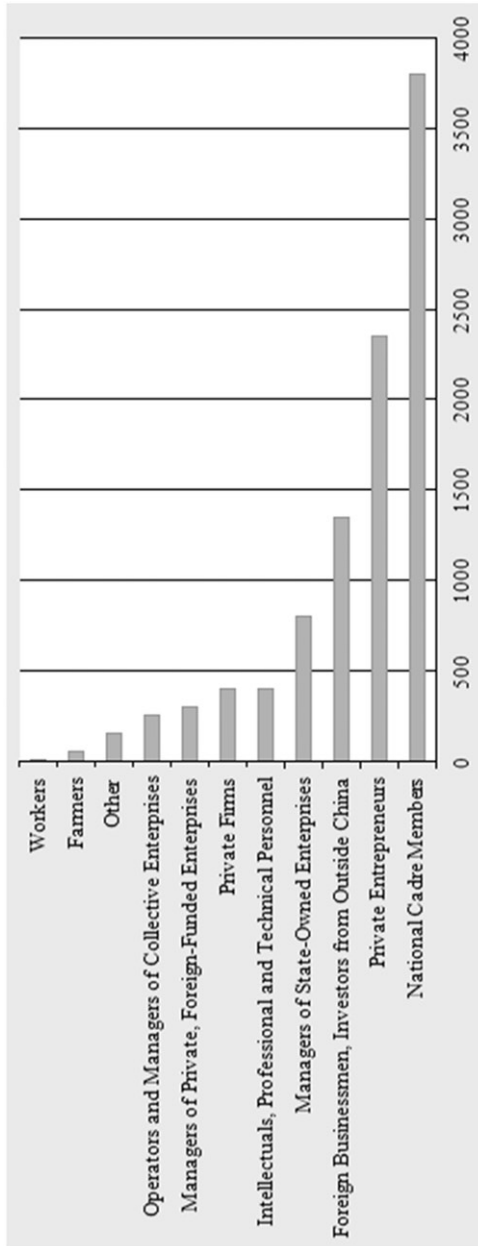


Figure 2. Survey results. Comparatively, in the recent 10 years, which type of people listed below has received the most benefits? Number of Interviewees: 10,151; Multiple choice questions with single answers. Source: Made using the CGSS 2006 Household Survey Data, Renmin University.

But if the effects and results of government finances are that some groups obtain ‘public goods and services’ through allocation, other groups obtaining ‘public goods and services’ through ‘purchasing (paying fees or collecting bribes)’, this would certainly be harmful to the reputation and credibility of the government as a ‘public organization’. This here poses a serious challenge to the Chinese political order.

Disclosure statement

The author reports no conflicts of interest. The author alone is responsible for the content and writing of this article.

About the author

Jing Zhang received her PhD from Chinese University of Hong Kong. She is a professor in sociology at Peking University, and a visiting scholar at Harvard University (2003–2004), National University of Australia (1999–2000), and National Academy of France (1997). Her main areas of research interest include political sociology, social transition, corporatism, governance, state-building. She has published numerous books and dozens of articles in both English and Chinese in above areas.

Notes

1. This article received the support of the major foundational projects of the Department of Sociology at Peking University (*Transition: Social Conflict and Integration*, 2010). The data in this article include: approximately 80 interviews with civil servants from 2007–2009 in villages, countries, and cities in Hebei, Anhui, Zhejiang, Hubei, Sichuan, Shandong, Jiangxi, Guangdong, and other areas; literature researching city fiscal reforms; Renmin University of China’s 2006 CGSS resident survey database. Members participating in the interviews or data collection include: Zhang Jing, Zhao Wei, Wu Yuxin, Wu Qi, Fu Yongjiang, Yang Kun, Feng Chun, Ji Yingying, and Kuang Guangrong. I would like to express gratitude to them.
2. See Philip T. Hoffman and Kathryn Norberg, editors, *Fiscal Crises, Liberty and Representative Government, 1450–1789*. Chu Jiangguo translated, Truth and Wisdom Press, Shanghai: Renmin Publishing House, 2008.
3. Ole Norgaard. *Economic Institutions and Democratic Reform: A Comparative Analysis of Post-Communist Countries*. Sun Youjin translated. Shanghai: Shiji Publishing House, 2007.
4. Chen Zhiwu. *The Logics of Finance*. China International Culture Press, 2009.
5. Andrew Walder. ‘Career Mobility and the Communist Political Order.’ In: Bian Yanjie (ed) *Market Transition and Social Stratification*. Beijing: Sanlian, 2002, 145–180.
6. These ‘public benefits’ include being close to government financial channels, business opportunities, opportunities to receive support and loans, engage in public service investment opportunities, enjoy opportunities to use public services, etc.
7. Interview with Wang Shaoguang, Searching for equilibrium between fiscal decentralization and centralization, www.21cbh.com/HTML/2007-6-11/HTML_KHWEAMXEGSHP_2.html
8. China Finance Society ed, *Exploring Central and Local Fiscal Reforms*, Beijing: Economic Science Press, 1999; Zhou Feizhou, Centralization and Decentralization: Looking at Local Relations from a Fiscal Perspective—A Review of Huang Peihua et al. ed. China: State Development and Local Finances, www.aisixiang.com/data/32984.html
9. Qian Yingyi: Local Decentralization and Financial Incentives: The Chinese Model of a Federal Fiscal System, <http://hi.baidu.com/xianshb/blog/item/b8bab422a68d2dfad6cae211.html>
10. 2011 Beijing, HD Interview Zhang—1.

11. Li Jinxiu. *Tang Dynasty Financial History Manuscripts*, Vol 1, Book 3. Peking: Peking University Press, 2005.
12. Zeng Xiaoping. *The Silver of Magistrates—18th Century China's Rationalized Fiscal Reform*. Beijing: China Renmin University Press, 2005.
13. 'Outlook' Journalist interviews Jia Kang, Feb 12, 2011. Accessed 14 October, 2015. <http://finance.sina.com.cn/leadership/mroll/20110212/16379365968.shtml>
14. 2007 Hebei SHJZ Interview—Zhao 2.
15. 2008 Anhui MG Interview—J1.
16. 2008 Sichuan CHD Interview—Zhang 9.
17. During the most recent brutal financial crisis, to prevent the decline in real economy, the Chinese government started using the method of largely encouraging investments to compensate for the decline in exports. Local financing platforms came into being. Local governments took government investment projects in the area of infrastructure and business and industry consolidation, and established a government company that is bigger in scale, and involved in businesses and industries, responsible for the operation of capital in the building of infrastructure. This is the concept of a financing platform. Because local governments received financial income through these projects, the financing platform treats financial income produced in the future as mortgage, using this to obtain bank loans to develop projects. See Liu Ligang, 'The Hidden Worries of Local Debt.' *UK Financial Times Chinese* website, May 3, 2011. Accessed 14 October, 2015. <http://www.ftchinese.com/story/001038369?page=1>
18. The China Banking Regulatory Commission announced, in a policy release, that for all Chinese banks, only the main branch has the authority to authorize loans directed at local government financing platforms. *Wall Street Journal*, April 15, 2011. Accessed 14 October, 2015. <http://cn.wsj.com/gb/20110413/bch170757.asp?source=article>
19. Liu Ligang, 'The Hidden Worries of Local Debt.' *UK Financial Times Chinese* website, May 3, 2011. Accessed 14 October, 2015. <http://www.ftchinese.com/story/001038369?page=1>
20. Zhejiang YIW Finance and Taxation Bureau: 30 Years of Financial Taxation Reform and Outlook, Dec 2007, p. 2.
21. 2010 Sichuan BZH Leader speech, printout, 205.
22. 2010 Sichuan BZH Leader speech, printout, 202–203.
23. 2007 Hebei SHJ Interview Zhao—2.
24. Ibid.
25. 2008 Hubei WH Interview Feng—1.
26. 2008 Beijing Interview—Zhang 2.
27. 2007 Sichuan CHD Interview—Zhang 2.
28. Zhejiang YIW Finance and Taxation Bureau: '30 Years of financial taxation reform and outlook,' Dec 2007a, 7.
29. Zhejiang YIW Finance and Taxation Bureau: 'Innovating financial management mechanisms, improving the public finance system,' 2007b, 1.
30. Zhejiang YIW Finance and Taxation Bureau: 'Innovating financial management mechanisms, improving the public finance system,' 2007b.
31. Zhejiang YIW Conversation, 2008, Zhang1—4.
32. Zhejiang YIW Finance and Taxation Bureau: 'Innovating financial management mechanisms, improving the public finance system,' 2007b.
33. Ibid.
34. Zhejiang JX Finance and Taxation Bureau: 2008 City Level Comprehensive Financial Budget Situation, 2008.
35. Zhejiang JAX Finance Bureau Project Group: 'Full Budget Management Model,' 2008, 4.
36. Zhejiang JAX Finance Bureau Project Group: 'Full Budget Management Model,' 2008, 3.
37. Ibid, 10.
38. Ibid, 6.
39. Zhejiang HZH Comprehensive Evaluation Committee Office material, p. 15, Local government website: <http://kpb.hz.gov.cn>

40. Ibid, 9.
41. Zhejiang WL Finance Bureau, Regarding the Report for the Special Topic Meeting by Representatives on the Implementation of Departmental Budgets, Fourth Session of the 14th National People's Congress, April 1, 2010, 5.
42. April 7, 2011. Sina Financial Section, Interview with Capital Group General Manager Liu Xiaoguang, 'Finding the Market under the Leadership of the Mayor,' p. 2. Accessed 14 October, 2015. http://finance.sina.com.cn/g/20110407/22019653704_2.shtml
43. May 28, 2011, CCTV 'Focus Interview.' Accessed 15 October, 2015. <http://news.sina.com.cn/c/sd/2011-05-28/220022547761.shtml>
44. Xia Xiaolun. 19 Listed Roads and Bridges Companies, 17 Chairs Held Positions in Government Departments. Accessed 15 October, 2015. <http://finance.sina.com.cn/stock/s/20110810/113210293234.shtml>
45. Cai Xinyi. *Bypassing Democracy: The Identities and Strategies of Contemporary Chinese Private Enterprises*. Translated by Huang Tao He Daming. Zhejiang. Shanghai: People's Publishing House, 2013.
46. Zhang Jing. 'How does the public rely on the public institutions?' *Jilin University Academic Journal* (Social Sciences Edition), 2013, Issue 1.
47. James M. Buchanan. *Demand and Supply of Public Goods*. Translated by Ma Jun, Shanghai: Shanghai People's Publishing House, 2009.
48. Han Jun, Working Paper: The Autonomy, Mode of Accountability, and Performance-Concept of Budgets. Research Report on Government Public Budgeting Behavior, Department of Sociology, Beijing University, 2009, 4.

References

- Buchanan, James J. *Demand and Supply of Public Goods*. Shanghai: Shanghai People's Publishing House, 2009.
- Chinese Association of Public Finances, eds. *Financial Reform of Central and Local Governments*. Beijing: Economic Science Press, 1999.
- Fukuyama, F. *The State Building: National Governance and the World Order in the 21st Century*. Beijing: China Social Sciences Press, 2007.
- Hoffman, Philip T, and Kathryn Norbergs, eds. *The Financial Crisis, Liberty and Representative Government 1450–1789*. Shanghai: Gezhi Press/Shanghai People's Publishing House, 2008.
- Jing, Zhang. "How does the public rely on the public institutions?" *Jilin Univ J (Social Sciences ed)*, 2013, 53, no. 235, 14–18.
- Jing, Zhang. Interactional Governance. *Eco and Soc Sys* 6 (2010): 108.
- Jinxu, Lee. *Tang Dynasty Financial History Manuscripts, vol 1, bk 3*. Peking: Peking University Press, 1995.
- Jun, Han. Working Paper: The Autonomy, Mode of Accountability, and Performance-Concept of Budgets. *Research Report on Government Public Budgeting Behavior*. Beijing: Department of Sociology, Peking University, 2009, 4.
- Kahn, Oman, and Bartley Hill Padres W. *Theory on Public Sector Budget*. Shanghai: Shanghai People's Publishing House, 2010.
- Meii, Niu. *Zero-Based Budgeting Reform of Local Government*. Beijing: The Central Compilation and Translation Press, 2010.
- Norgaard, Ole. *Economic System and Democratic Reforms: Comparative Analysis of the Transformation of the Former Soviet Union and Eastern Europe*. Shanghai: Shanghai Century Publishing Group, 2007.
- Saich, Tony. *Government and Politics of China*. 3rd ed. New York: Palgrave Macmillan, 2011.
- Strayer, Joseph R. *The Origins of the Modern State*. Shanghai: Gezhi Press/Shanghai People's Publishing House, 2011.
- Walder, Andrew. *Who Control the Wealth? Paper of the Conference Proceedings (print version)*. Beijing: Department of Sociology in Peking University, 2008.

- Weber, Max. *Confucianism and Taoism*. Jiangsu: Jiangsu People's Publishing House, 2003.
- Wen, Sha, and Qiao Baoyun, eds. *Local Finance and Local Governance—International Review of Experience*. Shanghai: People's Publishing House, 2006.
- Xiaoping, Zeng. *The Silver of Magistrates—18th Century China's Rationalized Fiscal Reform*. Beijing: China Renmin University Press, 2005.
- Xin, Liu. "Market transformation and social stratification: The focus of theoretical debate". *Sociology and Anthropology China* 2003;5. <http://www.sachina.edu.cn/Htmldata/article/2005/12/700.html>.
- Xinyi, Cai. *Bypassing Democracy: The Identities and Strategies of Contemporary Chinese Private Enterprises*. Zhejiang: Zhejiang People's Publishing House, 2013.
- Yanjie, Bian, ed. *Market Transformation and Social Stratification*. Beijing: Beijing Joint Publishing, 2002.
- Zhengmin, Bu. *Society and the State in Ming Dynasty*. Huangshan: Times Publishing Media Companies Huangshan Book House, 2009.
- Zhiwu, Chen. *The Logics of Finance*. Beijing: International Culture Publishing Company, 2009.