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**Political dimensions of county government budgeting in
China: a case study**

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Summary

This paper provides a discussion of the political dimensions of budgeting at the county level of Chinese government. Based on findings from field studies in three poverty-stricken counties in northwestern China, the research documents a rudimentary incrementalist budgeting system in the county governments. First of all, a “base number method” is employed for budget formulation of personnel expenditures. Second, non-personnel expenditures are *de facto* not budgeted and decisions of allocation are made on an application-basis by county governors and finance departments. Third, there is no existing mechanism to ascertain citizens’ demands and preferences in the budgeting process.

It is argued that such an institutional arrangement for budget formulation enables the budgeting process to involve few participants and thus reduces the number of political players and potential conflicts arising from their competing demands to a minimum. This arrangement has not received any serious challenge except reform initiatives engineered from the centre, which have not been implemented with any sincerity at the local level. The separation of demands of citizens and spending priorities of county government, has resulted to some extent in the lack of social equity in the provision of public services, and the most serious problem is that the needs of the poorest and the most needy citizens are overlooked. Because of this separation, citizens have to be self-reliant in solving the problems outside the purview of government budgeting. In the end the paper argues that the spending priorities of county governments have to be changed and the political configuration behind such priorities has to be challenged.

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1 Introduction

Over the past three years a series of budget reforms have been initiated by the Chinese central government, including introduction of new procedures for budget preparation and approval, a new budget classification scheme, and improved monitoring and audit. The hope is to let the budget play its proper role in ensuring fiscal discipline, management accountability and satisfactory outcomes on the critical dimensions of public sector performance (World Bank 2002: 1). In a recent speech,¹ the Minister of Finance, Xiang Huai Cheng, outlined plans to accelerate the reforms this year, especially the formulation of organisational budgets that show all budgetary, extra-budgetary and other resources and spending for each government department. He proposed to expand the reform within provincial governments where such reforms have been started, and requested prefecture/city governments to be prepared. Meanwhile, he suggested to pilot the reforms in county governments where conditions allow.

Budget making is essentially political. It has long been recognised that control over the budget is the control that really matters in any complex economy. Patterns of budgeting authority simply manifest the distribution of power among players in the policy-making and political arena (Blecher and Shue 1996: 47). Therefore, to what extent any serious reform in budgeting succeeds is contingent upon the political configuration of budgeting institutions in existence. Essentially, reform in budgeting implies redistribution of power.

A perusal of the literature suggests that domestic and overseas scholars have made efforts to identify trends in the Chinese reforms, discern patterns of public expenditure at various levels of the Chinese government, and provide suggestions on future reforms. However, knowledge about political dimensions of local government budgeting is limited. In general there are two strands of thought in this literature. First, many of the existing studies are oriented to the transition-related aspects of the Chinese financial system, i.e., the transition from the centralised planning system to a decentralised system in a market economy context. So the focus is generally upon the evolving relationship between the centre and locality, brought forward by changes in their shares of fiscal responsibility and authority. What has been noticed is the separation of and imbalance between fiscal responsibility and fiscal capacity between the centre and the locality. On the one hand, under the ongoing decentralisation efforts, much of the responsibility for providing government services has been delegated to local governments. On the other hand, there is a trend to centralise fiscal revenues to the centre. Second, scholars have also noticed a particular feature of the structure of revenues for provision of government services in China, which is the rampant use of extra-budgetary funds. For example, as World Bank (2002) pointed out, the overall budget itself is small in China – it is only 14 per cent of GDP. Nevertheless, off-budget spending is large, as much as 20 per cent of GDP. Under such circumstances, the effectiveness of the budget as a tool to prioritise public spending is constrained. There is a consensus that reforms must be undertaken to change extra-budgetary funds

¹ See Xiang's speech to the National People's Congress on 6 March 2002, 'Report of Central and Local Budget Draft for the Year 2002 and Execution of 2001 Central and Local Budget to the Ninth National People's Congress, No 5 Meeting'.

into budgetary revenues to make the budget more comprehensive (Guo and Zhao 1999; Liu 1999; Su 1999; Xu 1999; Wong 1997; World Bank 2002).

Not withholding the fact that the above studies have identified the most severe constraints in the financial structures and relations of Chinese government, limited efforts have been made to take locality as the unit of analysis and focus of attention. In particular, little is known about the precise political mechanisms of decision making on such financial matters at the local level. This is important in the ongoing reforms and discussions related to the above issues, as how such a mechanism has provided potential incentives for change, or has imposed inertia to keep the status quo, would help determine the outcomes of any reform efforts.

This research is motivated by the above concerns and this paper is a summary of initial results of field research on the political dimensions of county government budgeting in China. So the focus of attention is political behaviours at the county level. The major research questions are: (1) How at the county government level are budgeting decisions made, by whom and for whom? (2) What explains the variation in budgeting outcomes? And what differences do those variations make for the outcome of the political process? (3) What are the social consequences of the budgeting decisions?

Provoked by the “by whom” and “for whom” question, the research selects the education sector as an entry point to conduct an in-depth analysis as to the relationship among sector agencies in the government bureaucracy, and the social consequences of policy decisions upon citizens. The data collection process involved focusing on county-level policy making, political manoeuvring, and then successively narrowing the focus down to individual stakeholders (intended and unintended), e.g. school age children, their parents and other community members in the case of education.

This paper is divided into four sections. The first section reviews the relevant Western and Chinese literature and develops an analytical framework. A brief introduction to the data and methodology of the research is included in the second section. The third section describes the local context of the case study areas, including their natural and geographical settings, economic and educational development. Findings from field studies are then discussed, which is finally followed by a summary of conclusions.

It should be noted here that the research is still on-going and the paper is only a preliminary summary of research results. The required future efforts mostly arise from the secrecy and opaqueness of the current budgeting process, which will be detailed in upcoming sections.

In addition, this study has the expenditure side of budgeting as the focus of analysis, and only limited attention is devoted to revenue problems.

2 Political dimensions of county government budgeting: an analytical framework

There have been at least three strands of thought regarding budgeting politics in the international literature: public choice approach, interest group approach and hierarchy theory.² Recent studies by sociologists on the relationship between state and society in China have also generated insights into the dynamics of government behaviours including those of budget making.

The public choice approach grows out of the public finance theory in which ample attention is paid to the role of voting behaviour in the revelation of preferences for public goods and the determination of fiscal policy (Auerback 1994). The focus of concern among public choice theorists is the relationship between what the citizens – taxpayers – want government to do and spend, and what government actually does and spends. From this perspective, ‘the budget should be a financial mirror of society’s economic and social choices’. So the central question in this analytical paradigm is the question of the mechanism by which people’s preferences are ascertained, political accountability is obtained, and government action is monitored (Schiavo-Campo and Tommasi 1999: 1). There are several mechanisms that the theorists hypothesise to make the linkage. One is the voting mechanism that allows citizens to choose among candidates those that best reflect their own spending priorities (Rubin 1995). Another mechanism is direct participation by citizens in making budgets. Recent experiments in participatory budgeting (PB) in Brazil have attracted enormous attention (Schneider and Goldfrank 2002: 1). PB goes beyond political delegation by citizens to elected officials for budgeting decisions but has citizens in face-to-face decision-making processes, as the crucial form of democratic participation. The success of such experiments testifies to some extent to the fact that participation by citizens can exert influence upon budgeting outcomes.

Instead of the interaction between individual citizens and government, the roles and political prowess of groups defined by class and coalition interests are the focus of attention of the second analytical framework. This approach posits budgeting outcomes as a function of the self-interests of major players in the political arena. Neo-Marxists have categorised the players into class-types and have argued that class interests dominate budgeting and allocation choices (Rubin 1995: 186).

Along this line, a group of theorists highlight the role and self-initiatives of government. Government is deemed not as representing the common will or the common good, but rather as a group of individual actors. Their self-interests and initiatives are determinants of the process of translating citizen’s or interest groups’ preferences and priorities into government decisions.

The third theory has the hierarchical structure of government as the subject of analysis. Theorists of this school argue that ‘The top levels of the executive branch make decisions about broad policy issues, and judge the environment, and pass that information down through the budget office to the agencies before they make their requests’ (Rubin 1995: 188). Therefore, the most significant explanatory variable influencing budgeting outcomes is the policy priorities and decisions formulated by the top levels of the government hierarchy. This school of thought does not deny the influence of interest groups, which are

² Refer to Irene Rubin (1995) for a comprehensive literature review.

posited to have their entry points into the decision-making process at the juncture of the top level.

With an eye on government structure as well, Blecher and Shue (1996) have developed a descriptive model of Chinese county governments. According to them, county governments in China are both vertically oriented and horizontally oriented.³ On the one hand, 'Most of a county's bureaucratic institutions have been the lowest-level branches of vertical administrative and political hierarchies that reach all the way up to what is universally referred to in China as "the centre" – the national government in Beijing'. On the other hand, the county 'holds itself responsible, and is held responsible by the higher levels of the state and also by those under its jurisdiction, for the coordination, integration, and development of the bounded area under its jurisdiction as a horizontal (kuaikuai) whole' (Blecher and Shue 1996: 33).

So there are two chains of principal-agent embedded in the political configuration, with county government as the cross point. County governments are in both cases the agents. One chain has the national government as the ultimate principal; the other chain has the local citizens as the ultimate principal. Some leading sociologists argue that in reality, the influence of the first chain looms large on real politics at the local level, to the extent that the local government can be oblivious to the importance of the second chain in China (Zhang 2000).

According to such theorists, because of the present voting mechanism in rural China, local government derives its legitimacy from being grass-root state organs and not from being a representative political entity of the interests of local citizens. Therefore, the interests of the local government and bureaucrats, as manifested by government decisions, are isolated from preferences and priorities of local people. In other words, such a political configuration ensures that the local ruling group does not have to seek alliances with local citizens. According to Zhang (2000: 42):

In such an interests separation structure, local governments have completely overlooked the necessity to have its political power bases installed at the grass root level of the society. It always looks up and seeks satisfaction of the superiors in the state hierarchy, not satisfactions of the society. It has become more and more aggressive, and more and more convinced of its authoritarian influence in mobilising, educating and reforming the society. All of this is rooted in its legitimacy which increasingly relies on support of the state, not social approval. As a result, it becomes more and more alienated from the coalition of interests of the local society, and has become an independent and authoritarian power group. It does not need to consider the issue of unity of social interests, because its authority is not conferred by the society; neither does it need to consider to establish social monitoring mechanism to supplement monitoring by the state, as it never doubts itself as the representative of the social interests.

³ It should be noted Blecher and Shue (1996) claim that the county government is generally conceived as the lowest level of state organisations. At present, the township government, next to the county government, is the lowest level government in China.

According to this theory, the ruling group of the local government has become a self-serving interest group. It is capable of – because of the lack of social constraint – disposing social resources at its will, to the extent of monopolising the use of social resources for its own interests, in the name of ‘public purpose’ or ‘organisational purpose’ (Zhang 2000).

Another theory of budgeting that has traditionally been influential is incrementalism. It is basically a descriptive model. According to Wildavsky’s famous statement, ‘budgeting is incremental, not comprehensive. The beginning of wisdom about an agency is that it is almost actively reviewed as a whole every year in the sense of reconsidering the value of all existing programs as compared to all possible alternatives. Instead, it is based on last year’s budget with special attention given to a narrow range of increases or decreases’ (Wildavsky 1974: 15).

Incrementalism is a descriptive theory of the process of budget making and outcomes. In this analytical framework, with final appropriation of the budget as the dependent variable, the most important explanatory variable is the budget base, specifically, last year’s appropriation. Incrementalism is based on observations of the strategies and behaviours of participants as well as patterns of budgetary stability. Participants in this case are primarily government agencies.

There are three major research questions of the study: (1) How at the county government level are budgeting decisions made, by whom and for whom? (2) What explains the variation in budgeting outcomes? And what differences do those variations make for the outcome of the political process? (3) What are the social consequences of the budgeting decisions?

So the primary objective of this voyage of exploration is first of all to provide an illustrative account of what is actually happening in and to the budgeting procedures in the government. Who is involved, who is not, how consensus among the involved is reached, on what bases are final decisions justified? In this descriptive endeavour, the hypothesis of incrementalism, i.e., the base of budget is the most important determinant of the final budgeting appropriation, is tested.

Ample attention is also paid to the question of “for whom.” Analysis is conducted as to the primary stakeholders of budgeting policies, and of the distribution of public services and fiscal resources at the discretion of the county governments. What is particularly of concern is the fiscal commitment for public services to the most needy and poorest groups in the society.

Related to the second research question, the premise of the research is that budgeting procedures, outcomes and resultant social consequences are all functions of the power base and political character of the ruling group in the locality and the centre. In this study, the focus of analysis is the local group, and attempts are made to test the hypothesis of the influence of self-interests of the group as theorised in the literature (Zhang 2000).

It should be noted that variations in the relationship between the centre and the locality are an important determinant as well. However, because the relationship encompasses several complex issues including legitimacy “transfer” across the state organs, fiscal revenue structures of the Chinese system, fiscal responsibility among the levels of government, and transfer payment projects, the discussion is beyond the scope of this paper and is left to a future study.

3 Data

This paper is a preliminary summary of field study findings in three counties in a northwestern province of China. The data comprise two types. County, township, school and village-based data were collected through field work; national, provincial and county-level data are based upon a variety of micro and aggregate data sets and surveys from various sources. Sources for this data are cited in the paper as they are used. Field work to collect data at the county, township, village and school levels for this research took place from January 2000 to March 2002 during consultancy field work for an education project in a northwestern province. Anecdotal evidence, policy documents, and official statistics have been collected in the course of this work.

Three counties in a northwestern province (using pseudonyms), C, I and G, are discussed specifically in the paper. They are located in an area that is first of all characterised by limited rainfall, of only 537.4 mm annually. Such natural endowments make the ecological system in the area extremely fragile, which has been compounded by lumbering and farming activities. Soil erosion is very serious. Secondly, in C county in particular, arable fields are on slopes of more than 30 degrees on average, and some of more than 70 degrees. The very poor natural environment and farming conditions are the essential characteristics of the area.

All of the three counties are state-designated poverty-stricken counties and recipients of a large sum of transfer payments from the central and provincial governments every year. In fact, as Table 3.1 shows, local fiscal revenues account for only 19.34 per cent, 10.55 per cent and 10.55 per cent of the three counties' total fiscal revenues respectively, much lower than the national average of 52.38 per cent. Backwardness in the economic development of the counties also shows in the absolute figures of their local fiscal revenues, which range from 4.72 million RMB to 7.78 million RMB, quite minimal in comparison with the national average of 100.56 million RMB. Table 3.1 also indicates limited commitment to education from the county fiscal resources. The percentage of educational recurrent expenditures in total fiscal expenditures is only 16.07 per cent, 18.26 per cent, and 18.92 per cent respectively, in contrast to the national average of 24.27 per cent.

In terms of educational development, the counties lag behind most of the areas in China as well as other areas in the Province. According to the Provincial Education Bureau, 35 counties in the Province had not accomplished Universal Compulsory Education according to state standards by December 2000, six of which have not accomplished Universal Primary Education (UPE). I county and C county are two of the six and G just passed UPE inspection in 2000. In addition, the area has several ethnic minority groups that have much lower adult literacy rates than the national average.

Table 3.1 Fiscal situation of field study counties, 1999

	National average (county government)	G County	C County	I County
Total fiscal revenues (10,000RMB)	18072	4022	4702	4474
Local fiscal revenues (10,000RMB)	10056	778	496	472
Ratio of local to total fiscal revenues (%)	52.38	19.34	10.55	10.55
Ratio of educational recurrent expenditures (from fiscal appropriation) to total fiscal expenditures (%)	24.27	16.07	18.26	18.92

Note:

1. Source of data: 1999 Local Government Fiscal Capacity Statistics, Ministry of Finance, P.R. China.
2. The data supposedly covers every county nationwide. Eventually a sample of 2608 counties was available and used in the analysis.

4 Findings from field studies

4.1 Legal and policy framework

The legal framework of public budgeting in China is generally based on the Budget Law enacted in 1994. In the Law, it is decreed that budgets should be formulated for each level of government, including the central, provincial, prefecture, county and township (town) governments.

According to Article 13 of the Law, for governments at and above the county level, People's Congress of the government takes the authority of reviewing and giving final approval to the report of budget execution in a previous fiscal year and budget draft for the next fiscal year, which is prepared by the executive branch, and making adjustments in the budget. It also has the responsibility and authority of monitoring budget execution and abolishing any policies or decisions of the executive branch related to budgeting.

Also, according to Article 28 of the Law, local governments – governments below the central level – should maintain balanced budget and no deficits are allowed.

In terms of the educational service, there are two important policies related to budgeting for education. First, in the decentralised system of educational administration in China, local governments are held responsible for basic education, which mainly comprises of compulsory education and the senior secondary school sector. In 1986 China passed a Compulsory Law that stipulates nine-year compulsory education including primary education and junior secondary education.

In 1993, it was decreed in *Suggestions of the State Council on the Implementation of the Guidelines for the Reform and Development in China* that 'Under the overall guidance of the state, local authorities are held responsible for the development of basic education with suitable division of responsibilities among governments at various levels. The major responsibility to organise the implementation of compulsory education lies with county government, including managing educational revenues in a unified manner, assigning and managing head teachers of primary and secondary schools, providing guidance with respect

to teaching and learning in schools. Township governments are held responsible for the implementation of compulsory education, including safeguarding the right to compulsory education of school-age children and adolescents’.

In addition, the Education Law enacted in 1996 also stipulates that the State shall institute a system of educational finance in which fiscal allocations constitute the main source, to be supplemented by funds through a variety of avenues in an effort to gradually increase the input of financial resources directed to education so as to ensure that state-run educational institutions have stable sources of funding.⁴

In summary, there are two fundamental features of education financing that affect budgeting for the sector at the local level. First, the local authority is held responsible for providing basic education including compulsory education in China. The second is the diversity of revenues for educational expenditures.

4.2 Budgeting process

At first glance, there are two most important characteristics of budgeting in the counties. What is most noteworthy is that personnel expenditures for civil servants, i.e., salaries and bonuses, are the priority of budgeted spending in the counties. Second, decision-making on budget is extremely centralised, and *de facto* centralised to only two or three people inside the government in some counties, to the extent that even government agency heads are excluded in the process.

In all the three counties, the budget is made separately for personnel expenditures, non-personnel expenditures (public expenses in Chinese terminology) and special project expenditures. Personnel expenditures refer to expenditures on individual civil servants, including their salaries, welfare expenses and bonuses. Non-personnel expenditures are expenses for the routine operation of the government and its subordinate institutions, e.g. state schools. Special project expenditures are usually associated with developmental projects, such as irrigation, agriculture reform and education projects. Among the three, the priority is personnel expenditures. As county I officials stated explicitly in an introductory document provided to the author, in the county ‘the principle that “top priority is bread, development is the second” is being implemented’. For which, ‘personnel salaries are first budgeted, after which allocation for public expenses is made according to the fiscal resources left. The proportion of public expenses is limited to 10 per cent of personnel expenditures by explicit county policies. Expenditures for special projects can not be ensured under the circumstances’.

In the budgeting process for personnel expenditures, first of all, a “base number method” is employed for budget formulation, which means that allocations are made on the basis of the actual number of people employed in a previous year rather than according to the number of positions approved. This approach can be seen as a most primitive incrementalist way of budgeting.

What matters in this incrementalist scheme are only two variables, one is increments in salaries of individual civil servants, and the other is increments in the number of civil servants on the payroll of the

⁴ Refer to Wang (2001) for a detailed description about the various sources of revenues for the education sector.

county government. In the local context the influence of the variables is reduced to the minimum in the budgeting process.

Under the centralised salary scheme of the Chinese government, salary increases are generally mandated by the central government, though sources of fiscal expenditures for such purposes vary. In some cases the increase is accompanied by increased transfer payment from upper-levels, sometimes only policies are available. Salaries aside, county governments have discretionary authority upon many items of the pay package of civil servants, such as their welfare and fringe benefits. But in general, because of fiscal constraint, county government in the area seldom takes self-initiatives for welfare benefits beyond what has been mandated by the centre, and in fact welfare benefits that are required by the centre sometimes themselves are not always implemented.

What does account for local civil servants pay is “policy increase in salary”, which has been very frequent in these years due to central fiscal policies. However, on the occasions that such increases are expected, the county budget does not take into account such factors right away. In other words, for example, though the county government is aware of upcoming salary increase in Year X, with or without additional transfer payments from the upper-level authorities, the increase is not reflected in the budget of Year X. It is generally incorporated into the next year’s budget.

Under the circumstances, only the second kind of increments is expected to be liable to the wisdom of agency heads and involved bureaucrats as envisioned by the incrementalism theorists. However, the decision-making in this case is extremely centralised and increases in the number of civil servants in various sectors is not budgeted at the sector level. Briefly, only a total budget for the overall increase in the number of civil servants on the payroll of the county government is made but is unknown to the general public and agency heads. It should be added here that the author has been unable to collect such a document for verifying the information. No matter what such budgets look like or whether there indeed exists such a budget, it is ensured that under the arrangement, the wisdom of sector agency heads to fight for the increments has no chance to be employed, at least in the budgeting process. Their involvement in the budgeting process for personnel expenditures is reduced to a single job. The job is to submit name lists of civil servants employed in the sector and salary disbursement documents of a previous December (in some cases, the January of the concerned fiscal year) to the county governor and county finance bureau officials.

In fact, increments in the number of people take place every year for the education sector in the three counties.⁵ It is found that the policy to guarantee jobs for college graduates from normal universities and colleges who are local residents is still being implemented in the counties. Every year, each of the county education bureaus would accept thirty or more new employees who fall into this type. Depending on circumstances, some counties also recruit college graduates from other types of universities and colleges and hire them in the education sector. However, agencies are not aware of how many will be

⁵ Different from some of the other areas in the country, the three counties all have government teachers’ salaries budgeted at the county level. In other words, all government teachers are on the payroll of the county governments. Township governments do not make budgets for teachers’ salaries in the area.

added at the beginning of the fiscal year and only estimates are depended upon in related sector planning. In the fall, when the graduates arrive, they are employed through decisions made jointly by county governors, the county finance bureau, the county personnel bureau and the county education bureau. However, usually the new employees are not paid immediately and pay in arrears is frequent. But efforts are made to incorporate their salaries into the base for the following year's budget.

The three counties differ in budgeting for non-personnel expenditures. In G and I county, there are two kinds of description of the process and outcomes. The version as told by county governors in the counties is that the budget for non-personnel expenditures comprises of two types. One is a budget made according to a fixed quota and the number of civil servants at each of the departments and institutions affiliated with the county governments. For example, it is 150 RMB per person for administrative departments and 100 RMB per person for institutional departments in G county in 2001 and 2002. In addition to the amount fixed on personnel numbers, the other part of the budget is also made depending on perceived needs and priorities.

In contrast, the version of the story according to agency heads of individual departments is that there has not been a budget for non-personnel expenditures in recent years for them. There are two reasons. One is, they do not make the budget for themselves, and budgets for non-personnel expenditures are not made for individual sectors in general in the counties. Secondly, though the quota-based budget rule is generally known, they do not think that it is implemented. From their point of view, the disbursement of the fund has nothing to do with the budget. For the education sector, whenever fiscal needs arise, the county education bureau and schools submit reports to the county finance bureau, sometimes the requests are granted approval but refusals are more frequent.

The different stories by county governors and department heads are attributed to the extremely centralised decision making process for the budget. The following are some interview notes from one of the counties.

County Governor: What is presented to the People's Congress and known to the bureau directors is a very general budget; in addition to that, we have a detailed budget indicating how much for each of the sectors and departments. Only three people know the detailed county budget: I myself, director of the county finance bureau, and the chair of the People's Congress. You can't let people know the budget, otherwise all those people will come and fight. That's a lot of trouble and it is unnecessary as well. This is the best way of doing things.

Interviewer: But may I ask how much is budgeted for the education sector last year?

County Governor: Non-personnel expenditures for both education and public health amounted to 620,000 RMB.

Interviewer: But the Education Law requires a separate listing for the education sector budget.

County Governor: No, we always cut one piece of pie for the two sectors together, and the amount is generally stable over the years. Depending on circumstances we can shift priorities between the two sectors.

Interviewer: How to shift the priorities?

County Governor: For example, we've given more to the health sector last year and the money was used to build six hospitals. These years the education sector has got a lot of money from other resources – the central government and donor agencies – and so not much was for education.

Later the researcher triangulated the information with the head of the county education bureau and told him about the story of the six hospitals.

Education Bureau Director: It is not true! Those hospitals were built with a grant from an international agency!

The secrecy and opaqueness has resulted in a lot of sophistry among bureaucrats excluded from the process. Suspicion is frequently voiced, 'Do you really believe that there is indeed such a detailed budget?' or 'Who knows how many people are really aware of the detailed budget?'

One reason provided by department officials for the failure to execute the non-personnel expenditure budget arises from enormous deficits of the county governments. The Budget Law requires balanced budget of local governments; however, all the counties are in deficit, and the entire deficit is in fact rear-pay of "policy increase salaries" (zheng ce zeng zi) and welfare benefits suggested or mandated by central policies to civil servants. According to the explanation of department officials, who are not really the insiders about the process, in order to keep in accordance with the Law, the quota-based budget is adopted and incorporated into the budget in paper; which is then approved by the People's Congress. After the approval, county governments again submit budget supplements, in which case deficits are reported. So it is fair to say that the approval procedure by the People's Congress in the counties is only games on paper.

In all the three counties a large People's Congress is in existence and even more attend annual People's Congress meetings for budget approval. For example, in county G, its People's Congress consists of more than 160 representatives. 50 per cent of them are civil servants, i.e. on the payroll of the government, including township cadres, and many of the others are usually village heads and village party secretaries. In addition to these official representatives, some bureaucrats, mostly sector agency heads, are required to sit in during the Congress session, and members of the Political Consulting Committee are also invited to attend. The latter two groups have members of around 70–80 respectively. Among the three counties, county G is said to have the strongest Congress. In the area generally chairpersons of the Congress are all those who have "retired to this secondary line" of work (tui ju er xian). They generally used to be county governors or county party secretaries before, and now work in such positions to make

use of their remaining energy (according to a Chinese saying “fa hui yu re”). The chairperson in county G is a rare exception. He used to be a vice county governor before assuming the position, which is thought in the government hierarchy to be a promotion as a County Congress Chairperson has the same rank as a county governor. Therefore some competition for power is in existence between him and the county governor. It should be noted that county G is the county whose governor’s words are recorded in the previous paragraphs. So it is in this county, which is reputed to have the strongest Congress, that only three people know the real and detailed budget of the government. And according to the county governor again, approval procedure by the Congress is “simply making a gesture.” Congress in the area is largely still confined to being a rubber stamp institution.

A direct consequence of the centralised decision making for budgeting in counties I and G is that education administration agencies generally have no say in the use of non-personnel expenditures for schools. In county I, the department is even more marginalised as funds are disbursed directly to school districts and schools, without going through the education department. So usually they are not aware of the actual amount allocated to schools as well. When upper-level educational authorities, the Ministry of Education in the central government, or the Provincial Education Bureau, require reports of education financing figures, finance officers at the education bureaus simply go to the county finance bureau and copy down the figures provided.

What has resulted from the political configuration of budgeting is the separation of administrative authority and fiscal authority of government departments. In the case of schools, the Education Law of P.R. China decrees explicitly that such a separation be prohibited. What has resulted is also the deprivation of the monitoring role of these administrative and institutional departments over county governors and the county finance bureaus for the matters of financial affairs, whose behaviours have become *de facto* unmonitored by all.

Table 4.1 indicates the amount of funds disbursed to all the eighteen school districts in county I in 2001. The information is based on fiscal budget disbursement receipts (yu suan bo kuan ping zheng) obtained by finance officers of the county education bureau from the county finance bureau. Public expenses in this case comprise three types: heating expenses (qu nuan fei), office expenses (ban gong fei), maintenance and equipment expenses (wei xiu he she bei gou zhi fei). It is noticed that the fund distribution for heating expenses is generally in accordance with the number of government teachers and school enrolment in each of the districts. For the third item, maintenance and equipment, some of the school districts received the money through transfer payment projects by upper-level authorities, which usually have the education bureau involved in the decision making process as to which school should be selected. However, patterns for the distribution of the rest of the maintenance and equipment money, as well as office expenses are rather difficult to discern. Some districts got nothing, while some got a substantial amount of money. It is obvious that the latter item of spending is needed by all the schools, unlike maintenance and equipment funds, which can be supposedly prioritised to schools in urgent need of rehabilitation or equipment procurement. In terms of potential alternative sources of revenues for the schools, the county did not report any revenue from rural educational surcharges in 2001, and student fees

are standardised across the county. So the differences did not relate to supplementing revenues of the schools. In efforts to disperse the curiosity of the researcher, the finance officer said he did not have answers as well. In fact, according to him, the education bureau people did not know why the money was distributed in this way, and they would not know the amount distributed to each district without such a conscious effort on his part.

Table 4.1 Fiscal appropriation for public expenses at district schools in county I in 2001

District code	Allocations (RMB)				Number of school age children	School enrolment
	Total	Of which: heating expenses	Of which: office expenses	Of which: maintenance and equipment expenses		
No 1	13427	7427	3000	3000	1817	2007
No 2	10050	4050	6000		1340	1426
No 3	11460	3460	2000	6000	1030	1294
No 4	2615	2615			857	684
No 5	9750	4750		5000	1610	2274
No 6	7590	2590	5000		927	1151
No 7	3450	3450			1134	1372
No 8	22000	7000		15000	1731	1870
No 9	4300	4300			1198	1187
No 10	11400	5400	3000	3000	1409	1527
No 11	6010	2010	4000		740	910
No 12	64000		31000	33000	1309	1350
No 13	61050	3550	9000	48500	1795	1373
No 14	1680	1680			1252	663
No 15	10845	1845	9000		871	609
No 16	5610	1610	4000		918	567
No 17	5270	3270	2000		1248	1214
No 18	12940	2940		10,000	1359	1275

Note:

1. Data source: County I Education Bureau

2. It is suspected by the author that information for heating expenses for No. 12 School District is missing, not non-allocation. Because no original documents were found by the information provider, it is counted as zero.

3. The table does not list fund allocation for the education bureau, and county schools including primary schools and junior middle schools.

From the perspectives of school head teachers, the probability of getting the money is determined by three factors. One is the persistence and skills in efforts to contact the office of the county finance bureau and county governors whenever possible. Second is the personal relationship with the concerned VIPs.

The third factor is the seriousness of the problems they seek to solve. The second factor is deemed as very important, and there is a consensus that county schools are especially privileged. As county officials' children are most likely to enrol in county schools, teachers and principals there have much more opportunities to set up personal rapport with the leaders and approach them for support. It is obvious that from this bottom-up point of view, decisions are largely dependent upon personal judgement and consideration of county governors and county finance bureau directors. In other words, the opaqueness and secrecy in the budgeting process makes decisions of budgeting and fund allocation a highly personal political endeavour of the few to which decisions are centralised.

In reality, such an arrangement has also made these departments to be predisposed towards their own agency needs and priorities, instead of the needs and priorities of the sector they serve, in making demands for funds. For example, the county G education bureau got 130,000 RMB fiscal allocation from the county finance bureau in 2000, and all of the allocation was for the bureau itself. In other words, schools did not get any fiscal appropriation for operation expenses via the bureau. This outcome is because the fund decisions by the finance bureau are based on applications, and the applications of the education bureau mostly deal with their own immediate needs. Furthermore, the amount of 130,000 RMB is not even enough to meet the funding needs of the everyday operation of the bureau. The use of the allocation is as follows: 15,200 RMB for telephone bills; 30,000 RMB for vehicle expenses; 40,000 RMB for everyday office expenditures; 20,000 RMB for forms and a conference for a project sponsored by an international donor agency; and 10,000 RMB for bonuses to teachers during the teachers' holiday.

Fundamentally, the minimal amount for non-personnel expenditures and the many problems involved is a direct consequence of the policy to have personnel expenditures as the priority. Again, as county I officials stated explicitly in an introductory document provided to the author, in the county 'the principle that "top priority is bread, development is the second" is being implemented'.

4.3 For whom and not for whom

As an officer stated in a workshop on budgeting analysis organised by the author, 'government exists to pay us salaries'. In the counties, the policy to have personnel expenditures as a priority for public spending has exhausted the fiscal resources of the governments. By policy design, as mentioned in the previous section, non-personnel expenditures are limited to 10 per cent of personnel expenditures in some counties.

The situation is further exacerbated by the fast and constant increase in the number of civil servants. For example, in I county, the number of fiscal dependent population increases by 300 every year, and expenditures on salaries of the newly added people alone amount to 1.80 million RMB, while the increase in local fiscal revenues was only 0.96 million RMB in 1999. In addition to the increase in the number of civil servants, the increase in salaries and fringe benefits mandated by the central government also imposes enormous burden on the local fiscal resources.

The increase coexists with two other problems of the governments. One is overstaffing. In a town government in G county, it is found that there are fifty civil servants employed, much more than the

number stipulated by state standards (see Box 4.1). The problem of redundant personnel is recognised by all of the interviewed town and county officials.

Box 4.1 Cadres at a town government, G county

Party secretary (1), vice party secretary (1), discipline control cadre (1), propaganda cadre (1), town governor (1), vice town governor (2), People’s Congress chair (1), economic council chair (1), government secretary (1), accountant (1), finance officer (5), family planning officer (14), arms officer (2), land registration officer (2), agriculture economy officer (1), agriculture technology officer (3), broadcaster (1), women federation (1), Youth league (1), resident association (4), statistics station (1), legal assistants (1), others (3)

Note: Numbers in () shows the number of cadres on the position or serving the office.

Second, some anecdotal evidence tells us that in the counties, a substantial number of civil servants are being paid without actually working. In a neighbouring county which is in a better fiscal condition than the three studied, a couple of years ago the county government found that more than 100 individuals were on the payroll of government but never or seldom came to work units. It is estimated that more of such civil servants would be found in the studied counties. An interview was conducted with an officer at the education bureau of county C. He disclosed that he has not gone to work in the bureau for more than four years. Every month he simply asked friends to pick up his salary for him. His wife worked for the county C agriculture bureau and asked for illness retreat four years ago, and since then has not gone back to work, though receiving salary from the bureau every month. He said nobody had ever contacted him about the matter and that he was occupied full-time in running his own small company at this moment.

In analysing ongoing budget reforms initiated by the central government, the World Bank (2002: 1) observed that:

The ongoing reforms have adopted a “zero-based budgeting” approach as the vehicle to force budget officials to break with the budgetary inertia of the past and prioritise public expenditures. Zero-based budgeting indeed could be an effective instrument to force officials to reconsider overall budget allocations in the first few years of the reform. However, the choice of zero-based budgeting as the main thrust of the current reform effort of the budgeting process at all levels of government raises several important questions. First, none of the levels of government is truly practicing or plans to introduce a rigorous version of zero-based budgeting. Most notable is the fact that wages and salaries, which in some local governments reach over 70 per cent of the budget, are not included in the “zero-budgeting” exercise.

Field studies find that to adopt a zero-based budgeting for personnel expenditures would be a daunting challenge in the counties. First of all, as frequently claimed by local officials, the “bread” problem is a matter of social stability in the local context. With a very primitive structure of economy, the area has

government as the single most important employer for the educated with higher or medium level degrees. The unemployment pressure for such people is understandably a cause of concern. Second, the government in the area as an employer has traditionally played, and is still playing, a patriarchal role for its employees, i.e., civil servants of the government. The role ensures an implicit arrangement that the government takes care of the welfare of bureaucrats, including welfare of their families, for which the most important under the local circumstances is to find employment for their children. Many of the interviewed officers at the education bureaus either have parents, or have wives or brothers who work in schools or institutions in the sector. It is also common to find father and son, or father and daughter working in the same office. In addition, in such a small society of the counties, people's relationships are intertwined with each other and some local families have hundreds of years of history in the area and claim hundreds of family members. Laying off of any individual civil servant can be rippled to many people through the network of personal relationships.

Related to these problems, despite resentment about the lack of wider participation in budgeting by bureaucrats peripheralised in the process, there is a realisation that the existing practice is in favour of their self-interests as a group. In reality, the situation of severe fiscal shortfall of the governments justifies the current practice. It is frequently found that discussions on cutting back the number of civil servants or zero-based budgeting is not particularly welcomed by these officials. It is such an internalised consensus to keep the status quo that has been strong enough to make local government defy any external pressures for change.

It is fair to say that in the local context, to keep and provide "bread" for the team of civil servants has become an end in itself, not a means of providing public services. One social consequence of the arrangement is the lack of social equity in provision of public services, as civil servants, many employed on the basis of powerful personal networks as described above, are not in places where citizens need their service the most, but in areas of the servants' own choosing. This problem is most serious for the education sector as schools are scattered all around the counties, and the most needy group of citizens for education are those who are traditionally deprived of educational access and opportunities, those who live in poor and remote areas.

Table 4.2 contains information on the distribution of fiscal allocation and teachers among types of schools in county C. County schools are those that are budgeted and managed directly by the county government. They are usually located in the county town and at the service of the urban citizens of the county including county officials and their families. Township seat/centre schools are those located generally at township centres. Village schools and teaching points are those located in the most remote, and generally the mountain and poorest areas in the counties, with the latter usually in the worst natural and living conditions. Table 4.2 shows serious disparity in resource allocation among the types of school in the county, with the teaching points and village schools being disadvantaged. For example, while county-wide government teachers account for 69 per cent of all the teachers and 86 per cent of teachers in county schools are government teachers, a majority of teachers working in teaching points are non-government teachers. In addition, fiscal allocation for public expenses per student for county schools is

more than two times higher than that for teaching points, which is only 2.65 RMB. The information shows that in the case of the education service, within the local fiscal system of shortage, the priorities are not reserved for the poorest and the most needy people but the well-to-do ones.

Table 4.2 Distribution of fiscal allocation and teachers among types of school, in C county

	Total	County school	Township seat school	Village school	Teaching points
Ratio of fiscal appropriation in total public expenses	44%	59%	47%	37%	52%
Sum of non-personnel expenditures from county fiscal allocation in 1999 (RMB)	84836	13322	32462	31739	7313
Sum of non-personnel expenditures in 1999 (RMB)	191892	22590	69532	85827	13943
Ratio of government teachers	69%	86%	74%	67%	47%
Teachers in total	950	88	315	413	134
Number of government teachers	651	77	233	278	63
Number of non-government teachers	299	11	82	135	71
School enrolment	19909	1600	6651	8902	2756
Public expenses per student (RMB)	9.64	14.11	10.45	9.64	5.05
Fiscal public expenses per student (RMB)	4.26	8.33	4.88	3.57	2.65
Ratio of students to government teachers	31	21	29	32	44
Number of schools	152	3	25	57	67

Data source: Baseline Survey of an International Project conducted in the area, June 2000.

As mentioned before, in county C employment of teachers is granted a priority and every year more than thirty new teachers are employed. However, in a village in the county where field work was conducted and not the most remote according to local standards, the village head informed the researcher that the village school had to cease to operate after the single non-government teacher at that time left. The problem lingered on for more than four years despite frequent requests to county governors and the education bureau. The school was re-opened only after the arrival in the village of a young lady from Xinjiang, who was a Junior Middle School graduate and came after marrying a young man from the village. She is now a non-government teacher at the school.

4.4 Self-reliance of citizens and extra-budgetary fund

The story shows that in the local context, self-reliance of citizens is not only vital but inevitable, in solving problems such as finding proper teachers for their own children and financing the everyday operation of schools. As Table 4.2 shows, while county schools rely on fiscal allocation as the most important source of revenue, it is the non-fiscal and extra-budgetary money that rural schools as a whole rely on.

The case of construction of schools is actually more revealing. In the area, county governments seldom make allocations for capital expenditures of schools from its own revenues. Construction of schools is dependent upon two sources of money, one is external sources of help, e.g. transfer payment projects from upper-level governments or grants from donor agencies, and the other is social donations by citizens themselves.

The most influential projects in the area in recent years include a Government of China's Compulsory Education Project (CEP), and the other is a project funded by an international donor. The latter does not require local commitment to civil works projects. In the CEP case, in its phase I, counterpart funds were required from local governments. The general principle is the proportion of counterpart funds raised in a province to the funding provided by the central government to the province should not be lower than 1.5:1. Prior to the start of the project, each provincial government signed an agreement with the Ministry of Education and the Ministry of Finance in regard to their commitment to provide counterpart funds. However, the agreements indicated only the amount to be provided by the provincial governments and sub-provincial governments in total, without clear division of responsibility among prefecture, county and township governments. This provided leeway for the shirking of local governments from the commitment and pushing the burden to citizens. For example, the total investment of CEP project in county G is 14.85 million RMB, of which 5.5 million was provided by the central government, 4.4 million by the provincial government, 0.55 million by the prefecture, 0.55 million by the county, and the remaining 3.85 million is supposed to be provided by townships. The 3.85 million commitment was *de facto* demanded from local citizens, as township governments have no revenues aside from social donations and rural educational surcharges for which they are capable of mobilising. So the share of burden between the county government and rural citizens within the county is 1:7.

During field work it was frequently found that many new schools were built in the area with seed money donated by local elites, including local entrepreneurs and religious leaders, which then incentivised county government to provide additional support required in accomplishing the endeavours. Donations incurred in such processes are substantial in the area. According to an estimate of county C officials, many schools built between the 1980s and 1996 in the county belonged to this type, and social donations during the period amounted to 4.6 million RMB.

Scholars generally argue that the extensive presence of extra-budgetary funds is a critical deficiency in the budgeting system in China, which has affected the overall effectiveness of budgets as a policy tool. It has been suggested, and accepted by the Chinese central government, that such funds should be put under budgetary control by the government, and in addition they should be eliminated so as to assuage burdens imposed on poor rural citizens.

According to our analysis, however, the necessity of such funds arise from the separation between spending priorities of local government, and the interests and fundamental demands of citizens for public services, which are supposed to be provided by tax revenues. It is such demands that fundamentally legitimise the existence of government. However, because of this separation, the demands are not satisfied, consequently citizens have to be self-reliant in solving the problems outside the purview of the government budgeting. The elimination of extra-budgetary funds is not the solution to the problem; in fact, it will only make things worse. The demand problem will continue to exist, and fundamental rights of citizens, e.g. compulsory education, will continue to be overlooked, as long as spending priorities of local governments are not changed and the political configuration behind such priorities is not challenged.

5 Summary

This paper provides a discussion of the political dimensions of budgeting at the county level of Chinese government. Based on findings from field studies in three poverty-stricken counties in Northwestern China, the research documents a rudimentary incremental system in the counties. First of all, a “base number method” is employed for budget formulation of personnel expenditures, which means that allocations are made on the basis of the actual number of people employed in a previous year rather than according to the number of positions approved. In addition, because of the lack of cutbacks in the number of civil servants and constant increases in salaries and fringe benefits mandated by the central government, the fiscal resources of the governments are exhausted on personnel expenditures. Second, non-personnel expenditures are *de facto* not budgeted and decisions of allocation are made on an application-basis by county governors and finance departments. Third, there is no existing mechanism to ascertain citizens’ demands and preferences, as the representative political body, the People’s Congress, largely functions as a rubber stamp institution.

It is argued that such an institutional arrangement of budget formulation enables the budgeting process to involve few participants and thus reduces the number of political players and potential conflicts arising from their competing demands to the minimum. The resulting opaqueness makes decisions of budgeting and fund allocation a highly personal political endeavour of the few to which decisions are centralised. However, the arrangement has not received any serious challenge except reform initiatives engineered from the centre, which have not been implemented in any sincerity at the local level. In reality, the situation of severe fiscal shortfall of the governments justifies the current practice in the perception of bureaucrats peripheralised in the process. For them, despite the resentment about the lack of wider participation in the budgeting process, there is a realisation that the existing practice is in favour of their self-interests as a group. Furthermore, such an internalised consensus to keep the status quo has been strong enough to defy external pressures for change.

Overall it is found that to keep and provide “bread” for insiders of county governments has become an end in itself, not a means of serving the citizens. Because of their own interests, the lack of social equity in provision of public services has been the reality, and the most serious problem is that the needs

of the poorest and the most needy citizens are overlooked. Because of this separation, citizens have to be self-reliant in solving the problems outside the purview of the government budgeting. In the end the paper argues that the elimination of extra-budgetary funds is not the solution to the problem, in fact, it will only make things worse. The demand problem will continue to exist, and fundamental rights of citizens, e.g. compulsory education, will continue to be overlooked, as long as spending priorities of local governments are not changed and the political configuration behind such priorities is not challenged. At this juncture reforms oriented to solving such problems are what are urgently needed.

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