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Beyond Weber: Conceptualizing an alternative ideal type of bureaucracy in developing contexts

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Abstract
The study of public administration in developing countries requires that we look beyond the Weberian model as the only ideal type of bureaucracy. When we assume that there exists only one gold standard of public administration, all other organizational forms that do not conform to the Weberian ideal are dismissed as corrupt or failed. Drawing on neo-institutional economics, I introduce an alternative ideal type of bureaucracy found in contemporary China. This model, which I call *bureau-franchising*, combines the hierarchical structure of bureaucracy with the high-powered incentives of franchising. In this system, public agencies can rightfully claim a share of income earned to finance and reward themselves, like entrepreneurial franchisees. Yet distinct from lawless corruption, this self-financing (or prebendal) behavior is sanctioned and even deliberately incentivized by state rules. Although such a model violates several Weberian tenets of "good" bureaucracy, it harnesses and regulates the high-powered incentives of prebendalism to ameliorate budgetary and capacity constraints that are common in developing countries like China.

Keywords: bureaucracy, China, corruption, developing countries, incentives, Weberian.

1. Introduction

> "Where the 'model bureau' does not exist, it is obviously futile to ask questions about what does exist as though it were a 'model bureau.' The first task is not to make this assumption, but to ask: 'What does in fact exist?' One may discover, of course, that what exists is not at all a bad thing"(Riggs 1964, p. 9).

In China, even within a single county government, it is apparent that some agencies are wealthier than others. The Construction Bureau that I visited in one county in Shandong province is a clear example of the "haves." This bureau was one of only a handful of public agencies that possessed and occupied its own building, separate from the main government facility that was overcrowded with other departments.[1] Whereas other agencies I interviewed complained about financial pressures and occasional wage arrears, the Chief of the Construction Bureau confidently declared, "We don't have such problems in the construction cluster. Others do, but we are fine."[2] Indeed, the Construction Bureau boasted a fleet of moneymaking extra-bureaucracies (including a greening office, construction management office, rural construction management office, construction materials assessment center, construction design institute, and real estate development company, to name a few), all of which are public entities that operated like private, profit-making contractors. As the Construction Bureau Chief stated, "Our subsidiaries make money and pay themselves. The county government does not pay them. After deducting costs from revenue, the surpluses belong to them." Employees of the Construction Bureau and its extra-bureaucracies were among the best paid in the county.

The bureaucracy described above contradicts a key principle of public administration. According to Weber, public organizations should not command "ownership of the means of production or administration" (Weber 1968, pp. 218–219). In other words, public agencies are not supposed to "own" the income they generate. Any revenue collected, such as regulatory fees and user charges, should be turned over to the state treasury, where this public revenue is then reallocated according to formal budgetary rules. Within a government, we do not expect to see some agencies enjoying greater staff benefits and more lavish furnishing than others because they generate more income. And yet in China, it is openly acknowledged that financial disparity exists across agencies at all levels of government. These public agencies behave literally, rather than simply metaphorically, as entrepreneurial companies.

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Given that this system is inconsistent with Weberian norms, should we conclude that China's bureaucracy is corrupt or dysfunctional?

Many observers subscribe to a binary view of public administration: if an organization does not conform to conventional standards – the Weberian model – then it must be *defective*, rather than *different*.[3] Observers of China's bureaucracies have typically based their evaluation of the system's organizational efficacy on Weberian norms. For example, Lu (2000) applies the blanket label of "organizational corruption" to the self-financing behavior of Chinese bureaucracies. Taking the Weberian model as his reference point, Lu is critical of the nature of these organizations: "Rather than the effective, coherent, and omnipotent bureaucracies some scholars once attributed to them, they had become… more approximate to what Weber described as patrimonial officialdom" (Lu 2000, p. 290).

Likewise, cross-national indices routinely adopt a single set of benchmarks. Evans and Rauch measure the quality of bureaucracies in developing countries according to their adherence to Weberian precepts of organization, or what the authors term "Weberian-ness" (Evans & Rauch 1999; Rauch & Evans 2000). The Worldwide Governance Indicators (WGI) is another prominent example. Issued annually by the World Bank, the WGI rank the quality of governance across countries on a continuous scale from the best – benchmarked by countries like the United States (US), Denmark, and Finland – to the worst.[4] By itself, this measure implies that variance from the standards of developed countries is always a *negative* deviance.

When we use only one ideal type for measurement, we necessarily perceive variance as continuous differences in *degree*, rather than as categorical differences in *type* (Ang, 2016, Ch 1). Failing to recognize categorical differences has serious policy and practical implications. In the context of psychology, it is like measuring human intelligence only according to scores on standard IQ tests and ignoring other types of intelligence that are not captured by such numerical tests.[5] In public administration, measuring the quality of bureaucracy only by Weberian standards means that all deviations found in developing countries – such as the prevalence of personal relationships and self-financing (or what Weber termed "prebendal") practices – are perceived as defects that must be quickly eradicated and replaced by Weberian best practices. Numerous studies, however, show that transplanting best practices in developing countries often backfires, creating a stubborn dissonance between formal rules and actual practices (Riggs 1964; Rodrik 2007; Andrews 2013).

In order to advance the study of public administration in developing countries and to formulate meaningful reforms, we need to first conceptualize more than one ideal type of bureaucracy. Without such an alternative, we will continue to conceive of institutional features in developing contexts as either "Weberian" or "not Weberian" (or in the analogy of psychology, as "smart" or "dumb"). Lacking such an alternative, we cannot accurately describe the many anomalies that are observed in developing contexts. As Riggs wrote over half a century ago:

> Can we identify the kind of transitional administrative system that exists today in reality? I think we can, but to do so we shall have to employ some new words and concepts which cannot be found in the standard literature on public administration (Riggs 1964, p. 10).The objective of this article is precisely to introduce these "new words and concepts" by outlining an alternative ideal type of bureaucracy found in China.

The model of bureaucracy witnessed in China is essentially a regulated and relatively disciplined mutation of prebendal public administration. Following Weber, a prebendal administration is one that finances itself through extraction (such as by exacting fees), rather than by receiving stable budget appropriations from the state. This description alone might lead us to cast prebendalism as corruption because an administration that finances itself through extraction must be susceptible to abuses of power. I submit, however, that there are distinct advantages to prebendalism that have been overlooked. Akin to corporate franchising (or contracting), prebendalism is a high-powered incentive scheme, wherein public agents are highly motivated to finance themselves. Of course, in developed countries, there is no need for public agencies to participate in such a scheme because governments can afford to pay them. In developing countries and among local governments in China, however, budgetary shortages are the norm. In this context, public agents who are motivated to self-finance actually present an advantage to governments. The internal rules of revenue-generation and budgeting within the Chinese bureaucracy were evolved to incentivize self-financing while mitigating its risks.

To interpret the Chinese case in generic organizational terms, I apply concepts from neo-institutional economics. Following the classic work of Coase (1937) and Williamson (1975), neo-institutional economists posit two alternative modes of organizations: markets versus hierarchies. As they indicate, neither of these models is inherently superior to the other; whichever model is better depends upon the type of transactions involved. Extending this logic to public administration, the Weberian model is not always the best. Advanced market economies require predictable, non-extractive administration, so in this context, the Weberian model is ideal. Developing and transitional economies, on the other hand, require bureaucracies that can finance their own operations entrepreneurially and that can take initiative to overcome capacity and resource constraints. In this context, China has evolved an alternative ideal type of bureaucracy that I term *bureau-franchising*, the hybrid of a hierarchical appointment structure with the high-powered incentives of franchising (or contracting).

The article will proceed as follows. Applying a neo-institutional framework, the next section lays out the distinction between the Weberian and bureau-franchising ideal types. In this section, I also underscore the important differences between New Public Management (i.e. reforms that introduce corporate practices into public administration in Western developed countries) and China's bureaucratic practices. I then detail four concrete features of bureau-franchising, drawing on extensive interviews. Finally, I conclude with questions for further research.

2. Two ideal types of public bureaucracy

2.1. The Weberian ideal type

In his incisive study of the modernization processes taking place in Western Europe, Weber pointed to the emergence of a new bureaucratic species and ideal-type. In contrast to pre-modern institutions of governance, modern bureaucracies are "legal-rational." As Weber observes, such organizations are rule-bound, specialized, hierarchical, meritocratic, and above all, salaried. In salaried organizations, civil servants receive sufficient and regular wages from state budget allocations – in exchange, they are barred from exploiting the prerogatives of office for personal gain, such as by taking bribes or pocketing public revenue. In Weber's terms, modern public officials are not allowed to have "ownership of the means of production or administration" (Weber 1968, pp. 218–219).

Although the legal-rational and salaried characteristics of bureaucracy are taken for granted by scholars of public administration in developed countries, it is worth reminding that such qualities are a novelty in the long history of human development.[6] As Weber points out, from a historical perspective, state bureaucracies prior to modernization were traditionally *patrimonial* (governed on the basis of personal relationships and loyalties) and *prebendal* (self-financed through rent extraction). Imperial governments and feudal lords rarely paid their public servants regular wages for their services. Instead, political agents were assigned "prebends" – licenses to extract rent from public office as "forms of maintenance." Prebendalism has been practiced throughout Chinese history (Zelin 1984). Up until the late Qing dynasty, as one historian describes:

> Salaries failed to cover the real costs of obtaining and holding office, [and] officials, as a matter of course, resorted to collecting fees (*guifei* or *lougui*) from their subordinates or the people in their jurisdictions (Hickey 1991, p. 389).

While contemporary observers instinctively equate prebendalism with corruption, such practices do offer certain advantages in the context of pre-modern governance. Weber explains that the absence of a stable tax collection system and a sufficiently monetized economy made it too burdensome for rulers to pay administrators regular wages in money. Instead, by allowing officials to finance themselves through prebends, "the lord can transfer the trouble of transforming his income-in-kind into money-income to the officer-farmer" (Weber 1968, p. 965). Restated in modern language, Weber means that instead of operating an in-house bureaucracy, rulers found it more cost-effective to outsource public administration to individual contractors.

Although prebendal arrangements presented certain advantages, they also posed obvious risks. Given that prebendal officials were allowed to keep a share of income generated through the exercise of public duties, they had incentive to maximize extraction. This provoked regular spells of over-taxation and hence popular rebellion. Furthermore, extraction in prebendal administrations was rarely constrained by legal codes. Instead, it rested on the whims of lords and officials, making demands for payment unpredictable to entrepreneurs and subjects. These conditions undermined the expansion of modern states and markets.

Hence, as Weber famously posits, the rise of modern capitalism requires legal-rational bureaucracy as its foundation. Consistent with this claim, cross-national studies report a strong correlation between the "Weberian-ness" of public administration and economic wealth (Evans & Rauch 1999). Case studies of East Asian developmental states maintain that effective state promotion of the economy required the establishment of Weberian agencies as a precondition (Johnson 1982; Wade 1990; Evans 1995; Kohli 2004). Furthermore, Weberian features are still regarded as an essential element of state capacity (Centeno *et al.* 2016). These modern interpretations of Weber's theory reiterate the belief that there is indeed only one ideal type of bureaucracy, against which the functions and quality of other bureaucracies should be evaluated.

Yet a closer reading of Weber's essays reveals a more nuanced perspective, one that Weber himself underscores: although the characteristics of the Weberian model fit the demands of modern industrialized markets particularly well, this model may not be ideal for all environments. To understand this point, it is useful to re-interpret the Weberian model in abstract neo-institutional terms, namely, as comprised of transactions, incentives, and risks.

2.2. Interpreting the Weberian model in neo-institutional terms

Neo-institutional economics (also known as "the new economics of organization") takes contracts as the starting point of organizational analyses (Moe 1984). Coase's (1937) classic theory of the firm asks why some transactions take place in the market between firms and others within a firm. In other words, Coase puzzled over the relative value of market transactions over internal authority structures. The answer proposed by Williamson (1975) is *transaction costs* – that is, difficulties that arise in completing transactions. One common transaction cost takes the form of *opportunism*. Individuals may seek to benefit from an exchange at the expense of the other party through deception or concealment. Opportunism is, as Williamson defines it, "a lack of candor or honesty in transactions… [or] self-interest seeking with guile" (Williamson 1975, p. 9).

According to the neo-institutional framework, there is an inherent trade-off between market transactions and authority structures. This is sharply illustrated by a comparison of two corporate models: direct ownership versus corporate franchising. Franchising approximates a market-based transaction. For example, McDonald's is a franchise that contracts the right to operate its fast-food stores to a network of franchisees, private entrepreneurs who are entitled to keep a share of profits generated by their individually owned stores. Direct ownership is a hierarchical model, in which a company hires salaried managers to operate its stores, as seen in Comet Coffee, a locally owned coffee shop in Ann Arbor. As Comet Coffee's employees do not claim a share of profits earned, they are less likely than McDonald's franchisees to be strongly motivated to earn profits. However, salaried employees in directly owned companies are less likely to "game" headquarters to maximize their personal gain. It is also easier to directly monitor and control employees than franchisees, who own the stores they manage.

Stated generically, market transactions offer the advantage of high-powered incentives, while hierarchical structures offer the benefit of lower risks. Market transactions – as exemplified by franchising – supply *high-powered incentives* insofar as efficiency gains flow directly to the transacting parties in the form of retained profits. Authority structures – as in the case of direct ownership – supply *low-powered incentives* as employees benefit only indirectly from the organization's financial gains, such as through promotions or pay raises. However, market exchanges pose a greater risk of opportunism, whereas authority relations provide more control and predictability.

In other words, neo-institutional theories make clear that neither the market-based nor hierarchical mode of organization is inherently superior. Whichever model is preferable depends upon the goals and constraints of a given organization and its tolerance for risk. Can we extend the neo-institutional argument about corporations to the public sector? Moving on, I will demonstrate that the Weberian model is not the only ideal type of bureaucracy, but rather one of two ideal types, each of which present different pros and cons.[7]

2.3. Bureau-franchising: An alternative ideal type

To picture the Weberian ideal type in contrast to the bureau-franchising model, I begin by disaggregating two types of transactions in the public sector: financial relations and personnel relations. Financial relations pertain to whether a government funds public service providers with high-powered contracting rights (market) or low-powered fixed budget allocations (hierarchy). Personnel relations pertain to whether a service provider relates to the government in the role of a private contractor (market) or as a public employee who is appointed within the political apparatus (hierarchy).

The two dimensions of financial and personnel contractual relations generate four configurations of public sector organization, as illustrated in Figure 1. The top left quadrant is private contracting, which involves purely market-based financial and personnel transactions. Private contractors are entitled to profits earned from the provision of public

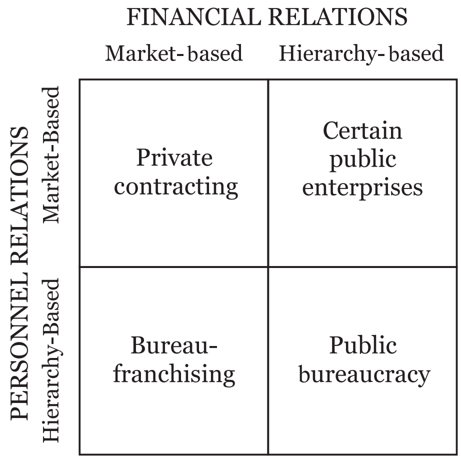

Figure 1 Bureau-franchising: Mixing market and hierarchical features.

services. The bottom right quadrant represents public bureaucracy, staffed by public employees whose salaries are paid through budget allocations. The top right corner captures those forms of state enterprises in which employees are not directly appointed by the government but are paid fixed wages regardless of the firm's performance. Finally, the bottom left corner is what I term bureau-franchising, a hybrid structure that fuses market-based bureaucratic financing with hierarchical personnel control. In a bureau-franchising model, the service providers are public employees. Yet like private contractors, they can profit from the provision of administrative, regulatory, and public services.

Whereas the Weberian model is an ideal type that features low opportunistic risks and low-powered incentives, the bureau-franchising model offers the advantage of high-powered incentives accompanied by the disadvantage of high opportunistic risks, as summarized in Table 1. The bureau-franchising model has clear historical precedents, as Weber observed. Prebendal bureaucrats were essentially entrepreneurs who delivered administrative services in exchange for state-assigned rights to keep a share of income earned.

Prebendalism extends into the context of reform-era China but with certain sharp departures from the past. First, the modern, authoritarian regime under the Chinese Communist Party (CCP) has greater control over public personnel than did previous imperial governments. For example, the Qing government ruled over a vast territory with a remarkably small cohort of magistrates, who informally recruited local clerks and runners to conduct the daily tasks of governance (Reed 2000). In modern-day China, civil servants and public employees of extra-bureaucracies can be clearly identified through a centralized personnel system, connected level by level (Landry 2008).[8] Second, as the economy took off during the reform period, the CCP developed a higher capacity for monitoring the transactions of rank-and-file bureaucracy, including by incorporating technology in daily operations, which was simply not available in the past.[9] Third, as China transitions from central planning to a market economy, there are more creative schemes of prebendal financing than were imaginable during the dynastic ages.

The bureau-franchising model, as it appears in contemporary China, has the advantage of powerfully motivating local agencies and public services providers to self-finance. This advantage is especially salient in the context of fiscal decentralization since 1978, during which time local governments were expected to be responsible for financing nearly all of their own administrative expenses. The fiscal reform of 1994 further heightened sub-provincial budgetary

Table 1 The Weberian model versus bureau-franchising

	Weberian Model	Bureau-Franchising
Advantage	Low-powered incentives	High-powered incentives
Disadvantage	Low opportunistic risks	High opportunistic risks
Organizational structure	Fully state-funded public employees who do not own the means of administration	Partially or fully self-funded public employees who own the means of administration
Corporate equivalent	Within-firm supply of services	Outsource services to other firms on the market
Personnel skills	Rule-abiding, honest, predictable	Entrepreneurial, self-motivated, risk-taking

pressures. Although the 1994 reform clarified the terms of tax sharing between the central and provincial governments, the reform, in effect, recentralized tax revenue without adjusting local spending responsibilities (World Bank & State Council 2013). The resulting dramatic shortfall in local budgets from 1994 onward is evident in Figure 2. In addition to revenue shortages, local governments faced the political pressures of having to feed an ever-enlarging bureaucracy and deliver ever more public services. By 2007, the total number of public employees (excluding employees in state-owned enterprises and the military) reached almost 49 million, equivalent to the entire population of South Korea (Ang, 2012). An average county government has to finance about 20,000 public employees. These constraints compelled local governments to encourage their bureaucracies to be as financially “self-independent” as possible. In short, a combination of financial pressure and newly acquired institutional capacities in the reform era have propelled China to maintain but also regulate prebendal practices.

2.4. Bureau-franchising versus New Public Management

Some scholars who study public administration in developed countries may contend that bureau-franchising, as I have outlined, is nothing new. New Public Management (NPM), which rose to fashion in Western countries like the United Kingdom (UK) and New Zealand in the 1980s, similarly promoted “corporate” reforms in the public sector, including performance pay and contracting of public services to private actors. On the surface, it seems that NPM and its variants constitute an alternative ideal type of bureaucracy. In fact, the two administrative models – bureau-franchising and NPM – could not be more different.

New Public Management is a set of reforms tailored to *developed* countries that long ago established stably paid Weberian bureaucracies. In this context, it is taken for granted that public administration will be adequately financed and that state budgets will be predictably executed. With such capacities already in place, NPM was introduced to improve efficiency and quality of public services (Lane 2000). Performance pay under NPM entailed awarding bonuses to individual public employees based on subjective evaluations, usually by supervisors, of their performance, such as quality of work and relationship with the public (Marsden & Richardson 1994). Under NPM, contracting entailed devolving public services provision to wholly private entities (Walsh 1995).

By contrast, as we shall see in greater detail, bureau-franchising was evolved in the context of a *developing* country, where local agencies are not stably and adequately paid and professional staff are frequently lacking. The overwhelming priority of administration was simply to make ends meet (or as Chinese bureaucrats put it bluntly, to “eat”), including to pay personnel wages and utility bills. Until such basic concerns are resolved, improving the quality of public services is a noble but remote concern. In contrast to the U.K. and New Zealand, performance pay in China entailed respective

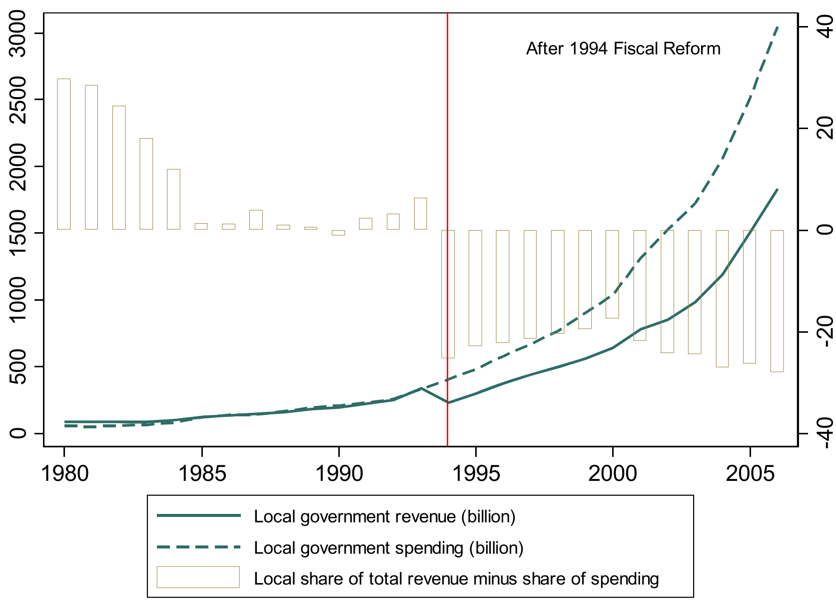

Figure 2 Local government revenue and spending before and after 1994.

agencies taking a direct cut of income earned and distributing it among staff members; evaluation of performance was based objectively on the amount of money made and not on subjective criteria like "customer service." Furthermore, contracting meant devolving service provision to the subsidiaries of public agencies that maintain a patron-client relationship with regulators, not to private parties through a competitive bidding process.

The story of bureau-franchising speaks to the unique challenges and often quirky coping strategies of public administration in developing countries, whereas NPM involved reforms that are tailored to developed countries. Indeed, as Manning concludes in a review article, "It is certainly commonplace for weary consultants and development agency staff to maintain that there is little in the NPM technical/managerial amalgram that is appropriate for the politicized public sectors in many developing countries" (2001, p. 297). In short, the study of public administration in developing countries calls for an ideal-type of its own.

3. Four concrete features of bureau-franchising

Having outlined the characteristics of the bureau-franchising model in contrast to the standard Weberian model, I now proceed to describe four concrete features of bureau-franchising, as seen in China. My findings draw on in-depth fieldwork and 284 interviews with street-level bureaucrats that focus on uncovering the actual practices – rather than the prescriptive rules – of financing among local public organizations.

1 A bifurcated state structure comprised of a small core of bureaus and a sprawling periphery of extra-bureaucracies
2 Bureaucracies generate nontax revenue to supplement basic budget allocations
3 Bureaucracies are sanctioned by state-legislated "policy awards" to generate revenue
4 Bureaucracies exercise partial ownership rights over generated revenue

3.1. Bureaus and extra-bureaucracies

Existing analyses of Chinese bureaucracy tend to feature either local governments as a homogeneous whole or various offices that appear on official organizational charts. In fact, if we further disaggregate the bureaucracy, we will find a bifurcated party-state structure at all levels of government, comprising a small core of party and state organs, termed "administrative units" (*jiguan danwei*) and a sprawling periphery of extra-bureaucracies or "service units" (*shiye danwei*). About 80 percent of public employment is concentrated in the extra-bureaucracies. Thus, *shiye* units are rightly described as "a big shadow of the Chinese state" (Lam & Perry 2001, p. 20).

Administrative units (*jiguan danwei*) perform the tasks of planning, administration, and regulation. They include party organs responsible for political affairs (e.g. Organization Department) and governmental organs that formulate economic and social policies (e.g. Finance Bureau, Public Security Bureau, Development Commission, and Education Bureau). In this analysis, I refer to administrative units as "core bureaus."

Compared to the core bureaus, *shiye danwei* is a poorly defined and frequently misunderstood entity. This Chinese term has been variously translated into "business units" (Barnett & Vogel 1967), "institutional work units" (Cheng 2001), "semi-governmental organizations that perform social functions" (Tang & Lo 2009), "government-funded not-for-profit organizations" (Yang 2004), and "public service units" (World Bank 2005). I choose to translate *shiye danwei* as extra-bureaucracies to capture its operational reality and analytic significance – all *shiye danwei* are attached and subordinated to a particular core agency. The term comes from historical studies that referred to local elites and tax farmers in China who performed state services but who were not formally appointed officials as "extra-bureaucracies" (Rankin 1993). Examples of extra-bureaucracies under various party and state bureaus are listed in Table 2.

In principle, extra-bureaucracies should not have regulatory powers or profit-making motives (Cheng 2001). But it is important to separate principle from reality. As Lam and Perry aptly describe, extra-bureaucracies "only provide services to their administrative bosses" (2001, p. 27). These services may be public or private in nature. Extra-bureaucracies may administer, deliver free public services, provide charge-based services, or a mixture of the above. Extra-bureaucracies include conventional public service providers, such as public schools and public hospitals. But they also include amorphous entities engaged in regulatory enforcement and semi or purely commercial activities.

Extra-bureaucracies in China must be distinguished from purely private providers. The employees of extra-bureaucracies, termed *shiye renwei*, are public employees assigned an administrative rank, whose dossiers belong in

Table 2 Extra-bureaucracies under selected bureaus and by funding category

Core Bureau	Selected Extra-bureaucracies	Funding Category
Party hierarchy		
Party committee office	Party history research office	State-funded
	Archives office	State-funded
	Service center for inspecting methods of protecting confidential data	Self-funded
Publicity office	Lecturing team	State-funded
	Newsroom	Self-funded
State hierarchy		
Legal affairs office	Office of arbitration committees	Partially state-funded
	Legal services center	Partially state-funded
Economic and trade commission	Energy inspection station	Partially state-funded
	Management office of the electronics sector	State-funded
	Chemicals research institute	Partially state-funded
Transportation bureau	Station for monitoring traffic volume	Self-funded
	Management center for the Great River Expressway	Self-funded
	Management center for the 105 National Expressway	Self-funded
Health bureau	Center for health inspection	State-funded
	Blood center	Self-funded
	City hospital	Partially state-funded

Source: *Yearbook of the Establishment Office of Liaocheng City, Shandong Province.*

the state sector, and who may be transferred into the formal civil service if they hold *chu*-and-above ranks. Extra-bureaucracies must also be distinguished from state-owned and collective enterprises (Oi 1999). These enterprises are directly engaged in production and are supposed to generate profits; they do not receive budget allocations from the government (although they may receive financial bailouts if losses are incurred). By contrast, extra-bureaucracies are public organizations that primarily provide services, rather than manufactured goods. Additionally, extra-bureaucracies should, in principle, receive regular budget allocations from the state and not pursue profits.[10]

Extra-bureaucracies are an essential component of the bureau-franchising model because, in effect, they are the contracting arm of the core civil service. Under the Qing administration, a small number of officially appointed magistrates governed a vast territory by contracting governing services to a large network of local and unsalaried "clerks and runners," described by Reed as "talons and teeth" who "cannot be dispensed with even for a day" (2000, p. 169). Extending history into the reform era, *shiye danwei* are the modern-day "talons and teeth." These organizations perform a range of services on behalf of often understaffed core bureaus, and also rely on privileges and protections provided by the core bureaus to generate income.

Note that, unlike private contractors featured in the NPM model of developed countries, extra-bureaucracies in China are unequivocally public organizations. The heads of *shiye danwei* are often appointed or nominated by the supervising core bureaus. Extra-bureaucracies also do not have to go through competitive bidding processes; instead, the government typically assigns the delivery of public services.

3.2. Basic budget allocations versus extra nontax revenue

Both in principle and in practice, Chinese bureaucracies are not purely salaried. This reality goes against textbook descriptions of public administration:

> The typical bureau receives a budget from governmental superiors and spends all of it supplying services to a non-paying clientele. Regardless of the agency's performance or how it changes over time, the results are not reflected in an economic surplus accruing to bureau heads (Moe 1984, p. 763).

For example, in the US, the Department of Motor Vehicles (DMV) expects to receive most if not all of its income from state budget appropriations. DMVs do collect fees, but the revenue they collect is channeled to the state treasury, not to the departments' own coffers. Hence, the DMV does not have the profit incentives of business corporations, as Wilson states matter-of-factly:

> A McDonald's manager can estimate the marginal product of the last dollar he or she spends on improving service; the Registry manager can generate no tangible return on any expenditure he or she makes (1989, p. 135).

Whereas the norm in the US is that nearly all public bureaucracies are fully state-funded, China's bureaucracies are formally divided into three fiscal categories: fully-funded, partially-funded, and self-funded. Fully-funded units receive full state funding for basic budgetary needs; partially-funded units receive some financial subsidies from the government; and self-funded units are expected to generate their entire income. Nationwide, as summarized in Table 3, about five percent of public employees are entirely self-funded, while the remainder are partially or fully self-funded. Table 1 lists examples of extra-bureaucracies by funding type.

Budget allocations from the state usually only cover essential budgetary needs, excluding staff benefits and frills. As one official from the Finance Bureau stated metaphorically, "Budget allocations are used to deliver coals during snow, not to add blossoms to silk."[11] Typically, being "fully state funded" guarantees that only basic operational costs and staff wages are covered. Thus, even fully-funded units, such as public schools and regulatory agencies, often come under financial stress. Furthermore, it is not unusual that nominally state-funded units receive no budget allocations in practice. For example, I encountered a city-level Tourism Bureau that was supposed to be a fully-funded agency, but was in fact entirely self-financed by the remittance of income from its cluster of extra-bureaucracies until 2001.[12]

Bureaucracies that hope to disburse extra staff bonuses, allowances, and benefits, or to construct new office buildings must generate extra income in the form of "nontax revenue" (*feishui shouru*). Whereas taxes are revenue collected by national and local tax agencies according to national tax laws, nontax revenue is a residual category of public finance. The Chinese term *feishui* literally means "revenue other than taxes." Nontax revenue is collected in a decentralized manner by bureaus and extra-bureaucracies of all stripes. Table 4 lists six categories of nontax revenue, with fees, fines, and user charges being the most common types.

Let me describe examples of nontax revenue in the construction sector, which is a notoriously "greasy" segment of the bureaucracy. The Construction Bureau is enriched by its power to collect an array of regulatory fees, as one Finance Officer described:

> The Construction Bureau collects so many fees! Inspection fees, construction fees, proxy fees, bidding fees, monitoring fees. Whenever a state agency can issue approvals, it is greased. Monitoring fees, have you heard of that? This is collected by an extra-bureaucracy under the Construction Bureau. Bundled services fees, have you heard of that? Fees for providing a bundle of services: fire protection, electricity, and heating. Last but not least, lightning rod fee, have you heard of that?[13]

It appears that even in wealthy localities, all bureaucracies generate varying amounts of nontax revenue. When I asked a Finance Officer whether there were any "purely" state-funded agencies in his county, he responded with revealing hesitation:

> Pure ones? Almost none… Organizations in the judicial system [such as courts] should be pure… but wait… Actually, even they are not completely pure. Well, the financial needs of the party committee and government secretariat should be guaranteed… But then again, they are not entirely pure too.[14]

The important question is: How do bureaucracies generate nontax revenue to finance themselves? Are they bound by rules? Importantly, whether at central or local level, the government has an interest in seeing that individual agencies

Table 3 Public employees by funding category, 2003

	Partially or fully state-funded	Entirely self-funded	TOTAL
Core bureaus (*jiguan danwei*)	8,926,450	96,733	9,023,183 (19.4%)
Extra-bureaucracies (*shiye danwei*)	35,199,835	2,312,272	37,512,107 (80.6%)
TOTAL	44,126,285 (94.8%)	2,409,005 (5.2%)	46,535,290

Source: *Local Public Financial Statistics*. Percentage over total indicated in parenthesis.

Table 4 Six categories of nontax revenue collected by local bureaucracies

Item	Examples
Earmarked revenue	Pollution levies; education surcharges; revenue from lotteries
Administrative and user charges	Various licensing and registration fees
Fines	Fines by public security, commerce, and family planning bureaus
Profits from operating state assets	Investment income from state assets
Profits from charges for use of state assets	Rental income
Other revenue	Donations; township self-raised funds

Source: *State Budgetary Revenue and Expenditure Catalog* (2008), Ministry of Finance

self-finance without resorting to lawless extortion. Hence, the state assigns what I call *policy awards* – revenue-making privileges – to its bureaucracy, which are examined in the next section.

3.3. Policy awards that license self-financing

A popular saying in China is: "the state may not be able to give money, but it can grant policies." What does this mean? One officer explained: "Giving policies not money happens when the government wants to get something done but budgetary funds are insufficient."[15] Put simply, policy awards are privileges assigned by the government to various departments to generate funds in lieu of budget allocations. Importantly, such funds are generated in the name of providing public services; hence, they are distinguished from privately pocketed bribes (Manion 1996), illegally extracted monies (Lu 2000), and profits earned by bureau-operated small businesses (Duckett 1998).

Policy awards are derived from three sources: the central governmental authority (typically the State Council), central-level ministries and commissions, and local party-state leaders (see also, Manion 2004, p. 102). Central-level ministries and provincial governments enact policy awards that apply at all levels of government. Sub-provincial governments can "employ [policy] decisions by upper levels with flexibility."[16] For example, the Anhui provincial government allowed public schools in the province to enroll students on a tuition-paying basis, but the condition was that fee-paying students could not make up more than 70 percent of enrollment.[17] In another instance, the Jiangsu provincial government allowed tax bureaus to retain a percentage of tax collections as commission. County governments within the province may adjust the commission rate based on local economic conditions.[18,19] Policies devised by upper level authorities powerfully shape local bureaucratic behavior. Although some depict local agents as persistently defiant of central policies, local authorities reflected that they are in fact "constantly awaiting instructions from above."[20]

One form of policy award sanctions the collection of fees and fines. To understand how these policies work, earlier reports of bureaucratic predation need to be updated in light of new institutional reforms. During the 1980s and 1990s, state agencies throughout China were notorious for the problem of "three arbitrary practices" (Wedeman 2000; Manion 2004, pp. 101–102). In township and village governments, the "three arbitrary practices" became a source of peasant burden and protest (Bernstein & Lü 2003). Over the last two decades, however, many rationalizing institutional improvements were made within the Chinese administration (Yang 2004). But these reforms have not in fact abolished prebendal practices; instead, they have disciplined the procedures of generating and spending nontax income within local governments.

As local officials explained, policy awards sanctioning the collection of fees and fines range from "soft" to "hard."[21] According to the administrative licensing law, the hardest policies are central and local licensing (*xuke*) provisions. Licensing provisions must have a clear legal justification for collecting fees and fines and require a one-year probation period before they are deliberated at the central or local people's congresses. These provisions become permanent only after they are passed. The next, softer provisions are assessment (*shenpi*) provisions. These are provisions that are not yet passed by the legislature but are still legally valid. Finally, the softest policies are "red-stamped documents," named after the bright red department stamp on the letterhead of official state documents. These are rules issued by regulatory agencies without higher-level or legislative endorsement.

One example of a hard policy award backing the collection of fees and fines is the notorious case of the steamed bun offices in Zhengzhou City of Henan province. Zhengzhou City established a Steamed Bun Office at the city level and five in each of the county governments below. What do Steam Bun Offices do? City leaders professed a need to establish specialized offices to manage steam bun production. The city government issued Provision No. 93, titled "Temporary Provisions on Zhengzhou City's Steamed Buns Production and Sales Management." The provision was passed by the city government's 14th people's congress and signed by the mayor. It authorized the Steamed Bun Offices to issue steamed bun production permits and to fine producers from 3,000 to 20,000 yuan for not possessing the permit. This story of Zhengzhou's steamed bun offices illustrates the endorsements from multiple formal institutions that authorize fee collection.[22]

A second variety of policy awards are monopoly privileges in the provision of public or commercialized services. Extra-bureaucracies thrive financially on delivering quasi-monopolistic services, such as utility supply, greening, tour services, media publications, private security, administration of examinations, and environmental impact assessment. The supply of heat is one example of a completely monopolized service. State provisions mandate that heating services for residential and commercial properties must be centrally supplied. In the county of Tianjin, the Construction Bureau described the Heating Office as its "greasiest" extra-bureaucracy. The Heating Office collects 20 yuan for every square meter of property for which heat is supplied. Its income could add up to "hundreds of thousands" and "even 10 million dollars a year."[23] A similar logic applies to the Greening Office, under the charge of the Forestry Bureau, which one bureaucrat described as follows: "The Forestry Bureau regulates greening. It can say 'you cannot touch this tree,' but then they can touch it themselves."[24]

To clarify the source of these monopoly privileges, I extend the concept of policy awards to capture revenue-making ties between core bureaus and extra-bureaucracies. Core bureaus and extra-bureaucracies share what may be termed a patron-client relationship. Extra-bureaucracies feed on "administrative protection" provided by their supervising bureaus. Such protection may come in the form of explicit legal provisions or the covert exercise of political influence (Lin & Zhang 1999; Lam & Perry 2001). In exchange, extra-bureaucracies are often obliged to remit revenue to the core agency or simply pay its bills. Relations are so tightly enmeshed that extra-bureaucracies often refer to their supervising agency in familial terms as "father," "mother," or even "mother-in-law."

Policy awards may be likened to contracts awarded by the government to public bureaucracies to provide services in exchange for the right to generate income from office. Following Weber's historical accounts, policy awards in the Chinese context parallel "prebends" assigned by feudal rulers to unsalaried officials as in-kind compensation. However, one key difference between Weber's descriptions of prebendal practices and bureaucratic self-financing in contemporary China is the degree of institutionalization and state regulation of these practices. This difference is apparent when we examine the actual budget allocation procedure within local governments.

3.4. Partial ownership of income earned

While Chinese bureaucracy is not unusual in its collection of fees and charges, it is unusual in that agencies and extra-bureaucracies exercise rightful claims over part or even all of the income they generate. In this way, China's public organizations bear some semblance to corporate franchisees in the modern context and to tax-farmers in the pre-modern context. Even more unusual is that the income rights of these local agencies are enforced in the budgeting process. Below I sketch a micro-level view of the budgeting process, which leads up to a central observation: in practice – although not in principle – the size of each office's budget is directly linked to the amount of nontax revenue generated.

3.4.1. Determining basic budget allocations. Within each local government, each core bureau and its extra-bureaucracies form a collective unit of negotiation during the budgeting process. The Finance Bureau has to determine budget allocations for each collective unit. It begins by considering the official fiscal category of the bargaining party, that is, whether it is fully, partially, or self-funded. It also evaluates the number of officially approved positions (*bianzhi*), which the government is obliged to finance. The Establishment Office assigns a certain number of *bianzhi* to every unit. Individuals employed beyond the *bianzhi* are considered non-official public employees, and are normally excluded from the Finance Bureau's assessment of a unit's basic expenditure.

During negotiations, the Finance Bureau will adjust actual budget allocations according to the ability of a given unit to generate extra, nontax revenue. One Finance Officer explained with an analogy:

> Budget allocations are supposed to fill a whole cup. But if one cup has a tiny pipe [of financial resources] flowing into it, then we [in making budget allocations] need not fill the whole cup.[25]

One may ask, if earning extra revenue reduces the sum of a department's budget allocation, wouldn't this informal budgeting norm reduce incentive to generate income? It wouldn't because basic budget allocations are generally modest. An agency that generates extra revenue will enjoy net gains that can far exceed what the state provides.

3.4.2. Centralized deposit of generated revenue. In order for the Finance Bureau to make budget allocations, it must first command accurate information about the amount of nontax revenue that each department earns. And in order for audit and disciplinary authorities to prevent arbitrary and excessive extraction of monies among local agencies, mechanisms need to be in place to track the collection and spending of public revenue. Such mechanisms of fiscal control and management were weak or virtually non-existent during the 1980s and 1990s. Local agencies simply "collected and spent" (*zuoshou zuozhi*), with minimal oversight from the higher levels or financial authorities. This is why, during the early decades of reform, practices of bureaucratic self-financing became synonymous with corruption and illegal behavior – an impression that continues to stick.

However, when Zhu Rongji came to office as Premier in 1998, he launched a comprehensive program to modernize the bureaucracy. Among the many reforms implemented, the creation of centralized treasury management accounts is one of the most significant yet least understood institutional changes (Ang 2009). Traditionally, state bank accounts were fragmented not only between levels of government but also among departments within each level of government. Under this traditional system, bureaucracies were allowed to set up individual transitory accounts, known popularly as "small treasuries," to deposit collected monies (Wedeman 2000). As these accounts were fragmented, it was nearly impossible for finance authorities to track monetary flows, much less control them.

Through treasury management reform, which was first piloted at the central level and then gradually extended to the subnational levels, the reformers took the first step of working with banks to abolish transitory accounts. From then on, all public organizations were required to submit revenue collections directly into a consolidated treasury account, which included a separate account for nontax revenue. At both the central and local levels, direct payment systems were established that allowed finance authorities within each level to make payments to vendors on behalf of various departments, thereby eliminating cash transactions that were notoriously difficult to trace. In addition, city and county governments throughout China established one-stop administrative services centers, where citizens paid administrative and service fees at on-site banks, which were remitted directly into authorized state accounts, thereby obviating cash payments to street-level bureaucrats.

To be clear, the post-1998 administrative reforms cannot completely eradicate theft or the misuse of public funds. Even in developed nations, mechanisms of fiscal and budgetary control are imperfect. Nevertheless, the incorporation of technology and reduction of cash payments has vastly improved state control over the finances of myriad bureaucracies. These changes set the stage for the adaptation of budgetary norms within local governments.

3.4.3. Pegging revenue to budget allocations in practice. One major budgetary reform accompanying the creation of a centralized treasury management system is known as "separating revenue and expenditure" (*shouzhi liangtiaoxian*). In principle, this policy aimed to delink budgetary allocations from the amount of revenue earned, and in doing so, remove extractive incentive. One observer optimistically concludes:

> With the emphasis on the separation of revenue and expenditure, government agencies or institutions that collect fees and levies no longer take in the funds themselves… the agencies or offices [that] collected the funds generally lost the right to dispose of the funds collected (Yang 2004, p. 240).

In fact, my interviews reveal a different logic at work. Although financial authorities now commanded dramatically improved budgetary control, individual agencies continued to receive full or partial "refund" of income they earned in the form of larger budget allocations. The term "refund" is a direct translation of the Chinese word *fanhuan*. To "refund" does not mean that the Finance Bureau physically returns funds to the respective offices. Rather, "refund" refers to an internal and typically unwritten budgeting rule, wherein the Finance Bureau keeps track of each agency's earnings (also termed "pots") and then approves budgetary spending based on the size of these pots. One Finance Officer detailed this procedure with an example:

> Say the Price Bureau collects administrative fees. After the fees are collected, they are deposited in an earmarked treasury account. But the right to spend those funds remains with the Price Bureau. If the bureau wishes to use

> the funds to make a purchase, they have to submit a request to the Finance Bureau. If the purchase request is reasonable, we will approve it. However, the spending rights will always remain with individual agencies. The role of the Finance Bureau is to help them deposit and monitor these funds.[26]

In other words, although individual departments may not have direct access to their bank accounts, following the onset of centralized budgetary management, each department continues to exercise "spending rights" (*shiyong quan*) over the income it earns. Recalling Weber's description of prebendalism, this is a concrete display of the "ownership of the means of production or administration" by public agencies – albeit modified in the Chinese context by higher state capacity of bureaucratic monitoring and control.

My interviews suggest that with the exception of entirely self-funded units, most agencies can only exercise partial spending rights. A portion of their revenue had to be surrendered to a general fund for budgetary relocation by the Finance Bureau. The so-called "refund" rate varies by location and by units within each location. For example, in one county in Jiangsu, all of the units were promised a uniform 70 percent refund; in other words, these organizations could count on spending up to 70 percent of their income.[27] In another county in Tianjin, the rate varied from 50 to 100 percent by department.[28] Generally, unused funds may be rolled over.[29] Income generated by these offices constitutes, in a real sense, "surpluses," and not merely "slack" (savings from budget allocations), as Moe describes in the context of American bureaucracy (1984, p. 748).

The key question, of course, is why would finance officials continue to peg budget allocations to revenue earned if collected monies are deposited in a centralized account and thus fall under their direct control? The answer is a simple incentive problem. As one Finance Officer explained:

> The financial burden of our county would be too large otherwise. If we agreed to fund all the departments fully, then they would have no motivation to generate revenue for themselves.[30]

Indeed, a related and intriguing insight offered by another Finance Officer is that the security of refund agreements between the Finance Bureau and other offices correlated with local financial pressures. According to him, Chinese people tend to avoid putting verbal agreements down in writing for cultural reasons; however, he was certain that written documents on the refund procedure "definitely exist" in poor central and western locales. Why is that? In his words, "Incentives are stronger when rules are written down."[31] Put differently, financially strapped locales more desperately need their agencies to self-finance, which leads these local governments to guarantee formal and stronger property rights.

3.4.4. Greasy versus distilled water agencies. Returning to my opening anecdote of the county government in Shandong, it should be no surprise by this point that some agencies are openly wealthier than others, even within a single locale. Even though the allocation of budgets for basic expenditure and civil service pay is uniform across departments, some departments enjoy larger budgets and more lavish staff benefits. Colloquially, wealthy organizations like the Construction Bureau and its extra-bureaucracies are known as "greasy offices" (*youshui yamen*), whereas those with pittance budgets are dubbed "distilled water offices" (*qingshui yamen*). Some observers claim that Chinese agencies are not afraid to show off their consumption because the central government deliberately tolerates "embezzlement" in order to deter bribery (Fan *et al.* 2010). Such a claim misunderstands the internal bureaucratic rules and context in China. Agencies like the Construction Bureau do not need to hide their relative opulence because they exercise rightful claims to income they generate from public office, claims that sanctioned by state rules.

4. Conclusion

This article proposes an alternative ideal type of bureaucracy, termed bureau-franchising. Drawing upon my fieldwork in China, I have illustrated four concrete features of this model. Whereas the Weberian model is an ideal type that features low opportunistic risks with low-powered incentives, the bureau-franchising model offers high-powered incentives with high opportunistic risks. Insights from neo-institutional economics suggest that no single organizational form is universally ideal. Weber is right that legal-rational bureaucracy provides the best fit for modern capitalist markets, which demand predictable administration. In developed economies like the US, public bureaucracies are generally expected to perform routine tasks in an accountable and rule-abiding manner. In developing and transitional economies like China, however, the realities are starkly different. Public agencies constantly struggle to make ends meet. In China, state agents are expected to go beyond the performance of routine responsibilities; they must be entrepreneurial and devise unorthodox, even daring ways to cope with the novel and fast-evolving challenges of their environment. To assume a single ideal-type of bureaucracy is to ignore the vastly different demands that are placed on bureaucracies in established and developing economies.

Having said that, I must clarify that by "ideal type," I certainly do not mean an ideal – desirable – organization. Ideal types serve an analytic ("this is what it would look like if certain attributes were taken to the extreme") rather than a prescriptive function ("we should all adopt this model"). As Weber himself stresses, ideal types "are to be considered merely border cases which are of special and indispensable analytical value, and bracket historical reality which almost always appears in mixed forms" (1968, p. 1002). The bureau-franchising model as seen in China has many problems, which the government, to this day, continues to try to manage. While public employees may be powerfully motivated to be entrepreneurial and financially independent, the risks of extraction and rent-seeking are constantly present. Particularly in the provision of public services, such as education and health care, the Chinese bureaucracy is characteristically profit-oriented, and this fact has exacerbated unequal access to essential services and provoked public resentment.

To use Qian's (2003) term, is the bureau-franchising model a "transitional institution," which that will eventually fade away and transition to the Weberian type? This is a critical question that I elaborate upon in my book, *How China Escaped the Poverty Trap* (Ang 2016). My short answer is that the bureau-franchising model does transition away – but this transition takes place across different parts of China at different times and at different speeds. Twenty years ago in Shanghai, for instance, the bureaucracy closely approximated the bureau-franchising model. Cadres of all ranks were powerfully motivated to pursue economic gains. This mitigated financial constraints and rapidly stimulated the economy, but it also led to extractive problems. Then, as markets grew, local governments in Shanghai became the forerunners of bureaucratic reforms. Today, Shanghai displays a structure of bureaucracy that is more consistent with Weberian norms. For example, district and county governments in Shanghai can afford to fund bureaucracy adequately and thus abolish earlier prebendal practices. However, even in Shanghai, it would be a mistake to think that its bureaucracy has become wholly Weberian. Even among developed nations, categorically different varieties of legal-rational bureaucracy exist. Shanghai's bureaucracy may have shed its prebendal past, but it retains certain characteristics – such as the deliberate fusion of party and administration – that are clearly not Weberian.

One might further ask whether other developing countries display variants of bureau-franchising, as I have described in China. Yes, they do. We usually shrug off these practices as "normalized" corruption. Police corruption in Nigeria is a case in point. In a typically prebendal manner, the Nigerian police have been "subjected to a perpetual crisis of underfunding" (Agbiboa 2015, p. 258). Unsurprisingly, rank-and-file officers have resorted to bribery and extortion to self-finance. While these situations are common throughout the developing world, there are several crucial differences compared to China. There, prebendal activities were carried out at the agency, rather than individual level; these activities became progressively sanctioned and regulated, rather than lawless; and local governments activate the high-powered but risky incentives of prebendalism in order to motivate revenue-generation among state agencies, rather than ignore budgetary constraints. By contrast in developed countries like the U.K., regulatory agencies that adopt "private sector" practices (such as outsourcing services or paying for performance) do not seek to profit their organizations through the exercise of power (Majone 1996; Pollitt & Bouckaert 2000). Indeed, in accordance with the norms of developed countries, such actions would incur charges of corruption and be swiftly punished.

The broader purpose of this article is to underscore the unique problems and characteristics of public administration that exist in developing countries. Normally, when observers find deviations from standard best practices in developing countries, these deviations are written off as corruption, and administrations in these countries are asked to clean up their acts by copying Weberian norms. Such policy prescriptions often make things worse because, as Riggs (1968) points out, these bureaucracies end up adopting only the formality of best practices while retaining informal coping mechanisms. The recurrent result is what some policy experts term "capability traps" (Pritchett & de Weijer 2011). In recent years, such problems have again risen to the fore in criticisms of foreign aid and reform programs that assume a single standard of good governance (Fukuyama 2004; Pritchett & Woolcock 2004; Jomo & Chowdhury 2012). Scholars of public policy need to develop alternative conceptual frameworks and language in order to comprehend the realities that exist in the administrations of developing countries. Only then will we be able to craft policies that fit these societies.

Notes

1 This article draws on interviews with over 284 local cadres, conducted between 2006 and 2011. To maintain the anonymity of these interviewees, I do not identify their name or specific location. Instead, I cite interviews by the year in which the first interview was conducted, followed by an ID assigned to the interviewee. Information about the distribution of these interviews and the implementation procedure is contained in a methodological appendix (see Ang 2016, Appendix B).
2 Interview B2011-275.
3 This assumption is also prevalent in the historical study of non-Western societies, as Hui sharply notes, "When we take the European experience as the norm and non-Western experiences as abnormal, we are led to 'search for what went wrong in other parts of the world'" (see also Wong 1997, p. 210; Hui 2005, p. 9).
4 The WGI includes six dimensions: voice and accountability; political stability; regulatory quality; government effectiveness; rule of law; and control of corruption (Apaza 2009).
5 On the theory of multiple intelligence that has revolutionized education practices, see (Gardner 1983).
6 Prebendal practices were also the norm in England and the US up until the early 20th century (Brewer 1998; Parrillo 2013).
7 Normally, when transaction cost theory is applied to public administration, the issue has been framed as a binary and formal choice that governments face between delivering public services through the private sector (high-powered incentives with high risks) or public bureaucracy (low-powered incentives with low risks) (Moe 1984; Donahue 1989; Acemoglu *et al.* 2008). This debate assumes a clear distinction between private and public organizations, a condition common in industrialized democracies but *not* in developing contexts.
8 For example, the dossiers of all public employees are stored in a separate dossier system, managed by the Personnel Management Bureau at all levels of government; interview B2007-126.
9 One example is the creation of a centralized treasury management system, beginning in the 1990s, which uses electronic technology to track public transactions (Ang 2009).
10 Furthermore, extra-bureaucracies are not equivalent to bureau-operated companies, known as *sanchan gongsi* (tertiary companies; Lin & Zhang 1999, p. 205). Whereas bureau-operated small businesses were an epiphenomenon that faded by the early 2000s, extra-bureaucracies have always been an essential part of China's party-state, even under central planning (Hubbard 1995).
11 Interview B2008-154.
12 Interview B2007–108.
13 Interview B2008-140.
14 Interview B2007-114.
15 Interview B2008-152.
16 Interview B2008-152.
17 Interview B2008-152.
18 The situation in Jiangsu constituted a commission – or tax-farming – system, in which tax agencies took a cut of taxes collected, which, in turn, financed staff benefits. Contrast this with the U.K.'s performance pay system, implemented during the NPM movement. Performance pay was allocated to individual employees based on subjective evaluations of their quality of work, not on the amount of taxes collected (Marsden & Richardson 1994). Indeed, it is unthinkable for the British tax administration to implement a quasi-tax-farming system!
19 Interview B2007-111.
20 Interview B2007-51.
21 Interviews B2007-127; B2007-128.
22 This was reported in "Steamed Bun offices, Watermelon Offices, All Are Troublesome Offices," *Xinhua*, August 4, 2006.
23 Interview B2008-144.
24 Interview B2007-108.
25 Interview B2007-114.
26 Interview B2008-139.
27 Interviews B2007-111; B2007-114; B2007-116; B2007-117.
28 Interview B2008-139.
29 Interviews B2007-114; 115; 116; 117.
30 Interview B2007-114.
31 Interview B2010-214.

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