This chapter examines one of the oldest and most basic problems of governance: how to pay the bureaucracy. Before any government can deliver public goods and services, listen and respond to citizens’ needs, or be held accountable, it must first be able to pay the bureaucracy. Yet among local governments in China, including those in Zouping, this is no easy feat. These local governments face heightened budgetary pressures following the 1994 tax reform. In addition, they must finance an ever-growing number of public personnel and provide an ever-enlarging range of regulatory and public services.1

Even as a relatively prosperous locale that is ranked among China’s “top 100 economic performers,” Zouping County is not spared from budgetary pressures. As my fieldwork finds, many agencies and public service providers still receive only erratic and incomplete sources of state funding from the county government. Facing this situation, these public organizations must “self-finance”—that is, generate a portion of their own incomes and staff benefits. How do they go about self-financing? Are they free to generate revenue in any manner? Or is their self-financing behavior regulated by certain rules, and if so, which rules?

Examples from Zouping suggest that strategies of administrative self-financing in local China are bound by rules, specifically rules made by an intersecting matrix of vertical (条) and horizontal (块) authorities within the state.2 More broadly, this account illustrates a key condition of adaptation—which I call “directed improvisation.”3 While many observers have underscored and hailed China’s remarkable adaptability,4 few have
explained the sources of its apparent adaptive capacity. Why does China alone appear so adaptable? Rather than attribute its adaptive outcomes to fixed factors such as history or culture, I argue that the combination of top-down directions and bottom-up improvisation is essential for effective adaptation to occur within the bureaucracy. Encouraging improvisation and experimentation without setting boundaries is more likely to invite chaos than workable solutions. Whether in administrative financing or other policy realms, bureaucratic adaptation in China works only when it is bound by rules.

Needless to say, it would be disastrous if local agencies were free to finance themselves in any manner. For public organizations that wield regulatory and coercive power, the quickest and surest way of generating revenue is through extraction, such as by extracting fees and fines from residents and by extorting bribes. Indeed, from the 1980s through the 1990s, bureaucratic predation was so widespread in China that it inspired the term “three arbitraries” (arbitrary fees, arbitrary fines, and arbitrary extortions). This was the period that led observers like Lü to conclude prematurely that China’s bureaucracy “refuses and fails to adapt” and that as a result, he pronounces, it has become “indefinitely patrimonial.”

The reality that I find in Zouping and elsewhere, however, is far from Lü’s projection of a static bureaucracy that is forever trapped in its old ways. Rather, consistent with the theme of this volume, agencies in Zouping, as well as other localities in China, have adapted and continue to adapt to budgetary pressures and capitalist opportunities. Practices and strategies of administrative self-financing, though unfettered and chaotic in the past decades, have evolved toward a more regulated system that is sanctioned by state rules, rather than being in brazen violation of them. This logic may be summed up in a colloquial Chinese phrase: “assign policies not money.” In other words, instead of financing public agencies fully through formal state budget allocations, as “normal governments” in developed democracies do, Chinese state authorities enact policies that permit local bureaucracies to self-finance, such as by collecting fees or generating profits through market activities. Such policies typically emanate from the center and are used or improvised upon by lower-level authorities.

Administrative self-financing is nothing new in history; nor is it unique to China. As Weber famously points out, premodern state administrations relied universally on self-financing—in his words, they were “prebendal.”
Directed Improvisation in Administrative Financing

Rather than pay public officials fixed salaries from state treasuries, feudal and imperial governments assigned them the right to exact fees from local populations, conduct monopoly trades, receive gifts, and so on. Viewed in corporate terms, prebendal agents were entrepreneurs who provided certain services to rulers in exchange for the right to profit from those services. Opportunities to profit from public office, however, encouraged widespread abuse of power.

What is different in the context of contemporary China, as seen in Zouping, is that when prebendal (self-financing) practices in days of yore were combined with the growing powers of a modern state, they became progressively regulated. In this way, China’s local agencies are not purely Weberian; that is, they do not receive only a single source of stable income from the government. Yet their entrepreneurial efforts at self-financing are not corrupt in the sense of being illegal or completely out of control. The Zouping bureaucracy is today a hybrid of the premodern and the modern, and it is still continuing to adapt and evolve.

The chapter proceeds as follows. I begin by clarifying the fiscal terminology and defining revenue earned by local bureaucracies as part of a local government’s base of taxless revenue. Then, based on interviews in Zouping, I present case studies of “directed improvisation” in administrative financing in three sectors (系统): education, health, and construction. A discussion follows that places Zouping in national perspective. A final section concludes the chapter.

Clarifying the Fiscal Structure: Tax versus Nontax Revenue

Before turning to the case studies, I begin by clarifying fiscal terminology. In the existing literature, there have been a bewildering array of terms used to describe the portion of revenue beyond taxes. Local governments have two sources of funding: formal tax-based budgets and off-budget finance. The latter comprises extrabudgetary funds and self-raised funds. Extrabudgetary funds are further divided into funds controlled by local governments, administrative agencies, and state-owned enterprises. Self-raised funds include contract fees, collective income, and other contributions at the township level. However, since the 1994 tax-sharing system and rural fiscal reforms, the fiscal terminology has been changed. In 1993 retained profits from state enterprises were removed from the category of extrabudgetary revenue.
Along with the tax-for-fee reform (费改税) and the abolition of agricultural taxes, township self-raised funds fell dramatically after 2002.13

In the 2000s, the Ministry of Finance began progressively replacing the traditional budgetary concept of “extrabudgetary revenue” (预算外收入) with the new concept of “nontax revenue” (非税收入). This change in terminology was first proposed in a 2001 central document entitled “Notice from the Ministry of Finance Regarding Reforms to Deepen Separation of Revenue from Expenditure” (财政部关于深化收支两条线改革的通知). In July 2004, the Ministry of Finance issued a follow-up document, entitled “Notice on Strengthening the Management of Taxless Revenue” (关于加强政府非税管理的通知). This document officially adopted the term “nontax revenue” and phased out “extrabudgetary revenue” as a budget category.14

Replacing the term “extrabudgetary” with “nontax” indicates more than just a superficial change of name. Importantly, it signals the redefinition of ownership rights over revenue that is collected or generated by public bureaucracies. For the central government, this budget reclassification reflected “a deepened conscious effort to refine our public financial structure and to regulate the collection of public revenue.”15 The term “extrabudgetary” signaled the division of public revenue by ownership or management rights. It implied that individual units of the party-state apparatus could “own” the revenue they collect. By contrast nontax revenue divides revenue by sources—that is, taxes or nontaxes—with no assumptions made about ownership.16 In my interviews, the vast majority of local finance officials, especially in economically developed locales like Zouping, now refer to “tax versus nontax revenue” rather than “within versus extrabudgetary revenue.”

Feishui (非税) literally means “revenue that is not taxes.” Taxes consist of revenue collected by the national and local tax agencies in accordance with national tax laws.17 Nontax revenue is a residual category of public finance comprising six subcategories: (1) earmarked revenue (专项收入), (2) administrative and user charges (行政事业收入), (3) fines (罚没收入), (4) profits from operating state assets (国有资产经营收入), (5) profits from charges for use of state assets (国有资产使用收入), and (6) others (其他收入). Revenue collected by individual public agencies and service providers belongs in the fiscal category of taxless revenue.

For both measurement and analytical reasons, it is important to classify income collected by administrative units (e.g., fines, fees, charges) as nontax rather than extrabudgetary revenue. In the existing literature, admin-
Administrative income has frequently been equated with extrabudgetary funds. Some commentators even indiscriminately classify all fees and fines as “off-budgetary revenue,” asserting that “most of them are not legal.” Such assertions, however, are not backed up by evidence or careful institutional analyses that income generated by local agencies is necessarily illegal or excluded from official budgets.

Although central finance officials have keenly pushed to phase out extrabudgetary funds, this category still appears in many local budget reports. In most cases, however, “extrabudgetary” is now measured as a subset of nontax revenue. For example, in Zouping, education charges are classified as extrabudgetary nontax revenue, in that the allocation of these funds is not subject to the same formal legislative approvals as within-budget nontax funds. Other regulatory fees, however, are included in the within-budgetary category.

In sum, income collected or generated by individual bureaucracies forms part of Zouping County government’s base of nontax revenue. For analytic purposes, interpreting administrative income as nontax revenue is technically accurate and avoids unqualified assumptions of corruption that often have been associated in the earlier literature with the term “extrabudgetary.”

In a 2011 interview, the Zouping Finance Office described the public financial structure as summarized in figure 4.1. The total budget is first divided into two categories: regular budget (\(yiban yusuan\)一般预算) and

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**Figure 4.1. Local Public Finance Structure**

Source: Author’s interview at Zouping Finance Office, 2011.
The earmarked budget (\textit{jjijin yusuan}基金预算). The regular budget is subdivided into tax revenue and nontax revenue.\textsuperscript{22} The earmarked budget consists of income from various earmarked funds that can be established only by the central and provincial governments and be used for prespecified purposes. For example, land proceeds (土地出让金), a major and growing source of local revenue, falls under the earmarked budget, and these funds may be appropriated only for land-related projects. This description from the Zoup- ing Finance Office is roughly consistent with my interviews conducted elsewhere and with available official documents, though there remains some local variance in budget classifications.\textsuperscript{23}

In 2010 Zouping reported income of 3.66 billion yuan in its regular budget, of which tax revenue made up 72.4 percent and taxless revenue 27.6 percent. In comparison the earmarked funds budget was about 0.5–0.6 billion yuan, mostly proceeds from leasing land. Evidently, thanks to its strong industrial sector, Zouping’s public finances are heavily based on tax revenue.

\textit{Post-Mao Adaptation of Prebendal Practices}

Contemporary practices of administrative self-financing are not unique to contemporary China. Precedents exist throughout premodern societies, both in and beyond China. From a historical perspective, administrative self-financing is a contemporary adaptation of what Weber calls “prebendalism.” In premodern societies, capacities of centralized tax collection were weak, and revenue flows into royal treasuries were unpredictable. As a result, rulers either could not, or preferred not to, pay public officials fixed compensation and budgets. Instead, rulers licensed their agents to self-finance by extracting rents from office. Such license was sometimes granted openly and at other times implicitly by turning a blind eye to local actions. According to Weber, examples of prebends included rights to extract fees, conduct monopoly trade, or employ land for private use.\textsuperscript{24} Students of contemporary China would find all of these sources of rents uncannily familiar.\textsuperscript{25}

Further back in history, fiscal shortages, unfunded mandates, and unsalaried clerks and runners have persisted in China for centuries.\textsuperscript{26} County offices and magistrates were severely underfunded and sometimes not funded at all. Thus, local officials were forced to exact fees on local populations or seek contributions from the gentry. Yet even though prebendal practices
were necessary to fund local administrations, they were prone to individual abuses of power and imposed fiscal burdens. Unsurprisingly, local residents resented prebendal practices and saw them as corruption. Unsalaried runners who lived on fees, for example, were labeled the “vermin” of county yamen.27

Strategies of nontax public financing also prevailed in the early days of state formation in the United States. During the eighteenth and nineteenth centuries, the United States relied heavily on state governments, rather than the federal government, to finance and build major infrastructure projects, such as the Erie Canal, Ohio Canal, and railroads. Although state governments were keen to promote economic development through infrastructure investments, they were electorally constrained from raising taxes on local populations. As John Joseph Wallis describes, these circumstances forced state governments “to develop creative ways of financing projects” without raising taxes. He calls this strategy “taxless finance.”28 Methods of taxless finance included issuing bonds and selling corporate charters. In the case of corporate charters, private entrepreneurs who financed infrastructure projects were granted exclusive rights to operate in lucrative sectors such as banking. This was essentially a variant of prebendalism, albeit in grander form and employed toward the goal of financing infrastructure, rather than personnel salaries and administrative expenses.

In the contemporary Chinese context, it is no surprise that both the scholarly and popular literature have widely lambasted practices of administrative self-financing as corruption. In an earlier study, Lü labeled all revenue-making activities among local agencies as “organizational corruption.”29 Many others cite the existence of departmental slush funds (小金库), extrabudgetary financing, and fee extractions as evidence of weak state control over the bureaucracy,30 or even imminent signs of state collapse.31 Indeed, self-financing practices, if unregulated, are prone to abuses and excesses.

Yet once placed in comparative and historical perspective, contemporary practices of administrative self-financing in China are less exceptional than they initially seem. At the same time, a comparative view calls into question whether and how the current situation in China differs from prebendal practices in premodern times and in other poor, predatory states.

The distinction is sharp and important. More precisely, although local agencies in China, including those in rich counties like Zouping, continue
to be underfunded and are compelled to generate part of their own incomes, it is important to understand that their practices of self-financing are sanctioned and regulated by state rules. This logic is reflected in the colloquial Chinese phrase “assign policies not money” (给政策不给钱), which means that if the government was unable to pay agencies money (钱), it could assign moneymaking policies (政策) in lieu of budgeted funds.

I will use the case studies that follow to illustrate two types of policy awards. One originates from provisions issued by central ministries that sanction the collection of fees, fines, and charges at the provincial and subprovincial levels. This is also known as tiao-tiao (vertical) policies. The second consists of preferential treatment and protection provided by core bureaus (机关单位) to subsidiary extrabureaucracies (shiye danwei事业单 位). This dynamic of patron-client exchange takes place at every administrative level, down to the townships. Whereas central policies may take the form of laws and provisions, preferential treatment extended by core agencies to their subsidiary providers are often nowhere written and yet are known among insiders, which may explain why change in Chinese political institutions remain opaque.

Shiye danwei, which I translate as “extrabureaucracies,” play an important role in administrative self-financing, despite their relative obscurity in scholarly studies of the Chinese bureaucracy. Extrabureaucracies hire about 80 percent of all party-state employees. Nearly all core bureaus (that is, organizations listed on formal organizational charts) have extrabureaucracies. Functionally, shiye danwei include offices that conduct administrative duties, public schools and hospitals, and organizations that openly offer commercial services for profit. Financially, they may be fully state funded (全额拨款), partially state funded (差额拨款), or entirely self-funded (自收自支). Shiye danwei are a useful vehicle for self-financing precisely because of their ambiguous identity: they are public organizations that may engage in market activities. In other words, we may think of them as the contracting arm of the formal civil service.

Case Studies of Administrative Self-Financing

THE EDUCATION SECTOR: QUASI-MARKETIZATION OF PUBLIC SCHOOLS

Public schools are the main type of shiye danwei in the education sector, and in principle they should be fully state funded. In Zouping there were 206
Directed Improvisation in Administrative Financing

kindergartens, primary schools, and secondary schools, with 7,054 teachers for about 100,000 students. I visited a premier, or literally translated from the Chinese “key-point” (重点) elementary public school, which I dub Fortune Elementary. With more than 2,000 students, Fortune Elementary was the largest elementary school in the county. During my visit, it was in the midst of renovating its campus, despite having already impressive facilities. The principal planned to add a new building and a rubberized running track.

Although public schools were supposed to be fully state funded, they still faced tremendous financial pressure. Fortune Elementary received only part of its funding from the county government. Every semester, the county was supposed to allocate a budget of 140 yuan per student to the school. In reality, however, it provided only 60 yuan per student, and the school had to make up the rest. The principal stressed that even if the county government granted the full budget allocation of 140 yuan per student, that amount would be sufficient to cover only basic operational expenditures.

The county government also provided budget allocations to pay teachers’ salaries, but only for teachers who held official positions (编制). Among the 171 teachers at Fortune Elementary, only 109 were official. The school had to raise funds to finance the remaining nonofficial (编外) teachers, who received lower pay despite performing the same job as official teachers. The school principal hoped to eventually equalize wages between the two groups.

The division between official and unofficial teachers at Fortune Elementary reflects broader problems with China’s dual-track public employment system. According to the Finance Bureau, the hiring quota for civil servants in Zouping had been frozen since 1993. For public schools, the Shandong provincial government set the teacher-student ratio (bianzhi) at 1:20 in primary schools (which gave Fortune Elementary 111 official slots). Fortune’s principal complained that this bianzhi allocation was “far from enough.” The school had to “borrow” help from elsewhere and hire nonofficial teachers.

Like many other public schools in China, Fortune Elementary had to generate its own revenue to finance a number of spending items: the wages of nonofficial personnel; a portion of the school’s operational expenditure; and bonuses, allowances, and fringe benefits for its employees. The largest expenditure was for renovation and expansion of the existing campus. According to the principal, this was an essential task, as “classrooms were
already very packed.” This renovation project was initially targeted to cost 10 million yuan. However, by 2006, 8 million yuan had already been spent, and the final costs were projected to reach 20 million yuan. The Education Bureau provided only 6 million yuan in grants, although it had originally pledged to allot a total of 9 million yuan.

How did Fortune Elementary obtain the necessary funds to pay for things that it needed but which the county government could not fund? One source of revenue was tuition and fees. However, in line with the central government’s policy to provide nine years of free education, Zouping waived all school fees until 2006, at an annual cost of 17 million yuan to the county government. However, in 2006 Fortune Elementary continued to collect school fees from students of urban background. It was said that all tuition and fees would be waived by 2007, and the school had already done so for students from rural families.

Yet another source of revenue was to charge for services in adjoining kindergartens. The nine-year compulsory education policy excludes preschool education, so public schools are allowed to charge for this high-demand service. Fortune ran a kindergarten with more than five hundred students. It planned to devote part of its rebuilding efforts to upgrading and creating a “special, high-quality” kindergarten. While there is nothing wrong with public schools operating a kindergarten on school grounds to earn supplemental revenue, it is worth noting that key-point schools enjoy a significant advantage in student recruitment. Thanks to their dominant reputations and outstanding facilities, key-point schools could easily attract fee-paying students. Moreover, public schools could always directly seek assistance from the Education Bureau, its supervising agency and regulator of the education sector, whereas a purely private, non-state-affiliated education provider would be entirely on its own.

Collecting fees and setting up kindergartens could cover only a minor share of the school’s financing shortfall. The school’s largest financial cost came from expanding and renovating the existing campus, which as detailed above, amounted to at least 20 million yuan. To raise funds for construction, public schools across China have borrowed from banks, and Fortune Elementary was among them. The school principal proudly boasted that his supervisors from the Education Bureau sat beside him at banquets with banking officials. Together, the three parties—school, agency, and bank—negotiated loans. Their symbiotic ties were evident.
In addition to spending time at Fortune Elementary, I visited one of only two private schools in Zouping. The director of this private school was simultaneously the principal of an adjacent public school. Setting up the private school required total start-up capital of 20 million yuan. The main investors were the teachers of the public school next door; about 90 percent of the teachers had invested in setting up this private school. The teachers contributed funds in a formal shareholding arrangement. Shareholders received dividends if the private school made profits and incurred losses if it failed. Officials at the Education Bureau emphasized that the establishment of private schools was permitted by state policy under the Law to Promote Private Education Services Provision (民办教育促进法).

Both the adjacent public school and the individual teachers who invested in the private school stood to gain financially from their enterprising efforts. Beyond Zouping the quasi-marketization of public schools is a national phenomenon and revenue-making strategy, dubbed “reputable public schools operate private schools” (名校办民校). As private entities, private schools linked to key-point public schools are legally permitted to collect tuition, thus circumventing restrictions on public schools. In addition, key-point public schools commonly collect school selection fees (择校费), which is not a compulsory tuition charge but an optional premium charge to qualify for entry into key-point schools.

What would induce parents to pay hefty zexiaofei? Schools that charge such fees must offer a premium value, and such premiums exist only when resource distribution is highly unequal across schools. This is observed in Zouping, where as a foreign visitor, I was brought to visit the best public school. The principal of Fortune Elementary revealed that as part of his fund-raising efforts for renovation, he obtained a special grant of 100,000 yuan for “repairing dangerously dilapidated schools” (危房改造). I was informed earlier by the Education Bureau that it had awarded about the same amount for this particular grant. It thus appeared to me that Fortune, which looked barely dilapidated, had received the bulk of those funds. As well-endowed schools were extremely well-endowed, these schools received mounting demand for enrollment. And as these schools became overpopulated, their leaders were further pressured to expand and refurbish school grounds. For the principal at Fortune Elementary, this was, in his words, a “virtuous cycle.”

Moreover, it should be pointed out that collecting premium fees does
not violate the policy of nine-year compulsory education. Provincial and city governments have issued policies that allow the collection of zexiaofei, as the Price Bureau confirmed. This is not illegal or arbitrary. Nor is it against the spirit of central policy. The central government had left county governments in charge of providing essential services like education without adjusting revenue assignments. Funds for public education had to come from somewhere.

In short, the unequal distribution of financial and personnel resources by regulatory authorities generates high demand for key-point schools. Their dominant appeal empowers these schools to charge high premium fees and to spin off private affiliates that can legally generate profits and distribute dividends to investors from public entities that sit next door.

**THE HEALTH SECTOR:**
**QUASI-MARKETIZATION OF PUBLIC HEALTH PROVIDERS**

Nationwide, China’s public health sector is only partially state funded. For public health care providers, self-financing matters not merely for the provision of fringe benefits and new furnishings but for sheer survival. In Zouping there were twenty-two public health providers, including eight county-managed units and fourteen township-managed units. I interviewed administrators at one of the county’s three hospitals. Table 4.1 provides a breakdown of the health sector’s financial status. According to the Health Bureau, state-budgeted funds covered only 8.4 percent of the sector’s total expenditure, resulting in a deficit in 2005. County officials admitted that staff wages were owed. The hospital generated half its revenue from the sale of medications and drugs. Among township health clinics, that share was even higher, about 60–70 percent. The county hospital’s remaining income came from ward and examination charges.

Looking at media reports, one gets the impression that Chinese hospitals shamelessly gouge patients. (Even a cadre from Zouping’s Foreign Affairs Office could not help chastising the health sector. Informally, he complained that he had spent 500 yuan, about a third of his official monthly salary, getting shots repeatedly at the local hospital for a mere cold.) On the surface, the health sector appears to be the textbook case of arbitrary collection of fees and charges. Yet, in fact, its situation is perhaps the best illustration of “giving policies not money.”
Nationwide, the government progressively cut funding to public health providers, but in exchange it awarded a policy that allowed them to profit from selling drugs and medications. This is enshrined in a central document, entitled “Notice on the Policies of Health Care Reform” (国务院批
准 卫生部关于卫生改革若 干问题 报告的通知), which was jointly issued by the State Council and Ministry of Health in 1985. Following this provision, health providers could legally mark up the prices of drugs by up to 15 percent.

This green light to profit from selling drugs coincided with comparatively strict pricing guidelines on ward and examination charges. The County Price Bureau indicated that 60 percent of pricing decisions for medical services were made at the central level and 40 percent at the local level, in accordance with central guidelines. In other words, pricing for medical services was highly restricted and hence out of touch with reality. The director of the county hospital lamented that ward charges in Zouping ranged from only 8 to 100 yuan a night. He added emphatically that staying overnight at the county hospital is cheaper than staying in a hotel.

To maximize revenue without violating price regulations, public providers resort to overselling medications and overprescribing treatments. A Foreign Affairs cadre who was present at the interview offered a useful illustration: “Say you need a shot. There’s a 5 yuan shot and a 50 yuan shot. Maybe the 5 yuan shot would work for your condition. But the doctor says you need the 50 yuan shot. He has the final word on what the patient needs. Even if the markup price is capped at 15 percent, the hospital will still make more from the 50 yuan shot.” The other county officials present did not disagree with what was said. Unfortunate as it is, the situation described is common knowledge in China.36
The construction sector represents the “haves” among local agencies. In Zouping its wealth and privilege are obvious. Among the various departments I interviewed, this was the only sector that did not complain about financial pressure or wage arrears. The construction sector occupied its own building, separate from the county-state building that was shared by multiple offices. Even the Foreign Affairs officer who accompanied me to the interview remarked that the building that housed the construction office was “very good looking.”

The construction sector consisted of the Construction Bureau and many subsidiaries: a construction company, landscaping services office, construction management office, rural construction management office, procurement office, construction materials assessment center, construction design institute, and real estate development company. The construction company was an enterprise unit that did construction work; it used to be a collective enterprise (集体单位) but had since been restructured (改制) and is now a shareholding company. The remaining organizations were shiye danwei, not enterprise units. Only the greening office, construction management office, rural construction management office, and procurement office were fully state funded; the remaining units were entirely self-funded.

I asked the chief at the Construction Bureau, “What does it mean for a sta unit to be “entirely self-funded”? He responded, “For example, if the design institute has work to do, they make money; if they make money, they can pay salaries. Their employees receive all their salaries from the income they earn. The government does not provide any funding. After subtracting costs and taxes, the rest belongs to the organization.” Furthermore, he added, as self-funded units “enjoy more flexibility in paying salaries,” their employees were better paid than civil servants who worked in the Construction Bureau.

My next question was, if these self-funded entities rely entirely on their own means to generate income, how do they survive in the market? Do they face competition from private providers? The chief responded that there are many private companies that provide construction design services today. In the late 1990s, the central government urged public design institutes nationwide to restructure into enterprise units. Zouping, however, did not restructure the institute and left it as a shiye danwei because “the pro-
cess was complicated and our personnel refused to restructure.” Apparently, retired personnel of enterprise units would receive less in pension funds than those who worked in service units. Yet the more important reason went beyond reduced pensions. As the Construction Bureau chief further explained: “If they restructured and became independent, they would no longer be under our supervision. The implication is that if the government has a project, for example, they must rely on their abilities.” Reading between the lines, I wondered: rely on their “abilities” as opposed to what?

His statement subtlety revealed that extrabureaucracies, by virtue of their public status, enjoyed certain market privileges that purely private providers do not have. This is another kind of policy in lieu of budgeted funds.

Zouping in National Perspective

Several themes emerge from the preceding case studies. First, even in Zouping, most county agencies and public service providers face budgetary pressures, with the exception of “haves” like the Construction Bureau. Such pressures are particularly intense in the education and health sectors, both of which confront growing demand for public services. These two sectors share a common trend of marketization without privatization. Public schools and hospitals are not privately owned and operated units. Nevertheless, they behave like market actors, motivated by revenues and profits. Yet unlike private providers, marketized public schools and hospitals share intimate ties with their respective supervising agencies, which bestow on them significant market advantages.

Second, there exists a paradoxical disconnect between rigid price controls set by the government and public perceptions of excessive and arbitrary extraction. As my interviews suggest, public providers do not seem to brazenly disregard price controls and extract payments as they wish. Rather, even as they seek to maximize revenue, these providers keenly attempt to play by state-issued rules. That is why prohibitive health care costs in China stem from a particular behavioral pattern, namely, the overprescribing of drugs, rather than excessive charges for skilled medical services. If health care providers paid no regard to state rules, they could extract payments from drugs and services alike.

Third, the construction sector illustrates the commercialization of services through extrabureaucracies. Commercialized extrabureaucracies are
not the same as bureau-operated companies, which proliferated in the 1980s and early 1990s, and were variously named jingji shiti (economic subsidiaries), gongsi (companies), or sanchan (tertiary sector undertakings). Whereas extrabureaucracies operate only in the services sectors regulated by their parent agencies, corporate entities could run businesses in any sector. Moreover, bureau-operated companies were “profit-making, risk-taking businesses” that could make losses. These companies disappeared by the late 1990s, both as a result of central policy to divest state agencies of side businesses and because they could not compete against private firms. Extrabureaucracies, on the other hand, may enjoy competitive advantages or even monopoly rights vis-à-vis nonstate services providers.

These patterns of administrative self-financing in Zouping are common throughout the rest of China. Compared to other locales, Zouping is distinct in two respects. First, Zouping is one of the country’s most economically successful counties. Hence, despite budgetary gaps reported by local agencies and providers, the situation in Zouping is superior to that in many other locations. For example, Fortune Elementary faced tremendous pressures to borrow and raise funds because it chose to renovate the campus lavishly. The campuses of the best public schools in Zouping are local landmarks of pride. In addition, thanks to Zouping’s thriving economy, the semicommercialized extrabureaucracies in Zouping had done well. For instance, the extrabureaucracies of the Construction Bureau had no lack of business, especially in the fast-growing and highly profitable real estate sector. And generally, because Zouping had a strong tax base that was supported by profitable industries, fees and fines played only a supplementary role in administrative financing. In poor counties with weak tax bases, however, local agencies derive much of their income from self-generated revenue.

Second, as a research site, Zouping is unique because foreign scholars are given research access through formally arranged interviews. It should be emphasized that there are tremendous conveniences provided to scholars who study Zouping. The ability to gain access to a range of bureaucracies permits researchers to compare situations across departments. This cannot easily be done in other locations where research access tends to be partial. However, the formalized nature of research access in Zouping also may limit one’s inquiries, information, and insights obtained through interviews. For example, a superficial encounter with Fortune Elementary might
leave one with a glowing impression of the public education provided. The school boasted impressive facilities, and its leaders claimed in earnest to serve the public interest by expanding and renovating school grounds.

In short, placing Zouping in national perspective requires that the researcher consider the exceptional economic success of the county and also how the “positionality” of the observer and the avenue of research access shape his observations and interviewees’ responses, as ethnographers emphasize.44

Conclusion

This chapter explores how various county agencies and public service providers in Zouping have adapted to budgetary constraints. It must be pointed out that underfunded public bureaucracies exist in all developing countries, not only in China. In typical predatory states, when bureaucracies lack funds, they turn to theft or extortion, or they simply stop working.45 In local China, however, I find that bureaucracies make keen efforts to generate or extract revenue within the parameters of state policy. From a comparative perspective, this variance is significant. Lawless forms of extraction, as seen in predatory states like Zaire, are qualitatively distinct from the relatively rule-abiding form of prebendalism in China.

No doubt, there are slippages and bad apples. In poor locales where tax revenue is scarce and monitoring mechanisms weak, we find a concentration of anecdotes about crass abuses of power by individual cadres and predatory extraction.46 However, in a relatively prosperous county like Zouping, even though local agencies still face budgetary pressures, their methods of self-financing are more tightly regulated and enforced than in poor counties. There, the fees and charges collected by agencies also make up a much smaller portion of bureaucratic income than in poor locales with few sources of tax income.

Significant institutional changes that have taken place since the 1990s require that we update our perceptions of China’s bureaucracy. Based on observations in the 1980s and 1990s, the literature on “bureaucratic entrepreneurialism” highlighted “profit-making, risk-taking ventures” made by local agencies.47 That on “organizational corruption” underscored the dangers of unfettered extraction and profiteering at the agency level.48 Since the 1990s, however, central reformers have pushed through a comprehensive
program of reforms to build administrative capacity, such as by reforming systems of budgeting, auditing, treasury management, nontax revenue collection, and so forth. 49 As these bureaucratic reforms are technical and obtuse, they lack appeal compared to earlier accounts of entrepreneurism, corruption, and predation, and have therefore received little attention. In fact, far from “refusing and failing to adapt,” 50 the Chinese bureaucracy has adapted. Going forward, analyses of local governance must take these developments into account.

In summary, in drawing conclusions about the character of bureaucracy in China, we must keep both temporal and regional variations in mind. The quality and functioning of bureaucracy varies over time in a single county and across regions at any time. 51 By opening its doors to the outside world, Zouping has provided generations of foreign researchers with the opportunity to capture snapshots of the county since the 1980s and into the future.

Notes
5. One notable and widely cited exception is Heilmann et al., who attribute China’s adaptive capacity to the Chinese Communist Party’s revolutionary past. While their argument points importantly to the enduring effects of history,
history alone cannot explain why China’s bureaucracy has adapted in particular ways over the past decades. Nor can it explain why the immense creativity of local problem solving in a large country did not degenerate into chaos. See Sebastian Heilmann et al., *Mao’s Invisible Hand: The Political Foundations of Adaptive Governance in China* (Cambridge, MA: Harvard University Press, 2011).


12. Ibid., 202.


15. Ibid.


17. Examples of taxes are the value-added tax and the enterprise tax.


22. In statistical records compiled by the Ministry of Finance, the regular budget (*yiban yusuan*) is recorded in two ways. In the section on “income and expenditure” (*shouzhi*), the regular budget records tax and taxless revenue as sources of income but does not include fiscal transfers. In the section on “balanced budgets” (*pingheng*), total income includes tax revenue, taxless revenue, and all other fiscal transfers, including tax refunds (*shuishou fanhuan*) and earmarked transfers (*zhuaxiang buzhu*).

23. Some locales classify earmarked funds as part of taxless revenue, rather than as a budget category parallel to the regular budget.


25. In addition to the prevalence of local agencies that rely on fees, fines, and profits from market activities as budgetary supplements, local governments have turned to selling land as a major source of nontax revenue.


27. Reed, *Talons and Teeth*.


29. Lü, *Cadres & Corruption*.

30. See also Thomas P. Bernstein and Xiaobo Lü, *Taxation without*
Directed Improvisation in Administrative Financing

Representation in Rural China (Cambridge: Cambridge University Press, 2003); Wedeman, “Budgets, Extra-Budgets, and Small Treasuries.”


32. The term shiye danwei has been translated variously into “business units,” “institutional work units,” “government-funded not-for-profit organizations,” “public service units,” and “service units.” I choose to translate shiye danwei as “extrabureaucracies” for an analytical purpose. This translation captures the principal feature shared among all shiye danwei—they are attached and subservient to a parent agency. See Ang, “Counting Cadres.”

33. The extension of preferential treatment by core bureaus to extrabureaucracies is most evident at the city and county levels of government. At the township levels, the divide between core bureaus and extrabureaucracies is less clear-cut. Moreover, after a series of rural reforms that have hollowed out the functions of township governments, there has been notably less self-financing at this level of government. For more on the “hollowing out” of township and village governments, see Jean C. Oi et al., “Shifting Fiscal Control to Limit Cadre Power in China’s Townships and Villages,” China Quarterly 211 (2012): 649–75.

34. Ang, “Counting Cadres.”

35. Ang, “Beyond Weber.”


39. Ibid., 14.


41. Ang, “Beyond Weber.”
42. For my case study of a poorer county in Hubei Province, see Ang, *How China Escaped the Poverty Trap*, chap. 6.

43. In my experience, the Foreign Affairs Office has successfully arranged almost all my interview requests except with the Organization Department, which is the office in charge of personnel appointments.


47. Duckett, *The Entrepreneurial State*.


