BUREAUCRATIC REFORMS AS POLITICAL REFORMS: THE CASE OF CHINA

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PUZZLE

Why has China achieved remarkable economic growth in the past 40 years despite the lack of political reforms (democratization)?
Why do we believe political reforms are essential to economic performance? Because democracy confers certain benefits:

- Accountability
- Competition
- Limits on power

China is not a democracy and yet still achieved dramatic growth under CCP rule.
EXISTING RESPONSES

Why has China achieved remarkable economic growth in the past 40 years despite the lack of political reforms (democratization)?

A. Just wait. Soon CCP will collapse and China will democratize.
   - Speculation, not explanation

B. Autocracies work just as well as democracies in promoting growth
   - Not all autocracies work equally well; autocracy under Mao was disastrous
China achieved remarkable economic growth in the past 40 years under single-party dictatorship because…

it has *in fact* adopted political reforms, not through democratization, but through bureaucratic reforms.
We often think of bureaucratic reform as micro, technical, low-stakes administrative changes, divorced from politics.

In China, bureaucratic reforms served desired functions of democratization: accountability, competition, limits on power.

Broader theme in #adaptdev: institutional functions over forms (Ang 2016; WDR 2017)

BUT bureaucratic reforms can’t substitute for political reforms forever.
FOCUS ON CHAPTER 4 OF MY BOOK

HOW CHINA ESCAPED THE POVERTY TRAP

YUEN YUEN ANG
OUTLINE

I • Basic features of China’s bureaucracy

II • Bureaucratic reforms among elites

III • Bureaucratic reforms among street-level public agents

IV • Limits of bureaucratic reforms over time
MASSIVE MATRIX STRUCTURE

- Three hierarchies: party, state, military
- Replicated at 5 levels of government: central, province, city, county, township
- Crisscross of vertical and horizontal = massive matrix structure
A MASSIVE BUREAUCRACY: +50 MILLION

- Over 50 million in party-state administration (~ South Korea’s population)
- Managers: 20% are civil servants
- Front-line workers: 80%
- Elites: 500,000 at director level; national pool appointed by CCP
THEN, DISAGGREGATE WITHIN EACH LEVEL

**FIGURE 4.2** Three layers of bureaucratic actors

- Rotated top leaders
  - 1% of bureaucracy
- Quasi-stationary vice leaders
- Stationary street-level bureaucrats
  - 99% of bureaucracy

Party Secretary (No. 1), Head of Government (No. 2), members of party committee in key offices (usually ~10)
I. Basic features of China’s bureaucracy

II. Bureaucratic reforms among elites

III. Bureaucratic reforms among street-level public agents

IV. Limits of bureaucratic reforms over time
Each level of government designs a report card for leaders (party secretaries and state chiefs) at the next lower level.

Points are assigned to each target, usually totaling 100 points.

Actual documents are usually restricted from public view.
IN REFORM PERIOD, CHANGED TARGETS TO FOCUS ON ECONOMY

- **Achieve accountability** by clearly specifying what local leaders must deliver + penalized for
- Target system substitutes for elections
- **Features of targets**: Short list; focus on economy; concrete, quantifiable deliverables
- **Career incentives**: Evaluation affects career prospects

**TABLE 4.3** Performance evaluation criteria for township leaders, Shanghai, 1989

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Township- and village-run industry</td>
<td>33</td>
</tr>
<tr>
<td>Increase in gross value of industrial output</td>
<td>10</td>
</tr>
<tr>
<td>Increase in industrial profits</td>
<td>10</td>
</tr>
<tr>
<td>Increase in profit rate on gross value of output</td>
<td>5</td>
</tr>
<tr>
<td>Township ranking by profit rate on total capital</td>
<td>4</td>
</tr>
<tr>
<td>Increase in total value of exports</td>
<td>4</td>
</tr>
<tr>
<td>Agriculture</td>
<td>30</td>
</tr>
<tr>
<td>Sales to the state of grain and vegetables</td>
<td>15</td>
</tr>
<tr>
<td>Sales to the urban market of pigs</td>
<td>10</td>
</tr>
<tr>
<td>Sales to the state of oil-bearing crops</td>
<td>3</td>
</tr>
<tr>
<td>Sales to the state of leather and cotton</td>
<td>2</td>
</tr>
<tr>
<td>Party building</td>
<td>21</td>
</tr>
<tr>
<td>Building of party organizations</td>
<td>7</td>
</tr>
<tr>
<td>Building of party spirit and discipline</td>
<td>7</td>
</tr>
<tr>
<td>Education of party members</td>
<td>7</td>
</tr>
<tr>
<td>Education</td>
<td>9</td>
</tr>
<tr>
<td>Completion rate for compulsory education</td>
<td>3</td>
</tr>
<tr>
<td>Participation rate for worker training</td>
<td>3</td>
</tr>
<tr>
<td>Scale of funds dedicated to education</td>
<td>3</td>
</tr>
<tr>
<td>Family planning</td>
<td>7</td>
</tr>
<tr>
<td>Family planning compliance rate</td>
<td>7</td>
</tr>
<tr>
<td>Public order</td>
<td>Total</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>
STEP UP COMPETITIVE PRESSURES

- Individual scores kept secret, but economic rankings vis-à-vis peers announced annually
- For leaders, tremendous social pressure to rank well

Our cadres and villagers care deeply about ranking. For all our hard work, there should be a concrete result. One day our party secretary asked me if I thought our township will be #1 this year. I told him it will not be easy. We were #2 last year. We have to reach #1 this year!

~ Township cadre, Sichuan province~
I. Basic features of China’s bureaucracy

II. Bureaucratic reforms among elites

III. Bureaucratic reforms among street-level public agents

IV. Limits of bureaucratic reforms over time
- Career incentives don’t apply to them; few chances of upward promotion
- Instead, financial incentives apply
- Through system of internal profit-sharing (franchising)
DUAL TRACK COMPENSATION

- Low fixed formal salary
- Highly variable supplemental pay & perks

- How low is formal salary? “capitulation wages”
  - President Hu Jintao took about 6000 RMB/month (US$1,000)
  - Entry-level civil servant about 1000 RMB (US$150)
DUAL TRACK COMPENSATION

- Low fixed formal salary

- Highly variable supplemental pay & perks

- Low formal salary supplemented by array of extra pay & perks (allowances, bonuses, non-monetized benefits like free vacation, free meals, holiday gifts, vouchers, etc.)

- Supplemental compensation pegged to economic performance
  - How much tax revenue local government earns
  - How much nontax revenue agency collects (such as fees)

Note: How this is NOT “new public management”
Abolish cash payments, using bar-coded certificates for collecting nontax revenue

On-site banks to collect payments and route to centralized treasury accounts
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Over time, as society prospers & demands grow, targets proliferate

Targets for township officials in 2009: 112 targets + 27 penalty items

Vague, unquantifiable goals like “economic efficiency”

Consequence: officials paralyzed, adding targets (like env) cannot change priorities
CONCLUSION:
RECAP & LESSONS
CONCLUSIONS

- China achieved remarkable economic growth despite lack of democratization because...it has in fact adopted political reforms through bureaucratic reforms.

- Reforms among elites → accountability + competition

- Reforms among street-level bureaucrats → incentivize financial performance + limit petty abuses of power

- But run into limits: mission creep + profit-oriented bureaucracy + recently, inaction (backlash of Xi’s anti-corruption campaign)
THINK BEYOND ONE IDEAL-TYPE OF BUREAUCRACY

- Only one ideal-type of bureaucracy—Weberian legal-rational—narrows perception, benchmarks, measures

- China presents alternative ideal-type—bureau-franchising: hierarchical structure + decentralized operation, high-powered incentives

- No system is perfect. Pick according to fit.

<table>
<thead>
<tr>
<th></th>
<th>Advantage</th>
<th>Disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weberian legal-rational model</td>
<td>High predictability</td>
<td>Low initiative &amp; risk-taking</td>
</tr>
<tr>
<td>China’s bureau-franchising model</td>
<td>High initiative &amp; risk-taking</td>
<td>High opportunistic risks</td>
</tr>
</tbody>
</table>

LESSONS FOR OTHER COUNTRIES

- Bureaucratic reforms may serve functions of political reforms

- Give all actors in public sector stake in development process; if not, don’t expect government to “innovate” & lead change

- No system is perfect and universally best. Each has its advantages & disadvantages. Pick according to fit.

- Leverage high-powered incentives + mitigate opportunistic risks
Thank You!
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Life Cycle of a Fee

Central or provincial level “policy” to authorize fee

Non-monetized benefits (e.g. free meals, box of gifts)

Internal budgeting agreement to “refund” % of fee = larger budget

Fee deposited into (local) centralized treasury account
Frees up funds to "work"

Eating Budget
SHORT-TERM VS. LONG-TERM

**Short-Term**

- **TAXES short-term effects**
- **AGENCOL short-term effects**

**Long-Term**

- **TAXES long-term effects**
- **AGENCOL long-term effects**
<table>
<thead>
<tr>
<th>Country</th>
<th>% of people that paid bribes in past year (Global Corruption Barometer, 2010)</th>
<th>Country CPI Score in 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>9%</td>
<td>78</td>
</tr>
<tr>
<td>Peru</td>
<td>22%</td>
<td>78</td>
</tr>
<tr>
<td>India</td>
<td>54%</td>
<td>87</td>
</tr>
<tr>
<td>Indonesia</td>
<td>18%</td>
<td>110</td>
</tr>
<tr>
<td>Nigeria</td>
<td>64%</td>
<td>134</td>
</tr>
</tbody>
</table>