DECENTRALIZATION REFORM IN POST-MAO CHINA
-A FRAMEWORK OF CHOICE-

INTRODUCTION

Central authority and local autonomy are always at odds with each other. This holds true for the relationship between central control and the decentralization reforms in China over the past seventeen years. Decentralization—a process where decisionmaking powers are transferred downward from some central point—has indeed been one of the major components of the post-Mao economic reform. Why would a Leninist central government be willing to share its monopoly power of economic decision-making with localities and individual enterprises? Many studies of decentralization tend to view decentralization solely as a triumph of local interests, but in so doing they ignore the perspective of the central government.

In this paper, I intend to provide an analytical framework for addressing this question from the perspective of the Center, where top policy makers reside. This framework focuses on strategies of state control in economic reforms. The significance of this focus is magnified in the study of reforming communist and post-communist regimes, because exploration of how elites attempt to maintain control over the economy and how economic policies enter into the power struggle is fundamental to the understanding of the post-Mao decentralization reform.

Despite the decentralization reform, the Chinese central government still tries to hold as much political authority and as many major economic resources as possible. Under a framework of choice, I will investigate the "piece-meal" nature of the decentralization program and the problems that developed along the tortuous path of China's decentralization reform. I will show that in face of the economic stagnation and succession struggle left by Mao Zedong, the ideological closeness and similar experience during the Cultural Revolution brought together two political groups, who pursued different degrees of decentralization reform, in defiance of Mao's hand-picked successor. More important, I will analyze the political reasons for the central leaders to pursue the decentralization reform, and examine what burdens the Center divests itself of via decentralization and what benefits it receives in return. I argue that governments choose a policy to solicit political support, to increase revenue, or to pursue risk-
averse strategy, i.e. to rid themselves of heavy economic burdens or political costs, for instance, in the face of economic crisis.

In the following, I will first provide critical comments on the concept of "state capacity" and any analytical framework that is built upon this concept. I will adopt the concept of "broadened individual rationality" as the central conceptual tool for analysis in this paper. Then, I will lay out the socio-economic background of the initial stage of post-Mao reforms, before analyzing the different strategic choices for reform. Last but not the least, I will examine the chosen decentralization project, i.e. what to decentralize, to what extent to decentralize, and what not to decentralize in the post-Mao reforms. This analysis of decentralization will best illustrate the benefit-cost matrix desired by the central leaders, hence the rationales by which specific decentralization design was chosen.

STATE CAPACITY OR STRATEGIC CHOICE: A Critique of the State Capacity Argument

Some studies in comparative politics as well as Chinese politics start with an analytical notion of state capacity. State capacity is often vaguely defined in terms of the capability of a variety of state functions that control or influence the economy and/or society. In this sense, the weakening state capacity is used as a core concept in explaining China's decentralization. Although insightful, state capacity cannot help us to explore central-local relationship in general or to analyze the origins of China's decentralization reforms in particular. First of all, state capacity is endogenous, but not explanatory, in understanding central-local relationship. The concept may be an index of political outcome, but is not an independent variable in the study of post-Mao political-economic reforms. We may want to study the capacity of a "state" and find out what lead to a strong or weak "state." In the study of the changing relationship between the central and local entities, state capacity might be something to be explained. Studies in Between Power and Plenty, edited by Peter Katzenstein, may explain problems concerning the "state capacity," but they are not a study of the "state capacity" per se. "Central to the concerns of [Katzenstein's] volume is the analysis of actors in state and society," that is, anyone who can effectively affect the foreign economic policy outcome. Second, the concept of "state" is vague, especially in the studies of developing countries like China, not to mention doubts about the existence of an independent and functioning civil society in China. If we want to set
up a state-capacity framework to deal with the changing relationship between the central and local governments, various questions arise about the definition of the "state." Does the "state" include local (governmental) powers? Does it include dan-wei (work units) in China? The analytical framework that Peter Hall sets up in his book *Governing the Economy: the Politics of State Intervention in Britain and France* is not state-centric. Rather, he takes "an institutional approach to state-society relations," an approach which emphasizes the relational characters of institutions that "bind the components of the state together and structure its relations with society." We are facing a paradox: in one case we encounter a vague state that cannot capture the essence of political authority, in the other case we have a clear definition of the state as the regulator of society in a state-society dichotomy, which might nonetheless be misleading to study the communist system with no effective civil society. Third, the concept of "state capacity" is vague. What constitutes a "state capacity?" Only financial power? Need we include or exclude the military power? What about such intangible elements as personal influence or loyalty? The contributors to Stuart Schram's volume *The Scope of State Power in China* discuss the growth of the financial resources of the "state," and then pose serious doubts about whether the Chinese ever have had a notion of the economy as a specific domain inside or outside of the state apparatus. The rapidly emerging literature on political economy emphasizes the interaction between the political domain and the economic domain of public life. "State capacity" can never be defined only by economic strength. One the other hand, a budget deficit does not necessarily indicate the weakness of state power. Politics in one sense means the power to use money in other people's pockets. State capacity might be appropriate in some discussions if it refers to the central government's capacity to levy taxes.

Furthermore, "state capacity" is not measurable from a single perspective. Has the introduction of the household responsibility system in agriculture reduced or enhanced "state capacity" in China? Some may find the decline of the "state capacity" upon the introduction of household responsibility system. But Vivienne Shue points out that agricultural reforms in post-Mao China have actually destroyed the old "honeycomb" self-protection system in Chinese rural areas. This destruction in turn has made the agricultural population more vulnerable to central manipulation, hence enhancing the power of control or influence of the Center. Again, how do we measure the power of central or local authorities increased or decreased by the household registration system? Even if we try
to put aside the definitional and operational problems of the state-capacity framework, the capacities of a "state" to initiate and implement a program tend to depend as much on the informal institutional rules and norms as on the formal state regulations. For instance, the effectiveness of taxation relies on the institutional arrangement of the tax system; just as the ability of Chinese central government's extraction of national income depends on its negotiation power with each province. Finally, the concept of "state capacity" cannot indicate the redistribution of power within the state apparatus. For instance, how can "state capacity" show the relative ascension of the State Economic Commission at the expense of the relative decline of the Ministry of Finance after the 1991 plenum of the Party Committee? The biggest challenge to the Chinese authority actually comes from within, and the intra-state conflict is both inherent and formidable. Unfortunately, the concept of state capacity cannot capture the essence of the politics of redistribution of power between the central and local governments.

If we assume that the Chinese state's capacity is largely determined by how well it is able to direct various state agencies to work for the goals set by the Center, to centralize resources to the point sufficient enough to sustain these goals, and to make and enforce rules among inferiors to ensure adequate compliance, then why don't we make it unambiguous and conspicuous and call it central government "capacity" or administrative "capacity"? Even so, we still need to understand that: "the state institutions and political skills that can produce such a creative 'political-economy' balance do not appear automatically when needed as part of some adjustment policy imperative." More important in the study of decentralization, it is not some vague and unmeasurable state capacity, but the technocratic and bureaucratic ability to formulate and implement policies that facilitate the economic logic of reform, and the political ability and freedom to buffer the costs of this process while allowing it to take place. Due to the fact of the party control in contemporary China, there has not been much going on between the "state" and the "civil society." What we are looking at is the political game within the party-state apparatus, and in that game the strategic choices of individual policymakers are the primary focus.

This paper views decentralization reforms as a game of redistributing power that is dominated by the central leaders, and adopts "broadened individual rationality," instead of state capacity, as its central conceptual tool.
assumes that policymakers are strategic players and have relative autonomy to pursue their own interests.\textsuperscript{10} To understand post-Mao economic reforms, this paper regards the personal power, promotion, or prosperity as the basis for policy choices of the policymaking participants. These choices are of course constrained by or reflect the ideological commitment and institutional instruments available. By analyzing the policy basis, this paper intends to build up a framework of choice to study the economic reforms in post-Mao China.

Before examining the political reasons for the choice of decentralization, I will briefly lay out the socio-economic background of the initial stage of post-Mao reforms and explore how economic reform is perceived by different policymakers in the next two sections.

**THE LEGACY OF MAOISM**

The economic stagnation that persisted in China through the later part of the 1970s has been well documented. By 1977, the per capita growth rate was only 0.5 percent per annum; from 103 yuan in 1957 it grew only to 113 yuan in 1977.\textsuperscript{11} Shortages of food products and local rationing of consumption reinforced one another through the 1970s. It is estimated that by the mid-1970s over one-third of urban grain consumption came from imports. In short, "[i]n the face of the government's stated objective of achieving self-sufficiency in food production, the Cultural Revolution [1967-1976] agricultural policy must be judged a failure."\textsuperscript{12}

During 1957-79, the growth rate in industrial production ran as high as 10 percent per annum. This high growth rate, backed by steadily escalating state investment, led to a decrease in productivity of capital, which dropped by 40 percent in national industries. Labor productivity also dropped by 5 percent during 1965-75. Aggregate factory productivity, which had increased by 48 percent during 1952-1965, fell by 11 percent in the following decade.\textsuperscript{13} This growth was further undermined by problems of inefficiency and poor coordination in "production and circulation" management. Half of the state-owned enterprises ran at a loss. In the urban area, wages for state workers were virtually frozen from 1963 to 1977.
Excessive investment in the heavy industry and insufficient attention to the development of supporting industries and infrastructure led to mismatches between supply and demand. The economy was imbalanced to the extent that, during 1949-1978, the agricultural output increased by 2.4 times, while the industrial output as a whole increased by 38.2 times, and the heavy industry by 90.6 times and the light industry by 19.8 times. Agriculture only received a 10 percent share of state investment. A reform was badly needed to solve the accumulation of these extended problems. But who was going to lead the reform, and what could be the solutions?

After the death of the Party Chairman Mao Zedong, Premier Zhou Enlai, and the military leader Zhu De within nine months in 1976, a fierce succession struggle ensued within the top elite. A quasi-military coup a month after Mao’s death ousted the "Gang of Four" radicals headed by Mao’s widow, but did not stop the elite power struggle. It only started a new round of succession struggle. The moderate leftists and those previously called "capitalist roaders" joined in a temporary coalition against the "Gang of Four" followers, but worked intensely on building their own power bases respectively.

Many officials had been promoted as a result of factional fights during the tumultuous years of the Cultural Revolution. Having experienced the absurdity of the communist system in such an extreme form as the Cultural Revolution, nobody trusted those ideologically radical upstarts. The political legitimacy of the communist leadership faced a serious challenge in the eyes of the Chinese people. Since power and policy are fused in Leninist-type regimes, political legitimacy is often dependent on successful economic policies. Politicians in such systems have an irresistible tendency to pursue economic reforms to order to solicit political support for the legitimacy of their leadership. Toward the end of the 1970s, Chinese leaders formulated different development policies for post-Mao economic reform.

In the next section, I will explore how economic reform is perceived by different policymakers in face of the political and economic problems left by Mao. This helps us to understand their motivations and preferences with respect to a decentralization reform. Contending perceptions of economic reform reflect different interests among
policymaking participants as well as policy-targeted populations. Similar perceptions, on the other hand, would join different groups into a political coalition.

THREE CHOICES

While the legacy of Maoism, i.e. economic crisis and succession struggle, demanded a change in national policies, the institutional structure and norms of politics in China might constrain any drastic wholesale policy reformation. Although most Chinese leaders believed that a certain structural reform would provide incentives to cadres, workers and peasants so as to make the economy run more efficiently, they were divided by appealing to different groups of supporters, supporters for their economic policies, and thus for their leadership. Some leaders encouraged "part of the population [to] get rich first" (yibufen ren xuan fuqilai), and they appealed to local governments, individual enterprises, and peasant households. Therefore, they pursued a decentralized approach in the structural reform. Other leaders stressed more the notion of economic equilibrium and balanced development, and they appealed to economic planners, bureaucrats, and technocrats who theoretically helped maintain these equilibrium and balance. Therefore, they took a less decentralized approach in the structural reform. Still other leaders wanted to uphold Maoism, and played the old political game by appealing to heavy industrial interests and other vested interests formed during the Cultural Revolution. At the end of the 1970s and the beginning of the 1980s, Chinese elites were facing three policy options. They were moderate leftist reform, minimum decentralization reform, and optimum decentralization reform.

Moderate Leftist Approach: After the downfall of the "Gang of Four," Hua Guofeng, the successor appointed by Mao in early 1976, represented a leader who would implement moderate leftist policies. Under Hua Guofeng's leadership, nothing Mao said or wrote was ever repudiated. Politically, Hua Guofeng pursued the "two whatevers" policy, stressing the need for loyalty to Mao's memory and past decisions, limiting the "rectification of the Party" to those directly linked to the "Gang of Four" radicals, and obstructing the reinstatement of the veteran officials purged during the past two decades. This policy was intended to secure Hua Guofeng a smooth power transition and not to create any new political challenges. But Hua Guofeng also wanted some attractive programs,
"to make up the losses caused by the Gang of Four." So he tried hard to follow Mao's policies in the mid-1950s, when Mao was emphasizing economic development and the conciliatory management of non-antagonistic relationships among the people.

Immediately after taking the office of the party chairmanship, Hua Guofeng called for a new leap forward, and his Ten Year Plan for National Development (1976-85) set the targets for 1985 calling for agricultural production to increase 4 percent per year and industrial production to increase 10 percent per year. He announced that under the plan 120 major industrial projects were to be completed as the initial stage in the modernization drive. The list of projects included 10 steel mills, 9 nonferrous metal complexes, 8 coal mines, 10 oil and gasfields, 30 power stations, 6 railways, 5 harbors, petrochemical plants, and a variety of manufacturing facilities for producing machinery and electric components. These targets were criticized by Hua's opponents as unrealistic and reminded people of Mao's idealism that led China into the economic disaster during the Great Leap Forward less than twenty years ago.

In his plan, Hua Guofeng only proposed some modest structural changes. In agriculture, while aiming for higher levels of collectivization, he allowed the limited revival of private plots and free markets. In industry, he suggested reestablishment of multi-provincial economic regions and permitted transformation of some industrial ministries into state corporations. However, the direction of these changes was ambiguous, and the central-local relationship was not a priority in Hua's plan. Conceivably, the basic character of Chinese politics and the economy would have remained unaltered, and there was not much new incentive generated.

In the past, the heavy industry had been the bulwark of Maoist policies. As before, Hua Guofeng's selection of projects continued to reflect a policy of emphasizing the heavy industry at the expense of the light industry, and a policy of import substitution. The most important difference between this plan and the ultra leftist policies of the "Gang of Four" radicals was its sheer magnitude and emphasis on economic development. Its huge state investment in heavy industries might attract people in these heavy industries, for instance the Petroleum...
Gang, but it did not provide the whole country with much incentive. Simply stressing the importance of economic growth, Hua Guofeng's development strategy did not appear to solve the problems of lack of incentives and initiatives under the planned economy. Considering the economic situation and a whole variety of other problems in the late 1970s, not many Chinese people found Hua Guofeng's development program attractive.

Moreover, Hua Guofeng was a relative political neophyte at the center of power, who emerged with Mao's endorsement as a compromise candidate between the radicals and the liberals. In facing economic stagnation and political fragmentation, Hua Guofeng did not present the leadership that many people desired; neither did he provide sufficient incentive to obtain widespread political support. The radical rhetoric continued for a while, and Hua Guofeng's efforts to cloak himself in Mao's mantle raised doubts whether there would really be an ideological turnaround and economic take-off. When the Petroleum Gang was gone in 1980, Hua Guofeng's plan finally lost one of its major supports.

Minimum Decentralization Approach: As the chief spokesman for a policy that values the central planning, Chen Yun, the master of China's planned economy and one of the Party's Vice Chairmen, proposed to make the market an important supplementary mechanism for the allocation of goods and services and the determination of prices. Economically, they opposed the Maoist revolutionary approach to production. Chen Yun and his associates understood the devastating consequence of the radical mass mobilization approach and the frequent, thus destructive, intervention of the Party apparatus in the national economic operation. Politically, this group of policy makers challenged the ability of the moderate leftists to manage the national economy. They championed a decentralization of authority over economic policy making from the Party to the bureaucrats and professionals, but wanted to restrict the scope of the market to consumer goods or at most to some small manufactured commodities. According to them, central planning would continue to occupy the dominant position in China's economy. They usually defined socialism as requiring a "planned economy" and state ownership of the means of production. They emphasized preserving an equilibrium in the management of the Chinese economy: a balance between government revenues and expenditures, a balance between exports and imports, and a (contrived) balance
between supply and demand for major commodities.\textsuperscript{22}

In terms of central-local relations, Chen Yun and his associates feared that a rapid relaxation of administrative controls over the economy would create severe disequilibrium in all of the aforementioned three areas, as a result of local governments launching new investment projects at will, workers demanding higher wages and better standards of living, and enterprises importing capital equipment and consumer goods from abroad recklessly. Leaders and officials of this second group advocated continued reliance on central planning. For them, not only planning, but \textit{central unitary planning}, should lie at the heart of the Chinese economy. While some other Chinese elites believed that the scope of mandatory planning should be reduced, Chen Yun and his associates maintained that administrative guidance from the planning agencies must always control certain critical sectors of the economy.\textsuperscript{24} For them, central allocation of resources had been the crucial mechanism of Chinese planned economy. In this way, the local governments would still be an implementing agency without real power to manage local economies.

While this approach repelled local governments and enterprises, Chen Yun and his followers were skeptical about both the growth of individual ownership in the Chinese economy and the experiments with the sale of stock in state enterprises to individual workers and investors. They believed that economic liberalization would nourish a growing gap between supply and demand, a deficit in the state budget, a shortage of foreign exchange, and most importantly, a lack of coordination between the Center and localities. The only alternative to central planning for them was the "anarchy" of the market, which was unacceptable. They wished to maintain fairly stringent administrative control over certain aspects of the economy, especially investment and foreign exchange, in order to preserve economic balance.\textsuperscript{24} They cautioned against the inflation created by price reform, the decline of central control over investment and the expenditure of foreign exchange, the emergence of inequality in the countryside, and the failure of grain production to meet state targets should mandatory planning be eliminated. Finally, this group of elites opposed any sign of political pluralization that would challenge the dominance of the Party in Chinese political life.

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This approach attracted a handful of planning officials and central ministerial bureaucrats who were in charge of individual economic sectors. These officials and bureaucrats wanted delegation of power from the Party at each administrative level, and they were also willing to hand over responsibilities to lower ranks in the localities. However, they, like their leaders, intended to concentrate most power at the central government.

Optimum Decentralization Approach: The paramount leader Deng Xiaoping was apparently the leader of the group advocating this optimum decentralization approach, but the major policies under this approach were forcefully proposed by Premier Zhao Ziyang. In the first place, this group offered a looser and more flexible definition of socialism so as to attack the dogmatic moderate leftists. As early as November 1979, Zhao Ziyang excluded the planned economy from the list of principles implied by a commitment to socialism. This group believed that mandatory plans were only necessary in two cases: for products of mainstay enterprises that were in the national plan and affect the people’s livelihood, and for products of which the demand exceeds the supply. This idea was close to that of the minimum decentralizers’, although the optimum decentralizers advocated a much greater role for the market than two other groups. Zhao and his followers favored the development of markets for almost all factors of production, including capital and labor, as well as for every type of raw material and industrial machinery. They also favored opening the Chinese market to imports from foreign countries and the products of foreign ventures in China, asserting that only by doing so could Chinese enterprises increase their ability to compete in the international marketplace. Since 1979, Zhao Ziyang had encouraged the rapid expansion of the light industry, while Politburo member Yu Qiuli, the leader of the Petroleum Gang, sought increased investment in the heavy industry. Optimum decentralizers gradually developed the ideal that the market could be paramount, and the plan secondary in Chinese economy.

Sharing with the second group a similar approach to politics and in an attempt to weaken the power base of the moderate leftists, the optimum decentralizers advocated a restructuring of the Party to reduce its control over personnel appointments in non-Party organizations and minimize its interference in the day-to-day operations of local economies. However, they favored greater pluralization than the other two groups. They proposed expanding the
role of national and local legislatures, granting greater freedom to the press, and enlarging the authority of provincial and local governments to prevent the arbitrary exercise of political power by the central Party authorities. The leaders of this third group opened basic political questions, including the structure of the state and the role of the Party, to more candid and probing examination. Zhao Ziyang’s advisory groups even discussed the possibility of a real multi-party system. 28

In terms of central-local relations, they believed that local governments, like enterprises, should take more responsibility for their revenue and expenditure. They encouraged local governments to spend their money more efficiently according to their local specialties. Zhao Ziyang advocated greater reliance on market mechanisms to improve efficiency. In his view, the rigidity of central planning had prevented units from being sensitive to local conditions and had prevented competition to increase productivity.

There was also a sub-group within this group. This sub-group was comprised of leaders and officials who had risen from provincial and municipal positions. They were less ideologically driven than power driven. 29 Most of them still had close connections with their local counterparts, and part of their power bases were still in their own localities. They urged decentralization reforms to maintain their local support and delivered some benefits from the Center to their local clients to show that they did not forget that they were friends. In this way, Deng Xiaoping and Zhao Ziyang’s decentralization was different from Mao Zedong’s in 1957 and 1964. They not only demanded freedom of decision from established bureaucracies, but their main concern was the freedom of decision from the Party veterans and functionaires. Deng Xiaoping and Zhao Ziyang knew that for the implementation of their reform strategies they depended more upon the free will of provincial and city leaders than upon the Party lines and Party secretaries.

Although the minimum decentralizers preferred a protracted process of structural reform, with lengthy periods of readjustment during which the imbalances generated by reform can be repaired, and the optimum decentralizers, in contrast, suggested far more rapid structural change to remove quickly the inefficiencies and
rigidities of the previous economic system, both groups agreed upon the need to relax central control over the economy. In economic policies, both decentralizers were different from the moderate leftists, and they emphasized the need for structural changes in order to create incentives for economic development. As far as ideology and political experience during the Cultural Revolution are concerned, Deng Xiaoping and Chen Yun groups shared more similarity with each other than with Hua Guofeng. Most of Deng and Chen's associates and followers were purged during the Cultural Revolution. Finally, Hua Guofeng was considered as an incompetent incumbent whom both Deng and Chen groups wanted to replace. It is therefore not difficult to see that the decentralizers joined together in a political coalition, and latched on to decentralization in order to grope their way across the river of political and economic crisis.

The three different reform strategies provided choices for the Center to make collectively. However, lack of a unified understanding of China's economic problems and solutions and lack of a unified leadership made the post-Mao reform to take the style of "piece-meal" reform along the tortuous path of China's decentralization. The agricultural reform started sporadically, and the industrial and urban reform was delayed until 1984, eight years after Mao's death. Other economic reforms since 1979 have always begun with limited pilot projects.

Economic development policies in the reform decade oscillated between Chen Yun's and Deng Xiaoping's ideas. But whether minimum or optimum, the decentralization approach was chosen by Chinese elites obviously for political reasons. But, for what kind of political reasons? What were their political motivations? What kinds of political benefits could decentralization bring to central authority? These are the questions to be addressed in the next section.

**WHY DECENTRALIZATION?**

Along with the agricultural reform that started in the late 1970s, China's central leaders also launched a limited revenue-sharing reform. The revenue-sharing reform allowed local governments to retain a large share of taxes levied by themselves and to use this amount of revenue in their needs. The central government then
reallocated many enterprises formerly run by central ministries to local jurisdiction. These reforms resulted in an administrative decentralization of economic decision-making. The Center also delegated decision-making authority from the Party secretaries to administrators in the government and to the managers in the enterprises. There are several different kinds of decentralization reforms that have been launched during the post-Mao era. But before we examine these different reform programs, let us first address a broader question: Is decentralization in and of itself simply good?

This question has attracted worldwide attention, in developing countries as well as in developed countries. Decentralization in developed countries generally refers to efforts to create alternatives to the growing strength of centralized government and to counteract bureaucratization. Focused on urban areas, the primary goals of decentralization are believed to promote both more citizen participation in community decision-making and more efficient and responsive urban service delivery. To most students of developing countries, decentralization is more concerned with the transfer of planning, decision-making or management powers from the national government to sub-national levels. Most of the discussions of governmental structure in a Third World context, however, draw upon models and theories of decentralization that have been generated from the experience and values of the industrialized Western countries. There exist both strong advocates as well as vocal critics of decentralization.

Proponents of a decentralized structure commonly associate it with a wide range of positive economic, social, and political effects in both developed and developing societies. They argue that decentralization makes government more efficient, responsive, and stable. Economically, decentralization is said to improve the efficiency with which demands for locally provided services are expressed and public goods provided. Market models of local decision-making treat decentralization as a means of expanding the scope of consumer choice among public goods. Decentralization is also said to reduce costs, improve outputs and more effectively utilize human resources. In countries where development must be achieved as a very condition to the nation's survival, many scholars regard decentralization as a necessary condition for national and local development. Philip Mawhood, for example, argues that centralization of formal authority is one organizational form which is wholly inappropriate for Third
World governments if they seek to bring about social change and modernization. He believes that local authorities in most of the developing world are more apt to be stifled by too much central control and influence than fail because of having too little of it.^[40]  

Politically, the redistribution of power downward is assumed by advocates to bring government closer to the people and strengthen accountability, political recruitment and national integration. Decentralization is also credited with promoting liberty, equality, and welfare and providing a training ground for citizen participation and political leadership, both local and national. Thus, decentralization has been elevated to the role of guarding basic human values.  

All these economic and political reasons might be well placed. And all the above arguments, explicitly or implicitly, assume that the government desires to serve the people and nation whole-heartedly, i.e. without any interests of its own. Advocates of decentralization see a natural need or an "administrative necessity" to decentralize because of the excessively heavy burden of work that the central government is carrying. They view delegation as an inevitable feature of modern society, for problems are complex and time and other resources are scarce. Accordingly, decentralization is an attempt to minimize the costs of making decisions.  

However, as Morris Fiorina argues, this line of reasoning is not accurate, neither has it shown that the complexity of public problems has increased faster than the capacities of bureaucrats and officials to deal with them.^[41] But what we have seen is the increasing size of the contemporary governments. In the United States the amateur legislators of the 19th century spent four to five months per year in Washington, D.C., accompanied only by a few clerks. Today's professional legislators spend full time on the job and are served by approximately 25,000 staff employees. Here, the complexity or necessity argument is unable to show whether the modern affairs have grown more complex than the capacities of the people who are handling them.  

During the reform decade in China, the average annual increase in the number of government cadres also
reached a record point of 330,000 per year, compared with an average increase of 110,000 per year before 1980. By the end of 1986, the total staff of government offices and organizations was 7.34 million, 78.2 percent higher than 1979. Government administrative expenditures increased over the same period by 250 percent. More important, in any decentralization project, scholars find that the government has delegated selectively, but not across the board. They further find that these delegations have not necessarily solved the original problems of complexity or inefficiency. Finally, personnel quality usually is lower in local governments than in the central government. So, although modern affairs became more complex, they are handled by a huge bureaucratic army with such modern technologies as telephones, airplanes, copy machines, and computers. On the other hand, not all decentralization has resulted in quality service, or simplified modern affairs.

In the study of Third World policies, many scholars are critical of decentralization and take the position that a strong centralized national government is necessary in countries characterized by limited resources, a dependent economy, and political instability. In their view, decentralization may not lead to efficiency or growth, and it often appears parochial and separatist. It threatens the unity of the "general will" and reinforces narrow, sectional interests. According to this argument, decentralization legitimizes forces antagonistic to the regime by incorporating them into the state apparatus at the regional or local level. The result can be the creation of dispersed power in the periphery without balancing it with a capacity to act at the Center. Some even warn that the proliferation of central administrative power to the local level can bring about a deterioration in the quality of administration as larger numbers of officials with less education, narrower outlooks and limited experience are employed.

Critics of decentralization are not limited to developing countries. In Britain, there have been warnings against assuming that more centralization in local government is inevitably bad. L. Sharpe, for example, points out that improvement in efficiency and democracy has not automatically followed the reorganization of local government in more decentralized forms. In the United States as well, some scholars have reacted strongly against what they see as the inefficiencies and diseconomies of political fragmentation within metropolitan areas. On a more micro-
scale, the decentralization of power from the city to the neighborhood level has been opposed not only as a betrayal of racial integration, but as an invitation to replace personnel systems in urban government based on merit with patronage systems. 47

Indeed, we cannot be sure about whether decentralization in and of itself is good or not. But governments still decentralize; and more important to our study, decentralization has been a major part of the post-Mao reforms. Still, the above discussion has not hit the core of the question of why Chinese leaders decentralize their power of economic decision-making.

In an attempt to address such why question, a third group of scholars contends that neither a centralized system nor a decentralized system work as their advocates believe. Both systems fail for very similar reasons. 49 Robert H. Bates, among others, points out that people want and demand public services, but seek to evade the costs of their provision. While central officials increasingly advocate the devolution of the supply and financing of public services to the local areas, decentralization fails because of the same problem of free-riding. Bates further posits, "Behaving as individual decision makers, people will take into account solely the satisfaction which they alone derive from the consumption of that good and not the satisfaction which their acquisition of the good would provide for others. Failing to take into account the effect of their choices on others, people will tend to underestimate the good's true value and will therefore make choices which lead to an undersupply of the good." 49 Even though there may well exist an equilibrium in situations involving public goods, such as economic regulations, by using a market-like institution of voluntaristic and decentralized choice, this equilibrium will not be efficient. The principal reason for this is that public goods generate "inappropriate" incentives. Evasion of the costs of the good and a failure to supply it are thus expected results under this kind of decentralized institution. 50 While decentralization from a general and normative perspective may have pros and cons at the same time, both in developed and developing countries, and in planned and free market economies, the third group of scholars suggests that it is necessary to look at some specific institutions or public choice processes in order to understand the political rationale for decentralization. Although they have not provided a quick and specific answer to our question, their studies have
pointed out the right direction of analyzing this issue. In the process of public choice, the Center plays a major role, and the political elites and their specific interests are therefore the focus of analysis in our analytic framework.

China scholars try to understand decentralization through defining the government interests attached to particular reform designs or programs. Groups that perceive the reforms as detrimental to their interests would exploit emerging economic and social problems to argue against decentralization reforms. They would stick to centralization or force a return to it. Those leaders who foresee rewards from decentralization exceeding costs would initiate or pursue reform programs. In other words, individual leaders in power only make or support those policies that are regarded to benefit their own interests. But what are their interests? There are at least three ways to identify motivations and interests of policymaking participants.

First, one can define motivations and interests along an ideological spectrum. Scholars along this line assume that people, especially politicians, are ideology-driven. Reforms are motivated by ideologies or rejection of other ideologies. Politicians are more interested in seeing their dreams coming true. Mao Zedong pointed out that wherever there is a group of people, there must exist the left, the center, and the right. The policy adopted reflects the ideological position of policymakers. In some studies of Chinese politics, the oscillation of Chinese policies is explained either by a struggle between the moderates and the radicals or by a struggle among the conservatives, the reformers, and the radicals. But we are not sure whether ideology is the motivation or just a label as Mao rightly put it. Against the oversimplification and static weakness of the ideology argument, there is now a growing consensus that in China ideology does not matter, but is an *ex post facto* justification of any beneficial policies.

Second, one can define motivations and interests according to the positions and functions these people are holding. One argument asserts that Party officials, especially the older veterans of the revolution, worry that economic reforms will make their political skills obsolete, deemphasize their function, and therefore diminish their power. So the Communist Party dominated by the old veterans is often assumed to oppose political-economic
This Party-as-opposition argument treats the Party as much more monolithic than it actually is. A second argument under this category looks at geographic location as opposed to bureaucratic specialization, such as regional, horizontal control by local governments versus sectoral, vertical control by central ministries in the Soviet-type systems. Whereas the Sovietologist Jerry Hough sees Party and government officials who administer the same city or province working together as a local alliance to obtain more resources for their area, A. Doak Barnett finds that Chinese Communist Party and government officials who manage the same economic sector are joined together in functional-bureaucratic systems. While bureaucratic specialization attempts to achieve vertical control of sectoral economy, people outside the capital city want to get more autonomy by "dismantling" the central authority. Then the question is: what side does a local light industry official take? What makes him or her take either side? The location-versus-specialization argument does not address and cannot answer these questions.

A third approach is to define motivations and interests by a combination of the previous two criteria: a coalition argument. Susan Shirk sees two coalitions impeding or supporting decentralization reforms. At one end is the "communist coalition" of heavy industries, the inland provinces, and the central bureaucracies. At the other end stands the reform coalition. But if we examine closely, they are coalitions only at certain points of time and on certain issues. For instance, the central bureaucracies may side with the reform coalition in quest for the reform of separation of the Party and government. The inland provinces may support the reform coalition for more radical "open door" policies. Some heavy industries may support the tax reforms. The fact is that different political, economic, or social groups support different reform programs. Shirk herself realizes that "[o]fficials concentrate on finding a higher-level patron to protect the interests of their unit and on bargaining with the upper-level organizations rather than on building a united front to influence policy." In China, there is an absence of stable horizontal coalitions.

Each of the preceding arguments lends some insights to understanding the motivations and interests of policymaking participants in decentralization reforms. Different social and political groups come together to press for certain policies. But more important, leaders would also pursue a certain policy as their own choice to appeal
to or to create a political coalition. So the essential question is: What kind of political benefits could decentralization bring to central authority? In order to grasp the issue in its entirety, we need to understand that benefit-cost matrices produced by the decentralization programs provide different incentives which motivate different players.

From a choice theoretic perspective, I argue that governments choose a policy to solicit political support, to increase revenue, or to pursue risk-averse strategy, i.e. to rid themselves of heavy economic burdens or political costs, for instance, in the face of economic crisis. Many top Chinese leaders can clearly foresee what kinds of benefits and costs a particular decentralization proposal would bring about, because they had played the decentralization game several times over a period of thirty years even before the post-Mao reforms. Since delegation of legislative authority does not necessarily affect policy choice of the Center, the Chinese elites seek to use decentralization to shift the responsibility for the costs and benefits that public policies produce. Under central planning, the central government is not only responsible for making policies, but also responsible for supplying production resources and selling products. Theoretically, the central government, in a centralized system, has the entitlement to all taxes, but should finance local expenditure. In face of a general economic crisis such as that in China during the second half of the 1970s, the cost for the central government to tackle those social problems alone would be too high. While the central government delegates certain power to the localities and individual enterprises, the costs of exercising this power and consequent burdens presumably go along with the delegation to the local governments and individual enterprises. My argument highlights the political rationale for the Center to decentralize. It is different from the complexity or necessity argument whereby the Center is treated as a "fair judge" without private, personal interests.

Further, in the regulatory realm as a public policy concerning the allocation of resources, the distribution of regulatory benefits and burdens are considered a critical variable in determining which policy is to be chosen. Benefit concentration and cost diffusion that are produced by a public policy are considered as the hallmarks of such distributive politics as decentralization. This cost diffusion reduces the amount of burden each unit might have to
carry and this benefit concentration makes palpable favor to selected beneficiaries for political support. The central government would therefore adopt reforms to effect these results. The decentralization reform is a perfect program of this nature. Theoretically, decentralization reforms need not necessarily be pursued across the board. Practically, decentralization comes piece-meal. Pilot projects, gradual opening up of port cities, and ministry-contract system (bumen baogan) in the post-Mao China have provided a textbook-style illustration of this piece-meal decentralization. Contestants for power would promote policy formulas based on selective allocation which enable central leaders to reap political support instead of policy formulas based on universal rules. Decentralization allows them to select beneficiaries and diffuse costs produced by some central policies. Central leaders would also prefer expansionary policies that enable them to give away policy benefits to as many bureaucratic groups as possible, be they in central ministries or local governments. Introduction of the central cities (zhongxin chengshi) and partial decentralization or dual-track system in post-Mao reforms were expansionary policies that would not seriously impair the central capacity of regulating the economy.

When the succession struggle was fierce, central elites needed to expand their power bases in order to gain more political support. So, as some scholars have pointed out, many Chinese leaders played to the provinces or other local entities. Zhao Ziyang was vigorously behind the decentralization initiative. His disgrace in 1989 set back the decentralization reform and especially hampered his political supporters in the following two years. But the need for local political support in a much decentralized system forced the central leaders—including Deng Xiaoping, Li Peng, and Yang Shangkun—to continue to "play to the localities." Central elites solicit local support by giving out some central power. Decentralization as a policy instrument is not used to seek decentralization as an end product. Neither is decentralization reform launched by the national elites an attempt at dissolution of the central government. Decentralization is, therefore, a process whereby the central power apparatus allows some organization and interplay of interests but tries to maintain intact its own capacity to intervene.

The analytic framework that I am setting up applies the economic reasoning of cost-benefit analysis to examine political programs. It points out that in a fragmented authoritarian regime, different political forces push
the reform in different directions, and political leaders are more than aware of this. They advocate decentralization based upon selective allocation that allows them to acquire political benefits and avoid political costs. This cost-benefit calculation has not only laid the foundation for policy choices, but also constructed the reform into "piecemeal" deals. A framework of choice generates more power in explaining policy strategies.

In studies of democratization, scholars find that decentralization is chosen if major political forces are secured by the institutions that would not affect their interests adversely under the new system. This is true in China. The Chinese advocates of decentralization reforms attempted to go as far as they could without losing control over the reform initiative, pace, and macro economic projects. In post-Mao China, those assuring institutions have been reflected ultimately in Deng Xiaoping's "Four Basic Principles"—adherence to socialism, the dictatorship of the proletariat, rule by the CCP, and Marxism-Leninism—Mao Zedong Thought—and practically in the scheme of "Planned Market Economy"(or dual-track system). Chinese leaders in the Center have tried to retain control of reform until a new system is established. This new system should not hurt their own interests—political office and economic privilege at individual level, and political stability and economic prosperity at national level.

Reformers in the post-Mao China have attempted at least three different kinds of decentralization programs in order to strengthen their political base, to weaken their opponents' power, or to reduce their political and economic risks. The first kind of decentralization is the delegation of decision-making authority from the Party secretaries to administrators in the government and to the managers in the enterprises, or the so-called "separation of the Party and the Government administration" (dang zheng fenjia). Although there were setbacks for the optimum decentralizers during the two years after 1989, dang zheng fenjia has resulted in a clear decline of the Party's administrative power and a clear increase of power of the State Council. The second is the delegation of decision making authority from some central point (e.g. the State Council and central commissions and ministries) to local government administrations and local departments, or the so-called "straightening-out of the relationship between the central and local governments" (lishun zhongyang yu difang guanxi). This is administrative decentralization. The third is the delegation of decision making authority from the state all the way down to
individual enterprises, or the so-called "separation of the government administration and enterprise management" (zheng qi fenjia). This belongs to the category of liberalization or marketization.

In facing the legacy of Maoism, there was an incentive for Chinese central leaders to implement the first two delegations involving the Party, central and local governments so as to rally a political coalition for the power struggle, or to give away policy benefits to gain more support from below for further reforms. These first two delegations also shifted economic burden or responsibility away from the Center. Since individual enterprises did not emerge as a counterbalance in central power struggle, Chinese leaders were not attracted to any liberalization reforms. Moreover, because of stringent ideological constraints during the early 1980s, it was costly and a great risk for Chinese leaders to attempt to create a new constituency in the market.

Furthermore, the first, Party-to-administration delegation resulted from a political struggle that comprised both factional and generational dimensions. While the radicals, i.e. "red" generalists, were holding power during the Cultural Revolution, Deng Xiaoping represented the opposition to them, i.e. "white" specialists. In other words, Deng Xiaoping and his followers and allies represented the professional faction against the "Gang of Four" radical faction. As far as generational conflict was concerned, Deng Xiaoping et al. represented revolutionary veterans against those Red Guard upstarts from the Cultural Revolution. Deng Xiaoping and the reformers first took over the power held by those promoted during the Cultural Revolution. This agenda attracted support from the Chen Yun group which advocated the minimum decentralization approach. The first, Party-to-administration delegation was also intended to curtail the frequent interference of political workers in economic matters. This kind of delegation enhanced the power of the central administration, which also influenced Chen Yun's endorsement. In other words, this decentralization program became a linkage point where Deng-Chen groups colluded to overthrow Mao's initial successor.

Decentralization in the first decade of the post-Mao reform was quite limited, so that the central leaders could still hold back some of their traditional political and economic benefits. The reform involved primarily an
administrative decentralization rather than a straightforward liberalization or marketization. Property rights were
tightly controlled in the hands of the central government. The entire decentralization reform in the post-Mao era
has produced two obvious results: more power was gained by local governments rather than individual enterprises,
and more decentralization occurred in areas other than heavy industries or raw and semi-finished products. Since
raw and semi-finished products were what constituted the bulk of supply to Chinese industry, the Center, including
all leaders supporting different economic approaches, believed that it was natural that planning was more dominant
in industry as a whole and in supply than in production or marketing. The post-Mao power structure still favored
heavy industrial interests in charge of large state-owned enterprises. The central government maintained a quite
high degree of "planned adjustment" over the supply, production, and marketing of raw and semi-finished products;
an adjustment which, even well understood by the Chinese reformist officials, "has not only maintained the
consuming enterprises' dependence on the government and the tendency to hoarding, but has also held back the
producing enterprises' responsiveness to the market."67

The Party-to-administration decentralization attracted both the Deng Xiaoping and the Chen Yun groups.
The Dengist group's tolerance of the slow-pace decentralization in the heavy industries won the coalition of the Chen
Yun group. Holding the power of allocation of strategically important heavy industrial goods was like hitting two
birds with one stone at one time. In China, the slow-pace of decentralization in the heavy industries created a
(temporary) balance, i.e. delegating powers to gain local supports from provincial governments and enterprises
without hurting too much the heavy industries represented by central ministries and conservative leaders, namely
some of Chen Yun's associates. Other reforms including department contracting and a variety of responsibility
systems (baoganzhi), like "investment responsibility system," "allocation responsibility system," "credit
responsibility system," and "foreign trade responsibility system," also enhance the power of local governments and
various central ministries at the same time. These responsibility systems, on one hand, made each government
agency responsible for input resources for production and construction, and responsible for consequences of their
deeds; on the other hand, gave them the freedom to use and the authority to control investment, input resources,
credits, and foreign hard currencies. Local governments and central bureaucracies supported the decentralization
reform from different perspectives. Such decentralization design was intended to "enliven the economy" without losing control over it. As decentralization reforms loosening more central power and creating more new interests even in bureaucracies, however, more people would support optimum decentralization reforms. In return the reformist leaders had their political position strengthened.

Ideologically, such a decentralization design convinced the conservatives and reformers alike that the national economy was still under their control. Since the heavy industry comprised the backbone of the economy in terms of input resources and output values, the Chinese economy could be seen as mainly state-owned, the idea of which echoing the fundamental line of "Planning playing the major role with the market a supplementary part."

CONCLUSION

Echoing new scholarship in positive political economy, this paper assumes that central decisionmakers choose different policies in accord with their own interests through available institutional channels to deal with succession and economic problems. Decentralization does not come across the board. Political coalitions form to support one or more public policies. Leaders and their supporters choose a particular decentralization design in order to enhance their own power base, to nourish economic prosperity of their own constituency, and to impair political rivals.

In the succession struggle and in dealing with the economic crisis from the late 1970s till the early 1980s, Hua Guofeng's moderate leftist approach was rejected for it did not gain majority support from other central leaders, provincial officials and military officers. Because of their similar decentralization programs, Chen Yun and Deng Xiaoping joined in a reform coalition against Hua Guofeng. While the local power and non-state sectors were growing as a result of these decentralization reforms, Deng Xiaoping's program, however, became more appealing to a variety of interest groups in critical positions and to a larger population.

From the choice theoretic perspective, I have identified different central leaders' preferences, traced the
exogenous factors in the larger political and economic environment that frame their choices, and analyzed the reasoning of the actual policy outputs that resulted from their choices as modified by the competing interests of other relevant factors.

In sum, the post-Mao central government launched a decentralization reform for the following reasons. First, those who were purged during the Cultural Revolution, i.e. the Deng Xiaoping group and the Chen Yun group, joined together to overthrow Mao’s successor Hua Guofeng. Second, decentralization was beneficial to the Center, enabling it to cast off many heavy burdens but still hold essential control. Third, this reform was also welcomed by the local governments and other local entities because it enhanced administrative freedom and economic prosperity. Moreover, a decentralization reform initiated by the Center gave it the leverage to launch some benefit-concentrated and cost-diffused reforms in order to reach out for support from a variety of interests. Furthermore, this reform which decentralized managerial and administrative power but not ownership did not fundamentally change the rules of the political game where the central elites dominates. Finally, this decentralization reform has been characterized by its piece-meal character. This piece-meal decentralization, best explained by the framework of choice, has benefited many central leaders and local interests, but has also prolonged the reform process in China.
Endnotes:
1. I would like to thank ... for their comments on an early draft of this paper. A grant from ... partially supported the early research for this paper. Revision is conducted under (funding).

2. The term the Center in this study refers to the Politburo of the CCP Central Committee and the Standing Committee of the State Council in China. It is regarded as the center of Chinese politics and policy making arena. This Center includes the most powerful figures: preeminent leaders, the leaders of the Party, the military, the government, and the wealthiest and largest cities and provinces. Kenneth Lieberthal and Michel Oksenberg find that approximately 30 people constitute China’s top leadership at any moment in time (See their book, Policy Making in China: Leaders, Structures, and Processes, Princeton: Princeton University Press, 1988, pp.35-41). The decisive influence of the top leaders and the size of the top leadership differ in light of the policy issues.


4. Peter Hall, pp.17 & 19. Although Hall tries to distinguish his framework from organization theories, it is close to a structural approach without a micro foundation.

5. See Stuart R. Schram, ed., The Scope of State Power in China, (London: St. Martin’s Press, 1985). This volume treats the role of the "state" as the shaper of the moral and material world, however, as Schram addresses in the preface, there is "no systematic discussion of the definition of the state"(p.xi).


16. This policy refers to "whatever the decision made by Chairman Mao was, we will resolutely support; whatever Chairman Mao's directive was, we will unswervingly obey." See Hongqi, No.3, 1977, p.18.

17. Fang Weizhong, "Women suo Jinli de Liuge Wunian Jihua" (The six five-year plans that we have gone through), in Jihua Jinji Yanjiu (Research on the planned economy), No.5, 1983.


20. The Petroleum Gang refers to those leaders who were promoted from the Ministry of Petroleum. Among them are former Vice Premier Yu Qiuli, former Vice Premier Kang Shi'en, and former Minister of Petroleum Song Zhengming. They controlled energy industry and advocated large investment in heavy industries. They benefitted from Maoist industrial policies, and resisted big changes. Political rivals used the oilfield accident of November 1979 to weaken the power of the Petroleum Gang. The oilfield accident killed 72 workers and cost 37 million yuan.


25. Song Ping, "Ba Quanbu Jingji Gongzuo Zhuandao yi Tigao Jingji Xiaoji wei Zhongxin de Guidaozhenglai" (Focus on promoting economic efficiency), Jihua Jingji Yanjiu (Research on the planned economy), No.1 1983.


28. Interviews with Chinese policy advisors.

29. Zhao Ziyang, Wan Li, and Li Ruihuan are examples.


31. Ibid., pp.560-607.

32. The agricultural reform introduced the "household responsibility system." In contrast to the old practice of collective production, under the household responsibility system, land was allocated to rural families who, in return, were expected to provide a fixed-sales quota of grain to the state and a share of the community’s taxes. Anything above that quota could be sold on the emerging markets or to the state at premium prices.


34. Zhou Taihe, Dangdai Zhongguo de Jingji Tizhi Gaige (Economic system reform in contemporary China), (Beijing: China’s Social Sciences Publishing House, 1984), pp.159-206, & 235-41.


44. See Brian C. Smith, 1985.


51. See Harry Harding, 1987, as an example.


58. Susan Shirk, 1985, p.221.


60. See Han Yingjie et al., *Zhongguo Xianxing Shuishou Zhigu* (The current tax system in China), (Beijing: Chinese People's University Press, 1989).


63. In 1992, Deng Xiaoping took a tour to the south for political support in exchange of a more rapid and decentralized reform. In the same year, Li Peng and Yang Shangkun, along with other central leaders, gave several speeches appealing to the supporters of a more rapid and decentralized reform.


66. Dorothy Solinger argues that the light industry in China has been favored since the beginning of the post-Mao reform. See her *From Lathes to Looms: China's Industrial Policy in Comparative Perspective, 1979-1982*, (Stanford: Stanford University Press, 1991). I argue that the heavy industry soon regained the full attention and favor from the central policies in the early 1980s. See (my own work).