

1

Governance and Informal Institutions of Accountability

In the winter of 2001, I boarded a bus that would wind its way westward from the sunny, prosperous city of Xiamen on the coast of Fujian province in southern China, through the mountains that make up 90 percent of Fujian and across the border into the only slightly less rugged terrain of Jiangxi province. After this fourteen hour trip, I disembarked in Ganzhou, a city of a quarter of a million people and Jiangxi's only major urban center in the south. From Ganzhou, I hopped on a minibus for the last seventy kilometers of my journey to the villages of High Mountain and Li Settlement. A friend in Xiamen, hearing that I wanted to investigate the performance of local governments in less developed areas of rural China, had suggested I visit her relatives in these two neighboring villages.

Both villages, she said, were poor and agricultural. Most families survived only by sending someone to nearby Guangdong province to find work, and even with the four thousand yuan (about U.S.\$500) that a migrant worker might send home every year, the income per capita in these villages was still only half that of the national average. Most houses were still constructed from clay soil pounded into large blocks. Small windows cut into the walls of houses lacked glass panes to keep cold air out. Political reforms had been slow to take root in these areas. Unlike the highly touted villages in suburban Xiamen that had carefully implemented central government directives to establish elections for village officials, grassroots democratic reforms in High Mountain and Li Settlement remained "just for show." Officials at the township level, just above the villages, determined to protect their ability to extract heavy, illegal levies on villagers, typically brought the ballot box personally to each household. Not surprisingly, villagers in High Mountain and Li Settlement reported that voting for someone other than the "recommended" candidate was very difficult.

Cambridge University Press

978-0-521-87197-6 - Accountability without Democracy: Solidary Groups and Public Goods Provision in Rural China

Lily L. Tsai

Excerpt

[More information](#)

Accountability without Democracy

Located right next to each other, with similar economic, geographical, and political conditions, High Mountain and Li Settlement sounded from my friend's description like they would be virtually identical. After struggling into each village with heavy bags, however, it was clear that they were not. High Mountain's roads were muddy, rutted, and poorly maintained. When it rained, people simply had to get off their bicycles and push them through a sticky mire of dirt and dung. If temperatures then dropped below freezing, as they often did during the winter, the bicycle tracks hardened permanently into a crazy quilt of ridges and furrows. In contrast, Li Settlement's village government had turned the main village road into a beautifully paved thoroughfare wide enough for two cars to pass each other. Officials in Li Settlement had even taken the trouble to construct drainage channels running on either side of the road to facilitate water runoff and slow the wear and tear on the concrete. The difference in roads between the two villages was, in short, startling.

I had come to Jiangxi to compare local governance in poorer areas with local governance in wealthier areas such as Xiamen, but I found myself confronted with vast differences in communities with the *same* level of economic development. Why were Li Settlement's roads so much better than High Mountain's roads? It was not because Li Settlement was more industrialized or because Li Settlement's government collected more revenue. It was also not because Li Settlement had free and fair elections that allowed citizens to hold village officials accountable for their performance. Nor did the village operate under a conscientious township government that monitored village officials to make sure they provided citizens with needed public services.

Back in Xiamen, I also discovered that villages with similar levels of economic development could have significantly different provision of public goods and services. West Gate and Three Forks, two neighboring villages I visited regularly while based in Xiamen, were the polar opposite of the villages in Jiangxi but very similar to each other in terms of economic development and the implementation of democratic reforms. Both West Gate and Three Forks were extraordinarily wealthy. It was not unusual for village governments in this area to control upward of a million dollars in public assets. West Gate and Three Forks have benefited enormously from the industrialization and foreign investment that Xiamen has attracted as a Special Economic Zone (SEZ). In contrast to High Mountain and Li Settlement, where three-room tamped-earth houses were the norm,

Cambridge University Press

978-0-521-87197-6 - Accountability without Democracy: Solidary Groups and Public Goods Provision in Rural China

Lily L. Tsai

Excerpt

[More information](#)

Governance and Institutions of Accountability

residents of West Gate and Three Forks have built two- and three-story houses covered in shiny pink and white tiles with blue-tinted windows.

Villagers in West Gate, as we might expect, enjoyed a high level of public services provision. West Gate officials arranged for streetsweepers and trash disposal services. A few dirt roads remained, but most of West Gate's roads and footpaths were paved in concrete. Some were even lined with rudimentary sewers, and leftover concrete had been used to construct several village basketball courts.

In Three Forks Village, however, public goods provision was just the opposite. Surprisingly, Three Forks resembled the poor Jiangxi village of High Mountain far more closely than it did its neighbor, West Gate. The Three Forks village government did not lack for funds, yet the only thing that officials had constructed in the last few years was a large village government office building for themselves, complete with a paved parking lot and electronically automated gate. What pavement there was ended at the gate of the government compound; beyond, a dirt road with deep potholes led into the rest of the village. Like the officials in the poorly performing Jiangxi village of High Mountain, village officials in Three Forks plundered the village coffers rather than funding public services. We would be hard pressed to say that public goods provision in Three Forks was significantly better than public goods provision in High Mountain.

So how could there be such dramatic differences in governmental performance and public goods provision between villages located right next to each other? In Jiangxi province, High Mountain and Li Settlement are both poor with poorly implemented democratic and bureaucratic institutions of accountability – yet Li Settlement somehow manages to fund and organize public projects. In Fujian province, West Gate and Three Forks are both wealthy with well-implemented democratic and bureaucratic institutions – yet only West Gate's officials provide public goods and services conscientiously. Villagers in the poorly performing villages would of course have been better off moving next door to the well-performing villages, but state regulations made changing one's registered residence very difficult.

Given the resource scarcity and weak formal accountability that plague many local governments in China and other authoritarian and transitional systems, it is perhaps not that surprising that officials in High Mountain or Three Forks provide little in the way of public services. Low investment in public goods and services is the default case in rural China. Villages with

Cambridge University Press

978-0-521-87197-6 - Accountability without Democracy: Solidary Groups and Public Goods Provision in Rural China

Lily L. Tsai

Excerpt

[More information](#)**Accountability without Democracy**

high investment are in the minority. But what makes Li Settlement and West Gate so special? Why do officials in these communities act more responsibly even when they have no fear of being voted out of office or of being punished by higher-level officials? In fact, why would any government official who is not held accountable by citizens through democratic mechanisms or by higher-level officials through bureaucratic mechanisms bother to provide more than the minimal level of public services needed to prevent widespread citizen protest?

The answer to this puzzle, I argue, lies in the recognition that government officials may be subject to informal rules and norms that are unwritten and unauthorized by the state, yet established by social groups and enforced by the communities of which they are members. When the individuals in office are embedded in the social networks of their communities, they may still feel obligated to provide public goods because it is what their church, temple, ethnic, or community group expects them to do and they know that fellow group members can use the group's norms and networks to punish them if they fail to do so.

This book demonstrates that in authoritarian and transitional systems such as China – where the state finds it difficult to supervise local officials and democratic mechanisms of accountability, such as elections, are weak or nonexistent – governmental performance and public goods provision may still be good when officials are embedded in what I call “solidary groups” – groups based not only on shared interests but also on shared moral obligations. Li Settlement in Jiangxi and West Gate in Fujian have village-wide solidary groups based on religious and lineage obligations. Their neighbors High Mountain and Three Forks lack such groups. When government officials participate in solidary groups that are open to everyone in the locality they govern – when the social structure “fits” with the structure of the state, and social boundaries overlap with political ones – *social* norms and obligations can reinforce or even substitute for the *public* obligations and responsibilities of officials and citizens that the state is supposed to establish and enforce. When elections, government audits, and other formal institutions fail to motivate officials to respond to public concerns, the norms and obligations established by solidary groups can act as *informal institutions of accountability* – rules and norms that were not officially authorized or intended to enable citizens to hold officials accountable for providing public services but which do so nevertheless. This book shows that informal institutions can account for why local governments with the *same* level of economic development or the same kinds of formal institutions can vary

Cambridge University Press

978-0-521-87197-6 - Accountability without Democracy: Solidary Groups and Public Goods Provision in Rural China

Lily L. Tsai

Excerpt

[More information](#)**Governance and Institutions of Accountability**

so widely in their levels of public goods provision. If we look only at economic factors or formal institutions without delving further into the social structure and informal institutions of a locality, the behavior of government officials in places like Li Settlement and West Gate can appear inexplicable or even irrational.

Local Governance and Public Goods Provision

No matter how efficiently governments carry out other activities – decision making, budgetary planning, and information collection, for example – we do not think of them as performing well unless they also provide us with a modicum of basic public goods and services.¹ The provision of public goods and services is an essential element of governmental performance. We want our governments to provide roads, clean water, national defense, and other necessary goods and services that we have trouble producing on our own. In this book, I use the term “public goods and services” (at times, abbreviated to “public goods” or “public services”) to refer to products that have what economists call “positive externalities” for the public – that is, they benefit everyone or almost everyone in society regardless of whether people pay for them or not.² Because excluding people from goods such as roads and national defense is costly once they are produced, few people will volunteer to pay for them since they can be enjoyed for free. Nor do profit-driven businesses have any reason to produce them. Without the government to make sure we all pay our share through taxation, these public goods and services would be in short supply.

¹ For a discussion of other dimensions of governmental performance, see Robert D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993), 65; Jennifer Widner, “States and Statelessness in Late Twentieth-Century Africa,” *Daedalus* 124, no. 3 (Summer 1995), 131–7.

² This use of the term “public goods” differs from “pure public goods,” which economists define as having two essential qualities: nonexcludability (people cannot be excluded from consuming the good once it has been produced) and nonrivalry (once the good has been produced, each person can enjoy its benefits without diminishing the benefits of others). The term “positive externalities” is typically used to refer to benefits of *material* welfare that can be enjoyed by individuals who do not pay for them; however, some services, such as universally affordable health care, can also be considered “public services” in the sense that they provide benefits to the *moral* welfare or well-being of people in societies that have a strong social consensus on “universal service obligations,” or services that the public has a moral obligation to provide to all individuals. For a discussion of the concept of public services, see M. Krajewski, *Public Services and the Scope of the General Agreement on Trade in Services* (Geneva: Center for International Environmental Law, 2001).

Cambridge University Press

978-0-521-87197-6 - Accountability without Democracy: Solidary Groups and Public Goods Provision in Rural China

Lily L. Tsai

Excerpt

[More information](#)**Accountability without Democracy**

Practically speaking, the provision of public goods and services matters deeply for the quality of people's lives everywhere. Politically speaking, how states provide public goods and services has major ramifications for the development of state institutions and state legitimacy. Rulers justified the building of the earliest states through preparations for war and the provision of national defense.³ Since only effective provision of public goods and services can legitimize a state's existence, states that extract resources from their populations without providing adequate services in return (Haiti, Nicaragua, and Georgia being just some of the more egregious examples) must resort to rule by force, and even then, find it difficult to construct stable institutions.

Unfortunately, not only are predatory states that force citizens to pay their taxes but neglect to deliver the goods all too common, but even states that try to provide the goods and services people need are foundering in their efforts.⁴ As more states adopt decentralization programs that shift much of the burden for providing public goods from the central state to local governments, these problems are increasingly concentrated at the local level. Reformers in many developing countries of Latin America, Africa, and Asia grapple with local officials who squander state resources by dispensing private goods to their clients and supporters. In some places, local governments simply lack sufficient resources. Privatization and the dismantling of the enterprise-based welfare system in formerly state-socialist systems such as Hungary and Bulgaria have led to revenue shortfalls in the funding of education, health care, public housing, and social insurance.⁵ In the United States and Western Europe, fiscal federalism throughout the twentieth century has created competition between local governments to cut tax rates, resulting in declining public goods provision.⁶ Unfunded mandates

³ See Charles Tilly, "Reflections on the History of European State-Making," in *The Formation of National States in Western Europe* (Princeton: Princeton University Press, 1975), 74.

⁴ The *World Development Report 2004* amasses a variety of data to show that government provision of public services in developing countries as well as for poor people in countries with higher levels of economic development is inaccessible, unaffordable, unresponsive to citizens' needs, and of poor quality in terms of materials, technical expertise, and corruption in the delivery process. They argue that public services provision suffers from stagnant productivity and a lack of evaluation and innovation. World Bank, "Making Services Work for Poor People," in *World Bank Development Report 2004* (Washington: World Bank, 2003).

⁵ See Jon Elster, Claus Offe, and Ulrich Preuss, *Institutional Design in Post-Communist Societies* (Cambridge: Cambridge University Press, 1998), 245–6.

⁶ See W. Oates, "An Essay on Fiscal Federalism," *Journal of Economic Literature* 37, no. 3 (1999), 1134; A. Breton, *Competitive Governments: An Economic Theory of Politics and Public Finance* (Cambridge: Cambridge University Press, 1998); A. Case, J. Hines, and H. Rose,

Cambridge University Press

978-0-521-87197-6 - Accountability without Democracy: Solidary Groups and Public Goods Provision in Rural China

Lily L. Tsai

Excerpt

[More information](#)

Governance and Institutions of Accountability

for social service provision further burden cash-strapped state governments in the United States. Fiscal decentralization in Russia has strengthened the incentives that local officials have to waste and embezzle funds for public goods provision.⁷

In few places are these issues more salient than in rural China. Fiscal decentralization in the reform period has given village governments primary responsibility for funding and organizing the construction of roads within villages, drainage systems, irrigation works, sanitation and trash disposal services, primary school facilities, and community recreational facilities.⁸ The state now expects village officials to fund administrative expenses and public goods and services almost solely through the resources available in the village itself. Redistribution across provinces and localities is extremely limited, and funds for village government expenditures are not a regular part of the state budget at any level of government.⁹

Because of the tremendous variation in the performance of village governments, contemporary rural China provides an ideal setting to examine the factors that affect the quality of local governance. Local officials have so much discretion in policy implementation that both citizens and researchers often refer to policy *making* by local officials rather than policy implementation.¹⁰ Some village governments provide citizens with outstanding public

“Budget Spillovers and Fiscal Policy Interdependence: Evidence from the States,” *Journal of Public Economics* 52 (1993), 285–307; H. Ladd and J. Yinger, *America’s Ailing Cities: Fiscal Health and the Design of Urban Policy* (Baltimore: Johns Hopkins University Press, 1990). See also B. Cigler, “Challenges Facing Fiscal Federalism in the 1990s,” *PS: Political Science and Politics* 26, no. 2 (1993), 181–6.

⁷ The fiscal arrangements in Russia do not increase local government revenue when the tax base is increased. Local officials therefore have no incentive to promote economic growth in their communities but have strong incentives to waste or steal funds for public goods. See E. V. Zhuravskaya, “Incentives to Provide Local Public Goods: Fiscal Federalism, Russian Style,” *Journal of Public Economics* 76, no. 3 (June 2000), 337–68.

⁸ In this book, I use the term “village government” to include both the village Party branch and the village committee. Chapter 2 discusses the structure of village governments in greater detail.

⁹ Redistribution and intergovernmental transfers are likely to increase with the recent tax reforms piloted and implemented since 2001.

¹⁰ Such high levels of local autonomy may be changing. Policies since 2002 have showed trends toward administrative and fiscal recentralization. The abolition of the agricultural tax in 2006 has necessitated increased central transfers. Localities have also experimented with practices such as *shuang daiguan*, in which townships take control of village accounts, leaving village officials with only a bare minimum in circulating funds. For a brief description, see Jean Oi, *State Responses to Rural Discontent in China: Tax-for-Fee Reform and Increased Party Control* (Washington: Woodrow Wilson International Center for Scholars, March 2003); Zhongyang Gu, “Trial on Substitution of Villages by Townships in Fiscal Management

Cambridge University Press

978-0-521-87197-6 - Accountability without Democracy: Solidary Groups and Public Goods Provision in Rural China

Lily L. Tsai

Excerpt

[More information](#)**Accountability without Democracy**

goods and services; other village governments provide nothing at all. These dramatic differences in village governmental performance across localities are an important problem in their own right to the 800 million people who live in the Chinese countryside, but the extensive variation in governance and local economic and political conditions within the same country also presents us with something akin to a “natural laboratory.” This strategy holds certain macroconditions constant (such as political ideology, national policy, and regime type) while allowing to vary particular factors that existing theories suggest are important for governance and public goods provision. Finally, both villagers and village officials remain strongly tied to the village community. With very few exceptions, village officials all come from within the village. Moreover, at the time of this study, it was still very difficult for villagers to free themselves from their home village completely and move to other places permanently.¹¹ These conditions thus allow us to isolate the impact of key *local*-level factors on local governmental performance.

Explaining the Performance of Local Governments

What might these key factors be? One school of thought highlights *economic development and processes of “modernization.”* Political scientists such as Seymour Martin Lipset and Adam Przeworski have emphasized the importance of increasing levels of wealth in creating the conditions for more effective and more responsive government.¹² Research in development studies argues that good governance and economic development constitute a “virtuous cycle” – good governance fosters economic development and higher incomes, which in turn lead to demands for better governmental performance.¹³ As localities industrialize and incomes rise, people not

in Xingtai (Xingtai ‘cuncai Xiangdaiguan’ Toushi Wenlu),” *People’s Daily (Renmin Ri Bao)*, October 23, 2005; Junjie Han, “Supervision of Villages’ Fiscal Issues by Townships: Hindrance or Promotion of Villagers’ Self-Governance? (*Cuncai Xiangjian: Shi zu’ai Haishi Cujin Cunmin Zizhi?*),” *China Youth Daily (Zhongguo qingnian bao)*, October 22, 2003.

¹¹ Rural migration for work, however, has increased dramatically, and future reforms are expected to release villagers completely from their responsibility for taxes on the plots of land assigned to them by their home village.

¹² S. M. Lipset, “Some Social Requisites of Democracy: Economic Development and Political Legitimacy,” *American Political Science Review* 53 (1959), 69–105; A. Przeworski and F. Limongi, “Modernization: Theories and Facts,” *World Politics* 49, no. 2 (1997), 155–83.

¹³ Recent statistical analysis by D. Kaufman and A. Kraay constitutes a notable exception. They present findings that show a lack of evidence for a positive effect of incomes on the

Cambridge University Press

978-0-521-87197-6 - Accountability without Democracy: Solidary Groups and Public Goods Provision in Rural China

Lily L. Tsai

Excerpt

[More information](#)

Governance and Institutions of Accountability

only want better infrastructure and more services, but they become more capable of mobilizing themselves politically to make these demands effectively. Local governments, for their part, should also have more resources to fund higher levels of service provision. In China, as rural industrialization accelerated in the late 1980s and early 1990s, particularly along the coast, Jean Oi and others observed wealthy villages where officials used revenue windfalls to provide villagers with free water and electricity, subsidies for education, as well as new schools, movie theaters, and community centers.¹⁴

But looking at the four preceding village case studies suggests that local governmental performance and public goods provision may not be automatically correlated with economic development. The case of Li Settlement showed that wealth and industrialization were not necessary conditions for good public goods provision, while the case of Three Forks suggested that even villages with high levels of economic development could have poor public goods provision.

Why might public goods provision *not* be correlated with how wealthy a community is? The contrast between Three Forks' dirt roads and the shiny new office building for its officials provides part of the answer: *nothing guarantees local governments with more resources will actually use those resources for the public good*. Something has to give local officials a sense of obligation to the public and hold them accountable for meeting their obligations. Higher-level officials or citizens themselves must have ways in which they can monitor local officials to make sure that they fulfill their public responsibilities. What might some of these ways be?

This question brings us to a second school of thought about governmental performance and public goods provision that focuses on *formal institutions*. When investigating how state officials are held accountable for their behavior, political scientists often look first within the formal organization of the state. Are there adequate *democratic* mechanisms such as free and fair elections and legislative assemblies that enable citizens to elect officials they believe to be responsive and responsible and to vote these officials out of office when their expectations are not met? Or are there top-down *bureaucratic* institutions that enable higher-level officials in the state to supervise lower-level officials and make sure they are doing their job? These formal institutions govern the government and keep officials

quality of governance. See Kaufmann and Kraay, "Growth without Governance," *Economia* 3, no. 1 (2002), 169–229.

¹⁴ Jean Oi, *Rural China Takes Off* (Berkeley: University of California Press, 1999), 79–80.

Cambridge University Press

978-0-521-87197-6 - Accountability without Democracy: Solidary Groups and Public Goods Provision in Rural China

Lily L. Tsai

Excerpt

[More information](#)**Accountability without Democracy**

from abusing their powers. Max Weber's classic statement on bureaucracy stresses the "supervision of lower offices by the higher ones" and the centrality of formally designated job responsibilities and obligations to "modern officialdom."¹⁵ In a more modern formulation, Terry Moe's analysis of bureaucratic organization draws on "principal-agent models" – models of relationships in which "the principal" (such as an employer) hires an "agent" (or an employee) to choose actions that benefit the principal's interest.¹⁶ Formal institutions such as bureaucratic performance reviews at fixed intervals and auditing systems help higher-level officials (who can be considered "principals") monitor and supervise lower-level officials (the "agents"). Meritocratic selection and promotion, long-term career rewards, training programs, and selective recruitment from elite social groups encourage the formation of bureaucratic norms emphasizing loyalty, trust, and corporate identity, thereby fostering a sense of duty among bureaucrats to put collective goals above individual ones and, ideally, making the state capable of "transcending the individual interests of its private counterparts."¹⁷

Models of bureaucratic accountability seem particularly appropriate for authoritarian systems such as China. In China we have seen central elites successfully mobilize village officials to extract agricultural surplus, most notably during the disastrous developmental policies of the Great Leap Forward, and to carry out draconian policies of birth control. During the 1990s, both Chinese and Western scholars argued that bureaucratic performance contracts requiring local officials to meet state-mandated targets for economic development, public goods provision, and policy implementation imposed heavy administrative and financial responsibilities. These responsibilities spurred local officials to levy (and allowed them to justify) unsustainably high levels of taxes and fees on villagers.¹⁸ Since 1999 the central government has stated in numerous directives that rural public goods provision and infrastructural development should be prioritized.¹⁹

¹⁵ Max Weber, *Wirtschaft und Gesellschaft* (Tubingen: Mohr, 1922), 650–78.

¹⁶ T. Moe, "The New Economics of Organization," *American Journal of Political Science* 28, no. 4 (1984), 739–77.

¹⁷ Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995), 12.

¹⁸ See Thomas Bernstein and Lu Xiaobo, *Taxation without Representation in Contemporary Rural China* (New York: Cambridge University Press, 2003); Justin Yifu Lin et al., *The Problem of Taxing Peasants in China* (Beijing: Beijing University, China Center for Economic Research, June 2002), 29.

¹⁹ A more detailed elaboration on the need for rural infrastructural development can be found in "Ideas on Several Policies on Further Strengthening the Work in the Countryside and