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978-0-521-88235-4 - Decentralized Authoritarianism in China: The Communist Party's Control of Local Elites in the Post-Mao Era

Pierre F. Landry

Excerpt

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I

Authoritarianism and Decentralization

In November 2002, Hu Jintao became the fourth general secretary of the Chinese Communist Party (CCP) of the “reform era,” which began in earnest in December 1978. The carefully orchestrated leadership transition was widely regarded as the most predictable and peaceful transfer of power in the history of the People’s Republic. The contrast with the events of the late 1980s that rocked the communist world could not have been greater. When communism ended, first in Eastern Europe, then in the Soviet Union itself, the future of the Chinese regime seemed very much in doubt. The series of demonstrations during the spring of 1989 proved that the CCP was not immune to the kind of political instability that led to the destruction of communism elsewhere. Although by the summer of 1989 the Chinese leadership seemed to have “won,” scholars outside China ascribed the use of force against demonstrators to the desperation of a Party weakened by ten years of reforms; Deng’s pyrrhic victory signified a “transition postponed,” but certainly not a precluded one (Shue, 1992; Pei, 1994).

Fifteen years later, the transition has still not taken place. Instead, the post-Tiananmen leadership surprised the world by embracing a breathtaking series of politically difficult reforms: deeper integration with the world economy, culminating with World Trade Organization membership in 2001; the restructuring of the state sector, including massive layoffs; the privatization of much of the housing sector in urban areas; and the generalization of partially competitive elections

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at the village level. Robust economic growth continued, despite the Asian financial crisis of 1997. Far from collapsing in the 1990s, the Chinese regime thrived.

The durability of China's political system is not unique among authoritarian regimes. Among China's communist neighbors, the Soviet Union lasted seventy-four years (1917–1991) and the People's Republic of Mongolia sixty-six (1924–1990), while the North Korean and Vietnamese parties have remained in power from the 1940s to this day. Beyond the socialist world, other authoritarian regimes have also proved highly durable, such as Franco's Spain (1936–1975), Suharto's Indonesia (1965–1998), or the Mexican Institutional Revolutionary Party (PRI) until the political liberalization of the 1990s. What makes the Chinese case especially intriguing is not the duration of the CCP's rule per se, but the manner in which political authority is exercised: China is an authoritarian regime, but it is also decentralized, and these two characteristics do not go hand in hand intuitively or empirically (Burki, Dillinger, and Perry 1999; Dethier, 2000; Gibson, 2004).

Most economists recognize that economic decentralization contributed to China's impressive performance, but political scientists have been far more divided about the political significance of these reforms for the long run. If we turn to the major cross-national compilations of regime types produced by comparativists in recent years, it appears that very little structural political change has occurred since the height of Maoism.¹ Yet even though the PRC has not undergone a transition to “democracy,” the current regime is qualitatively different from the system that the reformers inherited from Mao in the late 1970s. These regimes differ from one another not only because the economic resources available to the leadership are larger than at any time in China's economic history, but more importantly because the mechanisms of accumulating and redistributing *political* resources, the manner in which conflicts within the Party are handled, and more generally the “rules of the game” – have changed profoundly.

In this book, I seek to explain how the CCP has devised and implemented a political strategy that preserves the core elements of the authoritarian system while pursuing economic and administrative

¹ Przeworski et al. (2000) code China as an authoritarian bureaucracy since 1954, while Freedom House ratings relentlessly find that Chinese citizens are “not free.”

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decentralization. This evolution is remarkable, not only because the combination of authoritarianism and decentralization is rare across political systems but also because it has succeeded so far.

DECENTRALIZATION, CHINESE STYLE

How decentralized is China? Cross-national indicators suggest that the PRC is one of most decentralized countries in the world, if not the most. The most widely accepted measures of decentralization focus on the power of the purse, more precisely the subnational share of total government expenditures (or revenue) (World Bank, 2001).² China is unusually decentralized, even following the 1993 reforms that sought to partially recentralize the revenue collection system: In 2002, local governments accounted for nearly 70% of all government spending. Although one must remain cautious that not all countries are observed at all times because of the severity of missing government finance data, post-1995 China ranks among the most decentralized countries in the entire period for which the International Monetary Fund has compiled this information (1972–2000).

The historical trends are equally remarkable. They suggest that even in comparison with periods of contemporary Chinese history commonly associated with intense decentralization – the Great Leap Forward (1958–1962) and the Cultural Revolution (1966–1976)³ – the reform era marks a *further* bout of decentralization. Smoothing the curve using a ten-year moving average in order to remove short-term cyclical variations, the current level of fiscal decentralization has now stabilized at a historic peak of about 70% (Figures 1.1 and 1.2).

² Although it is based on IMF data, the original data set is made available by the World Bank (2001). Whenever possible, I have supplemented revenue and expenditure data that have been reported to the IMF since then, through the Government Finance Statistics data. In addition, missing data for several countries were filled in using the fiscal data published in national statistical yearbooks. Interested readers should contact the author directly for access to this updated data set. For ease of description, I refer to this data set as the “IMF’s decentralization indicators.”

³ On decentralization during the Great Leap Forward, see Schurmann ([1966] 1968). For a discussion of the relationship between decentralization and the reach of the state during the Cultural Revolution and its immediate aftermath, see Shue (1988) and Falkenheim (1980).

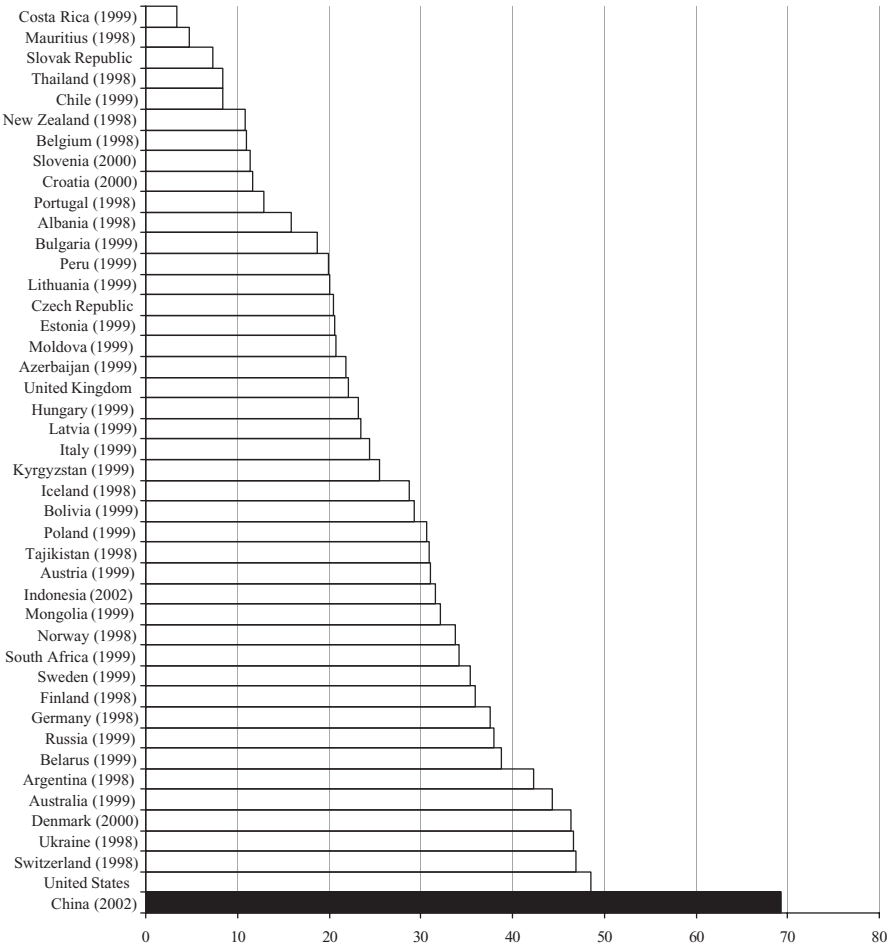


FIGURE 1.1. Current Levels of Fiscal Decentralization (Expenditure Method).
Sources: IMF Fiscal Affairs Department (2000); Ministry of Finance of the
PRC: *China Finance Yearbook* 2003.

As elsewhere in the developing world, the political leadership of China has justified its decentralization policies on the grounds of economic efficiency, and the success of post-Mao economic reforms has vindicated this approach: since 1978, the Chinese state has consistently “delivered” high rates of economic growth.⁴ Central planning is

⁴ See Riskin (1988), Perkins (1988, 1991), and World Bank (1997).

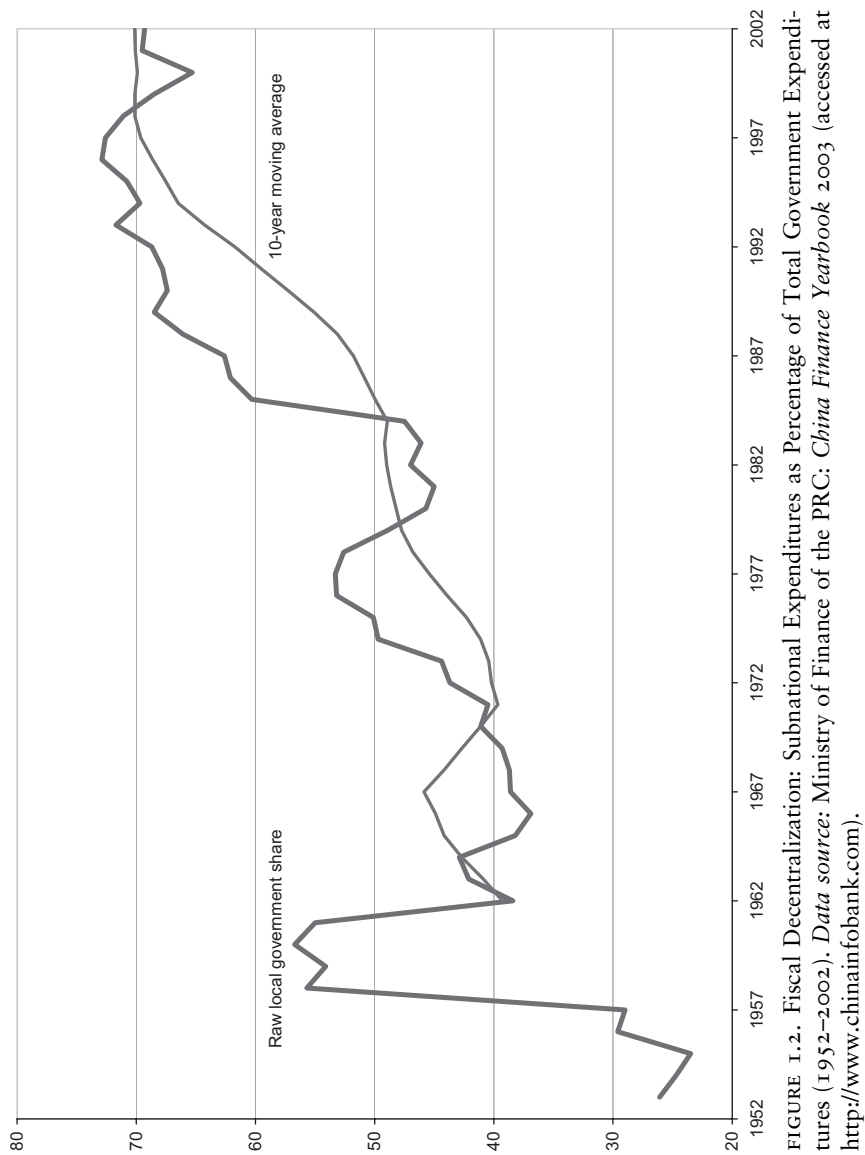


TABLE 1.1. *Fiscal Decentralization and Political Regimes (1972–2000)*

	Subnational Share (%) of	
	Expenditures	Revenues
Democracies	25.48	18.92
Autocracies	17.76	14.05

Source: Cheibub and Gandhi, 2004 (for regimes), IMF (for decentralization indicators).

no longer the dominant feature of economic policy (Naughton, 1995), and to the extent that the command economy is still relevant, subnational units exercise significant control over “state” assets (Oi, 1999). In parallel with the decline of central planning, Chinese locales have achieved control over an impressive array of policy areas.⁵ Political economists have argued that by building competition across local governments, the decentralization of economic authority has been “market preserving,” and thus a source of economic efficiency (Montinola, Qian, and Weingast, 1995; Jin, Qian, and Weingast, 2005).

China’s position is particularly puzzling if we consider the nature of its political institutions. Decentralization may benefit the economy, yet few authoritarian regimes are inclined to decentralize. The average democracy decentralizes a quarter of its expenditures, whereas China’s average from 1958 to 2002 has been 54.9%, far greater than other authoritarian regimes, as shown in Table 1.1.

Whether one looks at revenue or expenditures, China’s current levels of fiscal decentralization have been surpassed only by Socialist Yugoslavia in the years immediately preceding its break-up. (See Table 1.2.) In only eleven authoritarian regimes has the level of subnational expenditures ever exceeded 30%, and among those, only Mainland China and three post-Soviet regimes (Belarus, Kazakhstan, and Tajikistan) have remained intact following these peaks. I do not suggest that the Chinese regime is about to collapse. I credit instead its political

⁵ See in particular Blecher and Shue (1996), Chung (1995), Ding (1994), Jia and Lin (1994), Lieberthal and Lampton (1992), Oksenberg and Tong (1991); Schroeder (1987, 1992) and D. Yang (1994, 1996, 1997).

TABLE 1.2. *Share of Subnational Expenditures among Heavily Decentralized Autocracies*

	Mean Share	Period		Formal Federalism	Political Evolution
Yugoslavia	74.86	1977	1990	yes	Country disintegrates in 1990
China	54.90	1958	2002	no	Authoritarian regime
Peru	49.76	1972	1977	no	Auth. regime ends in 1979, returns 1990–2000
Kazakhstan	46.97	1995	1998	no	Authoritarian regime
Senegal	45.79	1972	1979	no	Authoritarian regime ends in 1999
Belarus	34.36	1993	1999	no	Authoritarian regime
Argentina	33.33	1981	1981	yes	Authoritarian regime ends in 1982
South Korea	32.92	1973	1978	no	Authoritarian regime ends in 1987
Tajikistan	30.89	1998	1998	no	Authoritarian regime
Mexico	30.50	1994	1994	yes	Authoritarian regime ends in 2000
South Africa	30.48	1977	1977	no	Authoritarian regime ends in 1993

Source: Cheibub and Gandhi, 2004 (for regimes), IMF (for expenditure measures).

institutions for being able to sustain such levels for so long. What is important is to understand the specific institutional arrangements that make these choices sustainable.

The decision to decentralize is, of course, a complex one in which both political and economic considerations come into play. Democracies tend to value decentralization for its own sake: From Tocqueville ([1839] 2004) onward, the participatory elements of local governance have been viewed as integral to the democratic experience. Fiscal – and other forms of – decentralization help sustain these participatory institutions (Campbell, 2003; Gibson, 2004; Petro, 2004; Oxhorn, Tulchin, and Selee 2004). Furthermore, formal federations are likely to be more decentralized than unitary states because constitutional guarantees extended to the states frequently include explicit provisions for fiscal transfers (Souza, 1997) and because federalism makes the commitment to decentralize more credible (Gibson, 2004; Stepan, 2004).

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In contrast, autocratic regimes are likely to fear delegating authority to elites lest they build alternative patronage systems, use local resources to challenge the regime directly, or threaten to secede from the political system altogether (Treisman, 1999). Renegotiating this allocation *ex post facto* may prove difficult, especially in authoritarian political systems. Leninist institutions are especially ill suited to ensure political control in a decentralized setting. Valerie Bunce (1999) shows how the interplay of decentralization policies and preexisting communist institutions among East European communist regimes was a major contributor to their ultimate downfall. In the pre-reform environment, the organizational centralization of the ruling party worked in tandem with the centralization of the economy: Local leaders had enjoyed considerable authority in the localities where they were appointed, but they were also heavily constrained by their lack of control over resources, which were allocated from above. In a decentralized setting, such incentives to comply with central directives are reduced, particularly if these directives challenge established local political hierarchies.

Resource constraints also impede decentralization. Countries at very low levels of economic development may not be able to decentralize if the central state has difficulty funding core expenditures that cannot be easily delegated to the localities, such as national defense and internal security. Since autocracies tend to have a strong preference for the latter, one would expect poor autocracies to be relatively more centralized than more affluent ones.

I present the details of the statistical analysis of the relationship between regimes and decentralization in Appendix 1A.1, which is based on the updated measures of democratic and authoritarian regimes around the world by José A. Cheibub and Jennifer Gandhi (2004),⁶ combined with cross-national indicators of fiscal decentralization developed by the IMF. The dependent variable is the percentage of revenue controlled by subnational governments. It is estimated as a linear function of the political system (autocracy or democracy, lagged by one year). The model controls for the age of the regime, the age of

⁶ For the details regarding these coding rules, see Przeworski et al. (2000). I am grateful to José Cheibub for graciously sharing his updated data set.

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its institutional structures, the level of economic development in the country⁷ and a trend variable (year of observation). Since the dependent variable is not always observed because of missing data, a likely cause of selection bias, I implement a correction for sample selection (Heckman, 1978).⁸ In the selection equation, the dependent variable is observed as a function of the country's regime type, the existence of formal federalism, and the current level of economic development. (See Appendix 1A.1.)

The results show that fiscal decentralization is very strongly associated with democracy and federalism, whether one considers revenues or expenditures. They support the claim of a nexus between decentralization and democracy (Dethier, 2000; Gibson, 2004; inter alios). On the expenditure side, authoritarian regimes are eleven percentage points *less* decentralized than democracies.⁹ Furthermore, unitary states are expected to drop a further twenty points, compared with formal federations. Thus, holding the impact of regime duration and levels of economic development constant, we should expect on average a 31-point gap between a federal democracy and a unitary authoritarian regime. These findings provide further evidence that China's experience with decentralization in the reform era is highly unusual. The PRC may be a unitary authoritarian regime, but controlling for its level of economic development, one would expect the PRC to be one of the most centralized countries in the sample. Instead, China's observed level of decentralization is consistent with the behavior of a federal democracy!

The Political Consequences of Decentralization

Since autocrats are reluctant decentralizers, is there any comparative evidence that decentralization actually undermines authoritarian

⁷ Gross domestic product per capita using purchasing power parity (PPP) at constant 1995 U.S. dollars. See "World Development Indicators," World Bank (2005).

⁸ The selection equation suggest that the data are biased toward richer, democratic, federal systems, observed recently rather than in the more distant past, which is why this correction is necessary. (Rho is large and significant at the .001 level.)

⁹ The same set of independent variables run against expenditure data shows that the gap between democracies and autocracies is 11.2%.

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regimes? In order to test this hypothesis, I estimated a simultaneous equation model in which both the level of decentralization and the regime type (autocracy or democracy) are endogenous. (See Appendix 1A.2.) The results suggest that China's decentralization strategy is politically hazardous, for two reasons.

The first effect is direct: Decentralization corrodes authoritarianism by creating loci of power that can gradually develop into a source of political opposition. Such processes were seen in Mexico. Enrique Ochoa-Reza traces the political liberalization of the regime to the reforms of the 1970s that "opened space for political contestation" and empowered opposition parties as they assumed power in the states (Ochoa-Reza, 2004: 257). Decentralization is risky, because once it is introduced, it breeds contestation as well as local demands for further decentralization. The processes that were at play in Mexico were to some extent exacerbated by the presence of a formal federal structure, since formal federations are systematically more decentralized than unitary regimes. The "regime" equations lend support to these arguments. The greater the degree of fiscal decentralization in a country, the less likely it is to be an autocracy. There is of course a degree of institutional stickiness, in the sense that enduring regimes (*agehinst*) are more likely to remain authoritarian than recently established ones. Both models also capture the trend toward democratization around the world.

The second impact of decentralization on authoritarianism is indirect: decentralization may stimulate economic development, as stipulated by Barry Weingast (2000), but development – in turn – corrodes authoritarianism, a result that holds in both the revenue and the expenditure models. Thus, the models clearly highlight the predicament of autocrats: If they choose to decentralize in order to improve growth, their regime is likely to become less secure.

Country-specific forecasts help tease out the political risks that the Chinese leaders have seemingly accepted during the reform era. Using the regime equation estimates and the annual observed values for China for all independent variables (including the instrumentalized impact of decentralization) on the right-hand side, it is easy to compute the probability of autocracy in China from 1980 to 2000, conditional upon the policy choices (levels of decentralization), economic performance, and the regime's durability "so far."