

## ELECTIONS, GOVERNANCE, AND ACCOUNTABILITY IN RURAL CHINA

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*While competitive elections are a crucial aspect of village democracy, they are only one means to achieving good governance. In this article, we consider village elections in the broader context of improving governance in China. We argue that the promotion of village democracy should be complemented by simultaneous improvements in a number of other non-electoral areas that enhance the accountability of public officials. The Chinese central government has paid greater attention to these institutional aspects in recent years. The leadership is willing to encourage local experiments and tolerate some unorthodox practices. This interaction between local initiatives and central interventions will shape the future of village democracy in rural China. We analyze several of them in particular: tax-for-fee reform, new accounting practices, village affairs disclosure, and institutionalized participation in democratic decision making. This article reveals great diversity and discusses the politics of these institutional changes.*

**Key words:** democracy in East Asia, China

### **Introduction**

Village democracy has attracted considerable attention in recent years. Nowadays, millions of villagers head to voting sta-

tions in the countryside and elect their leaders according to the Organic Law of Villagers' Committee. By the end of June 2005, nine provinces had already completed their elections. Seven provinces were in the middle of this process and five more would launch their own in the second half of the year. By the end of 2005, all villages will have completed two rounds of elections since the law was formally enacted in 1998.<sup>1</sup>

While competitive elections are a crucial aspect of village democracy, they are only one means to the end of good governance. In this article we consider village elections in the broader context of improving governance in China. We argue that the promotion of village democracy should be complemented by simultaneous institutional improvements in a number of other non-electoral areas that enhance the accountability of public officials. These other areas clearly were on the minds of the drafters of the Organic Law. According to the document, the ultimate goal of village democracy is to achieve self-governance in the Chinese countryside. The law states that there are four components of village democracy: democratic elections, democratic decision making, democratic management, and democratic supervision. To hold village leaders accountable, all these institutions need to be in place. In fact, improvement in the three other areas tends to help improve the chances for sustaining sound electoral practices. In contrast, the introduction of elections in an inhospitable environment may ruin the reputation of elections, give democracy a bad name, and thus harm the consolidation and further expansion of democratic governance.

The article is organized as follows. We first review Chinese village self-governance in the past two decades. The next section provides some theoretical arguments as to how elections may or may not improve governance. Drawing on insights from the literature on institutional design, we discuss some basic principles in facilitating control and accountability. This is followed by an analysis of a number of non-electoral institutions in recent years. The article concludes with some remaining issues.

1. "Chinese Villagers' Committees elections Have Three Clear Features and Many Institutional Innovations." See online at <http://news.tom.com/1988/20050712-2297178.html>.

## Village Self-governance and Elections in China

For at least the past century, there has been a long-running debate about whether the trappings of democracy, or competition in the political marketplace, can sink roots in China. The travails of the past century have in turn added to the pessimism of many China observers. As Steven Mosher, one of the most persistent critics of China, recently wrote:

There is no Chinese tradition of respect for human rights, indeed, no notion of inalienable rights at all. There is no ghost of a suggestion that government in any way derives its just powers from the consent of the governed. From the beginning of Chinese recorded history, the emperor has been an absolute despot. In this regard, there is little to distinguish Qin Shihuang, who ruled from 221-206 B.C., and Mao Zedong, who ruled from A.D. 1949-1975, China's autocratic traditions provide no roots, and precious little foothold, for the foreign shoots of democracy.<sup>2</sup>

For writers such as Mosher, the apparent willingness of the Chinese people to tolerate the current birth planning policy reflects a deep passivity in the national character and suggests that the Chinese are culturally unfit for democracy. Such conclusions have led Mosher and others to argue for treating China as an enemy.<sup>3</sup>

Obviously, Mosher is extreme in interpreting China's history. Other distinguished scholars of Chinese history and thought, such as William Theodore De Bary of Columbia, have produced studies that suggest China's historical tradition was not one of a monolithic autocracy.<sup>4</sup> For contemporary China, leaving the village elections aside, survey research by Tianjian Shi, Zhong Yang, and others have revealed much popular political participation in urban areas. It is within this context, and in a decade when democratization has captivated several social science disciples, that the village elections have become a major topic in studies of

2. Steven Mosher, "Are the Chinese Ready for Liberty & Self-government?" *The American Enterprise*, vol. 9, No. 4 (July-August, 1998), pp. 50-53.

3. Steven Mosher, *Hegemon: China's Plan to Dominate Asia and the World* (San Francisco: Encounter Books, 2000).

4. William Theodore De Bary, *The Liberal Tradition in China* (New York: Columbia University Press, 1983).

China. For, until recently, various members of the elite, both within the ruling circles and even among anti-regime dissidents, have argued that China is too backward and simply has too many “farmers” for democracy.<sup>5</sup>

Article 111 of the 1982 Chinese Constitution provided for the establishment of villagers’ committees (VCs) and specified that the residents elect the chairman, vice chairmen, and members of each residents’ or villagers’ committee. This provision became legally executable with the passage of the Organic Law of Villagers’ Committees (for trial implementation) by the National People’s Congress (NPC) in 1987. At the time, Peng Zhen, chairman of the NPC and one of the more orthodox party politicians, strongly supported the enactment of the Organic Law whereas Zhao Ziyang, the party general secretary who would be ousted in 1989, was less enamored of it.<sup>6</sup> In a reflection of the somewhat uncertain political status of the village elections, the Organic Law was promulgated for trial implementation only—a strategy Chinese leaders had skillfully used in the rural reforms of the late 1970s and early 1980s.

Formal implementation of the Organic Law of Villagers’ Committees began in 1989-1990—not the most auspicious circumstances. Yet, armed with the imprimatur of the Constitution and the national law, a small number of bureaucrats in one department of the Ministry of Civil Affairs (MCA) took their mission seriously and steadily promoted the village elections province by province.<sup>7</sup> In fact, under the constraints of limited personnel and

5. Daniel Kelliher, “Keeping Democracy Safe from the Masses: Intellectuals and Elitism in the Chinese Protest Movement,” *Comparative Politics*, vol. 25, No. 4 (July, 1993), pp. 379-96.

6. Tianjian Shi, “Village Committee Elections in China: Institutionalist Tactics for Democracy,” *World Politics*, vol. 51, No. 3 (1999), pp. 385-412.

7. There is a growing number of studies on the village elections, notably Kevin J. O’Brien, “Implementing Political Reform in China’s Villages,” *Australian Journal of Chinese Affairs*, vol. 32 (July, 1994), pp. 33-67; Kevin O’Brien and Lianjiang Li, “The Struggle over Village Elections,” in Roderick MacFarquhar and Merle Goldman, eds., *The Paradox of China’s Reform* (Cambridge: Harvard University Press, 1999), pp. 129-44; and Melanie Manion, “The Electoral Connection in the Chinese Countryside,” *American Political Science Review*, vol. 90, No. 4 (1996), pp. 736-48. For recent overviews of the issues, see Robert Pastor and Qingshan Tan, “The Meaning of China’s Village Elections,” *China Quarterly*, No. 162

travel limitations, the MCA officials first worked with provinces closer to Beijing and gradually fanned out spatially. As a result, Yunnan (an ethnically diverse but less developed province in the Southwest) and Guangdong (Canton, the economic powerhouse adjacent to Hong Kong) were two of the last provinces to jump on the bandwagon of popular village elections.<sup>8</sup> By the late 1990s, the village elections had become accepted practice nationwide; they were seen as a major accomplishment of China’s political reforms and socialist democracy. Building on this record, the PRC Organic Law of Villagers’ Committees was formally enacted by the NPC in November 1998.

Given the relatively small size and homogeneity of villages and the close proximity between village residents and the candidates, elections (in 1999) for the 801,000 village committees in China provide an excellent setting for basic-level political participation, if not the direct democracy that theorists such as Rousseau would desire. Although the villages are not formally a part of the state apparatus, the very fact that meaningful elections are taking place in such a multitude of villages (and, in the future, in urban neighborhoods) is a signal of political achievement. Moreover, over time the conduct of village elections has improved. The 1998 Organic Law of Villagers’ Committees specifically stipulated that the elections be conducted using secret ballots, direct nominations, and more candidates than the number of positions available. Scholarly studies have demonstrated that the village elections have become a meaningful mechanism of accountability for village governance.<sup>9</sup> Some analysts have suggested that the village elections are becoming the training ground for further democratization.<sup>10</sup>

(2000), pp. 490-512; Tyrene White, “Village Elections: Democracy from the Bottom Up,” *Current History*, vol. 97, No. 620 (September, 1998), pp. 263-67; and Jean Oi and Scott Rozelle, “Elections and Power: the Locus of Decision-Making in Chinese Villages,” *China Quarterly*, vol. 162 (June, 2000), pp. 513-39.

8. There is a strong statistical correlation between a province’s distance from Beijing and the time taken by the province to approve a regulation for village elections.

9. See especially Manion, “The Electoral Connection in the Chinese Countryside.”

10. Jamie Horsely, “Village Elections: Training Ground for Democratization,”

By building democracy from the bottom up and among China's less educated, the successful popularization of village elections offers a powerful counter-argument against those who see agrarian China as unsuited for democracy. Yet, while the procedures for village elections have seen a steady improvement over time, there is also no denying that elections per se are no panacea for rural China's difficulties, including lagging incomes and corruption. Moreover, some of the village elections have been plagued by problems that are found in elections in other countries, including vote buying and various forms of manipulation.

### Democracy, Election, and Good Governance

#### *From Election to Governance*

The idea of democracy is to minimize the arbitrary exercise of domination and ameliorate asymmetries of power. Public office-holders should be responsive and accountable, while the rights and interests of ordinary citizens are protected. In Western democratic theory, there has been a long-standing debate on the meaning of democracy. Formal (or minimalist) representative democracy and civic-participatory substantive democracy are two major strands of thinking on this topic.<sup>11</sup> They offer different answers to the following question: Is reelection sufficient for holding public officials responsive and accountable? While the minimalist tradition answers in the positive, the civic tradition argues that more direct participation by citizens and constant vigilance are needed to protect citizens' rights.

Most scholars of democracy today work with the minimalist definition advanced by Joseph Schumpeter that democracy entails periodic competitive elections.<sup>12</sup> From a theoretical point of view,

*China Business Review*, vol. 28, No. 2 (March-April, 2001), pp. 44-52. For an example of township level elections, see Melanie Manion, "Chinese Democratization in Perspective: Electorates and Selectorates at the Township Level," *China Quarterly*, No. 163 (2000), pp. 133-51.

11. John McCormick, "Machiavellian Democracy: Controlling Elites with Ferocious Populism," *American Political Science Review*, vol. 95, No. 2 (June, 2001), pp. 297-313.
12. Joseph Schumpeter, *Capitalism, Socialism, Democracy* (New York: Harper,

there are two mechanisms for elections to improve the responsiveness and control of the public office holders.<sup>13</sup> The forward-looking one focuses on voters' ability to select good politicians with similar policy orientations. Since every individual may have pieces of information about the candidates (especially in the village community with typically one thousand or so people), popular elections are the best mechanism to make use of that decentralized information and pick the most capable or ethical leaders. In order to get elected, candidates need to listen to the public and try to propose policies that best serve the majority of the community. This is a mechanism for aggregating scattered information and producing sound public policies. Generally speaking, capable people with sound policy platforms will win the competition. The backward-looking mechanism emphasizes rewarding or punishing politicians depending on their behavior in office. If politicians renege on their campaign promises after taking office, they will be thrown out in the next election. Therefore, politicians have incentives to stick to their campaign promises.

But for several reasons, the electoral mechanism alone may not be sufficient to keep politicians in check. First, information asymmetry between candidates and voters may seriously undermine the reputation mechanism. One crucial assumption of the minimalist argument is that information about the candidates and their track records are readily available in the society, so voters can reward or punish the candidates accordingly. For citizens with only bounded rationality, however, the above assumption requires too much cognitive capability from the voters. In

1942). See also discussions in Fareed Zakaria, "Illiberal Democracy," *Foreign Affairs*, vol. 76, No. 6 (November-December, 1997), pp. 22-43, and Philipper Schmitter and Terry Lynn Karl, "What Democracy Is . . . and Is Not," in Larry Diamond and Marc Plattner, eds., *The Global Resurgence of Democracy* (Baltimore, Md.: Johns Hopkins University Press, 1996), pp. 49-62.

13. James Fearon has a more formal treatment of this subject. See his "Electoral Accountability and the Control of Politicians: Selecting Good Types versus Sanctioning Poor Performance," in Adam Przeworski, Susan Stokes, and Bernard Manin, eds., *Democracy, Accountability, and Representation* (Cambridge: Cambridge University Press, 1999), pp. 55-97. Also important is John Ferejohn, "Incumbent Performance and Electoral Control," *Public Choice*, vol. 50, Nos. 1-3 (January, 1986), pp. 5-25.

addition, public office holders have an advantage in this reputation game. Without proper checks, they can create more noise in the information dissemination process or even mislead the voters by bending information in their favor. Some supporting institutions need to facilitate the flow of information and ensure its authenticity; otherwise deviations are not likely to be promptly detected and punished.

Second, democratic elections are inherently uncertain.<sup>14</sup> Even though in the long term and on average, good and capable people will prevail through competition in the political marketplace, voters may make mistakes or evil politicians could successfully mimic good persons. This is especially problematic for newly democratized countries. It usually takes time for voters to learn the rules of the game and vote responsibly. In addition, the time horizon of politicians varies greatly. While future reelection may be enticing enough to keep some politicians honest and responsive, others may have a shorter time horizon, due to an idiosyncratic personality or a dim prospect of reelection. The reelection mechanism will not deter these latter kinds of officials, in which case it is dangerous to entrust much power to them.

Third, and closely related to the above point, there may be institutions to correct these problems, but post-facto correction can be too costly in certain instances. Stokes has demonstrated how some Latin American leaders adopted policies that went against their mandates after being democratically elected. Of course, in her cases, the politicians were believed to be fighting for the long-term economic welfare of the country.<sup>15</sup> But it is conceivable and commonplace to see democratically elected public officials do something contrary to the majority interest. There are mechanisms such as impeachment and votes of no-confidence to throw them out of office. But resorting to such mechanisms requires much time and cost. By the time the process is initiated, the harm is already done. Sometimes, the damage is irreversible: Investments go sour,

14. Przeworski even defines genuine democratic election with uncertainty. See Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (Cambridge: Cambridge University Press, 1991).

15. Susan Stokes, "What Do Policy Switches Tell Us about Democracy," in Przeworski et al., eds., *Democracy, Accountability, and Representation*, pp. 98-130.

public funds are squandered, and human lives may be lost. Moreover, it is costly to overcome the collective action problem and initiate these processes. One way of avoiding these problems is to build checks and balances into the decision-making process, and make sure that no one, whether appointed or democratically elected, can determine the fate of public policies without going through proper scrutiny. This is based on a skeptical view of human nature but it is precisely the nature of democracy.

Therefore, good governance needs not only periodic competitive elections but also supporting institutions that provide oversight and checks on the public office-holders. A parallel can be drawn from the marketization of the former socialist economies. Before the reform, it was generally believed that privatization and competition would automatically lead to a free-market economy. The events afterward, especially in Russia, have reminded scholars of the importance of other institutions for a competitive market system. In the case of democracy, theorists recognize that seeking reelection alone may not be sufficient to make politicians responsive and accountable.<sup>16</sup> They realize that "accountability agencies" may be needed to supplement the electoral mechanism and control politicians. These agencies include independent electoral commissions, independent accounting offices, and independent statistical agencies. These institutions, in combination with electoral processes, make up the tapestry of modern democratic governance.

In the real world, plenty of examples support this claim. The United States, despite a century of democratic elections, found itself in deep crisis by the latter half of the nineteenth century. Governance was in shambles, and rampant corruption, gang violence, irregular markets and major accidents plagued society. This provoked a series of institutional innovations and started the state-building processes that are now known as the Progressive Era. As a result of these efforts, a regulatory state emerged.<sup>17</sup> These developments saved its democracy from collapsing.

Likewise, many new democracies have found themselves

16. Ibid.

17. Steven Skowronek, *Building a New American State: the Expansion of National Administrative Capacity, 1877-1920* (Cambridge: Cambridge University Press, 1982).

“haunted by old demons that they had hoped to exorcise with democratic rule: violations of human rights, corruption, clientelism, patrimonialism, and the arbitrary exercise of power.”<sup>18</sup> As we look around the world in the early twenty-first century, Russia has become a basket case of corruption and bad governance. The democratically elected president of the Philippines was forced to resign for corruption while the Indonesian president, who came to power democratically following the overthrow of the Suharto regime, was charged with corruption. And it is not just new democracies that must confront the scourge of corruption. India is caught in a massive corruption scandal concerning defense procurements. There are major corruption probes in Germany and France. The list goes on and on.

With respect to village elections in China, we find that a worrisome sign is already emerging in rural areas. In some villages, elections without proper institutional support have indeed ruined the reputation of democracy in some places. Even in a widely publicized model of democratic election, Lishu county of Jilin province, villagers are cooling down and some have become suspicious of the electoral process. When asked why he had lost interest in elections, one villager responded, “it is meaningless. Whoever gets elected will cash in their power.”<sup>19</sup> As a result, election turnout has moderated and even declined in some areas.

#### *From Theory to General Principles*

Democratic theory provides philosophical underpinnings but falls short in supplying concrete proposals for institution building. For this purpose, we turn to the institutional design literature. Growing out of transaction cost theories in economics, this literature finds their most fruitful applications in international political economy and American politics, especially studies of the American congressional structure and legislature-bureaucracy relations.<sup>20</sup> Scholars in this tradition place their emphasis on oversight

18. Andreas Schedler, Larry Diamond, and Marc Plattner, eds., *The Self-Restraining State* (Boulder, Colo.: Lynne Rienner, 1999).

19. Zhang Jing, *Problems of Rural Level Governance in China* (Hangzhou: Zhejiang People's Press, 2000), p. 209.

20. For some standard references, see the works of Douglas North, Margaret

and control problems in a hierarchical setting. The most standard setup is a principal-agent model, which is complicated by control problems arising from information asymmetry and interest divergence. Scholarly analyses have sought to identify institutional mechanisms that will not only keep agents in compliance but also improve overall efficiency. Therefore this literature seems to be particularly relevant to governance.

Some basic principles that emerge from the institutional design literature include ex ante control, ex post control, cost-efficiency, transparency, professionalism, and checks and balances. As we will now discuss, these concepts and principles are useful for understanding the rationale as well as the weaknesses of some institutional innovations in the Chinese countryside.

While monitoring and punishment can deter agents from shirking, it is also very costly for the principal since the harm is already done when punishment is meted out. A more effective control is to stamp out possible deviations ex ante. Specifically, scholars argue that administrative procedures, such as appointment, budgets, and operating rules, achieve precisely this goal.<sup>21</sup> Principals can control agents because these procedures have either screened out agents with different ideological preferences or narrowed the discretion exercised by the agents. Operating rules, in particular, stipulate as clearly and with as much detail as possible what each agent should do and should not do under different situations. The U.S. government owns and manages hundreds of acres of forests employing thousands of forest rangers. As part of the control method, forest rangers are required to follow the manual (two volumes containing thousands of pages) strictly, and to keep a diary of their daily activities. As a result, despite the tremendous centrifugal forces in the bureaucracy, the level of compliance is remarkable.<sup>22</sup> These administrative procedures have in essence reduced the agents' discretion,

Levi, Kenneth Shepsle, Barry Weingast, and Matthew McCubbins.

21. The most cited piece is Matthew McCubbins, Roger Noll, and Barry Weingast, “Administrative Procedures as Instruments of Political Control,” *Journal of Law, Economics, and Organization*, vol. 3 (1987), pp. 243-77. In the American context, scholars are divided as to whether the president or the Congress really controls the bureaucracy.

22. Herbert Kaufman, *The Forest Rangers: A Study in Administrative Behavior* (Baltimore, Md.: Johns Hopkins Press, 1960).

leaving little room for abuse.

While administrative procedures can mitigate the control problem significantly, monitoring and punishment are nevertheless necessary. Screening cannot be perfect, and “bad” persons may successfully fool the superiors. Moreover, the operating rules (like sunshine provisions) make defections more visible; but some enforcement is needed to ensure adherence by the agents. These mechanisms include self-reporting by the agents, inspecting, rewarding the loyal, and punishing the deviants. Control mechanisms should be constantly in place to make them effective.

Any control comes at a price and good institutional design should try to minimize the costs associated with the monitoring. One clear alternative to monitoring by the principal is to shift the burden to a third party. Ideally, the principal will spend very few resources on monitoring the agents, and only respond to complaints filed by an injured party. The specific example that receives most academic attention is the fire alarm mechanism.<sup>23</sup> A truly independent media can also serve that purpose. For a principal with very limited resources, this is an attractive alternative.

The fundamental problem with effective control is information asymmetry. If the principal knew what the agents had done, the control problem would simply disappear. Therefore, information disclosure is essential to control, and it is necessary for both electoral and non-electoral mechanisms to function. As discussed earlier, for the electoral mechanism to work, public officials should develop a reputation or generate a track record of their past activities. Many institutional rules, such as revealing the voting records in the legislature, provide just such valuable information for the voters.<sup>24</sup> By facilitating information

23. For an application to the Chinese context, see John Brehm and Emerson Niou, “Police Patrol vs. Self-Policing: A Comparative Analysis of the Control Systems Used in the Former Soviet Union and Communist China,” *Journal of Theoretical Politics*, vol. 9, No. 1 (January, 1997), pp. 107-30.

24. Based on this logic, John Ferejohn argues that legislators in the U.S. Congress opted for disclosing the voting records of all legislators. Ferejohn, “Accountability and Authority: Toward a Theory of Political Accountability,” in Przeworski, et al., eds., *Democracy, Accountability, and Repre-*

flows, transparency can also significantly lower the costs for the monitoring efforts by the principal or by third parties.

While the material incentive of agents can be shaped by various control mechanisms, people are also susceptible to non-material controls. Lindblom argues that persuasion is one of three means to control humans, the other two being power and exchange.<sup>25</sup> Recently, more material-oriented scholars have argued for the usefulness of ideology and corporate cultures in obtaining compliance within organizations. Professionalism not only utilizes material incentives, but also appeals to human beings’ psychological needs. Through training and various symbols, agents can be assimilated into the profession with which they are associated. They take pride in being a member and try to stick to the ethics of the community. Material losses aside, non-compliant agents also develop a great deal of shame if they are caught.

No human is perfect and no rules will operate flawlessly all the time. Therefore, good governance should avoid placing too much power in any one institution and create a government with human weaknesses in mind. This point was always close to the hearts of the drafters of the U.S. Constitution, particularly James Madison, who was also one of the authors of the Federalist Papers. Those men deliberately divided the state apparatus into three branches, endowing each with the authority to counterbalance the others. Such an arrangement entails significant institutional costs, but it is worthwhile as an attempt to guarantee vital public interests. In the case of governance at the village level in China, the problem is further complicated by the fact that most village committees consist of only three to seven members. That means they can easily collude to infringe on the villagers’ interests, especially in financial matters.

The principles discussed above will not lead to foolproof strategies, but they offer a perspective that we can use to evaluate the design of various institutions. They can also shed light on possible institutional remedies.

sentation, pp. 131-53.

25. Charles Lindblom, *Politics and Markets: the World’s Political-Economic Systems* (New York: Basic Books, 1977).

### Non-Electoral Institutions and Accountability in Rural China

The Chinese central government is now putting more emphasis on promoting non-electoral institutions. The most recent policy regarding village democracy (No. 17 [2004]), for example, specifically clarifies issues related to transparency and democratic management. It also tries to standardize rules and practices in the country.<sup>26</sup> As in previous policy changes in rural China, the top leadership has been fairly open-minded so far: It is willing to allow local governments and officials to experiment with alternative ways of rural governance. The Central Party School and the Central Editing and Translation Bureau (*Zhongyang Bianyi Ju*), together with Beijing University, have even set up a prize for institutional innovation by local governments, and some prize-winners have created new village governance models.<sup>27</sup> Despite its official status, this prize is valued by university professors and therefore has a high degree of independence and credibility. The central government's tolerance is a clear indication of its flexibility, which will encourage further local experiments. Of course, the central leadership is not entirely passive in this process. It listens carefully and promotes good innovations while vetoing others. These choices can enhance village self-governance in the countryside but also reflect the party's own political interests. Undoubtedly, these dynamic interactions between central intervention and local innovations will determine the evolutionary path of rural governance.

#### *Tax-for-Fee Reforms and the Abolishment of the Agricultural Tax*

No other area is more prone to official abuse than village finance. And this is indeed the major source of rural instability.<sup>28</sup>

26. General Office of the CCP Central Committee and General Office of the State Council, "Opinions on Promoting and Perfecting Village Affairs Publicity and Democratic Management" (June 22, 2004), online at [http://news.xinhuanet.com/zhengfu/2004-07/12/content\\_1591421.htm](http://news.xinhuanet.com/zhengfu/2004-07/12/content_1591421.htm).

27. A full list of prize-winning institutional innovations is available at [www.chinainnovations.org](http://www.chinainnovations.org). The third round of competition is currently under way.

28. For more analysis of this phenomenon, see Thomas Bernstein and Xiaobo

Even though closely related, revenue collection and public expenditure can be treated somewhat differently in the analysis. We will mainly focus on revenue collection in this section and discuss some institutional solutions.

Many peasants are complaining about the widespread collection of illegal fees by village cadres. In fact, peasants' burdens have increased quite rapidly since the early 1990s. This has led to an increased number of visits to local Letters and Visits offices (*Xinfang*) by disgruntled peasants and, in some cases, large-scale violent confrontations.<sup>29</sup> The causes of the peasants' burdens are many, but the central government is partly to blame. In 1994, China overhauled its old fiscal system and adopted a separate-tax system (*fen shui zhi*). There were two major goals of this change. The first was to increase the percentage of government revenue in total GDP, and the second was to allocate more revenue to the central government. The reform was reasonably successful but it also led to a fiscal crisis at the local level.<sup>30</sup> Faced with a tight budget and increasing public expenditures mandated by the central government, many local governments felt a financial pinch. County and township governments in poor areas were especially hard pressed to find new sources of income, and that usually meant creating new categories to collect money from peasants. The central government found itself in an awkward position. If it wanted to get things done locally, it had to tolerate this local practice. Of course, like most public officials worldwide, local government officials, especially township and village cadres, abused their discretionary power. They created many new ways to raise revenues and wasted the money on extravagant wining and dining, entertainment, and luxury cars. Because of their *assumed* discretion, local cadres, regardless of whether they were appointed or popularly elected to their posts, all faced a strong temptation to misuse their power. The central government has been experimenting with policy measures in

Lu, "Taxation Without Representation: Peasants, the Central and the Local States in Reform China," *China Quarterly*, vol. 163 (September, 2000), pp. 742-63.

29. See *ibid.* for some examples.

30. For more discussion, see *ibid.* and Ran Tao and Mingxing Liu, "Regional Competition, Fiscal Reform and Local Governance in China" (working paper, 2004).

the past few years, one thrust of which is to curb local cadres' discretion.

One such major change is the *tax-for-fee reform*. In the early 1990s, the Ministry of Agriculture, in response to the problem of peasants' burdens, proposed a unitary tax in rural areas. Peasants who were affected expressed strong support for the idea.<sup>31</sup> According to this plan, local cadres would not have the discretion to levy fees on peasants, but could only collect one nationwide agricultural tax from peasants. But the proposal was put on hold because the country was caught in the growth euphoria that followed on the heels of Deng Xiaoping's celebrated southern tour in 1992. As growth began to slow down, however, some rural localities began to experiment with tax reforms. Beginning in 1995, Wugang (Hubei province) was authorized to experiment with tax-for-fee reforms in rural areas. By standardizing fees into taxes, Wugang's experimental townships were able to reduce burdens on farmers as well as reform public finance.<sup>32</sup> In Anhui province, one of the pioneers of rural reforms in the post-Mao era, officials in Taihe and Woyang counties initiated a similar experiment in 1994 with the approval of provincial authorities.<sup>33</sup> Taihe officials sought to rein in arbitrary levies on peasants who were caught between stagnant prices for farm products and rising costs. By 1999, fifteen counties (cities) had adopted rural tax reforms.

Based on local trials, the central government chose Anhui to experiment with the tax-for-fee reform province-wide. For the first year of the reforms, the financial burdens on peasants in Anhui were reduced by 1.7 billion yuan, or 31 percent. With the implementation of the reforms, per capita tax and levies decreased to 75.5 yuan. To boost the transparency of the reforms, the counties also set up supervision stations staffed by members of the county people's congresses. Tax administrators also set up sta-

tions to answer queries from peasants and thus ensure that farmers paid taxes with a full understanding of what they were paying for, thereby reducing the chances of local officials collecting unauthorized levies.<sup>34</sup> In 2001, Jiangsu and Zhejiang joined the experiment, and the program further expanded to twenty other provinces in 2002.

In 2003, the central government decided to promote the tax-for-fee reform nationwide.<sup>35</sup> Under this new system, local governments were allowed to collect only one agricultural tax from peasants and no fees were allowed to be charged. Legal charges for township governments, such as the so-called *wu tong* (for rural education, family planning, militia, support for veterans, and road construction), were incorporated into the agricultural tax. The *san ti* in villages (for collective investments, welfare, and cadre compensations) was added as a surcharge. As a result, the agricultural tax rate was raised from 3 percent to 7 percent, and a 20-percent surcharge was added for village level finance. In total, peasants would pay no more than 8.4 percent of their income. Additionally, tax collectors from local taxation agencies would be in charge of the collection, and township and village cadres could help but were not in direct control.

In early 2004, Premier Wen Jiabao announced at the NPC's annual meeting that the state was planning to phase out the agricultural tax in three years.<sup>36</sup> This may be based purely on a cost-benefit analysis of tax collection. Many officials acknowledge the high cost of collecting taxes in vast and remote rural areas. By February 2005, twenty-six provinces had already abolished the agricultural tax and by 2006 this tax category will

31. Dali Yang, *Calamity and Reform in China* (Stanford, Calif.: Stanford University Press, 1996), p. 210.

32. *China Economic Times*, June 24, 1999.

33. The practice was started in 1993 in Xinxing Township of Anhui's Woyang County, against the express prohibition of the county people's congress. The Xinxing leadership fixed the amount of farmer taxes and fees at 30 yuan per *mu*. For details of this case, see *China Economic Times*, February 24, 2001.

34. CCTV, January 24, 2001.

35. "State Council's Opinion About Promoting Rural Tax-for-Fee Reform Trial Work in the Country," March 27, 2003, online at [www.China.org.cn/Chinese/PI-c/331156.htm](http://www.China.org.cn/Chinese/PI-c/331156.htm).

36. In addition to alleviating peasants' burdens, there is also a simple reason for abolishing agricultural tax: It makes economic sense. Because of China's highly scattered population, it is very costly to collect taxes from many individual households. Local governments often employ extra manpower to collect taxes, but the revenues can barely cover the costs. For some concrete examples, see Yang Weijun, "A Study of the Impact of Abolishing Agricultural Tax on Grassroots Governments," online at <http://guanCha.gmw.cn/show.aspx?id=3066>.

finally disappear in China.<sup>37</sup>

From the perspective of controlling local officials, the tax-for-fee reform will clearly lead to better governance. In essence, this reform has curbed the discretionary power of township and village cadres. By centralizing revenue collection in tax agencies in higher-level governments, the central government is signaling its unwillingness to tolerate “creative” fee collection. While holding local cadres more accountable, this policy change does impose more financial hardships on local governments and villages and it compromises their ability to provide public services. Abolishing the agriculture tax, in particular, may cause already heavily indebted local governments that were previously financed largely by agricultural surpluses to crash. For example, with the introduction of the tax-for-fee experiment in Anhui, township governments in Anhui province had a budget of 4.6 billion yuan in 2000, but the payroll alone amounted to 4.95 billion yuan. An additional 2.28 billion yuan was needed to fund rural education.<sup>38</sup> To partly address this shortfall, the central government has pledged to subsidize about 10 billion yuan annually to agricultural counties and townships.<sup>39</sup>

Some provinces also began holding provincial and municipal governments responsible for financing rural education.<sup>40</sup> Despite these efforts, it is still possible that cash-strapped township or village cadres may fall back on fee collections again.<sup>41</sup> The State Development and Reform Commission completed a sixth round of inspection in mid-2005 and disclosed 13,000 cases of violations in the rural areas, most of which were illegal fees for education.<sup>42</sup>

37. “Abolishing Agricultural Tax Nationwide and Lifting the Curtain for Comprehensive Reform in the Countryside,” March 11, 2005, online at [www.lianghui.org.cn/chinese/zhuanti/2005lh/808939.htm](http://www.lianghui.org.cn/chinese/zhuanti/2005lh/808939.htm).

38. *China Economic Times*, March 6, 2001.

39. “Abolishing agricultural tax nationwide and lifting the curtain for comprehensive reform in the countryside,” March 11, 2005, online at [www.lianghui.org.cn/chinese/zhuanti/2005lh/808939.htm](http://www.lianghui.org.cn/chinese/zhuanti/2005lh/808939.htm).

40. An interview with Wang Chaowen, deputy director of the Finance Research Institute, Ministry of Finance, online at [www.cncitizen.org/article.php?articleid=1416](http://www.cncitizen.org/article.php?articleid=1416).

41. Ray Yep, “Can ‘Tax-for-Fee’ Reform Reduce Rural Tension in China? The Process, Progress, and Limitations,” *China Quarterly*, vol. 177 (March, 2004), pp. 42-70.

42. *Zhongguo qingnian bao* (China Youth News), August 5, 2005.

On the positive side, the tax-for-fee reform has tied local cadres’ hands and forced them to downsize bloated local governments. To raise funds, village leaders in particular must seek consent from villagers and go through villagers’ assemblies (*cunmin dahui*) or villagers’ representative assemblies (*cunmin daibiao dahui*).

#### *Accounting and Auditing Reforms*

It is clear from various reports on peasants’ petitions (*shang-fang*) and other media investigations that the most contentious issue in peasant-cadre conflicts in the villages is financial mismanagement and corruption. Peasants have accused village cadres of corruption, embezzlement, and misuse of public funds to support lavish lifestyles. Some surveys further disclose that most villages do not follow basic accounting practices. According to one survey, 90 percent of the villages in the sample do not have formal accounting rules and regulations and have no accounts for collective assets. Seventy percent of village accountants are unclear about their responsibilities and the limits of their discretion, and half of the accountants also serve as cashiers. Indeed, 20 percent of villages do not even have accounting books and 30 percent of accountants refuse to pass their books on to their successors.<sup>43</sup> In some cases, the village leader (either the party secretary or villagers’ committee director) also serves as the accountant and the cashier. More often the accountant is either a relative or close ally of the village leader.

The backwardness of village financial management has made village-level finances a hotbed of corruption and mismanagement, but it also means that certain basic reforms, such as the popularization of sound accounting practices, could generate large payoffs. One institutional development entrusts the management of village accounts to township governments (*cunzhang xiangguan* or *cuncaixiangjian*). Under this arrangement, the township government establishes an accounting service office and is responsible for hiring the accountants. All villages in the jurisdiction transfer their accounts to the accounting office and pay fees for its services. Every village still needs one cashier and is to have full control of the collective funds in its accounts. This

43. *Zhongguo shenji bao* (China Auditing News), November 21, 2000.

approach has been widely adopted in Hanzhuang Township of Pinggu County in Beijing and several counties in Zhejiang province.<sup>44</sup> One variation of this mechanism has been practiced in localities such as Jiuguan township of Nintai city, Shandong province.<sup>45</sup> It is called the accountant secondment system (*kuaiji weipai zhidu*), which means the township government is responsible for recruiting accountants through competitive exams. The accountants are then dispatched to the villages but supervised directly by the township operations station (*jingying zhan*) rather than the village leaders.

These arrangements have different names in other places, but they all share two features. First, by aligning the interest of the accountants more closely with township governments, they make it more difficult for village leaders and the accountants to collude. Second, the township intervention may help isolate accounting from village politics, and may breed a sense of service and professionalism through more training and better pay. Both are helpful in checking the corruption and misuse of the public funds by village leaders.

Besides centralization and professionalization of village accounting, some localities have begun to allow more public involvement in matters of financial management by forming villagers' financial management small groups (*cunming licai xiaozu*). The small groups consist of representatives elected through the villagers' representative assembly and are empowered to supervise the details of village finances. They examine original receipts submitted for reimbursement, verify changes in collective assets, determine the salaries of the village leaders, and monitor contract enforcement and cash flows.<sup>46</sup> For example, every village in the previously mentioned Hanzhuang Township established a village financial management small group in 2000. Members range from six for big villages to three for small ones. They verified all the expenses village leaders submitted for reimbursement to the township accounting office. Such financial oversight helped curtail dining and entertainment expenses and

administrative expenditures.<sup>47</sup> In the past, village party secretaries monopolized the power of village spending. With the introduction of these financial management groups, spending in the village will be reviewed by the small groups.

Interestingly, this institutional design was not in the Organic Law in 1998. After local experiments, the central leadership decided to promote this institution in 2004. According to the "Opinions on Promoting and Perfecting Village Affairs Publicity and Democratic Management" (No. 17 [2004]), villagers' financial management small group members are to be elected in the villagers' assemblies or villagers' representative assemblies. The small groups are directly responsible to the assembly, not the villagers' committee or the party committee. The intention of creating checks and balances is very clear.<sup>48</sup>

Rules quickly become meaningless if violations go unpunished. Frequent monitoring is an integral part of any properly functioning institutional design. In the financial realm, audits play this important role. Ideally, an independent third party should be invited to audit the village accounts regularly. It was reported that Liji villagers in Weishan County, Shandong province, hired an accounting company, Weishan Xingheng Ltd., to audit the accounts of their village leaders in 2000.<sup>49</sup> However, this may not be feasible for most villages. While some accounting and auditing services are licensed to practice in the metropolitan areas, their reach to the rural world remains limited. In their stead, township governments have filled the void and played an active role. Baodi County of Tianjin has ordered township governments to audit village accounts on a regular basis, making the first week of every January and July the "auditing week." The county party disciplinary organization and auditing bureau were authorized to issue "auditing notice."<sup>50</sup> By the end of 2000, 79.3 percent of

44. *Zhongguo gaige bao* (China Reform News), November 11, 2000; *China Economic Times*, July 19, 1999.

45. *Fazhi ribao* (Legal Daily), October 8, 1999.

46. Zhang Jing, *Problems of Rural Level Governance in China*, pp. 157-58.

47. *Zhongguo gaige bao*, November 11, 2000.

48. "Opinions," June 22, 2004, online at [http://news.xinhuanet.com/zhengfu/2004-07/12/content\\_1591421.htm](http://news.xinhuanet.com/zhengfu/2004-07/12/content_1591421.htm).

49. *Nanfang zhoumo* (Southern Weekend), Internet version, February 22, 2001. Of course, the interesting twist of this story is that the township government interfered in the disclosure of these auditing results, and the villagers finally had to take the problem to court.

50. *Renmin ribao* (People's Daily, Beijing), August 15, 2000.

villages in the county had been subjected to such audit.<sup>51</sup> The 2004 “Opinions” also mandates auditing of village leaders before elections. County and township governments are held responsible for this task.

From a control perspective, entrusting village accounts to accounting service offices under township government and auditing villages by township governments are only second-best institutional solutions. They should be replaced by more independent third parties in the future. After all, it may be difficult to convince villagers that township governments are truly neutral in village affairs. Moreover, these institutional designs, though technical, have more fundamental political implications. If villages are truly self-governing, should township and county governments manage village affairs? Opinions seem to be particularly divided on the issue of “*cunzhang xiangguan*.” Some scholars regard this practice as a violation of village self-governance and therefore should be banned. Zhan Chengfu, a senior official in charge of village self-governance in the Ministry of Civil Affairs, publicly endorsed this view.<sup>52</sup> But other government agencies, such as the Ministry of Finance, are more motivated by corruption control, and actively promote county governments’ managing township accounts (*xiangcai xianguan*).<sup>53</sup> Many local governments seem to be willing to sacrifice self-governance for the sake of financial control. At least two provinces, Fujian and Zhejiang, and some local governments in Henan and Hubei provinces, have promoted *cuncai xiangguan*.<sup>54</sup> This may be a worrisome sign for many people with village self-governance in mind, but it does reveal that improving accounting practices is a high priority among current leaders.

#### Transparency and Cunwu Gongkai

While centralizing accounts and intensifying auditing can control village cadres, these are very costly practices, and village

cadres still enjoy an information advantage. An alternative way is to take advantage of villagers’ information about local conditions and invite them to monitor their own cadres. Typically, villagers know best what public works are needed, how much materials really cost, and whether or not cadres live a luxurious lifestyle. In addition, there are village affairs other than financial spending, such as the implementation of family planning policy, distribution of emergency and poverty funds, allocation of housing land, and renting and selling of collectively-owned land. All these issues are of great concern to villagers and are vulnerable to the abuse of power. Forcing village cadres to disclose all this information can empower villagers to monitor their leaders, which improves transparency in village governance.

The central government started to promote village affairs publicity (*cunwu gongkai*) nationwide in April 1998. In a key policy directive, it asked all villages to disclose major issues relevant to the interests of villagers, including new projects, collective assets and finance, land uses, family planning, fees and levies, contracts, and cadres’ salaries. The emphasis was on full disclosure of village finances.<sup>55</sup> Following a major promotion drive, about 80 percent of the villages across the country had adopted the village affairs disclosure system by the end of 1999.<sup>56</sup> Some places have produced specific operational rules governing such disclosures. For example, Laiyang city in Shandong province directed every village to publicize village affairs twice a year (June 25 and December 25) and financial affairs four times a year (at the end of each quarter). Every village was required to set up publicity boards (one for villages with fewer than 200 people and two for those with more than 200). The information was also disseminated via broadcasts, village meetings, and flyers (*mingbai zhi*). Cadres were required to respond to questions within two days.<sup>57</sup>

The expectation that spending will be publicized tends to moderate spending by village cadres and to reduce wasteful expenditures. By the end of 1998, 93.2 percent of the counties in Anhui province had adopted village affairs transparency. Accord-

51. *Economic Daily*, November 20, 2000.

52. Zhan Chengfu, “Be Cautious in Promoting Cuncai Xiangguan,” *Gaige neican*, No. 18 (1998).

53. *People’s Daily* (Internet ed.), July 13, 2005.

54. *Xinjiang nongwang*, June 3, 2003; *Renmin ribao*, June 28, 2005; *Zhongguo jijian jiancha bao*, June 8, 2005.

55. *Economic Daily*, June 11, 1998.

56. *Renmin ribao*, November 25, 1999.

57. *Nanfang zhounuo*, December 25, 2000.

ing to one estimate, village expenses decreased by 25.8 percent that year.<sup>58</sup> In Zhejiang province, where 98 percent of the villages had achieved financial transparency, entertainment and dining expenses by village cadres dropped by 10 to 40 percent.<sup>59</sup> The promotion of transparency also has the added benefit of exonerating village cadres from unfounded charges, thus helping ease strained cadre-farmer relations. One of the reasons for villagers to petition officials at upper levels is lack of transparency. Not infrequently villagers' suspicion and discontent feed on the secrecy surrounding village decision making and financial management. Some cadres have thus welcomed the drive toward transparency and claimed that it cleared their names of suspicions and innuendoes of misdeeds.<sup>60</sup>

On the basis of initial successes, the central government formed the coordination group for village affairs publicity and launched nation-wide campaigns to implement this change in recent years. More specific details were added to this policy in the 2004 "Opinions" cited previously. Most notable is the introduction of one institution: the village affairs publicity supervision small group (*cunwu gongkai jiandu xiaozu*). All members are to be elected in the villagers' assemblies or villagers' representative assemblies. Like the villagers' financial management small group members, they are directly responsible to the villagers' assembly and supervise the villagers' committees. In many places, the membership of these two small groups overlaps.

While the transparency measures mainly serve as an ex post control mechanism, with some modifications it can also control the village cadres' behavior ex ante. For example, Shandong's Jiaonan city inaugurated the "housing land approval disclosure system." Villagers who want to build houses need to get approvals from both village cadres and village residents. Decisions by the cadres are not final until three days after the public disclosure. Within three days, villagers may file complaints with the city land resources bureau. Such ex ante control involves villagers in the decision-making process, which will be further discussed

58. *China Economic Times*, November 23, 1998.

59. *Renmin ribao* (Huadong Xinwen), November 8, 2000.

60. *Zhongguo gaige bao*, November 23, 1998; *Renmin ribao*, June 22, 1999 and July 19, 2000; *Guizhou ribao*, October 7, 2004.

below.<sup>61</sup>

Transparency and village affairs disclosure can be a powerful tool in facilitating information flow and control. But there are also some serious weaknesses in the current design of this policy. One key problem remains in the shape of information asymmetry. How can villagers verify the truthfulness of the disclosed information? The village affairs publicity supervision small group is intended to empower villagers institutionally and allow them to access the same information as village cadres. In reality, researchers and field workers discovered that in many places group members were either close associates of village cadres or soon colluded with them.<sup>62</sup> Second, even when group members exercise their power, there is no institutional guarantee of satisfactory results. When village cadres refuse to disclose information, or doctor the records, group members report this to township governments according to the Organic Law.

But the township party committees and governments are hardly neutral third parties in rural governance. They have incentives to side with village cadres, rendering this institution still very weak. The supervision small group should be able to issue a more credible threat to non-compliant village officials. For example, it should be given the power to call a villagers' representative meeting to impeach the leaders. Even this authorization may encounter problems, since the party is still strong in village governance and is not subject to villagers' consent. This is a more fundamental challenge and we discuss it in the next section. Because of the weaknesses in the institutional design, the national campaign has made only moderate progress. In its first national meeting in 2003, the coordination group for village affairs publicity admitted that, among about 680,000 villages in China, 95 percent had promoted publicity and only 60 percent had followed the central government's instructions.<sup>63</sup> That number does not say anything about the quality of disclosure. In one study, only 27.7 percent of villagers said they could trust the content of the publicity boards.<sup>64</sup>

61. *Renmin ribao* (Huadong Xinwen), March 27, 2001.

62. *Fazhi ribao*, January 12, 2002.

63. *Xinhua Net*, June 13, 2003.

64. It was conducted by the State Council Development and Research Center

### Participatory Decision Making

Bringing villagers into decision-making processes serves two main purposes. First, the village as a whole can take advantage of the superior local information of the residents and make efficient economic and social policies. Many people, including some scholars, believe that peasants are not sufficiently educated to make good policy choices, and that the elites (party members and village cadres) should take the lead. This is probably reasonable under certain circumstances, but when it comes to understanding local conditions, each resident has some useful information, and the villagers as a whole have far more knowledge than a handful of elites from out of town. Secondly, villagers' participation, adopted widely and routinely, can put some kind of *ex ante* institutional checks on village cadres. Making villagers' participation and majority votes a necessary part of a decision-making process gives the villagers a veto right. Unlike the *ex post* control mechanism of public disclosure, greater villager participation gives villagers a direct voice in the content of policies, thereby putting an effective control over village cadres, especially in the domain of public spending. Ideally, wasteful spending or public policies that hurt the majority interest will be vetoed at the decision-making stage.

As in other areas, the specific institutions where villagers can exercise their decision-making power have evolved in the past two decades. In the trial version of the Organic Law of Villagers' Committee, villagers should participate through villagers' assemblies (*cunmin huiyi*), consisting of all villagers 18 years old or older. This is feasible for small villages of several hundred, but for large ones with thousands of villagers, this institution is quite clumsy. In addition, as a result of economic reform, many peasants migrated to cities to find jobs, so that meeting the minimum number of participants was a challenge for some villages. In response to this practical problem, some places experimented with villagers' representative assemblies (*cunmin daibiao huiyi*), where five to fifteen households elected one representative to the

assembly. This institution improved the effectiveness of village democracy and was adopted by the central government in the Organic Law in 1998.<sup>65</sup> Now, all major issues in the village, such as renting collective land, raising debts, and determining the salaries of village cadres, must be discussed in the villagers' assemblies or villagers' representative assemblies. The majority will prevail in the development of policies.

Public involvement can lead to better policies and more checks on cadres' discretion. For example, leaders at Nanlou village in Zhengding County, Hebei province, wanted to invest 650,000 yuan and build a business center next to the highway passing by the village. When the proposal reached the villagers' representative assembly, representatives pointed out that trucks would not stop for this isolated building if no other supporting services were around. Instead, they suggested an oil-extracting plant, which could take full advantage of the rich sideline products in the neighboring areas. This counter-proposal was finally accepted and villagers even volunteered their labor for this project, which was quite unusual. The plant turned out to be profitable.<sup>66</sup> Lishu county of Jilin province pioneered the open ballot election (*hai xuan*) in village elections. Villager participation in decision making in this county had also been active. Villagers not only vetoed proposals that lacked sound economic justifications, but also exercised moderate checks on the fees and levies from higher level governments. Village cadres cannot collect those fees without the assembly's authorization.<sup>67</sup>

Tax-for-fee reform and the abolishment of agricultural taxes have created more demand for functioning assemblies. As a result of these changes, village cadres can no longer raise funds for public projects. But it is also important that local communities do have the financial resources to provide basic public goods, such as the paving of roads and the construction of necessary irrigation facilities and infrastructure. According to the new rules from the central government, village leaders must request permission from the villagers' assembly or villagers'

in the late 1990s. More information can be found in Zhao Shukai, "Dilemmas Facing Village Organizations," online at [www.chinaelections.org](http://www.chinaelections.org). The numbers reflect conditions in the late 1990s.

65. Cheng Tongshun, *Studies on Village Political Development in Contemporary China* (Tianjin People's Press, 2000), p. 186.

66. *China Economic Times*, July 6, 1998.

67. Zhang Jing, *Problems of Rural Level Governance in China*, pp. 206-7.

representative assembly. These permissions may be granted on a case-by-case basis (*yishi yiyi*). In He County of Anhui province, 309 villages have used this mechanism to raise money for public works such as irrigation stations, roads, bridges, and broadcast networks. The county leaders admitted that, before the tax-for-fee reform, the county had 11.22 million yuan in accumulated public accumulated funds (*gongjijing*), or about 22 yuan per peasant. But very little money was actually spent on peasants. With the case-by-case approval process, 7 million yuan was raised and villagers were generally satisfied with this change.<sup>68</sup> In June 2001, Jiaoshanpo village of Shandong province raised 1,500 yuan per villager to bring the nearby river under control. The party secretary of the village noted that, if not for public participation in decision making, such an undertaking would have been unimaginable.<sup>69</sup> Similar positive developments are also reported in other villages. Villagers either vetoed over-active cadres or public consent led to speedy collection of funds.<sup>70</sup>

Of course, all these developments depend on one condition, namely, that the villagers' assembly or the villagers' representative assembly can indeed function as a decision-making body. While positive cases are certainly numerous, many researchers report a large number of negative examples. Many villagers' assemblies did not work or villagers' representatives were controlled or coopted by village cadres.<sup>71</sup> Currently, scholars and policy makers are debating the causes of this problem and looking for possible solutions. In a way, this touches a fundamental issue in village governance, i.e., who should control village lives in rural China? Should it be the communist party, democratically elected leaders, or villagers themselves? Institutionally, how should these three institutions (the party committee, the villagers' committee, and the villagers' assembly or villagers' representative assembly) be orga-

68. *Xinhua Daily News*, February 21, 2001.

69. *Banyuetan* (China Comment, Internet ed.), June 24, 2001.

70. *Nongmin ribao*, April 19, 2003; *Fazhi ribao*, April 7, 2004; *Xiangzhen luntan*, April 2003.

71. *Zhongguo shehui bao*, January 13, 2004; *Xiangzhen luntan*, November 2003; *Renmin ribao*, October 22, 1997. Lily Tsai also reported that some traditional institutions have played an important role in providing local public goods. "Cadres, Temple and Lineage Institutions, and Governance in Rural China," *The China Journal*, vol. 48 (July, 2002), pp. 1-27.

nized? Traditionally, the party committee was in absolute control and only in recent years have the villagers' committees begun challenging the party's authority. In fact, the conflict between these two committees has been one major concern for many people since the implementation of the Organic Law.

There have been some institutional innovations to solve this conflict.<sup>72</sup> The "two-ballots-rule" (*liang piao zhi*) requires that all villagers, both party members and non-party members, vote for candidates for village party committees, and candidates who get half of the votes will be formally nominated by the party for village party committees. In the second round, all party members in the village cast a ballot to select party committee members. Another solution is called "carrying on one shoulder" (*yijian tiao*), where the party will nominate party committee members to run for villagers' committee positions. If they are elected, the same group of people will effectively control both committees. These two institutional innovations have the potential of solving the conflict and have been endorsed by the CCP's Department of Organization. But the danger is also clear: in both cases, the party becomes stronger and replaces the villagers' committee. Even though they work through the democratic process, these changes may harm village self-governance in the long run. Moreover, in order to get their candidates elected, higher-level party organizations have strong incentives to intervene and manipulate the election. In both cases, the villagers' assembly or the villagers' representative assembly is marginalized.

One recent innovation was started in Qing County, Hebei province, and was widely praised by scholars and policy makers.<sup>73</sup> Unlike the last two solutions, this "Qingxian model" centers on the villagers' representative assembly. The assembly is reinforced and becomes a permanent institution. The representatives elect a chairperson. At the same time, the party committee stops micro-managing village affairs and concentrates on macro issues. More

72. For interesting discussions, see Xu Fuqun, "Solutions to the Conflict Between Two Committees," October 7, 2004, online at [www.chinaelections.org](http://www.chinaelections.org); and Jing Yuejing, "Villagers' Self-governance, Two Committees' Relations, and Chinese Political Transition," *China Reform Forum*, June 15, 2005, online at [www.chinaelections.org](http://www.chinaelections.org).

73. Xu Fuqun, "Solutions to the Conflict between Two Committees." More analyses can be found at [www.chinainnovations.org](http://www.chinainnovations.org).

specifically, the party secretary must seek election for the assembly chair position. Secretaries who fail must resign. The villagers' committee is the operational arm of the assembly and all major policies are decided in the villagers' representative assembly. Among these new innovations, the "Qingxian model" is closest to Western-style democracy, where parties are only vehicles to power. But, from the CCP's perspective, this may come too close to yielding the party's leadership position in the rural area. Therefore, despite the praise for this approach, the CCP has not endorsed this innovation. In the latest document (No. 17 [2004]), the party committee is still in a leadership position even though the villagers' assembly or the villagers' representative assembly has formal power. This will certainly compromise villagers' ability to determine their own affairs. Until the CCP is willing to give up its dominance, this kind of political struggle is likely to continue in the future.

### Conclusion: Improving Governance in Rural China

The popularization of village elections in China is a major achievement of China's political reforms and democratic development. Nevertheless, sound rural governance is far more than the periodic holding of elections. On the one hand, greater popular participation in village affairs translates into greater demand for better governance and is believed to have resulted in improvement in local administration, including greater transparency. On the other hand, corruption and misrule by elected village officials have undermined popular trust in democratic institutions in some localities. In this article, we have discussed some mechanisms for governance that have evolved in the rural areas during the past few years. Evidence indicates that these non-electoral institutions can improve the function of the democratically elected village committees and facilitate a healthier development of good governance in rural China.

Having said that, however, is not to dismiss the value of elections. It should be reiterated that both electoral and non-electoral mechanisms are important parts of good governance. Given the small size of the village committee, it is important to institute regular monitoring and checks and balances in the management

of village affairs. A functioning villagers' assembly, villagers' representative assembly, active financial management small group, and village affairs publicity supervision group should serve as a balancing force against the elected village committee members. They should be responsible for drafting village budgets, overseeing its implementation, calling for outside auditing, and initiating no-confidence processes, when appropriate. In a word, they should help solve the collective-action problem in the village and constantly check on the village committee and its handful of members. This improvement can also mitigate vote buying and bribery as reported in recent years. One major concern regarding vote buying is that people who spend their own money to get elected will abuse their power and pocket collective assets. Instead of electing good leaders, vote buying can send entrepreneurs, people more interested in making money and advancing their own interests, into village leadership positions. Institutional innovations discussed here, on the other hand, can decrease the prospect of power abuse and thus discourage this type of candidate from seeking public office.

Given the amount of information available, we are unable to analyze each institution in great detail. How do different regions respond to these opportunities? Why are some regions more active than others? What factors can explain the level of economic development, the degree of conflict in the villages, the local leadership, and the dependability of the connection to the central bureaucracy? These are certainly important and interesting questions and more empirical research is needed. Regardless of the success or failure of particular institutions, however, the dynamic interaction between local innovation and central intervention shapes the future trajectory of village self-governance. Both electoral and non-electoral institutions count.

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