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From the Tax-for-Fee Reform to the Abolition of Agricultural Taxes: The Impact on Township Governments in North-west China*

John James Kennedy

ABSTRACT Over the last decade, there have been numerous reports of rural discontent and unrest over excessive local taxes and fees known as villagers' burdens. In response, the central government enacted the tax-for-fee reform (TFR) in 2002 that abolished local fees levied on individuals and rural households in favour of a single agricultural tax. In addition the central government has announced plans to eliminate the agricultural tax as well after 2006. The aim of the TFR is to streamline local revenue collection and establish a more transparent and efficient provision of services. The immediate result, however, is a dramatic reduction in the autonomy of township governments as well as the provision of local services. Poorer townships have become more dependent on county governments for revenues, and these townships function more like county administrative units than local self-governments. Moreover, many services have also been cut due to a lack of local revenues. In north-west China, there has been a sharp decline in the provision of educational and medical services. The solution is an increase in county remittances, but these are slow and uneven, and the combination of reduced autonomy and services has produced a number of "administrative shells" at the township level. If the inefficacy continues, then there may be even greater rural discontent and unrest over the loss of basic services than there was over increasing villagers' burdens.

The tax-for-fee reform (*shuifei gaige* 税费改革) is a central government attempt to relieve villagers of their tax and fee burdens that have been eroding rural incomes throughout the 1990s and especially after the 1994 tax reform. The aim of the tax-for-fee reform (TFR) is to streamline local revenue collection and establish a more transparent and efficient provision of services. The TFR has

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reduced villagers' burdens by eliminating local fees altogether and utilizing a single agricultural tax. It was first introduced in Anhui province in 2000, and then broadly introduced to 20 other provinces in 2002. In order to reduce villagers' burdens further, the central government announced complete elimination of the agricultural tax by 2006. One of the first districts to eliminate all local fees and the agricultural tax was Yan'an (延安) municipality in Shaanxi province in 2004. Early evidence suggests that villager burdens in Yan'an have been dramatically reduced as a result.¹ However, the TFR has had a negative impact on the efficiency of the township government to provide public services, particularly in poorer counties in north-west China.

The TFR is part of the general central government restructuring and centralizing programme that can be traced back to 1998. The logic behind the restructuring is to improve bureaucratic efficiency through a reduction in the personnel and administrative units. Yang provides evidence that a significant trimming down of staff and government units started with central government ministries in 1998 and continued the trend with a push from the State Council to reduce the number of towns and townships in 2000.² Mertha also shows how the restructuring has taken the form of "soft" centralization since 1998 that has resulted in greater provincial authority over prefectures, counties and town/township governments. The consolidation of provincial control has not only reduced the number of sub-units but also deflated the authority of local governments.³ Li demonstrates that the TFR is a policy that suited the goals of both the central government restructuring *and* the aims of provincial governments to consolidate local bureaucracies.⁴ One consequence is the downsizing of local governments because the end of local fees has dramatically cut town and township payrolls.⁵ Although the evidence suggests that the central government has been successful in restructuring provincial and sub-provincial governments, it is unclear whether or not the local bureaucracies have become more efficient. Yep examines national and provincial level data between 1995 and 2001 and suggests that the TFR will hurt rather than help the poorest regions.⁶ The provision of local services may become less efficient, as the townships become less autonomous and more dependent on counties. This is due to the underdevelopment of the transfer payment system and the

1 "Township governments face a role shift" *China Daily*, 1 April 2005; Xinhua News Agency, "China to build clean, efficient township governments: premier," 7 June 2005; Xinhua News Agency, "China launches inspection of rural tax reform," 7 January 2004.

2 Dali Yang, *Remaking the Chinese Leviathan* (Stanford, CA: Stanford University Press, 2004), pp. 37–49; Also see Ray Yep, "Can 'tax-for-fee' reform reduce rural tension in China? The process, progress and limitations," *The China Quarterly*, No. 177 (2004), pp. 42–70.

3 Andrew C. Mertha, "China's 'soft' centralization: shifting *tiaolkuai* authority relations," *The China Quarterly*, No. 184 (2005), pp. 791–810.

4 Li provides a solid argument that connects TFR with the central government desire to streamline local bureaucracies (Yang) and "soft" centralization outcome (Mertha). See Linda Chelan Li, "Differentiated actors: central and local actors in China's rural tax reforms," *Modern Asian Studies*, 2005.

5 Yang, *Remaking the Chinese Leviathan*, p. 48.

6 Yep, "Can 'tax-for-fee' reform reduce rural tension?" pp. 60–64.

non-transparent remittances from the county governments in these poorer regions. On the other hand, a number of scholars in China suggest that before the TFR the township governments had too much autonomy and insufficient mechanisms to monitor local officials.⁷ The possibility of fiscal abuse and exorbitant fees and surcharges arose from the lack of transparency and the difficulty in monitoring the township governments. An increase in county authority followed by a decrease in township autonomy and staff may produce greater efficiency with less local abuse. Thus, given the trend since 1998 to streamline the local bureaucracies, how efficient have the township governments become in light of the 2002 TFR? Are these townships becoming less autonomous but more effective public service providers? Or have they become neither autonomous nor effective local administrative units?

As a result of the TFR, townships and towns in north-west China have become less autonomous and less efficient in providing local township managed services.⁸ Many of the poorer townships have become “administrative shells” unable to provide basic services. At the same time, county governments have gained greater control over the management of towns and townships. In Shaanxi province and especially Yan’an municipality, many township and town governments function more as county administrative units than local governments. Indeed, the TFR has completely eliminated the ability of township governments to generate self-raised funds from rural residents for local expenditure. These self-raised funds allow the township governments to function as semi-autonomous administrative units with the authority to make investment decisions on local infrastructure projects such as the construction and maintenance of village educational and health care facilities. Without the capacity to generate local revenues from villagers, the township governments become more dependent on county government remittances, rural enterprises and local businesses for revenues. However, poor townships without rural enterprises or local industries have to become completely dependent on the county government. Thus, how has the TFR affected the provision of services in these poorer townships?

The first section of this article examines the general definition and functions of local government, and focuses on local autonomy and efficiency. The interaction between autonomy and efficiency is associated with the ability of local

7 Xu Zengyang and Huang Huixiang, “Caizheng yali yu xingzheng bianqian: nongcun shuifei gaige beijing xiadi xiangzhen zhengfu gaige” (“Financial pressure and administrative change: the background of the rural tax-for-fee reform and township and town reform”), *Zhongguo nongcun jingji (Chinese Rural Economy)*, No. 9 (2002); Also Yong Xu, “Xianzheng, xiangpai, cunzhi: xiangcun zhilide jigouxing zhuanhuan” (“County government, township branch and village management: the structural transformation of rural management”), *Zhongguo shijie (China Century)*, No. 771 (2004).

8 The difference between a town (*zhen*) and a township (*xiang*) is urban population. A town has over 10% of the population registered as non-agricultural (urban). A township has over 90% of the population registered as agricultural (rural). The towns, however, tend to have a large population and more local industries and/or rural enterprises (including agricultural business). Consequently, towns tend to be wealthier than townships. See Zhang Yang, *Local Government and Politics in China: Challenges from Below* (Armonk, NY: M. E. Sharpe, 2003), p. 49.

administrative units to implement policy and provide services. The second section examines the direct influence the TFR has on the provision of compulsory primary school education. The third section shows how local health care personnel and facilities have been dramatically reduced. The final section shows how the county governments are reducing the actual number of townships through redistricting and streamlining the local bureaucracy in an attempt to create more efficient county administrative units at the township level.

Local Autonomy and Efficiency

Local autonomy refers to maximizing local functions and revenue-raising authority, while government efficiency is related to the implementation of central policies and provision of local services.⁹ Local taxes and fees typically fund local services, and without the ability to levy taxes or fees the local government is completely dependent on higher authorities for funds.

The efficiency of local government has a narrow definition that focuses on the effective and equitable delivery of public services.¹⁰ Thus a high level of efficiency means that local services meet local demands. If the function of local government is to provide compulsory education and health care, then maintenance and public access to these facilities should be guaranteed. For instance, elementary schools are maintained, teachers are paid and public health care facilities are available and well staffed. Conversely, inefficiency reflects poor implementation and reduced or inadequate services such as understaffed schools and public health care facilities.

There is an interaction between autonomy and efficiency. On the one hand, a local government may lose autonomy but increase its efficiency.¹¹ For example, a township government may have few local functions and have lost the authority to levy taxes and fees. However, if provincial and county governments provide local revenues through remittances and grants, then the township administrative units can effectively implement policies and meet local demands for services such as education and health care. On the other hand, the reduction of local functions and no steady revenue source from above or below means that local government at the lowest level becomes an administrative unit without autonomy and with reduced efficiency. As a result, the township government becomes an “administrative shell” with few resources to provide even the most basic services.

9 John J. Gargan, “Local government capacity: challenges for the new century,” in John Gargan (ed.), *Handbook of Local Government Administration* (New York: Marcel Dekker, Inc., 1997), p. 517.

10 The definition of efficiency refers to local government actors and the delivery of public services. Also see UNDP, “Responding to citizens’ needs: local governance and social services for all,” United Nations Development Program, Report of the United Nations global forum on local governance and social services for all, Stockholm, Sweden, 2–5 May 2000, online at <http://unpan1.un.org/intradoc/groups/public/documents/un/unpan001598.pdf>.

11 Gargan, “Local government capacity,” p. 525.

Evidence from Shaanxi province demonstrates that the TFR has accelerated the restructuring and “soft” centralization below the county level, but the loss of local township functions has reduced the efficiency of many township governments in key areas such as education and health care services. While the central government has introduced reforms to increase transfer payments to counties for mandated policies, such as compulsory education, there is a lack of transparency at the county level regarding remittances, and subsidies frequently do not make it to poorest townships and villages.¹² Currently the amount of funds earmarked for compulsory education spending is not set apart from the general transfer payments to the counties.¹³

Dual Functions, Local Budget and Township Services

Within every township government there are two general offices. The county government manages one set of functions (*tiaotiao* 条条) and the township government is responsible for another set of functions or services (*kuaikuai* 块块). Although some are separate, many rural services have dual functions. For example, education is a dual function at the township level. The county manages the salary and hiring of village elementary school teachers, while the township is responsible for the maintenance of elementary schools and the standard of living subsidies for the teachers (see below). The township governments use local fees to provide teacher subsidies and school maintenance. However, at the township and town level a conflict exists over the dual functions and authority.

The conflict is known as the *tiaokuai maodun* (条块矛盾) or the town and county management contradictions.¹⁴ The contradiction is over which office controls township affairs and the implementation of specific policies. The local cadres staffing the township offices argue that they should have the final say on how to implement policy and manage local resources because they have more information and knowledge about the locality than the county offices. Chinese scholars who support this position suggest that the local township officials in the poorer areas are vital for effective delivery of public services, and a reduction in autonomy will result in less efficient provision of these services.¹⁵ On the other hand, the cadres working for the county offices argue that the township officials are involved in protecting local interests at the expense of efficient and fair policy implementation or resource management.¹⁶ Scholars who agree with this position advocate the dramatic reduction of the town and township local

12 Yep, “Can ‘tax-for-fee’ reform reduce rural tension?” p. 60.

13 Chang Hongxiao, “Can a new education law save China’s compulsory education system?” *Caijing (Business and Financial Review)*, No. 118 (2004), pp. 21–23.

14 Zhang Yang, *Local Government and Politics in China: Challenges from Below* (Armonk, NY: M. E. Sharpe, 2003), pp. 81–93.

15 Wu Licai “‘Xiangzheng zizhi’: xiangzhen zhengfu gaige si lu tantao” (“Township self-government’: some thoughts on the current direction of the township government reform”), *Beijing shehui jingji kexue yanjiusuo wangzhan* (Beijing: Socio-Economic Research Office), 18 March 2004; see China Elections online at <http://www.chinaelections.org>.

16 Zhang Yang, *Local Government and Politics in China*, pp. 74–75.

authority in favour of local county branch offices.¹⁷ The *tiaokuai maodun* tension is particularly acute in service areas that have dual functions.

Dual functions include public health care, education, family planning and agricultural economy. Each station (*zhan* 站) or post (*suo* 所) has a specific duty regarding the management and implementation of a dual function (or service). For instance, service provision in education is between teacher salaries and the maintenance of middle and elementary schools. Recent reforms in compulsory education (grades one to nine) state that the county offices are responsible for the salaries of all teachers including public teachers (*gongban* 公办) for the village elementary schools.¹⁸ In addition, the office manages the junior high school in the township or town. The township offices are in charge of the living subsidies for the full-time elementary school teachers and the repair and maintenance of the facilities. The key to providing these separate services is the source of revenue. While the county office receives funds from the county government, the main source of revenue for the township offices (especially since 1994) is local budgetary funds, extra-budgetary or off-budget funds.¹⁹

From 1994 to 2002 the township governments became increasingly dependent on local budget and extra-budgetary funds, such as local fees and apportionments (*tanpai* 摊派), to pay for local services. This was the result of the 1994 tax reform that divided the central and local taxes.²⁰ The central government was able to control and collect more revenue from the provinces, but local governments at the township level had to rely more on self-raised funds to meet local expenditures and provide services. The township/town governments still had to implement mandatory policies, such as family planning and compulsory education, but after 1994 local governments had to provide public services in a tighter financial situation. These public services are within the local budget and are funded through taxes and fees (*tongchou* 统筹). The costs for local infrastructure investments and the payroll for township government staff also fell on to local governments. Many of these functions fall outside the budgets and are collected as additional fees and apportionments.²¹ Moreover, cadre promotion and evaluation depended on the fulfilment of policy obligations and local economic development.²² As a result, local officials had to collect funds aggressively to maintain local services and the payroll for local

17 Xu and Huang, "Financial pressure and administrative change"; Also Yong Xu, "County government, township branch and village management."

18 See "Premier calls for breakthrough in basic education reform," *Renmin ribao* (*People's Daily*), 14 June 2001.

19 Thomas Bernstein and Lu Xiaobo, "Taxation without representation: Chinese state and peasants in the new reform era," *The China Quarterly*, No.163 (2000), pp.111–32.

20 See Justin Lin Yifu, Ran Tao, Liu Mingxing and Zhang Qi, "Urban and rural household taxation in China: measurement and stylized facts," working paper, China Centre for Economic Research, Peking University; Jean C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Berkeley: University of California Press, 1999), p. 217.

21 Bernstein and Lu, "Taxation without representation"; also see Lu Xiaobo, "The politics of peasant burden in reform China," *Journal of Peasant Studies*, Vol. 25, No. 1 (1997), pp. 113–38.

22 Kevin J. O'Brien, and Li Lianjiang, "Selective policy implementation in rural China," *Comparative Politics*, Vol. 31, No. 2 (1999), p. 167.

staff, and to ensure promotion for leading cadres (the township Party secretary and government head).

The *tongchou*, also called the “five township fees,” cover the most basic local public services. The five fees are for education, militia training, family planning, road repair and construction, and public health care and epidemic prevention. The township government manages the *tongchou* and uses these funds to provide *kuaikuai* services. The township governments had the authority to levy fees and provide the public services according to local conditions. However, after the 1994 tax reform, the township/town governments did not become more efficient in the delivery of services. This was partly a result of the lack of transparency and weak mechanisms for higher authorities and local residents to monitor township officials.²³ Throughout the 1990s the *tongchou* and other fees contributed to villager discontent.²⁴ Thus in Shaanxi province, the introduction of the TFR between 2001 and 2002 completely eliminated the township fees and was hailed as the most important rural development after land reform and the household responsibility system.²⁵ While the aim of the TFR is to reduce villagers’ burdens and increase the efficiency of township governments, it also immediately reduced township education and health care services.

Provision of Educational Services

In 1986 the National People’s Congress passed the Compulsory Education Law (*yiwu jiaoyu fa* 义务教育法) that established a compulsory education system for grades one to nine. The law is meant to ensure access to qualified teachers and functioning educational facilities. However, it stipulates that governments are responsible for fully implementing the law without defining which government should pay teachers and operating expenses. As a result, the bulk of rural education expenses have fallen upon the villagers through local taxes and fees.²⁶ Although there were several attempts to reform the Compulsory Education Law in the 1990s, the situation has not improved for villagers or township governments. According to a 2002 survey by the State Council’s Development Research Centre, the town/township governments and village committees pay for 78 per cent of compulsory education costs, while the county governments pay 9 per cent, provincial governments pay 11 per cent and the central government pays 2 per cent.²⁷

23 Lu Xiaobo. *Cadres and Corruption* (Stanford: Stanford University Press, 2000).

24 Yep, “Can ‘tax-for-fee’ reform reduce rural tension in China?” p. 42.

25 In 2003, the general Party secretary of Shaanxi, Li Jianguo, said: “After land reform and the introduction of the house responsibility system, the tax and fee reform is the greatest central policy to protect villagers’ interests and stabilize the countryside.” See Wang Xiong, “Sheng shijie renda changweihui diliu ci huiyi bimu” (“The Sixth Plenum of the Standing Committee of the Tenth Provincial People’s Congress comes to a close”), *Shaanxi ribao* (*Shaanxi Daily*), 29 September 2003.

26 Dali Yang, *Beyond Beijing: Liberalization and the Regions in China* (London: Routledge, 1997), pp. 138–39; also see Forest Lee, “Who should pay China’s rural primary education?” *People’s Daily* (English), 21 December 2002.

27 Chang Hongxiao, “Can a new education law save China’s compulsory education system?” p. 22.

In 2001, the Central Committee of the Communist Party and the State Council announced another reform of the Compulsory Education Law whereby county-level governments are to take greater responsibility for compulsory education costs in rural areas.²⁸ One of the key aspects of the new reform is that county governments are responsible for teachers' salaries. The timing of these reforms seems to suggest that the central government policy makers are attempting to address the loss of local education funds due to the introduction of the TFR. Nevertheless, county governments have not covered all education funding at the village level and poorer townships are still dependent on local fees to implement the Compulsory Education Law. According to a 2002 report from the Research Centre of the Rural Economy under the ministry of agriculture, local fees are one of the main sources of compulsory education funding in rural China and the introduction of the TFR may have an immediate negative influence on primary education in poorer townships.²⁹ Indeed, the evidence shows that the TFR has reduced the efficiency of the township governments to implement the Compulsory Education Law in Shaanxi province fully.

While recent education reforms ensure that the county government pays the salaries of full-time primary school teachers, the TFR has reduced the funds that subsidize full-time village teachers and repair school buildings and classrooms. Until the 1990s, teachers' salaries were divided between the state and local (*minban* 民办) teachers, with the former paid by the county and the latter paid by the township/village. State teachers have a higher salary and are better educated than local teachers. The Shaanxi government has mandated that all elementary schools hire state teachers, and after the new educational reform the county government pays their salaries. Most administrative villages in Shaanxi have an elementary school and the teachers typically live in small apartments or dormitories at the school, with the township providing them with housing, grain and coal subsidies. The elimination of local fees has led to the end of living subsidies for many teachers in rural Shaanxi. Their state salaries are low compared to other professions and the end of living subsidies has further eroded their income. The situation has also made life uncomfortable, even hazardous, for both teachers and students. During an interview in January 2005, a township Party secretary displayed genuine concern about the wellbeing of the students in mountain villages because the classrooms could get quite cold. He said it was the second winter without coal subsidies. Students either freeze in the classroom or skip school altogether to stay warm at home. The condition is even worse for teachers who live in the small dormitory rooms at the elementary school.³⁰ In addition, the township also manages funds for repairing school buildings.

28 See "State Council issues decision of basic education reform," *Renmin ribao*, 14 June 2001; also see "Premier calls for breakthrough in basic education reform," *ibid.*; For additional information see *China Education and Research Network*, <http://www.edu.cn>.

29 "Balance school budgets: experts," *China Daily*, 17 March 2003, see <http://app1.chinadaily.com.cn/highlights/nbc/news/317school.htm>.

30 Interview township Party secretary no. 5, 4 January 2005.

Table 1: Rural Elementary School Teachers, Students in Attendance and Number of School Buildings in Shaanxi, 2001 and 2003

	2001	2003
Full-time teachers	132,883	140,551
Students in attendance	508,706	382,900
Number of elementary schools	27,295	23,041

Source:

National Bureau of Statistics, Beijing China accessed through *China Data Online* and the China Data Center at the University of Michigan (<http://chinadatacenter.org>).

Several township Party secretaries complained that the older buildings were already falling into disrepair. In northern Shaanxi, the extreme weather takes its toll on the wooden roofs and pane glass (or paper) windows.³¹

While the township managed educational services declined, the county offices were still able to maintain educational functions and hire local full-time teachers. Whereas the number of Shaanxi elementary schools and students in attendance declined, the number of full-time teachers increased (see Table 1). Between 2001 and 2003, rural elementary school attendance dropped 24 per cent, with a 16 per cent decrease in the number of schools.³² At the same time, the number of full-time rural elementary school teachers increased 6 per cent. The result is a lower teacher-to-student ratio in rural elementary schools. Thus, despite the difficulties associated with the end of township educational subsidies, the county offices were able to continue hiring full-time teachers.

If the transfer payments to the counties provide remittances for township educational costs, then the township government may be more efficient and less autonomous. This is not necessarily a bad outcome if the Compulsory Education Law is fully implemented. However, reports suggest that the remittance and education allocation process at the county level is not transparent. Currently the funds for compulsory education spending are not set apart from the general transfer fund to the county government. The actual amount is decided at the county level. According to a researcher from the Hubei Education Science Research Institute, the amount of the transfer payment allocated to compulsory education is always a secret.³³ When asked who knows how the money is distributed, a researcher from the China National Institute for Educational Research stated: "Only three people know: the Party secretary of the county, the administrative head of the county and the director of the county bureau of finance. To solve the problem of inadequate educational funding effectively, the allocation mechanism must be more transparent."³⁴ Therefore, the problem *before* the TFR was a lack of transparency in the township

31 Interview township Party secretaries nos. 2 and 3, 6 and 8 January 2005.

32 One explanation for the reduced attendance is change in demographics and cohorts, that is, fewer children being born in rural Shaanxi.

33 Chang Hongxiao. "Can a new education law save China's compulsory education system?" p. 22.

34 *Ibid.*; Yep also make this point. See Yep, "Can 'tax-for-fee' reform reduce rural tension?" p. 60.

government regarding the collection and allocation of education funding. *After* the TFR, the problem of non-transparent allocation of education funds seems to have been transferred up to the county level.

Provision of Health Care and Medical Providers

As the number of teachers increased between 2001 and 2003, the TFR has contributed to the dramatic reduction in the number of rural doctors and health care workers. Rural health care is based on a three-tier system: village, township and county. Although the costs of rural health care increased for villagers throughout the 1990s, the TFR has contributed to the erosion of the village tier and the ability of township governments to ensure adequate health care services and epidemic prevention.

At the village tier of the rural healthcare system, there are two kinds of medical providers: country doctors (*xiangcun yisheng* 乡村医生) and health care workers (*weisheng yuan* 卫生员). The doctors are licensed practitioners who have passed the state medical exam, while the health care workers are unlicensed. The latter provide basic medical care and information at the village level. They provide the first level of medical assistance for villagers, and they can report the spread of illnesses to township and county health authorities,³⁵ but they lack formal medical training and can only provide limited services. Throughout the 1990s, the trend was a slow reduction of health care workers in favour of doctors. Rural health care workers either maintained their position until they passed the state medical exam and became doctors, or they dropped out of the medical profession. Nevertheless, the central ministry of health views them as an important part of the rural public health system and the national leadership has called for increased efforts to maintain the number of health care workers in rural areas and improve their medical training.³⁶

The most prevalent medical system in rural China is the out-of-pocket scheme whereby villagers have to pay for their own medical costs.³⁷ Moreover, the costs increase as rural patients seek medical care at the second (township) and third (county) tiers. Costs increased steadily throughout the 1990s and many poor rural families sank deeper into poverty because of hospitalization and treatment.³⁸ Thus poorer rural residents avoid more expensive county and even

35 Although the village health care workers have limited training to identify diseases, they can sound the alarm to health care officials at township and county levels if an outbreak occurs. Also see Zhang Yuanhong, "Nongcun gonggong weisheng fuwude gongji yu chouzi" ("The provision and funding of rural health care services," *Zhongguo nongcun guan cha* (*China Rural Survey*), No. 5 (2004).

36 Peter Wonacott, "In rural China, health care grows expensive and elusive" *The Wall Street Journal*, 19 May 2003; Zhang Feng "Too few qualified healthcare workers," *China Daily*, 4 August 2004; "China vows to improve public health in rural areas," *Renmin ribao* (online), 31 October 2002.

37 Y. Liu, K. Rao and W.C. Hsiao, "Medical expenditure and rural impoverishment in China," *Journal of Health Population and Nutrition*, Vol. 21, No. 3 (2003), p. 217; X.Z. Liu and J.L. Wang, "An introduction to China's health care system," *Journal of Public Health Policy*, Vol. 12, No. 1 (1991), pp. 104–16.

38 Liu, Rao and Hsiao, "Medical expenditure and rural impoverishment," pp. 216–22.

township hospitals in favour of village doctors or health care workers.³⁹ There have been experiments with rural co-operative schemes and evidence suggests that these can reduce hospital costs compared to the out-of-pocket system.⁴⁰ However, a recent study from the *New England Journal of Medicine* states that “because of their modest funding, these plans cover only inpatient care (with a very high deductible) and leave peasants without adequate primary care services and drugs.”⁴¹ Thus poorer rural residents, particularly in north-west China, have become more reliant on health care workers.

Country doctors and health care workers receive money from patients and from government subsidies. In Shaanxi province, the township manages both types of medical practitioners with the township fees, and the county subsidizes the rural doctors and health care workers through local health and family planning offices. Other funds for the practitioners come from individual patient payments for medical services. Costs for patients were kept low through local government subsidies paid to the medical practitioners. However, the introduction of the TFR ended local government subsidies and increased medical costs for rural residents.

Since 2002, there has been a decrease in the number of rural doctors and the near elimination of health care workers in Shaanxi province (see Table 2). The reason for the dramatic reduction in health care workers is that given the choice rural residents would rather pay for medical services from country doctors rather than unlicensed health care workers. Without a medical licence or government subsidies, rural health care workers cannot compete with country doctors. In Shaanxi there was an 82 per cent decrease in the number of rural health care workers between 2001 and 2003 and only a 23 per cent reduction in the number of country doctors. According to an interview with an official from the Shaanxi province public health department, the TFR has reduced the rural medical personnel and has had a negative influence on the provision of rural public health services.⁴²

In Shaanxi province, township governments also manage the village medical clinics while the county manages the township and county hospitals. The TFR has had a significant influence on the reduction of village clinics because of the elimination of township fees, but the county-managed hospitals have suffered only minor reductions in facilities and staff. Between 2001 and 2003 the number

39 Interviews in June 2004 and January 2005 suggest that villagers had become more dependent on self-prescribed (family) remedies and/or the village medical services. Also see “Lack of medical insurance, high cost deters poor patients,” *China Daily*, 9 December 2004; David Kelaher and Brian Dollery, “Health reform in China: an analysis of rural health care delivery,” Working Paper Series in Economics, No. 2003-17 (University of New England School of Economics, 2003), http://www.unce.edu.au/economics/publications/econ_2003_17.pdf.

40 Sukhan Jackson, Adrian Sleigh, Li Peng and Liu Xi-Li, “Health finance in rural Henan: low premium insurance compared to the out-of-pocket system,” *The China Quarterly*, No. 181 (2005), pp.137–57.

41 David Blumenthal and William Hsiao, “Privatization and its discontents: the evolving Chinese health care system,” *New England Journal of Medicine*, Vol. 353, No. 11 (2005), pp. 1165–70.

42 Interview with researcher from the statistical office of the Shaanxi province public health department on 15 July 2005.

Table 2: The Change in the Number of Rural Doctors and Health Care Workers by Municipal Districts in Shaanxi, 2001 to 2003

Municipal districts	Country doctors		Health workers	
	2001	2003	2001	2003
Total	37,178	28,401	15,365	2,813
Xian (西安市)	4,741	3,908	1,129	232
Tongchuan (铜川市)	869	762	144	21
Baoji (宝鸡市)	3,821	3,466	816	312
Xianyang (咸阳市)	4,545	2,996	1,682	190
Weinan (渭南市)	6,210	4,001	1,910	117
Yan'an (延安市)	2,567	1,519	1,442	163
Hanzhong (汉中市)	4,270	4,008	1,737	744
Yulin (榆林市)	3,667	2,100	1,852	234
Ankang (安康市)	2,709	2,137	2,638	603
Shangluo (商洛市)	3,779	3,475	2,015	197

Source:

Shaanxi Statistical Yearbook 2002, p. 565 and *Shaanxi Statistical Yearbook 2004*, p. 269

of village clinics in Shaanxi province dropped 25 per cent (see Table 3). However, there is a large variation among municipal districts within the province. This is based on the level of economic development. The loss of village clinics was not as severe in the wealthier districts such as Baoji (宝鸡) municipality which experienced only a 6 per cent drop between 2001 and 2003. The influence of the TFR was much greater in poorer districts, such as Yan'an with a 44 per cent drop in the number of village clinics.

The county manages the township hospital services, and since 2001 there has been little change in the number of hospital facilities and staff. Between 2001 and 2003, the number of hospitals at the county and township level in Shaanxi province had a 4 per cent reduction (see Table 3). At the same time, there was an 8 per cent drop in the number of doctors and a 3 per cent increase in the number

Table 3: The Change in the Number of Rural and Urban Medical Facilities and Personnel by Provincial and Yan'an Municipal District in Shaanxi, 2001 to 2003

Medical services	2001		2003	
	Shaanxi	Yan'an district	Shaanxi	Yan'an district
Number of village clinics	28,530	2,568	21,487	1,443
Number of county and township hospitals ^a	2,780	228	2,678	212
Number of hospital doctors	65,999	3,755	60,294	3,676
Number of hospitals nurses	36,224	1,889	37,183	1,938

Note:

^a According to the Shaanxi Statistical Yearbook, "Hospitals are classified into three categories: hospitals at or above the county level, hospitals of rural townships, and other hospitals."

Source:

Shaanxi Statistical Yearbook 2002, p. 565 and *Shaanxi Statistical Yearbook 2004*, p. 269.

of hospital nurses. Even in the poorer counties such as Yan'an there was little change in county and township hospital services. Despite the loss of local fees and some taxes, county-managed hospital services are still provided to rural residents.

The evidence suggests that TFR has eroded the most basic medical care for poor rural residents in north-west China, and has also reduced the ability of townships to prevent the spread of serious diseases. The almost complete elimination of rural health care workers in conjunction with the large drop in village clinics has severely limited the capacity of township governments to identify and contain outbreaks of diseases before they get out of control. While health care workers had limited skills and facilities to control epidemics, they were at least able to serve as medical monitors to alert health officials before spread of a major epidemic. Thus villagers who need medical care and are unable to pay for hospitals, may be staying in the villages with no clinic or medical personnel to help and monitor them.

Elimination of Agricultural Taxes and Administrative Shells

While the complete effect of the TFR has yet to be fully explored, the central government announced a plan to phase out all agricultural taxes by 2006. In 2004 the Yan'an municipal government was one of the first districts in China to eliminate the agricultural tax and the agricultural speciality tax from the regular budget revenue. The end of agricultural taxes has left poorer counties with even less revenue to bail out townships. The result is the creation of townships that are nothing more than administrative shells.

In the poorer counties with few rural industries, the main source of local government revenue is the agricultural speciality tax and the agricultural tax. Agricultural tax is calculated according to land area and amount of grain production per villager. In 2000, the national average tax rate was 2.5 per cent.⁴³ In Yan'an municipal district the average was 6 per cent. The speciality tax is a tax on non-grain agricultural products and is calculated according to land area and amount of production.⁴⁴ In Shaanxi the tax was introduced in 1994, and the average rate was about 13 per cent of farmers' annual income. The most common non-grain crops were fruit orchards, especially apples, followed by greenhouse vegetables. In 2000, the lowest rate was 10 per cent while the highest was 35 per cent for apples.⁴⁵

The poorer county and township governments with little or no rural industry depended on the speciality tax to provide county-managed services. County government remittances were used to carry out county-managed functions in the township, such as public security, agricultural development and civil affairs. For

43 Lin Yifu, Ran Tao, Liu Mingxing and Zhang Qi, "Urban and rural household taxation," p. 7.

44 *Ibid.*

45 Interview township Party secretaries nos. 2 and 3, 6 and 8 January 2005.

poor counties in Yan'an municipal district, the speciality tax and the agricultural tax contributed to 30 per cent of county revenues. For example, in Luochuan (洛川) county, Yan'an, the total revenue for 2003 was 57 million *yuan* and 18 million *yuan* (31 per cent) was from the speciality and agricultural taxes.⁴⁶ Nevertheless, even within poor counties there are variations among townships and towns. A few towns have rural industries and the government can still carry out some of the town functions. Rural enterprises still provide revenues for town governments. While it is important not to over-tax these enterprises, the towns are able to continue providing teacher subsidies and school repairs. However, poorer township governments in underdeveloped counties are unable to function. A township Party secretary reveals that in 2004 his township revenue, minus the township fees and remittances from speciality and agricultural taxes, was 30,000 *yuan* while expenditure was 200,000 *yuan*.⁴⁷ Besides carrying out a few basic county-managed functions, the township was nothing more than an administrative shell. Moreover, the Party secretary revealed that the remaining township staff had not been paid in over 20 months.

Mergers with Towns and the End of Townships

Even with the loss of agricultural taxes, counties still have to manage the administrative shells, but county governments can adjust administrative boundaries so that poorer non-functioning townships are merged with wealthier towns within the county. Although the TFR has reduced the authority of poorer townships to collect fees from rural residents, towns with rural industries or businesses can continue to collect revenues and provide local services. These wealthier towns are less dependent on the county government. The poor townships, however, have become completely dependent on the county government for revenue.⁴⁸ The adjustment of administrative boundaries that merge administrative shells with wealthier towns has two benefits for the county government. One is greater bureaucratic control over the township and town governments. It is easier to manage one town government than two administrative units. The second benefit is fiscal. Once the two administrative units merge, the town offices take over the functions of the previous township government. The new larger town will use the revenue from local industry to carry out local functions to a greater number of villages. Although the merger of towns and townships puts more pressure on towns to provide services to a larger constituency without additional revenue, counties are no longer completely responsible for managing the administrative shells. While, in the short run, county governments have succeeded in transferring the responsibility of

46 Fu Hang, "Shaanbei shiyan" ("Northern Shaanxi experiment"), *Nangfang ribao* (*Southern Daily*), 21 April 2004.

47 Interview with township Party secretary, Yan'an district, 5 January 2005.

48 In northern Shaanxi farmers have a saying "rely on the heavens to eat" (*kaotian chifan*), but for the township officials the new saying is "rely on the county to eat" (*kaoxian chifan*).

Table 4: Change in the Number of Shaanxi Township and Town Governments by Municipal Districts, 2001 and 2003

	2001		2003	
	Township	Town	Township	Town
Total	1,065	850	679	861
Xian	112	56	58	50
Tongchuan	19	22	12	24
Baoji	77	95	37	91
Xianyang	91	103	62	97
Weinan	136	100	77	99
Yan'an	100	80	81	71
Hanzhong	140	121	92	126
Yulin	154	95	111	111
Ankang	129	95	88	100
Shangluo	107	83	61	92

Source:

Shaanxi Statistical Yearbook 2002, p. 248 and *Shaanxi Statistical Yearbook 2004*, p. 244.

managing the administrative shells to the wealthier towns, in the long run the extra burden may lead to greater conflict between the town and the county governments.

In Shaanxi, county governments have merged a significant number of townships with towns since the introduction of the TFR. For example, there was a 36 per cent reduction in the number of townships and a 1 per cent increase in towns between 2001 and 2003 (see Table 4). Moreover, for the first time in Shaanxi province the number of towns is greater than the number of townships. In 2001, 56 per cent of administrative units below the county were townships, but within two years the number was reduced to 44 per cent. A considerable reduction in the number of townships with only a slight increase in towns suggests that most of the missing townships merged with towns.

The dramatic decline of the township is not restricted to north-west China. According to the *China Statistical Yearbook 2004*, in 2002, for the first time, towns constituted over 50 per cent of the total townships/towns (*xiang/zhen 乡/镇*). In 1995 there were 47,136 townships/towns and 37 per cent were towns, but by 2003 there were 38,028 townships/towns and 52 per cent were towns.⁴⁹ In Guangdong province the township is close to extinction. In 2003, the number of townships/towns was 1,330 and only 12 were townships.⁵⁰

Throughout the 1990s there has been a serious problem with over-staffed town and township governments.⁵¹ Bloated township governments increased administrative costs, such as salaries for township staff, and created pressure to collect more local revenue in order to meet these expenditures.⁵² Moreover, the

49 *China Statistical Yearbook 2004*.

50 *Guangdong Statistical Yearbook 2004*, p. 39.

51 Zheng Yougui, "Xiangzhen zhengquan zuzhi yu zhidu bianqiande tedian, jigou pengzhangde chengyin jiduici tantao" ("Exploring the causes of overextended staffing in township governments") *Zhongguo nongcun guancha (China Rural Survey)*, No.4 (2000), pp. 31–42.

52 *Ibid.*

evidence suggests that expansion of township governments did not increase government efficacy in service provision.⁵³ Restructuring the township governments to be more efficient requires downsizing the bureaucracy. However, township officials had a strong interest in maintaining their positions and salaries, and it was unlikely that local officials would adhere to policies that required a reduction in staff without influencing payrolls. Thus, the only way to reduce the township staff was to eliminate their salaries, and the TFR accomplished that task. As Yang points out, “in areas that experimented with the tax-for-fee reform, the limitation of local fees and levies forced local officials not only to cut the government payroll but also to accelerate the merger of rural governments.”⁵⁴ Although the TFR has contributed to the restructuring and streamlining of local bureaucracies in north-west China, the evidence suggests that it has not improved the efficiency of township governments.

Discussions and Conclusion

As Yep suggests, the introduction of the TFR has dramatically reduced the efficiency of townships that depended on local fees from rural residents to fulfil township functions. The evidence suggests that townships without rural enterprises (or other alternative revenue sources) have become less autonomous and function more like county administrative units. Before the TFR, poor townships without rural enterprises were still able to maintain a level of autonomy with the county and manage basic township services, but without the authority to collect individual and household fees they have become dependent on the counties. What does this mean for the future of township governments in Shaanxi and China? Should the townships continue to be merged with larger towns or become county administrative branches? Or should they be allowed to survive and become more autonomous local governments?

A number of scholars in China suggest that the best policy is to eliminate the township (and even towns) completely as a basic level of government.⁵⁵ They propose to reduce the local autonomy further and streamline the bureaucracy. The replacement of township governments will result in more effective local administrative units. These scholars suggest that small county branch offices will more efficiently implement policy with less local abuse. Even He Kaiyin (何开荫), a researcher at Anhui University and one of the early architects of the tax-for-fee reform in Anhui, suggests that a new “three-tier” government system with the county as the basic level government should be adopted.⁵⁶ Indeed, if the county and larger town governments can provide efficient services and identify

53 *Ibid.* Also Lu Xiaobo, “The politics of peasant burden in reform China,” *Journal of Peasant Studies*, Vol. 25, No. 1 (1997), pp. 113–38.

54 Dali Yang, *Remaking the Chinese Leviathan*, p. 48.

55 Xu and Huang, “Financial pressure and administrative change”; Also Yong Xu, “County government, township branch and village management.”

56 Daniel Kwan, “Tax reforms bring ‘hidden harvest’,” *South China Morning Post* (online), 27 October 2004.

and meet village demands, then villagers may not mourn the end of townships. However, if the inefficacy continues such that county remittances are slow and uneven, then there may be even greater rural discontent and unrest over the loss of basic services than there was over increasing villagers' burdens.

On the other hand, the TFR may be an opportunity to improve the efficiency of the township governments. Under the previous system the township officials collected the fees, surcharges and apportionments for themselves and the county government, but they took the brunt of villagers' dissatisfaction. These officials spent most of their time collecting taxes for the county. According to Wu Licai (吴理财), a prominent researcher at the Centre for Chinese Rural Studies at Central China University in Wuhan (武汉市), with the elimination of fees and surcharges, the township officials can spend more time providing services.⁵⁷ They are closer to the rural residents and have a better understanding of local needs than the county government. In fact, many county officials who work in a township are typically not from the locality. Depending on the distance to the county seat, the officials who work in the *tiaotiao* offices may commute daily or live in the compound and return to their families in the city at weekends. Mertha points out that "separatist regimes," such as physical office buildings, may also be divided by *tiaotiao* and *kuaikuai* personnel.⁵⁸

Despite the restructuring and streamlined local governments, the evidence suggests that the immediate result of the TFR has further eroded the provision of basic education and medical services in north-west China. Although the township government had problems with efficiency and transparency before the TFR, it can continue to serve an important function in the post-TFR period. If the county governments become more transparent and share revenues *as well as* allow the township governments to manage local finances, then the township may be more effective and autonomous than before the introduction of the TFR. Otherwise the problems with efficiency and lack of transparency will persist despite the streamlined local governments.

57 Wu Licai, "'Township self-government'."

58 Mertha, "China's 'soft' centralization," p. 805.