The Political Logic of Changes in Local Fiscal Capacity in China

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Abstract

The concentration of revenue collection is important to the central/federal government, for it is an essential instrument to maintain national integration, regulate the economy, and provide public goods. Why was China’s central government inclined to vacillate between the highly centralized revenue collection system and the decentralized one since the foundation of the People’s Republic of China (PRC) in 1949? Sometimes local governments collected more revenue compared to the central government, while other times they collected less. Previous research offers some plausible explanations in the following aspects: international political context, choices of the top leader, characteristics of local governments, and cost of state building. However, all fail to give coherent and complete explanations of the variation of local fiscal capacity. In this essay, the author, on the basis of the theory of political survival, strives to contribute to this issue by meticulously studying the changes to relationships among central leaders. Specifically, the degree of conflicts among top central leaders results in three kinds of state types, which lead to varied capacities of central and local governments to extract revenue. A better understanding of this political logic can be attained after a brief journey through history since the foundation of a new China in 1949.

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