Reforming Intergovernmental Fiscal Relationships in China: A Political Economy Perspective

Bin Chen, University of Southern California

Abstract: This paper first explores some key principles central to a well-functioning, central/local fiscal relationship from a political economy perspective of federalism. It then applies these principles to an examination of reforming intergovernmental fiscal relationships in China from 1980s to the early 1990s. It is argued that the economic principle central to fiscal federalism is the determination of the optimal structure of the public sector in terms of the assignment of decision-making responsibility for specified functions to representatives of the interests of the proper geographical subsets of society. Fiscal decentralization, as evidenced in China, provides local government with incentives to build a hospitable environment of competition for people and capital and, therefore, prospers local economies. However, China's experience also suggests that fiscal decentralization without the relevant political institutional foundation will bring about negative effects. The political foundations of fiscal federalism are as essential as its economic principles in preserving and sustaining fiscal federalism.

Along the spectrum in the degree to which public policy decision-making is decentralized, there are two polar or nearly polar forms of government. At one end of the spectrum is complete centralization — a unitary government form that assumes all responsibilities of delivering public goods and services. In the opposite direction on this spectrum is a total decentralization of government — a state of anarchy or practically, a highly decentralized system in which the central government is almost completely devoid of responsibilities. A central question to the students of intergovernmental relations is what form of governance is in the best position of performing different tasks. Some argue that state or national governments perform these functions more efficiently, while others believe that local governments enjoy more advantages. Students of economics and political science argue that each level of government has a comparative advantage in performing relevant functions and thereby, they recommend fiscal federalism — a form of government between the two extremes — as an ideal form of government for performing different functions. Then comes with another two questions: what are these principles guiding the design of the intergovernmental fiscal relationship? How do they work in reality? The purpose, then, of this paper is two-fold. It is intended first to identify these principles central to a well-functioning, central/local fiscal relationship drawn upon economics and political theories of federalism. It then applies these principles to an examination of reforming intergovernmental fiscal relationships in China from 1980s to early 1990s.

Political Economy of Fiscal Federalism

Conceptual and theoretical developments in the study of intergovernmental relations have a number of dimensions, including the division of powers and functions among levels of government and administrative political relations between levels and units of sub-national governments. There are two major traditions and approaches. On the one hand, intergovernmental relations are close to being coterminous to the study of fiscal federalism, which primarily draws on the field of public finance. Theories of intergovernmental competition based on economics have been influential for the study of federalism and sub-national governments. On the other hand, the study of central/local relations has also been influenced by legal and institutional approaches in political science.

Fiscal Federalism from An Economic Perspective: Division of Functions

The central question for economists is what kind of central/local government structure promises the greatest success in maintaining economic stability, establishing an equitable redistribution of income, and efficiently allocating resources. There seems to be consensus on the proposition that there should be a distribution of responsibilities between the central and local governments. A centralized government has some advantages over the functions of stabilization and redistribution while local governments more efficiently allocating resources (Oates, 1999).

A centralized government would be far more capable to maintain economic stability through two instruments: monetary policy and fiscal policy. It is imperative that there must exist a central agency to control the size of money supply. Otherwise, any local government would have incentive to print paper money with which to purchase real goods and services from neighboring communities. It would be in the interest of each community to finance its expenditures by creating money rather than by burdening its own constituents with taxation. A very likely outcome would be rampant inflation.

The local governments are also ill-equipped to utilize fiscal policy to stimulate their own economies mainly because of small size, the open nature of local economies, and the mobility of people and capital. Two implications are obvious. First, the expenditure multiplier will be quite small. For example, much of the expansionary impact of a local tax cut will be dissipated, since only a relatively small proportion of the new income generated will be spent on locally produced goods and services. Second, the expansionary fiscal policy carries with it a cost to local residents, a cost that is largely absent at the national level. Therefore, it concludes that a central government is in a position to make good use both of monetary and fiscal instruments in maintaining a high level of economic output without excessive inflation. Local governments, by contrast, are seriously constrained in their capacity to regulate the aggregate level of economic activity in their jurisdictions (Oates, 1972).

In the case of redistributing functions, local governments cannot be effectively provided for by competing localities because of Tiebout's (1956) "voting with feet" theorem which states that the mobility of individual economic units among different localities places fairly narrow limits on the capacity for income redistribution at any local level. On the one hand, for example, an aggressive policy to redistribute income from the rich to the poor in a particular locality may, in the end, simply drive the wealthy to other jurisdictions and attract those with low income (Oates, 1991). Areas with high political demand for redistribution services will progressively be deserted by above-mean income residents. On the other hand, without the intervention of authorities, there may be a strong motivation for individuals with similar income and wealth to either directly or indirectly exclude others (Atkinson & Stiglitz, 1980). Consequently, areas with most need will lack resources to effect provision, while areas with plentiful resources will have little or no demand for redistribution. Since mobility across national boundaries is generally more difficult than within a nation, a policy of income redistribution has greater success if carried out at the national level.

When turning to the allocation of resources, because of the different nature of goods, there are a certain class of collective goods and services whose benefits extend to the individuals in all communities, such as national defense and diplomacy. A highly centralized government is likely to be far more successful than a system of local governments in the provision of public goods and services of this kind. However, a basic shortcoming of a unitary form of government is its indifference to varying preferences among the residents of the different communities (Oates, 1972). Hence, a centralized government produces some welfare losses when providing a uniform package of pubic services and goods to meet the different local preferences.

A decentralized system of government offers the promise of increasing economic efficiency for several reasons. First, a local government can provide a range of outputs of certain public goods that corresponds more closely to the differing preferences of groups of consumers in its community (Tiebout, 1956). Second, the most important implication for a decentralized system is to induce competition among local governments. Competition among jurisdictions extends to factors of production, such as capital and labor. This induces jurisdictions to provide a hospitable environment for those factors, by establishing a basis for the secure rights of factor owners and by providing local public goods, such as infrastructure, utilities, access to markets, etc. Third, a decentralized system implies that local governments bear more fiscal responsibilities and can go bankrupt if inappropriately managed, which provides them with incentives for proper fiscal management (Weingast, 1995). Fourth, under a decentralized system, one should observe a diversity of policy choices, experimentation and innovation. Largely because of competition, local governments are compelled to adopt the most efficient techniques of producing public goods.

A significant feature of fiscal federalism is fiscal decentralization, which is illustrated by Oates' 'decentralization theorem' (1972): "…it will always be more efficient (or at least as efficient) for local governments to provide the Pareto-efficient levels of output for their respective jurisdictions than for the central government to provide any specified and uniform level of output across all jurisdictions." More specifically, as far as central/local fiscal relations are concerned, one way to realize some advantages of centralized taxation without relinquishing local expenditure authority is through revenue sharing. That is, the national revenue authority simply collects a prescribed level of taxes, which it then distributes in the form of lump-sum grants to local governments. However, local authorities continue to raise some significant portion of their own revenues (Oates, 1991).

The Political Foundation Of Fiscal Federalism: Division of Power

For economists, what matters most about federalism is that decisions regarding levels of provision of specified public services for a particular jurisdiction reflect to a substantial extent the interests of the constituency of that jurisdiction (Oates, 1972). They show little interest in the structure of government unless it has implications for patterns of resource use and income allocation. The essence of federalism for economists is not to be understood in a narrow constitutional sense and lies not in the institutional or constitutional structure. The economists' central concerns are the allocation of resources and the redistribution of income within an economic system.

Political scientists, in contrast, are interested in the division and use of power. Their argument is that a market economic system is subject to the fundamental political dilemma: a government strong enough to protect property rights and enforce contracts is also strong enough to confiscate the wealth of its citizens. Their essential concern over fiscal federalism, is what form of political system is required to self-sustain and self-enforce its economic benefits. In parallel to fiscal decentralization, it is emphasised by political scientists that the other essential aspect of fiscal federalism is to provide a sustainable system of political decentralization (Weingast, 1995). In terms of political institutional arrangements, as many as five principles of the political decentralization in so-called "market-preserving federalism" are suggested to supplement fiscal decentralization (Rike, 1964; McKinnon, 1994 and Weingast, 1995):

1. There exists a hierarchy of governments with a delineated scope of authority so that each government is autonomous in its own sphere of authority.
2. An institutionalized degree of autonomy imposes strong limits on the discretion of the national government so that it cannot unilaterally alter the distribution of authority between governments.
3. The sub-national governments have primary responsibility over the economy within their jurisdictions.
4. The national government has the authority to preserve a common market ensuring the mobility of goods and factors across sub-government jurisdictions.
5. All governments are subject to hard budget constraints.

The first two principles define a viable system of federalism in terms of constitution and institutional mechanisms, but they touch little on authority over economic issues. To have economic effects, fiscal federalism must satisfy the third, fourth, and fifth principles. The central government's authority to make economic policy must be limited. This authority must be in the hands of lower political units. Moreover, the local government must face hard budget constraints, which induce proper fiscal management. The economics of fiscal federalism is interested in functional decentralization and the politics of fiscal federalism is concerned over power decentralization. Both perspectives work together to form a political economy perspective of fiscal federalism. That is, a desirable form of government that combines the advantages of centralization and decentralization and mitigates the shortcomings of each is believed to be federalism that represents, to a large extent, a compromise between unitary government and extreme decentralization. The central government should assume the primary responsibility for stabilization and redistribution, while local governments assume primary responsibility for allocation and economic development. But such a functional decentralization should be accompanied and supplemented by political decentralization in a "market-preserving federalism."

China's Reform of Intergovernmental Fiscal Relationship from the 1980s To Early 1990s

Until the late 1970s, China's government carried out virtually all the economic activities in the country. Prior to the reforms, China's intergovernmental fiscal system was characterized by multiple transfers moving up and down with the purpose of ensuring equality. All its revenues were collected at the local level and then channelled up to through its unitary fiscal system to the central government. The intergovernmental fiscal system was highly redistributive, operated by sharing revenues produced by government-owned enterprises. Most of these revenues were generated by urban industry and transferred to rural areas. In other words, the state budget, which was shared by all levels of government, captured all significant financial flows up and down the system: remittance up and transfers down.

Since 1980s, one saw important economic reforms formulated, initiated and implemented in China's transition from a command economy to a market-oriented one. One of the critical components of China's market-oriented reforms has been to decentralize public finance decision-making, which exerts far-reaching impact on central/local fiscal relations. It is also the crucial period during which fiscal federalism took shape according to its economic definition: the central government provided incentives for local governments to undertake reforms, generate more revenues and allocate resources to meet their own needs.

There are three significant features of fiscal decentralization in China. First, local governments would be allowed to disburse expenditures if they generated more revenue. Second, reforms have led local governments to become increasingly self-reliant in meeting expenditure responsibilities by hardening budget constraints. Last, revenue sharing schemes are results of a continuing but *ad hoc* negotiation between central and local governments. It is fundamentally a system of bilateral contracts hammered out through protracted negotiation between one level of government and the next higher level.

Expanding of Local Budget Autonomy

Reforms of central/local fiscal relations are motivated by a commitment to greater decentralization of expenditure decision-making from a central government to local governments. Local governments were allowed to disburse expenditures if they generated more revenue. The average share of local government expenditures in total government expenditures increased from 49 percent for 1970-79 before the reform to 53 percent for 1982-91 after reform. The average share of local government spending in the total governmental spending is 34 percent for developed countries and 22 percent for developing countries (World Bank, 1996).

Only a few countries' (for example, Switzerland and the United States) share of local government expenditures are above 40 percent. Simply by this measure of decentralization alone, China can be regarded as very decentralized as compared to other countries (Jin, Qian and Weingast, 2001).

The share of local government expenditures is only one of the important aspects of decentralization in China. The other important aspect is the degree of decentralized spending decision authority. If the local government has the authority over its spending structure, one can argue that the higher the share of local spending in total government spending, the more the fiscal decentralization. Before the reforms, the central government monopolized decision-making authority over the structure of local expenditures. After the reforms, in compliance with a set of guidelines set by the central government, provincial governments are granted many expenditure decision-making powers on regulating the local economy, such as negotiating fiscal arrangements with their sub-provincial governments, licensing, defining the scope and role of non-state firms, coordinating urban development plans, and even resolving business disputes. Local governments also assumed the responsibility of attracting foreign investment into their jurisdictions.

The dominant form of fiscal decentralization is the revenue-sharing system. Revenue income is divided between "central fixed revenue," all of which is supposed to remitted to the center, and "local revenue," which is subject to sharing, between the center and localities. The appeal of revenue sharing, as Oates (1991) suggests, is that it puts highly elastic central revenue system at the disposal of local governments. It matches growth in expenditure needs with an automatic growth in revenues and thereby moderates the revenue gaps and associated fiscal crises besetting local governments. Collecting some revenues locally outside the central budget and applying them to local expenditures creates a much closer link between resources and needs. It gives local officials more freedom to make decisions about local problems. Putting it in a Chinese way, the principle for the local governments is "the more you collect, the more you spend; the less you collect, the less you spend; rely on yourself to balance the budget."

Benefits of China's Fiscal Decentralization

The reform unleashes the entrepreneurial spirit of local bureaucrats, fuelling the rapid growth of local economies. There are two major sources with which local governments can generate more revenues at their disposals: extra-budgetary and self-raised funds. Extra-budgetary funds consist of state-owned, enterprise-retained profits and depreciation funds and a variety of surcharges and users' fees collected by local governments and other local agencies. These funds are "off-budget" and are generally discretionary funds to be spent by local governments to which they accrue, usually on infrastructure projects. Before the reform, the extra-budgetary revenue was relatively small, 9 percent of gross national product (GNP) in 1978 compared with the budgetary revenue of 35 percent. By 1991, the extra-budgetary revenue was up to 15 percent and the budgetary revenue was down to 18 percent (Sicular,1992). Self-raised funds refer to amalgam of user fees and levies similar to extra-budgetary funds levied by local governments, but they are not explicitly categorized by state policy to be budgetary or extra-budgetary.

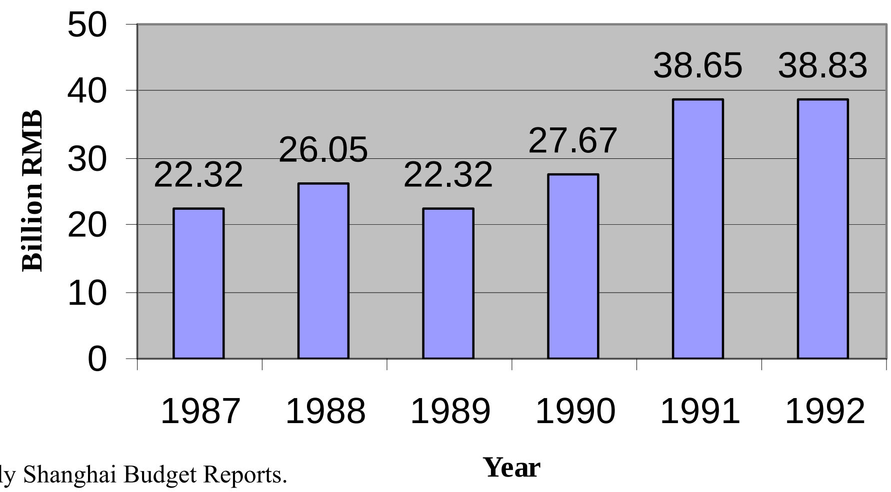
Let us take Shanghai, the biggest economic center in China, as an example: Since 1988, the city's budgetary revenue showed little increase, with the exception of 1992 when the high economic growth rate pushed up the revenue level. However, on the one hand, extra-budgetary revenue, especially the funds collected by the city itself, grew considerably, as shown in **Table 1**. On the other hand, the city was able to increase its spending on its infrastructure (**Chart 1**).

Table 1: Shanghai's Revenue, 1987-1992 (Billion RMB)

Year	Total	Budgetary	Extra-Budgetary	Self-Raised
1987	16.89	16.51	0.38	0.38
1988	16.16	15.36	0.81	0.42
1989	16.69	15.87	0.82	0.39
1990	17.00	16.27	0.73	0.43
1991	17.52	16.51	1.01	0.68
1992	18.56	17.56	1.00	0.74

Source: Shanghai Statistic Year Book, 1993.

Chart 1: Infrastructure Expenditure of the City of Shanghai, 1987-1992 (Billion, RMB)



Sources: Yearly Shanghai Budget Reports.

Costs of Fiscal Decentralization

It is generally recognized by proponents that objectives of fiscal decentralization are more efficient provision and production of public services; better alignment of costs and benefits of government for a diverse citizenry; greater responsiveness to citizen preferences; and increased competition, experimentation, and innovation in the public sector. But opponents argue that decentralization will elevate efficiency over equity, produce “race-to-the-bottom” competition where local governments reduce welfare spending, and impair redistributive social welfare programmes that should be financed and provided by the central government.

Many studies of central/province fiscal relationships in China find that a number of side effects have been produced by the fiscal decentralization: local protectionism, over-investment, administrative interference and rent seeking, fiscal disparities and an inability for the central government to provide critical public goods and services to the poor regions (Shirk, 1993; Huang, 1996; Li, 1998 and Park et al., 1996).

While central authorities kept talking about coordinating the national economy as a common market, local authorities in pursuit of revenue were dividing it up. Fiscal decentralization encouraged local officials to protect local markets of their own industries by erecting administrative blockades. The Balkanisation of the Chinese market was exacerbated greatly by the 1980 fiscal reform that is blamed for reverting the country to many dukedom economies, with each locality walling itself off like a feudal manor. The gains in a common market from specialization and economy of scale were lost as local barriers segmented the national market. The problem of intergovernmental cooperation also arises when central governments must rely on lowest levels of government for contributions. Even when the central government enjoys authority over units of the lower-level government, it faces the problem of monitoring the compliance of multiple jurisdictions that may have very different local conditions.

Local officials were spurred by the revenue-sharing system and thereby, this led to leading to over-investment in revenue-generating industry and “race-to-the-bottom” competition. These officials competed with one another for foreign business in ways central authorities viewed as detrimental to national interests. Profit-seeking local officials rushed to import production lines so that production capacity exceeded domestic demand. The ability of central government to pursue macroeconomic policy was compromised.

Table 2: Fiscal and Economic Concentration in Rich and Poor Provinces

	1990	1995
Five richest provinces		
Percentage of GDP	22.8	23.9
Percentage of population	12.7	12.4
Percentage of revenue collections	26.0	30.3
Percentage of local government expenditure	19.8	25.5
Five poorest provinces		
Percentage of GDP	12.7	10.6
Percentage of population	18.9	19.0
Percentage of revenue collections	12.3	10.5
Percentage of local government expenditure	14.0	12.4

Source: Bahl, Roy. *Fiscal Policy in China: Taxation and Intergovernmental Fiscal Relations.* San Francisco: The 1990 Institute, 1999: pp. 103.

Another negative effect of fiscal decentralization was increasing administrative interference in enterprise management. The local government had become both a player and the referee in local economic competition. Decentralization reforms had granted local officials the authority to regulate access to the market and to redistribute fiscal benefits and burdens, investment fund, access to foreign investment and trade, etc. With these economic powers, local officials were given new opportunities to collect rents from bureaucratic subordinates and state-owned enterprise managers.

Fiscal decentralization produced wider fiscal disparities across the regions. One would expect that wealthier provinces to have a significant advantage over poor provinces in generating revenues as is illustrated in a comparison of five richest provinces (Shanghai, Beijing, Tianjin, Guangdong and Zhejing) and five poorest provinces (Guizhou, Gansu, Sha'anxi, Jiangxi and Henan) in 1990 and 1995 (Table 2). While the population shares in rich and poor provinces remained almost unchanged between 1990 and 1995, the revenue share of the five richest provinces rose from 26 to over 30 percent while the share of the five poorest provinces fell from 12.3 percent to 10.5 percent. The share of GDP in the poorest provinces declined by about 2 percent while the share in the richest provinces rose by about 1 percent. These results indicated a worsening distribution of income among the regions (Bahl, 1999).

Fiscal decentralization also undermined the central government's ability to redistribute public financial resources from rich regions to poverty-ridden ones in order to provide critical public goods and services. Although redistribution could be achieved by varying types of grants and subsidies for deficit regions and the sharing rates of collected revenue for surplus regions, a study (Park et al., 1996) shows a strong evidence of declining redistribution of financial resources from the richer to the poorer regions. Forcing revenue-scarce localities to be more fiscally independent may have adverse consequences for their ability to provide critical public goods and services and pursue coherent investment strategies to further economic development. As a consequence, the new central/local fiscal relations have increasingly led to inequality because poor regions are short of money while rich ones keep a greater share of locally generated revenues.

Lessons from China's Fiscal Decentralization

Economists may argue that these negative effects arising from China's fiscal decentralization should be attributed to difficulties in realizing full mobility of labor and capital in practice, especially in China. It is true that in the real world, there will always be limits to the mobility of both labor and capital. People are tied by language, culture, family and friends. It takes a lot to get people to move into another location. Mobility of capital is more limited than people think. New capital can be put anywhere, but once it has been turned into a factory, a building, a trained workforce or a distribution network, it is less than perfectly mobile.

Political scientists may devote more attention to political institutions behind the fiscal decentralization in China and thus have different accounts of its negative side. Such decentralization is argued to be largely fiscal, purely for the purpose of administrative convenience, motivated by the intention of central bureaucracy to divest responsibility (Shirk, 1993). In reference to the five principles presented in the second section, Chinese fiscal federalism appears to have satisfied principles 1, 3 and 5 but not 2 and 4. The problematic aspects of China's experience are imperfect common market (principle 4) and a*d hoc* decentralized mechanisms (principle 2). First, modern China after fiscal decentralization has difficulty strengthening the central government's ability to maintain a common market. The tendency toward dukedom economies has occurred in China because the common market cannot be preserved voluntarily by the decentralized units themselves.

Second, China lacks rule-based decentralization with an institutionalized balance of authority between central and local governments. China implemented fiscal decentralization in the absence of a tradition of limited government, private rights and representative government. Once the central government has delegated authority to local governments, there is no mechanism designed to guarantee the proper use of power at the local level (Qian and Weingast, 1996). The negotiated revenue-sharing system among the central and local governments is not transparent and provides different incentives for revenue-collection efforts. Truly decentralized systems are transparent. Local governments clearly understand their revenue-raising powers and their expenditure assignments. Without transparency, local governments cannot effectively plan their fiscal programs and therefore accountable to their local electorate. In China, expenditure assignments between central and local governments are not clear.

What differentiates China's decentralized system from that of other countries is the absence of popular representation. Local officials are appointed by the central government, not elected locally. Even if they do not live up to expectations, they are not be voted out. On the one hand, despite fiscal decentralization, China remains under the one-party political system. It is particularly worthwhile to note the role of the Party in personnel selection and dismissal. A fundamental attribute peculiar to China's political and economic institutions is known as 'the Party controls personnel'. The Party exercises its ultimate control over personnel decisions through its Organisation Departments. Through the Communist Party's control, the central government's monopolistic political authority over the selection, appointment, promotion and dismissal of top provincial government officials, to some extent, is ironically argued to serves as a brake against complete fiscal and economic power of the local governments (Huang, 1996).

On the other hand, such a power check has been limited since the initiation of reform. The effective influence of the central government over provincial government policy varies with the characteristics of local government officials. It is because local government officials appointed by the central government are far from homogeneous. Some are promoted from within the provinces and therefore have deeper roots in their localities. Others are more loyal to the central government either because they serve concurrently in the Party's political bureau or because they are transferred from the central government ministries or Party apparatus.

Conclusion

As the literature of federalism has suggested (Oates, 1972), the economic principle central to fiscal federalism is that the optimal public-sector structure for the assignment of specified functions of decision-making responsibility is best given to representatives of the interests of the proper geographical subsets of society. A general consensus is that central government should focus on stabilization and redistribution, while local governments focus on allocating resources to meet local needs. Fiscal decentralization provides local government with incentives to build a hospitable environment of competing for people and capital and therefore prospering the local economies. However, fiscal federalism's political foundations are as essential as its economic principles if it is to be preserved and sustained. Although China is not a federal country, its public financing system has many features of a fiscal federalism. But fiscal decentralization without relevant political institutional foundations will bring about negative effects as China's experience of reforming its central-fiscal relations suggested. The implication is that a transparent, institutionalized central/local relationship, with clearly-defined functions and local governments accountable to local constituents are essential to a well-functioning fiscal federalism.

Author

Bin Chen, is a PhD Candidate in Public Administration in the School of Policy, Planning, and Development at the University of Southern California.

References

Atkinson, A.B. & Stiglitz, J.E. *Lectures on Public Economics.* Berkshire, England: McGraw-Hill, 1980.

Bahl, Roy. *Fiscal Policy in China: Taxation and Intergovernmental Fiscal Relations.* San Fracisco: The 1990 Institute, pp. 103.

Huang, Yasheng. *Inflation and Investment Controls in China: The Political Economy of Central/Local Relations during the Reform Era*. Cambridge: Cambridge University Press, 1996.

Jin, Hehui; Qian, Yingyi and Weingast, Barry R. *"Regional Decentralization and Fiscal Incentives: Federalism, Chinese Style,"* Working Paper, February 2001.

Li, Linda Chelan. *Center and Provinces: China 1978-1993-Power as Non-Zero-Sum*. Oxford: Clarendon Press, 1998.

Livingston, W. *"A note on the nature of federalism."* Political Science Quarterly 67: 81-95, 1952.

McKinnon, Ronald. *"Market-Preserving Fiscal Federalism."* Unpublished MS, Stanford University, 1994.

Oates, W. "*An Essay on Fiscal Federalism,*"Journal of Economic Literature, Vol. 27, 1999, pp.1120-1149.

______________. *Studies in Fiscal Federalism.* England: Edward Elgar Publishing Limited, 1991.

Oates, Wallace E. *"An Economic Approach to Federalism."* Fiscal Federalism. Harcourt Brace Jovanovich, 1972.

Park, Albert; Rozelle, Scott; Wong, Christine and Ren, Changqing. *"The Distributional Consequences of Reforming Local Public Finance in China."* The China Quarterly, Number 147, September 1996.

Riker, William H. *Federalism: Origin, Operation, and Significance.* Boston: Little Brown, 1964.

Shanghai Statistical Yearbook. Beijing: China Statistics Press, 1993.

Shirk, Susan L. *The Political Logic of Economic Reform in China.* Berkeley, Los Angeles & Oxford: University of California Press, 1993.

Sicular, Terry. *"Public Finance and China's Economic Reforms."* Harvard Institute of Economic Research Discussion Paper, Number 1618, 1992.

Tiebout, C.M. *"A Pure Theory of Local Expenditures*." Journal of Political Economy*,* 64, 5, 1956.

Qian, Yingyi and Weingast, Barry. *"China's Transition to Markets: Market-Preserving Federalism, Chinese Style"*. Journal of Policy Reform, 1996, *1*, pp. 149-185.

Weingast, Barry R. "*The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Development."* The Journal of Law, Economics & Organisation, V11 N1. Oxford: Oxford University Press, 1995.

World Bank. *The Chinese Economy: Fighting Inflation, Deepening Reforms*. A World Bank Country Study, Washington, D.C., 1996.

Yearly Shanghai Budget Reports, 1987-1992.