The Construction of an Institutionalized Relationship of Chinese Central and Local Government in the New Century

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In most countries, there inevitably exists a division of administrative power between the central and local governments. China is a multietnic country with a wide area, a large population, and an unbalanced pattern of development among different regions. Therefore, the relationship between the center and the localities constitutes one of the most important in Chinese society and even helps determine the stability of the nation. This article reviews the evolution of the relationship between the central and local governments since the founding of the People’s Republic of China in 1949. Special attention is paid to highlighting contemporary problems and putting forward possible solutions.

The Relationship Between Central and Local Government Under the System of Highly Centralized State Power from 1949 to 1978: A Historical Review.

Since the unification of China in the Qin Dynasty, the dominant pattern in the relationship between central and local government in China has been despotic centralization. After the founding of New China, the traditional system of the centralization of state power was carried on as before. What was different was that the cardinal principle of the centralized system of New China became democratic centralism instead of despotism. The intention of this was not only to guarantee the

Abstract: This article argues that under the traditional system of highly centralized state power, there exist various kinds of malpractices in the relationship between central and local government, and between government and other public sector organizations. The article affirms the positive effects achieved since 1978 by the reforms centered on “transferring power to a lower level and yielding some interests.” But the article also points out that the malpractices of the traditional system have not yet been completely eradicated. At the same time, some new problems have arisen as a result of the reforms. So we must adopt the following measures: first, combine the powers and functions of the central government with the transfer of moderate degrees of power to the local government; second, the transfer of administrative power from central to local government should be coordinated with the transfer of economic power from government to enterprises; third, the division of powers and responsibilities between central and local government must be given a scientific and legal basis.
centralized and unified leadership of the central government, but also "to give the local government more independence and to let them do more" (Mao, 1977, p. 275), so as to arouse the enthusiasm both of the central and of the local government. However, in the process of guiding the concrete design and operation of the new institutions, the principle of democratic centralism was not transformed into scientific, institutional or legal norms. Instead, it remains uninstitutionalized. That is to say, the relationship between the central and the local, under a system of democratic centralism, is not an institutionalized or legalized relationship, but rather is mainly a political relationship that is maintained by power and ideology. Under the "from top to bottom" system of centralization of state power that uses the unified leadership of the Party, all the important decisions are made by the central government. The local government lacks an independent status, being a controlled object and a medium that simply conveys the orders of the central government (Yang and Cui, 1989, p. 24). This suffocates the vitality of the local government and local enterprises. To be sure, the central government has transferred or taken back power many times. However, those adjustments had very obvious limitations under the historical circumstances of the time.

Non-institutionalized adjustment is when the relationship between the central and the local governments lacks a legal or institutional basis, but depends mainly on the understanding of the relevant actors and the will of the central government, especially the top leader. When meeting with British Marshal Montgomery in 1958, Mao Zedong said: "If centralization becomes too great, I would transfer a little bit to the lower levels; if the transfer goes too far, I would take back a little" (quoted in Xin, 1995, pp. 290-291).

Obviously, deciding how to adjust the relationship between the central and the local governments on the basis of personal experience and willpower will inevitably create a degree of casualness and instability. The relationship between the central and the local governments repeatedly swings between the two poles of centralization and decentralization, falling into an abnormal circulation of "everything loses vitality under centralization, while it becomes a complete mess as soon as decentralization begins."

Under the circumstances of a long-term integration of Party and government administration, vertical power relations within the Party frequently take the place of horizontal power relations among the government. This not only intensifies the centralization of state power, but blurs the scope of power relationships between the central and local government as well (Lin, 1998, pp. 356-357).

Local decentralization is usually confined within pure administrative decentralization, and some scholars call it "the internal-cause type adjustment of the administrative relationship and power" (Sun, 1995, p. 4). That is, it makes enterprises into complete subsidiaries of the administrative system from beginning to end. The subordinate relationships of enterprises are only adjusted between the central and the local governments. Therefore, the enterprises can only shift passively between the central or local government. This makes it impossible for the relationships between the central and the local government to be adjusted in a fundamental way.


After the Third Plenary Session of the 11th Central Committee of the Communist Party of China, the country introduced in succession a series of important reform measures centered on "transferring power to a lower level" and developed a series of mechanisms aimed at fully reflecting "the interaction principle" of "the two incentives" of the central and the local as far as possible. As for the relationship between Party and government administration, an attempt to separate the functions of the Party from that of the government has been carried out, with an emphasis on bringing into play the roles of all levels of governments. On the relationship between central and the local governments, the conditions of too much centralization of state power under the original system have been greatly improved. In the area of government administration, local legislation system, a tax-dividing system and other institutions that give full consideration to local interests have been formed, greatly stimulating
strengthening the vitality of the local economy and the awareness of local government administration as a result. In the meantime, the localities also share responsibility, which is supposed to be the function of central government, such as the macro-level coordination so as to promote the realization of local development objectives and the overall targets of the central government, advancing the deepening of the reform of the economic system.

The reforms aimed at local decentralization over the past 20 years have achieved unprecedented results. At the same time, they have also created some negative effects. Moreover, some long-standing problems still remain. The vicious circle of “everything loses vitality under centralization, while it becomes a complete mess as soon as decentralization begins” has not been stopped. To some extent, the conflict between centralization and decentralization appears to be intensifying. As the power of local government has expanded unceasingly, the power and functions of the central government have been weakened (Hu, 1995, p. 2). The typical manifestation of this is the decentralization of the macro-regulatory capability of the central government (Yang, 1997, 27), resulting in a weakening of the macro-regulatory capability of the central government (Jin, 1998, pp. 22-23). Its direct cause is that the block-like transfer of power of the central government to lower levels gives rise to a lessening of organizational and regulatory capacity. Its root cause is that the central government lacks an effective institutional and legislative system to regulate the behaviors of the local governments in the process of power decentralization. All these lead to “autonomous economy” such as “the upper makes policies while the lower has countermeasures” (Shen and Dai, 1990, p. 3), or the worsening of the phenomenon of local protectionism (Chen, 1994, p. 4). Seen from a global perspective, the world-wide trend towards decentralization that began in the 1970s has been a successful experience: At the same time that central governments have transferred their power to the lower levels, the local governments have strengthened their institutional power as never before. For example, France, which always has had the tradition of centralized state power, transferred power to the localities in 1981. After putting into practice local autonomy, the central government could still regulate the local government freely since it had the means of strong institutions, legislative mechanisms, and the institutionalized ways of property (Yves, et al., 1989, pp. 15-32). To China, a modernizing country that is in the process of systemic transformation, the declining regulatory capacity of administrative organizations not only affects directly the exercise of the macro-regulatory functions of the government, but also hinders the establishment and healthy development of national markets and the normal operation of the market system with fair competition.

When the system of non-separation between administration and enterprises is not fundamentally changed, decentralization will actually result in enterprises just shifting from being the subsidiary of the central government to that of the local government, giving rise to the localization of the relationship between administration and enterprises. This means that power, which should be transferred to the enterprises, is still being held by governments. Enterprises have not extricated themselves from the status of being subsidiaries of the government (Wu and Liu, 1991, p. 3) to become a legal corporate entity and to operate completely in the market. On the other hand, in the process of replacing the old system with the new, due to the under-development of markets, enterprises encounter difficulties in crucial areas such as raising funds and deploying materials and thus have to ask for help from the local government.

The division of authority between the central and local governments is unclear and lacks legal statutes. At present, the constitution and relevant laws already have provided some stipulations about the division of functions, responsibilities, and authority between the central and local governments, yet they are too general and broad. Since the reform and opening to the outside world, policy concerning the relationship between the central and local governments still has a lot of casualness without standardization. It exhibits, to considerable extent, the character of “groping for the stones to cross the river,” which brings about the lack of a two-way restraining system between the central and local governments, and therefore the phenomena of mutual-wrangling, mutual impeding, and mutual-infringing of rights are rather widespread (Liu, 1993, p. 3).
Creating an Institutionalized Relationship Between the Central and Local Government

In view of the problems existing in the relationship between the central and local governments since 1949, especially the new situations that have appeared during the period of the reform and opening to the outside world, combined with the need to establish and develop a market economy system in China and the global trend toward democratization and decentralization, we should adopt the following measures to reform and improve the relationship between the central and local governments of China in the new century.

Institutionalize Central Power and Regulatory Systems While Strengthening Local Bases

We should combine the promotion of institutionalized powers and functions for the central government and the practice of transferring moderate degrees of power to local governments. The power of the central government should be an institutionalized kind of power. Therefore, it is crucial for the central government to strengthen its own powers and functions through the creation of legal and other institutions with an eye to increasing its macro-regulatory authority (Bo & Jin, 1997, 34). In this way, we can proceed to form an administrative regulatory system that is unified from top to bottom — one that facilitates the central and local governments to obtain common understandings. The local governments should coordinate their regional economic development in accordance to the entire interests of the whole country and to shape their local economic regulation to be in accordance with national regulations, while also paying attention to the concrete conditions of their own regions. In this way they can guarantee fulfilling the macro-regulation measures of the central government (Jin, 1998, p. 8). This is a basic requirement for the government to perform the functions of macro-regulation and to raise its macro-regulatory capability in the market environment.

Of course, the relationship between the central and local governments is essentially the relationship between state interest and local interest (Bo, 1991, p. 10); therefore, the central government should also acknowledge that the local has its own particular interests. It is a mistake to deny the existence of specific interests at the local level. And it is also insufficient to recognize this interest only theoretically or formally. It is crucial to have a system analyze and coordinate their system interests, which conforms to reality, being accepted by both sides. The system should be developed in the process of dynamic adjustment and development and also have a relatively stable legal and institutional foundation.

Coordinate Transfer of Political Power with Transfer of Economic Power

The transfer of administrative power from central to local government should be coordinated with the transfer of economic power from government to enterprises.

From the beginning of the current period of reform and opening to the outside world, the transfer of administrative power from central to local government has not been coordinated with the transfer of economic power from government to enterprises. This is a big obstacle that prevents the relationship between the central and local from becoming well institutionalized. For this reason, the pace of market-oriented development of the national economy should be accelerated and efforts made to shift the powers and functions of all levels of government according to the requirement of a socialist market economy. We must conscientiously carry out the task of separating administration from enterprises and actively create proper conditions, taking actions to cultivate the market system, defend fair and competitive markets, standardize industrial organizations, smooth the relationship between banks and enterprises, expand the social security system, etc. The goal is to break enterprises out of the situation of belonging to governments at all levels. We must also clear up the issue of the property rights of enterprises in order to construct a modern business system in which the ownership of enterprises rests with the enterprises themselves, making them into the real subject of market forces. In the meantime, we have to reform the system of state-owned assets to establish a managing, operating, and supervising system of state properties. We also need to reform the current system of investment and finance.
The core and most crucial measure here is through taking further steps to adjust the structure of property rights, to restrict and restrain the government from intervening in enterprise decisions about their properties. This is because the government acts as a real representative of state-owned assets and enjoys the right of intervention. Over a long period, people almost universally hold that the main obstacle to the separation of the government administration from enterprises is the enterprises themselves and not the government. This viewpoint is perhaps correct. Nevertheless, on second thought, we have been stressing for a long time the importance of transferring power and functions away from government and separating administration and enterprises; yet we still do not see any essential change. It is a case of "loud thunder with little rain." Why is this the case? It seems that the reason has to do with economic incentives. There is an intrinsic economic motivation for excessive intervention behavior by government officials with regards to enterprise. However, we can see that, if we want to separate administration and enterprises, it is also necessary to greatly adjust the property structure of enterprises and go a step further to lower the proportion of state-owned assets in a given number of enterprises, in order to reduce as far as possible the property basis for direct intervention from the government and to restrain and restrict the intervention function of the government (Zhou et al., 2000). Only by smoothing the relationship between government and enterprises can the rational disposition of vertical power between central and local be truly realized. When this occurs, we can eliminate the vicious circle of "everything loses vitality under the centralization while it becomes a complete mess as soon as decentralization begins."

Adapt a Scientific and Legal Foundation for Change

To achieve the institutionalization and legalization of the division of powers and responsibilities between central and local government, we must do the following.

Firstly, we must divide function, responsibility and rights scientifically. Some scholars put forward that there are three kinds of power: central power, local power and the power shared by the two (Xie, et al., 1995, p. 124). Some scholars hold that all the power that has not been put under central or local administration should be put under central administration (Zhiang, 1994, p. 196). There are some scholars who divide powers and responsibilities between central and local government along the lines of human affairs, financial rights, property rights, legislative power, economic regulatory power, etc. (Shi, 1993, p. 478). Some scholars refer to the division between power and finance at the central and local levels. They advance four principles for the division of power and six principles for the division of financial power (Wang, 1997, pp. 26-28).

We think that we should, according to the requirement of establishing a market economy, put into practice a graded administration between the central and local government to achieve the unity of right and responsibility of the two-graded administration. To put it more concretely, we should take the status of affairs in national life as the basic standard by which to divide the limits of power between the central and local. All those affairs that involve the entire interests of the nation will be decided by the central government; while the local government will decide all those local affairs involving the specific interests of every administrative region. At the same time, we should define the specific core areas of the central and local government according to their different status and effects, and then provide them with corresponding powers. In the process of allocating power, we should abide by the principles of classifying affairs and the matching functions, responsibilities, and rights so as to let local governments have their own administrative areas and possess fairly complete power in specific areas (Pan, 1997, p. 18).

Secondly, we should legalize and institutionalize the relationship between the central and the local on the basis of a rational division of functions and powers between them. That is to say, the central and the local should form a new type of relationship based on the legal system. For this reason, China ought to make a law on the relationship between the central and the local in accordance with the current constitution so as to use it to standardize the relationship between the central and the local, including the principle of dividing functions, the powers and limit of rights between the two, their specific range of functions and powers.
power-dividing methods, the central government’s procedure, mode and method of supervision over the local, and the procedures of adjusting the functions, responsibilities and the limit of powers, etc.

In addition, we can also consider establishing a constitutional court and expanding the judicial system so as to adjudicate disputes over the division of rights and responsibilities between central and local and among provinces when it occurs. In a word, legal regulation on the relationship between the central and the local and the adjustment of it can maintain the relative stability of the relationship and make it more scientific and institutionalized.

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