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Central-Provincial Investment and Finance: The Cultural Revolution and its Legacy in Jiangsu Province

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New Perspectives
New Perspectives on the
Cultural Revolution

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New Perspectives on the Cultural Revolution

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Index by Margo Lavoie

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CHAPTER NINE

Central-Provincial Investment and Finance: The Cultural Revolution and Its Legacy in Jiangsu Province

PENELOPE B. PRIME

Mention of the Cultural Revolution elicits tales of making "revolution." Struggle sessions, political study, and Red Guard battles left schools and factories barely functioning. After the worst of the turmoil in 1966 and 1967, however, promoting production became part of making revolution. Existing enterprises were revived and new ones were built. Responding to the slogan "Grasp revolution, promote production," even Red Guard students planted gardens and ran small factory workshops at their schools. As a result, production recovered after 1968 and growth rates, particularly industrial growth rates, were high for the rest of the CR period (1966–1976).

China's growth during the Cultural Revolution was shaped by Mao's development policies. Three key policies were the decentralization of enterprises between 1968 and 1970; the promotion of small-scale industry;

and central, Third Front investment in inland provinces to ensure China's survival in case of a coastal attack. These policies are analyzed in Chapters 6–8. In this chapter I examine the economic results of these policies in one particular case, Jiangsu Province.

One issue raised by the nature of these CR policies is what effect they had on central-local relations.¹ For example, Christine Wong has argued, in this volume and elsewhere, that decentralization and the small-scale industry program increased economic production initiated at the county level with concurrent increases in local control over funds and output. At the same time there is evidence that the central government increased spending on its projects and maintained the ability to shift resources between regions and sectors. For example, between 1971 and 1975 the center's budgetary expenditures were 212.5 billion yuan, compared with 153.8 billion yuan during the previous five years.² The number of local enterprises and the importance of their output also increased substantially, and yet the type of investment that occurred continued to reflect the center's priority of emphasizing heavy industry.

In the case of Jiangsu I show evidence that decentralization and county-commune industrialization indeed occurred. But these developments did not result in any significant change in central-provincial revenue flows: the provincial budget did not gain at the expense of the center. This suggests the hypothesis that the 1970 decentralization was basically administrative, and that the province's industrial growth was financed primarily by shifting resources horizontally from other sectors rather than vertically from the center to the provinces.

This is not to say that the Maoist policies did not affect China's economy during the CR period. For example, local officials clearly cared about the funds and output they gained with the small-scale industry program, leading them to overinvest in industry whether profitable or not. This is one of the unintended consequences of Maoist policies described in Chapter 8. A second consequence was the weakening of central planning, but without replacing planning with markets, as described in Chapters 6 and 7. But the case of Jiangsu suggests that these phenomena were not significant enough to alter fundamentally the central-provincial balance of power as reflected in budgetary flows. This result is underscored by events in the reform period that began a different type of decentralization characterized by major increases in economic activity outside the state budgetary system altogether.

To develop this hypothesis this chapter first looks at growth in Jiangsu

to show that substantial increases in industry occurred, with a growing share of industrial output produced at local levels. The second section analyzes the investment patterns behind Jiangsu's industrial growth during the Cultural Revolution. It shows that provincial investment increased compared with central investment in the province, but that the decentralization of enterprises and shifts in budgetary expenditure toward industry explain much of the rise in provincial investment. The third section analyzes the province's collection and remittance of budgetary revenue to the center. The data imply that the provincial budget did not gain at the expense of the central budget during the CR. Rather, once decentralization and economic growth are accounted for, revenue flows appear normal compared with historical trends, with the province continuing to maintain its financial contribution to the center. Finally, the chapter concludes with some comments on the representativeness of Jiangsu and the implications of these results for understanding China's economy during the culmination of Maoist economics.

GROWTH WITH LOCAL CHARACTERISTICS

Except for 1967 and 1968, both the national and Jiangsu's provincial economies were characterized by substantial industrial growth during the CR period, as shown by Table 1. In 1967 and 1968 output fell an average of 8.2 percent in Jiangsu and 9.5 percent nationally. If we exclude the first two years, industrial growth averaged 16.3 percent per year in Jiangsu and 13.5 percent nationally between 1969 and 1976. Even including the poor-performance years, however, Jiangsu's average annual growth was 11.9 percent between 1966 and 1976, and the national average was 9.5 percent for the same years. So, despite the political turmoil, industrial growth in Jiangsu during the Cultural Revolution exceeded average annual growth rates during the First Five-Year Plan and the Great Leap Forward, and was slightly higher than the average for the thirty years between 1953 and 1982.

In addition to overall industrial growth rates, there is evidence that industry was growing faster at local levels. Unfortunately a complete breakdown of industrial growth of state-owned enterprises managed at different administrative levels, and by collective and commune (township) industry, is not currently available by province.³ Selected figures for collective and commune industry, however, provide a partial indica-

TABLE 1 Comparative Annual Average Growth Rates of Gross Value of Industrial Output in China and Jiangsu, 1953-1982

Year	China	Jiangsu
1953-1957	18.0	10.7
1958-1962	3.8	4.7
(1959-1962)	(-6.0)	(-5.7)
1963-1965	17.9	19.2
1966-1976	9.5	11.9
(1966-1968)	(-0.3)	(1.1)
(1967-1968)	(-9.5)	(-8.2)
(1969-1976)	(13.5)	(16.3)
1977-1982	9.4	13.2
1953-1982	10.7	11.4

Sources: *Zhongguo tongji nianjian*, 1983 (China's statistical yearbook, 1983; Beijing, Zhongguo tongji chubanshe, 1983), p. 17; *Jiangsu jingji nianjian*, 1984 (Jiangsu's economic yearbook, 1984; Nanjing, Jiangsu tongji ju, 1984), pp. 93-94.

Note: These compounded growth rates are calculated from indices and data on the gross value of industrial output based on comparable prices. The rates are sensitive to the years included in each subperiod. When the continuous rates are particularly sensitive to the endpoints, figures for alternative subperiods are also given, in parentheses.

tion of the increased importance of enterprises that were primarily under the jurisdiction of municipal, county, or commune administrations.

Table 2 presents both collective (including commune) and commune industry as proportions of total gross value of industrial output for China and for Guangdong, Liaoning, and Jiangsu, for selected years. Guangdong and Liaoning have been included as a comparison to the trends observed in Jiangsu. These figures show that increases in local industry during the Cultural Revolution varied in magnitude by province, but in each case increases occurred that were consistent with the national trend.

Looking first at total collective industry, we see that in China nationally the share of industrial output produced by collectively owned enterprises increased from .099 in 1965 to .192 in 1978. In Guangdong the proportion of collectives increased from .191 in 1965 to .254 in 1975

TABLE 2 Collective and Commune Industry as Proportions of Total Gross Value of Industrial Output in China, Jiangsu, Guangdong, and Liaoning, 1962–1985

Year	China		Jiangsu		Guangdong		Liaoning	
	Collective	Commune ^a	Collective	Commune ^a	Collective	Commune ^a	Collective	Commune ^a
1962	n.a.	n.a.	.268	.016	.243	.028	.083	n.a.
1965	.099	n.a.	.114	.011	.191	.017	.066	.003
1970	.110	n.a.	.088	.031	.213	.006	.084	.005
1975	n.a.	n.a.	.280	.065	.254	.036	.154	.023
1978	.192	(.102)	.340	.120	.274	.067	.164	.034
1980	.207	(.119)	.368	.154	.295	.072	.179	.034
1983	.220	(.151)	.394	.177	.313	.079	.185 ^b	.037 ^b
1985	.249	.104 (.119)	.407	.166	.301	.110	.217	.075

Sources: For China—*Zhongguo tongji nianjian*, 1986 (China's statistical yearbook, 1986; Beijing, Zhongguo tongji chubanshe, 1986), p. 273, for total and collective gross value of industrial output. These output figures are given in 1952 prices for output up to 1957, 1957 prices up to 1970, 1970 prices up to 1980, and 1980 prices up to 1985. Figures for commune industrial output are not currently available from Chinese published sources except for 1985. Figures in parentheses are Christine P. W. Wong's estimates, which take changes in reporting methods into account ("Interpreting Rural Industrial Growth in the Post-Mao Period," *Modern China* 14:3–30[1988]). Note that China's 1986 statistical yearbook gives two figures for commune industry in 1985, one on p. 273, which results in a proportion of .277, and one on p. 282, which results in a proportion of .104 (included in this table). This difference probably reflects an attempt to account for changes in how commune-level output is counted, especially after 1984, as described by Wong.

For Jiangsu—Commune industry: *Guanghui de sanshiwu nian: Jiangsu sheng guomin jingji he shehui fazhan tongji ziliao, 1949–1983* (The glorious thirty-five years: Statistics on Jiangsu's national economy and social development, 1949–1983; Nianjing: Jiangsu tongji ju, 1984), pp. 21–22, for total gross value of industrial output, and p. 44, for commune and brigade industrial output. The brigade output is also listed under agricultural output on p. 29. I have included only commune industrial output in the calculations in this table. This source does not state what prices were used, but if one compares these data with others, the prices appear to be in constant 1980 prices. Collective industry for 1962–1983 was derived by subtracting reported gross value of industrial output for state enterprises from total gross value of industrial output. State industrial output was estimated from figures on the province's industrial labor force provided by the Jiangsu statistical bureau (Penelope B. Prime, "The Impact of Self-Sufficiency on Regional Industrial Growth and Productivity in Post-1949 China: The Case of Jiangsu Province," PhD dissertation, University of Michigan, 1987, table 4.16, p. 109), and from figures for state industrial output per worker (*Guanghui de sanshiwu nian*, p. 46).

For Guangdong—*Guangdong sheng tongji nianjian* (Guangdong's statistical yearbook; Hong Kong, Xianggang jingji daobao she, 1984), p. 146, given in 1957 prices for 1952–1971, in 1970 prices for 1971–1981, and in 1980 prices for 1981–1983.

For Liaoning—*Liaoning jingji tongji nianjian*, 1983 (Liaoning's economic yearbook, 1983; Shenyang, Liaoning renmin chubanshe, 1983), p. 361. The Liaoning data are based on 1952 prices for 1949–1957, 1957 prices for 1957–1971, 1970 prices for 1971–1981, and 1980 prices for 1981 and 1982.

All 1985 figures were calculated from *Zhongguo tongji nianjian*, 1986, p. 282.

- Proportions of commune industry are subsets of collective proportions; total gross value of industrial output used in denominator includes commune industrial output.
- 1982 figure.

and then to .274 in 1978. In Liaoning it increased from .066 in 1965 to .154 in 1975 and to .164 in 1978. In Jiangsu the proportion of collective industry rose from .114 in 1965 to .280 in 1975. By 1978 this proportion had increased to .340—a full third of the province's total gross value of industrial output.

The proportion of commune industry also increased substantially for these three provinces. In Guangdong the proportion of commune industry in total gross value of industrial output in 1965 was .017. It had increased to .036 by 1976 and to .067 by 1978. In Liaoning in 1965 the same proportion was .003, increasing to .023 in 1975 and to .034 in 1978. In Jiangsu the proportion of commune industry was .011 in 1965, .065 in 1975, and .120 in 1978.

In Jiangsu, then, the growth of both collective industry and commune industry was faster than the national average. These higher-than-average local contributions to industrial output help to explain Jiangsu's relatively faster growth seen in Table 1. If state-owned enterprises in the "five small industries" could be added to collective and commune figures, the increase in industrial output produced locally primarily for local consumption would be even higher.

Evidence from particular areas of Jiangsu also indicates a growing importance of local industry within this province. Wuxi County and Changzhou are two of the better-known cases. A third example is Rudong County near Nantong. Between 1966 and 1976 the total number of industrial enterprises in this county increased from 107 to 396.⁴ The components of this increase were as follows: state-owned enterprises from 23 to 42, cooperative factories from 14 to 58, rural town enterprises from 7 to 20, and commune and brigade enterprises from 5 to 222. The only decrease was in handicraft shops, which declined from 58 to 54.

Some of these changes in Rudong and elsewhere were no doubt reclassifications, and perhaps some enterprises were divided into several "new" ones. Nevertheless, the substantial increases in the number and share of collective enterprises, as well as the increases in total industrial output, indicate that provinces, and especially Jiangsu, responded to calls from the center to "promote production" at all levels of the economy.

PATTERNS OF INVESTMENT

One important aspect to consider in trying to understand how the growth of local industry might have affected central-provincial relations is how

this growth was financed. Although separate data on investment in collective industry before 1978 are not available, information on the shares of investment supplied through the provincial and central budgets and on the share of investment going to industry is adequate to explain at least part of Jiangsu's industrial growth.

The largest category of budgetary fixed investment is state capital construction investment, or "basic construction" (*jiben jianshe*). Table 3 gives total state capital construction investment as well as separate figures for this investment in Jiangsu contributed by the central budget and Jiangsu's own capital construction expenditure (at the provincial level and all levels below the province).

Figures supplied elsewhere on budgetary investment for the whole of China indicate that the CR period was characterized by high investment levels. Table 3 shows that investment in Jiangsu mirrored these national trends. Total (provincial and central) budgetary capital construction investment in the province increased from .416 billion yuan in 1966 to 1.244 billion in 1976. This represents an average increase of 18 percent per year. Investment in 1976 alone was greater than the total for the entire First Five-Year Plan.

Separating provincial (and lower-level) investment from central investment shows that investment from the provincial budget increased from .214 billion to .878 billion yuan over the same period. Between 1970 and 1978 provincial funds represented an average of 75 percent of total capital construction investment in the province; the remaining 25 percent was contributed by the center. This compares with a provincial contribution of between 40 and 50 percent in the 1950s, 1960s (excluding the Great Leap Forward), and 1980s.

This growth in provincial investment also represents an increase relative to the size of the provincial economy measured by provincial income. Provincial income (Table 4) refers to the provincial equivalent of national income (*quomin shouru*), a measure similar to gross national product.⁵ Adjusting changes in investment for growth in the economy provides an indicator of the importance of these levels of investment.

Table 5 and Figure 1 show provincial, central, and total investment in Jiangsu as proportions of provincial income. The second column in Table 5 gives Jiangsu's provincial budgetary capital construction investment as a proportion of provincial income. In 1966 this proportion was .024, increasing to .057 by 1976. The average for the period was .042. This compares with an average of .019 during the First Five-Year Plan

TABLE 3 Provincial, Central, and Total Budgetary
State Capital Construction Investment in
Jiangsu, 1953-1987
(in billions of yuan, current prices)

<i>Year</i>	<i>Provincial</i>	<i>Central</i>	<i>Total</i>
1953-1957	0.413	0.666	1.079
1957	0.128	0.237	0.365
1958	0.842	0.074	0.916
1959	0.942	0.270	1.212
1960	1.080	0.284	1.364
1961	0.293	0.119	0.412
1962	0.131	0.083	0.214
1963	0.149	0.164	0.313
1964	0.190	0.266	0.456
1965	0.210	0.237	0.447
1966	0.214	0.202	0.416
1967	0.157	0.152	0.309
1968	0.137	0.131	0.268
1969	0.259	0.087	0.346
1970	0.501	0.100	0.601
1971	0.595	0.161	0.756
1972	0.731	0.184	0.915
1973	0.810	0.190	1.000
1974	0.704	0.157	0.861
1975	0.761	0.314	1.075
1976	0.878	0.366	1.244
1977	0.815	0.460	1.275
1978	1.143	0.635	1.778
1979	1.429	0.775	2.204
1980	1.820	0.795	2.615
1981	0.913	0.863	1.776
1982	1.048	0.995	2.043
1983	0.982	1.516	2.498
1984	1.182	2.030	3.212
1985	2.055	2.680	4.735
1986	2.569	3.473	6.042
1987	3.242	4.647	7.889

Sources: *Guanghui de sanshiwu nian*, pp. 57-58; *Jiangsu jingji nianjian 1988* (Jiangsu's economic yearbook, 1988; Nanjing, Nanjing daxue chubanshe, 1988), p. III-59; *Jiangsu tongji nianjian 1988* (Jiangsu's statistical yearbook 1988; Nanjing, Zhongguo tongji chubanshe, 1988), pp. 243-244.

TABLE 4 Annual Provincial Income for Jiangsu, 1952–1987 (in billions of yuan, current prices)

Year	Provincial Income	Year	Provincial Income
1952	3.563	1970	10.372
1953	4.028	1971	12.107
1954	4.017	1972	12.929
1955	4.476	1973	14.232
1956	4.636	1974	14.157
1957	4.869	1975	15.146
1958	5.812	1976	15.387
1959	6.075	1977	16.583
1960	6.630	1978	20.828
1961	5.232	1979	25.792
1962	4.986	1980	27.289
1963	5.650	1981	29.857
1964	7.032	1982	33.500
1965	7.489	1983	38.240
1966	8.843	1984	46.631
1967	7.861	1985	57.846
1968	8.123	1986	66.390
1969	8.857	1987	77.453

Sources: *Jiangsu jingji nianjian*, 1986 (Jiangsu economic yearbook, 1986; Nanjing, Jiangsu renmin chubanshe, 1986), p. III–11; *Jiangsu jingji nianjian*, 1988, p. III–21.

and .027 between 1962 and 1965. Only the Great Leap had higher provincial investment/income ratios.

But to what extent was the increase in provincial investment due to the 1970 decentralization? If accounting substitution was occurring as a result of decentralization, we would expect central capital construction funds to fall as provincial funds rose. In absolute terms the center's capital construction contribution to Jiangsu did not fall during or after 1970; in fact it began to increase (Table 3). But if we look again at central capital construction investment in Jiangsu as a proportion of provincial income (Table 5 and Figure 1), we see that the center's investment did fall between 1969 and 1974 in relation to provincial growth.⁶ So part of the jump in Jiangsu's investment from the provincial budget was no doubt due to accounting changes from the 1970 decentralization, and not just to additional resources supplied by the province.

TABLE 5 Provincial and Central Budgetary State
Capital Construction Investment as
Proportions of Provincial Income in
Jiangsu, 1953–1987

<i>Year</i>	<i>Provincial</i>	<i>Central</i>	<i>Total</i>
1953–1957	.019	.030	.049
1957	.026	.049	.075
1958	.145	.013	.158
1959	.155	.045	.200
1960	.163	.043	.206
1961	.056	.023	.079
1962	.026	.017	.043
1963	.026	.029	.055
1964	.027	.038	.065
1965	.028	.032	.060
1966	.024	.023	.047
1967	.020	.019	.039
1968	.017	.016	.033
1969	.029	.010	.039
1970	.048	.010	.058
1971	.049	.013	.062
1972	.057	.014	.071
1973	.057	.013	.070
1974	.050	.011	.061
1975	.050	.021	.071
1976	.057	.024	.081
1977	.049	.028	.077
1978	.055	.030	.085
1979	.055	.030	.085
1980	.067	.029	.096
1981	.031	.028	.059
1982	.031	.030	.061
1983	.026	.040	.066
1984	.025	.044	.069
1985	.036	.046	.082
1986	.039	.052	.091
1987	.042	.060	.102

Sources: Tables 3 and 4 in this chapter.

Figure 1 Provincial and Central Budgetary Capital Construction Investment

Nevertheless, beginning in 1969 total budgetary investment in the province clearly increased, in both absolute and relative terms. The initial decrease in the center's share was more than compensated for by increases in investment through the provincial budget. By 1976 the proportion of total state capital construction investment relative to provincial income was higher than in any previous period except for the Great Leap Forward, and it continued to increase until 1980.

Where did these additional funds for investment come from? One major source was a shift in expenditures first toward "accumulation" (*jilei*) and away from consumption, and second, within expenditures for accumulation, toward "productive accumulation" (for example, machinery) and away from "nonproductive accumulation" (for example, housing).

Table 6 summarizes these shifts for Jiangsu. The share of accumulation in provincial income was 19.5 percent during the First Five-Year Plan, with a corresponding share of consumption of 80.5 percent. The accumulation share rose to 24.1 percent during the Great Leap Forward and then fell to 21.2 percent in the recovery period. Then, since the beginning of the Cultural Revolution, the accumulation share rose steadily to 22.8 percent between 1966 and 1970 and to 30.5 percent between 1971 and 1975. This rise continued into the reform period to reach 33.1 percent between 1981 and 1985. Within accumulation, expenditures for productive investment followed a similar pattern until it peaked at 91.9 percent during the 1971–1975 period. This extremely high level was not sustained after 1975.

Concurrently with a shift in expenditure toward investment, there was a shift within investment toward industry. Table 7 shows that industry's share of total investment in Jiangsu averaged 60 percent between 1966 and 1975, a level comparable to the Great Leap period. In the 1950s industry's share had been less than 40 percent, and between 1963 and 1965 it was less than 50 percent. Also, within industry, heavy industrial investment represented a full 90 percent of all industrial budgetary investment in the province between 1966 and 1975.⁷

Clearly horizontal shifts in expenditure priorities contributed significantly to the industrial growth that occurred in Jiangsu during the CR

TABLE 6 Proportions of Provincial Income used for Accumulation and Consumption in Jiangsu, 1953–1985

<i>Year</i>	<i>Consumption</i>	<i>Accumulation</i>	<i>Productive Investment within Accumulation</i>
1953–1957	.805	.195	.780
1958–1962	.759	.241	.899
1963–1965	.788	.212	.858
1966–1970	.772	.228	.859
1971–1975	.695	.305	.919
1976–1980	.679	.321	.793
1981–1985	.669	.331	.648

Source: Calculated from figures given in *Jiangsu jingji nianjian*, 1988, pp. III–24 and III–25.

TABLE 7 Proportions of Total State Budgetary Capital Construction Investment by Sector in Jiangsu, 1953–1987

Year	Indus- try	Agri- culture	Trans- port	Com- merce	Culture, Educa- tion, and Health	Urban Infra- struc- ture	Other
1953–1957	.386	.348	.043	.054	.137	.029	.003
1958–1962	.575	.181	.155	.018	.043	.017	.009
1963–1965	.482	.277	.129	.021	.049	.035	.007
1966–1970	.568	.217	.120	.040	.020	.023	.013
1971–1975	.614	.176	.124	.037	.024	.011	.013
1976–1980	.606	.118	.108	.045	.039	.039	.044
1981–1985	.544	.039	.133	.056	.057	.062	.107
1987	.605	.023	.143	.032	.057	.058	.082

Source: Calculated from figures given in *Jiangsu jingji nianjian*, 1988, p. III–64.

period. These horizontal shifts in expenditure between sectors have also been shown to have occurred within the central budget as well.⁸ Some vertical shift in budgetary expenditure from the center to the province occurred because of decentralization, but the evidence is inconclusive on whether this was more than just an accounting change.

A final consideration with respect to investment is that state capital construction investment is only part of total investment. Sources of "extrabudgetary" funds became more important from the late 1960s onward, and local officials often used these funds for investment in new enterprises (see Chapters 7 and 8). For example, enterprises were allowed to retain their depreciation funds after 1967, ostensibly for "replacement and renovation" (*genxin gaizao*) investment, and collective enterprises could retain a proportion of their profits. To the extent that these funds were available and used for new investment, provincial and therefore total investment in the province would be even higher than Tables 3 and 5 show. The importance of these funds in Jiangsu during the period is not known, because figures for Jiangsu on replacement and renovation investment, and extrabudgetary funds generally, are not available before 1978. However, the next section looks at budgetary data for additional clues to the central-provincial equation during the CR period and suggests that the role of extrabudgetary funds was relatively minor until the reform period.

CENTRAL-PROVINCIAL FINANCE IN JIANGSU DURING THE CULTURAL REVOLUTION

A key factor in central-provincial relations is the budget. In China's "unified" budgetary system, the majority of revenues are collected at the provincial level and below, and then are remitted to the center. Collected revenues, then, refer to the sum of profits and taxes paid to the finance offices at all provincial administrative levels, excluding profits and taxes of centrally run enterprises, which go directly into the central budget.⁹ Remitted revenues are the portion of the province's collected revenues that is turned over to the central budget by the provincial finance bureau. The remaining portion of the province's collected revenues is allocated through the provincial budget.

Table 8 presents Jiangsu's collected revenues, remitted revenues, and revenues retained by the province for expenditures.¹⁰ In absolute terms both the revenues collected by the province and the amount the province remitted to the center increased after 1969, with the exception of 1974.

It is again more revealing to look at these revenue categories as compared with growth in the provincial economy. These proportions are given

TABLE 8 Revenues Collected, Revenues Remitted,
and Revenues Retained in Jiangsu,
1952-1987 (in billions of yuan)

<i>Year</i>	<i>Revenue Collected by Province</i>	<i>Revenue Remitted to Center</i>	<i>Revenue Retained as Expenditure</i>
1952	0.680	0.470	0.210
1953	0.778	0.528	0.250
1954	0.867	0.579	0.288
1955	0.847	0.558	0.289
1956	0.966	0.558	0.408
1957	1.010	0.530	0.480
1958	1.782	0.655	1.127
1959	2.494	1.058	1.436
1960	2.619	0.867	1.752
1961	1.745	0.879	0.866
1962	1.331	0.744	0.587
1963	1.370	0.707	0.663
1964	1.724	0.974	0.750

Year	Revenue Collected by Province	Revenue Remitted to Center	Revenue Retained as Expenditure
1965	1.940	1.142	0.798
1966	2.289	1.384	0.905
1967	1.702	0.908	0.794
1968	1.620	1.006	0.614
1969	2.174	1.316	0.858
1970	2.866	1.733	1.133
1971	3.412	2.161	1.251
1972	3.784	2.287	1.497
1973	4.222	2.591	1.631
1974	3.951	2.162	1.789
1975	4.341	2.571	1.770
1976	4.402	2.531	1.871
1977	5.165	3.169	1.996
1978	6.109	3.271	2.838
1979	5.928	2.722	3.206
1980	6.245	3.350	2.895
1981	6.304	3.925	2.379
1982	6.661	4.198	2.463
1983	7.307	4.078	3.229
1984	7.628	3.713	3.915
1985	8.899	3.846	5.053
1986	9.872	3.256	6.616
1987	10.717	3.917	6.800

Sources: *Jiangsu jingji nianjian*, 1986, p. III-50; *Jiangsu jingji nianjian*, 1988, p. III-87.

Note: Figures for remittances are calculated as the difference between revenues collected and expenditures. Note that revenue and expenditure data for Jiangsu published in 1988 had been adjusted for 1984 and 1985 compared with figures for these years published in 1986. Also, in 1986 data for 1952-1966 had been adjusted from figures released earlier.

in Table 9 and Figure 2. With decentralization in 1970, the proportions of both revenue collected by the provincial government and revenue remitted to the central government increased. Between 1970 and 1978 the proportion of collected revenue averaged 29 percent, compared with only 20 percent during the First Five-Year Plan and 24 percent between 1963 and 1969. This increase would be expected as a result of decentralization, since more enterprises turned over their profits and taxes to the provincial

budget instead of directly to the central budget. This proportion reached a high of 34 percent during the Great Leap Forward for the same reason. But Jiangsu's remittances to the central budget as a proportion of total provincial income also increased during the CR period. This proportion averaged .17 between 1970 and 1978, compared with an average of .15 during the First Five-Year Plan and Great Leap Forward and .13 during the 1960s. If decentralization had meant a weakening of central control, we might expect provincial remittances to have decreased, since more government revenue was now incorporated into the provincial budget. The fact that remittances to the center increased suggests that decentralization did not result in smaller revenue transfers from the province to the center.

Further strengthening this result is the fact that the proportion of retained revenues that made up the province's budget remained stable during the CR period. This proportion fluctuated between 10 and 12

TABLE 9 Revenues Collected, Revenues Remitted,
and Revenues Retained in Jiangsu,
1952-1987

<i>Year</i>	<i>Revenue Collected by Province</i>	<i>Revenue Remitted to Center</i>	<i>Revenue Retained as Expenditure</i>
1952	.191	.132	.059
1953	.193	.131	.062
1954	.216	.144	.072
1955	.189	.124	.065
1956	.208	.120	.088
1957	.207	.108	.099
1958	.307	.113	.194
1959	.411	.175	.236
1960	.395	.131	.264
1961	.334	.168	.166
1962	.267	.149	.118
1963	.242	.125	.117
1964	.245	.138	.107
1965	.259	.152	.107
1966	.259	.157	.102
1967	.217	.116	.101
1968	.199	.123	.076

Year	Revenue Collected by Province	Revenue Remitted to Center	Revenue Retained as Expenditure
1969	.245	.148	.097
1970	.276	.167	.109
1971	.282	.179	.103
1972	.293	.177	.116
1973	.297	.182	.115
1974	.279	.153	.126
1975	.287	.170	.117
1976	.286	.164	.122
1977	.311	.191	.120
1978	.293	.157	.136
1979	.230	.106	.124
1980	.229	.123	.106
1981	.211	.131	.080
1982	.199	.125	.074
1983	.191	.107	.084
1984	.164	.080	.084
1985	.154	.067	.087
1986	.149	.049	.100
1987	.138	.050	.088

Sources: Annual revenue and expenditure figures are from *Jiangsu jingji nianjian*, 1986, p. III-50, and *Jiangsu jingji nianjian*, 1988, p. III-87; provincial income is from Table 4 in this chapter.

percent between 1969 and 1973, and then between 12 and 14 percent until 1979. Again it does not seem that the provincial budget gained at the expense of the central budget as a result of either the 1970 decentralization or the growing importance of local industry in the province. These results also suggest that extrabudgetary revenue probably did not increase significantly in proportion to growth in the provincial economy.

These trends during the Cultural Revolution stand in sharp contrast to what occurred during the reform period. Compared with 17 percent in the 1970s, remittances as a proportion of provincial income averaged only 10 percent between 1978 and 1987, falling to 5 percent in 1986 and 1987. This change, however, did not mean the provincial budget therefore rose. Revenue collected as a proportion of provincial income also began to fall after 1977, when it had reached its highest level since the Great Leap Forward. The net effect has decreased the province's re-

Figure 2 Revenues Collected, Revenues Remitted, and Revenues Retained

tained revenue, and therefore the size of the provincial budget relative to growth in the provincial economy, to an average of 9.6 percent since 1977, hitting a low of 7.4 percent in 1982.

The overall effect on decentralization of the reform policies has been very different from that of the Cultural Revolution and earlier periods. As the provincial economy has grown, the role of the state budget at both the provincial and the central levels has shrunk significantly. If access to funds outside the state budgetary system has any relation to local control, as we might expect, then the change in the central-provincial balance of power during the 1980s and later has surely been much greater than during the 1970s or earlier.

Looking at a specific example of the combined effects of Maoist economic policies during the Cultural Revolution adds perspective to our under-

standing of this period. For example, in provinces that did not receive Third Front, central investment, we might expect industrial growth to have been modest; or where industrial growth was concentrated at local levels, we might expect to see that local financing grew as the center's role fell. In Jiangsu neither of these was the actual outcome. Instead, all levels of the economic system responded to directives and incentives to increase investment in industry, with little apparent effect on the central-provincial budgetary system.

As a result of the response to industry, a key characteristic of this period was a major horizontal shift in resources to industry from other sectors. As during the Great Leap, even agriculture was to be promoted by increasing industrial inputs, with the result that industrial development was put first. This priority can be clearly seen in both investment and output trends.

The problem was, however, that the industrial strategy was neither coordinated nor based on economic criteria. Some enterprises were profitable, but many were not. Problems of duplication, input shortages, and poor technology led to inefficiency and waste, paid for by the increasing share of resources going to industry. This investment bias within the system was reinforced by the increasing local role, but there was little to ensure proper use of investment funds. The resulting imbalances and inefficiencies eventually worsened enough to cause a crisis at the center. The maintenance of the flow of funds from localities to the center throughout the Cultural Revolution is perhaps one reason the crisis did not occur sooner.

Whether all the trends observed in Jiangsu were also occurring elsewhere in China remains to be explored. Figures for the national level suggest that the growth of local industry and the industrial investment bias were occurring in many places. With respect to the budget, if the growth of local industry was affecting revenue flows, we would expect to see evidence of this influence in Jiangsu, where local industry grew substantially faster than the national average. That it did not suggests that provinces and municipalities that historically contributed major shares of their revenues to the center, like Jiangsu, probably continued to do so.¹¹ If this is the case, Jiangsu's story suggests a hypothesis that would explain the coexistence of ambitious central projects with local industrialization.