INSTITUTIONAL CONSTRAINTS AND REFORMING THE SERVICE ORGANIZATIONS IN CHINA

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In a socialist state such as China, the public sector is expansive, so much so that before the reform era it was virtually impossible to distinguish between the state and society, and between the public and private sectors (Tsou, 1986). Since the 1950s, the Chinese state has been comprised of three institutional components: the administrative agencies (xingzheng jiguan), service organizations (shiye danwei), and economic enterprises (qiye).¹ And these categories remain the key concepts for understanding the Chinese state. Of these three categories of organizations, the most unique, and probably most difficult to understand, is the service organizations. It finds no exact parallel in Western countries, although many organizations falling into this category surely exist in Western countries. Currently there are about 32 million cadres in China. Only slightly more than 5 million of them are from the administrative agencies, while the service organizations and state economic enterprises account for 13.6 and 13.3 million cadres, respectively (Megatrends of Chinese Administrative Reform [hereafter Megatrends], p.229). At the central level, service organizations account for about 2.4 million cadre, some 40 times the staffing for all administrative agencies located at the central level. At the local level, the ratio is not as high as that of the central level, but the staff establishment of service organizations is still 3.85 times the level of all the local administrative agencies.² Each year between one-third to one-fourth of the state budgetary expenditures go to the service organizations, more than half of which is spent on salaries and employee welfare.

The expansive state has been under strain in China in recent years, and has been a major target of reforms. Just as economic reform has sought to make state economic enterprises relatively autonomous entities, one of the main objectives of China’s administrative reform is to impart a sharper distinction between the administrative agencies and the service organizations, and to make the latter more autonomous entities. The reform of the service organizations has acquired an urgency in recent years because of the fiscal decline experienced by both national and local governments in China. Government leaders at all levels have found financing the service organizations an excessive fiscal burden, and there is a widespread demand for making more of these organization autonomous in financial as well as operational sense. In 1996, a long overdue strategy of reforming the service organizations was released.

The reform of the service organizations in China seems to be analogous to the growth of
non-profit and non-governmental organizations and the third sector in Western countries in recent years (Osborne and Gaebler, 1992). It is also tempting to view this as part of the process of the emergence of the civil society (White, 1993a; Whyte, 1992). However, in spite of the apparent similarities, the service organizations in China operate in a fundamentally different environment and institutional setting. Such a comparison is particular immature, because we know very little about these organizations. The service organizations have been virtually neglected in the scholarly discussion of the transformation of Socialist China. Most of the research on China’s reform has focused either on economic enterprises or the party-state itself (Walder ed., 1996; Harding, 1987; White, 1993b; Shirk, 1993), leaving the vast sector of service organizations in between largely unexamined.

This article works toward a better understanding of China’s service organizations, and more importantly, the forces and institutions constraining the reform. In the following section, the overall profile of service organizations is mapped, which reflects the enormous scale and the bewildering complexity of this category. This is an important point as it cautions against taking the service organizations as undifferentiated whole. We do not claim that the analysis below applies to all of China’s service organizations. We only argue that it is correct for a large number of service organizations in China.

Our main argument is that, inspite of the apparent consensus on the need of reform, key institutions are operating in the opposite direction. We make a distinction between financial self-sufficiency and real autonomy. Although some service organizations have achieved financial self-sufficiency, they remain dependent on the party-state agencies to which they are attached.

The structural features associated with the service organizations in China are sustained by key institutions. We examine three institutions and discuss how they constrain the reform of service organizations in China. Institutions are here referred as formal or informal rules and patterns of behavior that constrain policy choices and shape policy consequences (Hall, 1986, p.19; Ikenberry, 1988, pp.226-229). One of these key institutions is the existing political regime which concentrates all political powers in the Chinese Communist Party (hereafter CCP) and seeks to control all organizational activities in the country. The second is the unified cadre management system, which makes it imperative for many of the current structural features of service organizations to remain unchanged. While these two institutional constraints are both linked to the power of the ruling communist party in China, the third refers to the new relationship between the party-state agencies and the service organizations. It refers to the growing dependence of the administrative agencies on the revenue generated by the service organizations in the context of partial reform. This force has glued the party-state agencies and service organizations closer together than before.
REFORMING THE SERVICE ORGANIZATIONS: OBJECTIVES AND ACTIONS

The reform of the service organizations has lagged behind that of state economic enterprises and the party-state agencies (Megatrends, p.503). The main focus of the first and a half decade of reform in China is economic enterprises, and although it has encountered tremendous difficulties, has nevertheless made remarkable progress. The party-state agencies have also been the target of several rounds of reform. The first comprehensive administrative reorganization in the post-Mao era took place in 1982, which was followed by two more reorganizations in 1988 and 1993 respectively. In contrast, no comprehensive reform of service organizations had been made until the Central Organization and Establishment Commission (China's de facto agency for administrative reform) announced a reform paper in 1996.

Of course, the absence of an overall reform strategy does not mean that nothing has been done about the service organizations at all. Nor does it mean that the service organizations have been exempted from the forces unleashed by the reforms in other spheres. The 1985 reform of the scientific research and education systems has pushed the organizations in these two sectors to become financially self-sufficient. Over the years, public hospitals have also been forced increasingly to rely more and more on charges instead of budgetary outlays (Megatrends, p.503).

In the reform era, service organizations have been treated as a residual category, often serving as a garbage can for the other two categories. Occasionally some economic enterprises are registered as service organizations to enjoy tax exemptions and other favorable treatments. A more common problem, however, is that many party-state agencies have been classified as service organizations either in order to achieve conceptual clarity in the administrative agencies or to circumvent the more stringent rules governing the structure and establishment of administrative agencies. In many cases, an agency is listed as a service organization not because it does not perform administrative functions, but because bureaucratic rules do not allow it to be placed under the administrative category.

The 1996 reform paper seeks to change the perplexing confusion in the service organizations. It strives to make the service organizations a purer category, demanding that there should be a clearer separation between the functions of party-state agencies and those of service organizations. As a corollary, service organizations should be detached from their administrative superiors and become autonomous legal persons providing service not only to their administrative superiors but to the whole society. To achieve this,
the existing management and control mechanisms over the service organizations should be changed from what is called micro-management and control to macro-management. While the overall tone of the reform is relaxation of controls, the reform paper also calls for strengthening better macro-controls, maintaining a check over the overall size, and achieving a scientific distribution of service organizations. It also requires service organizations operated by private bodies to “hook” (guakao) to party-state agencies (COEC, 1996).

However, while the 1996 reform paper labors on the overall objectives, it is short on specific implementation measures. This perhaps reflect a recognition of the complexity of the service organizations and the variations across regions and levels. This is also a result of a perceived conflict between reform and political stability. Implementation matters are largely left to the provincial governments and the functional ministries.

SERVICE ORGANIZATIONS IN CHINA: DEFINITION, SCOPE, AND PROFILE

In China, service organizations are distinguished from the administrative organs in that they do not have administrative functions and powers, i.e. they do not regulate the behavior of other bodies. On the other hand, they are distinguished from economic enterprises in that they are not supposed to be oriented to profits and the accumulation of wealth for the country (Personnel Management in Contemporary China, pp.430-431). However, the boundaries very often are blurred, as some service organizations also perform administrative functions and possess administrative powers, and an increasingly number of them are now actively engaged in profit-making activities. At the same time, it is useful to distinguish between service organizations as a conceptual category and the organizations that are actually classified as service organizations at any point of time. Not all service organizations fit with the conceptual distinctions because some are equipped with administrative powers and others are, in fact, administrative organizations. In the 1980s, because of tight controls over staff increases for the administrative organizations, many state organs were compelled to camouflage staff under the service organizations category. In the early 1990s about 1 million administrative employees were employed under the staff establishment for service organizations (Megatrends, pp.500-501).

More than 1.3 million public organizations with about 25 million employees are presently classified as service organizations. The organizations falling into this category come in a bewildering variety. The largest sub-type are education organizations such as primary schools, secondary schools, and universities, which account for slightly less than 50 percent of the total staff establishment of all service organizations. Health care organizations come in a distant second, accounting for more than 12 percent of the total staff establishment, followed by agricultural supporting organizations (10.6 percent), research
organizations (7 percent) and urban public utilities (4 percent). Table 1 presents the main subcategories and their size.

Service organizations in China are responsible for many functions that are performed by government departments, nonprofit organizations or even the private sector in Western countries. Even after excluding administrative organizations that are camouflaged as service organizations, many organizations classified as service organizations in China fall within the scope of civil service in many Western countries. This is the main reason why the category of administrative agencies in China, even though it includes the Chinese Communist Party (hereafter CCP) bureaucracy and the so-called mass organizations (cunzhong tuanti), is significantly smaller than the civil service in many Western countries in terms of the percentage of civil service in the population (Gong, 1985). Government schools and public hospitals, which form part of the civil service in many Western countries, are classified as service organizations in China. When China decided to establish a civil service in 1993, public hospitals and schools are excluded.

China’s service organizations also perform many functions that are mainly the responsibilities of either the nonprofit, nongovernmental organizations or the private sector in Western countries. Examples of the former include research institutes and welfare organizations. With few exceptions, research institutes in China are owned and funded by the state, and many are attached to government departments or bureaus.

<table>
<thead>
<tr>
<th>Type</th>
<th>Staff Establishment (0,000)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>1,225</td>
<td>49.7</td>
</tr>
<tr>
<td>Health Care</td>
<td>299</td>
<td>12.2</td>
</tr>
<tr>
<td>Agricultural Supporting</td>
<td>261</td>
<td>10.6</td>
</tr>
<tr>
<td>Scientific Research, Design</td>
<td>171</td>
<td>7</td>
</tr>
<tr>
<td>Urban Public Utilities</td>
<td>108</td>
<td>4.4</td>
</tr>
<tr>
<td>Transportation</td>
<td>90</td>
<td>3.6</td>
</tr>
<tr>
<td>Cultural and Art</td>
<td>56</td>
<td>2.3</td>
</tr>
<tr>
<td>Administrative Support</td>
<td>46</td>
<td>1.9</td>
</tr>
<tr>
<td>Mass Media</td>
<td>39</td>
<td>1.6</td>
</tr>
<tr>
<td>Social Welfare</td>
<td>23</td>
<td>1</td>
</tr>
<tr>
<td>Sport</td>
<td>8</td>
<td>0.3</td>
</tr>
<tr>
<td>Others</td>
<td>136</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Source: Megatrends, p. 499.
Until recent years, the distinction between administrative agencies and service organizations was not very meaningful because they were all funded by state revenue and managed under the same framework. Perhaps the only significant difference between them was that overall staff levels of the administrative agencies were subject to tighter controls by the central government. In other respects, the two types of organizations were managed in the same ways. Of the three types of public organizations, administrative and service organizations were often “bundled,” i.e., they were treated as one category that was set apart from the state enterprises. Service organizations were, and still are, given bureaucratic ranks, and the cadres in service organizations were entitled to the same privileges and benefits available to the cadres at the same level in the administrative agencies. In this sense, the service organizations were part and parcel of the state administrative system. The distinction between administrative and service organizations, then, did not make much sense.

In recent years, this distinction has become more significant for two reasons. First, in the era of growing fiscal decline, more service organizations have been pushed to become financially independent. Although the majority of service organizations are wholly or partly state funded, the administrative agencies are given priority in receiving funding from budgetary revenue. Whenever there is shortfall in budgetary revenue - a common phenomenon in China in the reform era - the service organizations are the hardest hit. Second, the civil service system implemented since 1993 further sharpens and reinforces this distinction. While still falling short of replacing the general and broad cadre concept, the civil service system nevertheless maintains that state civil service is a distinctive category that should be treated separately from other types of cadres. Because cadre management of most state enterprises had already been “decoupled,” and because all cadres in the CCP bureaucracy and the mass organizations are to be managed in the same ways as the civil service, the civil service is in effect mainly a strategy to “decouple” the administrative agencies from the service organizations. Advocates of the civil service system argue that when the civil service and service organizations are “decoupled,” civil service pay and employment benefits can be significantly improved without going beyond the means of state revenue.5

Ownership structure: The majority of the service organizations in China fall into the type called “state-owned” (guoyou) or “owned by the whole people” (quanmin suoyou). In China, being “state owned” does not necessarily mean that the organization is owned and managed directly by the central government. It can, in fact, be owned and managed by any of the several layers of governments between the central and the county levels. Andrew Walder describes the property rights structure in China in the reform era as local government property rights, which means that a particular level of the local government is assigned de facto property rights over particular assets (enterprises and organizations) (Walder, 1994; 1995). More importantly, many state-owned service organizations are not
directly controlled and managed by local governments themselves, but by their functional departments or bureaus.

A service organization can also be owned and run either by a collective or by the private sector, although at present very few are operated by the private sector. For example, 82 percent of the 6 million employees in the health care sector are from the state-owned hospitals and health care organizations, 15 percent are from the rural collectives, and only 0.18 percent are from the private sector. Almost all universities and secondary schools in China are state owned, but a sizable percentage (38.4 percent) of the primary schools were run by rural collectives.

**Funding Methods:** Table 2 presents figures on the service organizations according to funding methods. The majority of the service organizations in China rely on funding from state revenue: 63 percent fall into the wholly funded category, and another 21 percent belong to the partially funded category. Only 16 percent of the service organizations do not rely on funding support from state revenue. As a result of the fiscal shortage encountered by all levels of government in China, considerable effort has been made to push service organizations to be less dependent on state budgetary revenue. The progress on this front, however, seems to be rather slow. Table 3 reveals that between 1988 and 1990 the proportion of fully funded service organizations only dropped a few percentage points, from 69 percent in 1988 to 63 percent in 1990, and the proportion of self-financed service organizations only increased from 13 percent in 1988 to 15 percent in 1990.

**Table 2 Distribution of Service Organizations According to Funding Methods**

<table>
<thead>
<tr>
<th>Funding Method</th>
<th>Total Establishment (0,000 persons)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully State Funded</td>
<td>1,557</td>
<td>63%</td>
</tr>
<tr>
<td>Partially Funded</td>
<td>510</td>
<td>21%</td>
</tr>
<tr>
<td>Self-Financed</td>
<td>390</td>
<td>16%</td>
</tr>
</tbody>
</table>

Table 3  Changes of Funding Sources, 1988–1990

<table>
<thead>
<tr>
<th>Year</th>
<th>Fully State Funded</th>
<th>Partially Funded</th>
<th>Self-Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>69%</td>
<td>18%</td>
<td>13%</td>
</tr>
<tr>
<td>1989</td>
<td>66%</td>
<td>19%</td>
<td>14%</td>
</tr>
<tr>
<td>1990</td>
<td>63%</td>
<td>20%</td>
<td>15%</td>
</tr>
</tbody>
</table>


The distribution of service organizations in these three funding methods varies across localities. The proportion of fully state-funded service organizations ranges from the lowest 50 percent to the highest 87 percent (Megatrends, p.525). Shanghai had the highest proportion of self-financed service organizations among all provincial-level localities in China (Chinese State Organizations 1991, p.512). While 22 percent of the service organizations in Liaoning Province were self-financed, only 8 percent of those in Yunnan Province were (Megatrends, p.522).

Even though a service organization falls into the wholly funded category, it does not mean that all its revenue comes from the state budget. The state budget usually covers only the approved wage and basic administrative expenses, while the organization is responsible for finding the revenue to pay staff bonuses and welfare. Because the state budget normally provides only a small amount of money for administrative expenses (a very loose category), the majority of such expenses comes from the organization’s earned revenue. This phenomenon is not restricted to service organizations, however. Administrative agencies too have been under the same pressure and are also actively engaged in revenue-generating activities. For example, the Ministry of Personnel has turned its old office block into a guest house to provide revenue for bonuses to its staff.

**Distribution According to Administrative Levels:** The service organizations are found at all levels of state administration in China. Table 4 below gives the figures on the distribution of service organization at various administrative levels. It suggests that a fairly large amount of service organizations are located at the central and provincial levels. While central service organizations have a staff establishment of 2.4 million, the provincial service organizations have a staff establishment, on average, of 80,000.
Table 4  Distribution of the Staff Establishment of Service Organizations According to Administrative Levels

<table>
<thead>
<tr>
<th>Administrative Level</th>
<th>Staff Establishment</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Level</td>
<td>2.4 million</td>
<td>10%</td>
</tr>
<tr>
<td>Provincial Level</td>
<td>2.4 million</td>
<td>10%</td>
</tr>
<tr>
<td>Prefecture Level</td>
<td>5.35 million</td>
<td>21%</td>
</tr>
<tr>
<td>County Level</td>
<td>7.21 million</td>
<td>29%</td>
</tr>
<tr>
<td>Township Level</td>
<td>7.22 million</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: Megatrends, p. 499.

ADMINISTRATIVE SUBORDINATION, FRAGMENTATION AND HOMOGENIZATION

The most peculiar feature about service organizations in China is not that they are state owned and funded mostly by state revenue. Many public organizations in Western countries are also established and funded by the state. What is most distinctive about them is that many of them are attached and are subordinate to functional government agencies, managed very much in the same ways as administrative agencies, and they only provide service to their administrative bosses. While in theory these service organizations are owned by the state, they are in fact “owned” by and under the control of the administrative agencies to which they are attached. These structural features have been strongly criticized in China, but they are rooted in entrenched institutions.

Administrative subordination and fragmentation
Of the more than 3,000 service organizations at the central level, only a few are placed directly under the State Council. These organizations include the New China News Agency, The National School of Administration, the Academia Sinica, The Chinese Academy of Social Sciences (CASS), the Textile Industry Association, the Light Industry Association, State Council Development Research Center (a think tank to the State Council), State Patent Bureau, and State Meteorological Observatory (Central Government Organization and Structure, pp.17-18). Both the Academia Sinica and CASS are enormous set-ups with hundreds of thousands of researchers and administrators.

The other central service organizations are attached to the central administrative agencies, which not only include the ministries, commissions, and bureaus of the State Council but also CCP’s central departments, the national legislature, the central political consultative body, the supreme court, and the multifarious bodies such as mass organizations and
national associations. Almost every central administrative agency has some service organizations attached to it. The ministries under the State Council generally have more service organizations than other central bodies. The number of service organizations under the State Council ministries also varies greatly. The Ministry of Chemical Industry and Ministry of Post and Communication each controls about one hundred service organizations, while only four service organizations are attached to the State Commission for Economic Restructuring and the General Office of the State Council. The eighty-seven central administrative organizations that were listed in *Chinese State Organizations 1991*, on average, had more than twenty-five service organizations each. Each of the thirty-five ministries and commissions under the State Council listed there has an average of about thirty-eight service organizations (Chinese State Organizations 1991, pp.524-527).

These service organizations are varied. Three types of organizations are present in almost every ministry, namely research institutes, publishing houses, and newspapers. Many of the research institutes attached to the Ministry of Chemical Industry are specialized, but it also has a research institute on labor protection. The State Planning Commission is attached with more than twenty service organizations, including an economic research center, an economic research institute, an investment research institute, a technical economic research institute, an energy research institute, an integrative transport research institute, a land planning research institute, a human resource development and utilization research institute, and two publishing houses. The Ministry of Personnel has fewer service organizations (probably because it is a relatively new ministry established only in 1988), but their staff establishment (more than 1,400) is still more than twice the staff establishment of the ministry itself (Chinese State Organizations 1991, pp.215, 524). These service organizations include a publishing house, a research institute on personnel science, and organizations such as an information center and broadcasting and television education center.

Some service organizations are placed under other higher level service organizations or economic enterprises rather than administrative organizations. For example, the New China News Agency, itself a service organization under the State Council, controls 279 service organizations. There are also some service organizations in large and medium-sized enterprises. Many of these enterprises establish their own schools, clinics, and hospitals to provide services and support to their employees. At the end of 1995, China’s state enterprises operated 18,000 primary and secondary schools, and 110,000 hospitals and clinics.

More than anything else, the subordination of the service organizations to the administrative organizations reflects the high level of integration of these public organizations into the state administrative system. In some cases, the administrative agencies and the service organizations under their control are taken as belonging to the same “system” (*xitong*),
which, Lieberthal and Oksenberg said, “is a central organizing concept in the minds of Chinese bureaucrats and policy-makers” (Lieberthal and Oksenberg, 1988, p.141). Therefore, the health care system of a municipality not only includes the department of public health but also the service organizations under its control. Similarly, the environmental protection system of a municipality encompasses the environmental protection bureau as well such organizations as the environmental research institute and the propaganda and education center.

The high degree of integration within systems and fragmentation across different systems and in the whole bureaucracy are just two sides of the same coin. The center of a system (xitong) is undoubtedly the administrative agency, which maintains quite detailed and comprehensive controls over the service organizations under them. First and foremost, administrative agencies possess the powers to appoint the leading positions of these service organizations. In some cases, they also have substantial influence over the appointment of the middle-level cadres of the service organizations, although in recent years such powers have been decentralized. Second, the revenue from the state budget is given to the service organizations through their administrative superiors. Third, in many cases the administrative superiors assign jobs and responsibilities to the service organizations. Besides, there are also other kinds of control. For example, when a researcher of a research institute under the Ministry of Personnel is invited to visit Hong Kong, he has to seek the permission of not only his superiors in the research institute but also the relevant departments at the Ministry. The finance, personnel, and planning departments of the Ministry are not only responsible for these matters in the Ministry but also those of the service organizations attached to the Ministry.

Historically the service organizations were set up to provide in-house service to their administrative bosses. In the past, they rarely provide service to other organizations. Therefore what we find is a fragmented bureaucracy. This situation is gradually changing as a result of the demand for providing service to the whole society and revenue shortage, but the change has been very slow. Most service organizations still operate under the patronage of their administrative bosses and receive revenue and job assignments from them. This is because no strong incentive has been enforced. Revenue is normally only withheld to the newly established organizations or those which could easily earn enough revenue from charges for the use of their services. An obvious example of the latter is public hospitals. Moreover, many of the service organizations are not well prepared to undertake the transformation from an in-house unit to a competitive actor in the market.

**Homogenization of Structure and Management**

What is commonly referred as structural and managerial homogenization is reflected most
clearly in the practice of assigning bureaucratic ranks to the service organizations. Although there is consensus that service organization should develop its own status hierarchy, at present it is a rule that service organizations are assigned administrative grades. When the National School of Administration was established in 1995, for example, it became a ministerial-level service organization directly subordinate to the State Council, meaning that it is equivalent to other ministries in the State Council and should be equipped with cadres at this level.

A service organization’s rank is normally determined by the bureaucratic status of the administrative organization to which it is attached. A service organization is given a bureaucratic rank that is one level lower than the rank of the administrative agency to which it is attached. For example, the service organizations under the Ministry of Personnel all have a rank equivalent to a department. In some cases, however, the service organizations are given a rank that is only a half level lower than its administrative boss. For example, the Chinese Public Administration Society, which was attached to the General Office of the State Council, was given a deputy ministerial status (Lam and Wong, 1996). In Foshan city, a medium-size city in Guangdong Province in South China, the city personnel bureau is a division (chu) level organ, but two of the service organizations under it are given a deputy division level status.

The rank of the administrative agency a service organization is attached is a matter of crucial importance. If a service organization transfers its attachment to a higher level administrative organization (or another service organization), there is high possibility that it is given a higher administrative rank even if everything else remains unchanged. This was exactly what happened to a research institute originally attached to Yunnan Province’s Department of Health. When its attachment was transferred to the National Medical Science Academy, which was a deputy ministerial level organization, its rank was raised from the former division level to deputy department (ting) level (Megatrends, p.523).

Assigning bureaucratic ranks to the service organizations has become not only a rule but also a matter of necessity. Yunnan Province in southwest China reportedly decided not to determine the bureaucratic ranks of its service organizations in 1987. But this only left more discretion to the departments of the provincial government, which raised the bureaucratic status of the many service organizations under them themselves. As a result, the provincial government had to return to the old practice. That is, the provincial government found it necessary to do the job itself instead of leaving it to the lower level (Megatrends, p.523). At the national level, a similar reversal has occurred. In the early 1980s, it was decided that social associations should not be given administrative grades, but this policy has long been abandoned (Jiang and Zhang, 1993, pp.32-34).

Structural and managerial homogenization refers not only to the feature that the status
hierarchy of the service organizations follows the state administrative hierarchy. It also suggests that the service organizations do not develop distinctive management structures and rules. Normally the cadres of the service organizations enjoy the same privileges and benefits available to equivalent cadres at the administrative agencies. The civil service system implemented in 1993 seeks to introduce a distinction between the civil service and the organizations outside it, but since the cadre management system has remained intact, its impact will be meager. Until now, a cadre’s benefits are still determined by his/her bureaucratic rank rather than where he/she works.

In the Chinese bureaucracy, the rank of an organization affects its access to an important scarce resource: information. This flows from the rights to receive documents and attend meetings. Other benefits that come with bureaucratic ranks include some of the most important benefits cherished by most Chinese cadres: higher salaries and accompanying subsidies, better health care, bigger apartments, official cars, and higher traveling allowances etc.

We have examined two key structural features pertaining to China’s service organizations. But why should they persist, particularly when there have been heightened demands for doing away with them? History should provide part of the answer - historically these service organizations were established under respective administrative agencies and to tear them apart require enormous effort - but these features and problems are sustained by more entrenched institutions. It is to these institutions that we now turn.

INSTITUTIONAL CONSTRAINTS ON REFORMING SERVICE ORGANIZATIONS

Three major institutions have worked to preserve and sustain the structural features discussed above. These institutions are either closely tied to the hegemonic power of the Communist party or rooted in the widespread fiscal crisis. The future of many service organizations will be shaped more by these institutions as by the objectives of reform outlined in 1996.

The first institution that hampers the growth of truly autonomous service organizations is China’s authoritarian political system. The defining feature of the China’s authoritarian polity is the monopoly of organizations and organized activities by the ruling communist party. Although complete monopoly and control is very difficult to achieve in the era of reform, it has placed severe limits on the extent to which service organizations can become truly autonomous. No where is this constraint clearer than in the case of privately operated service organizations.
In order to reduce the burden on state finances, the Chinese government strongly encourages the growth privately operated service organizations such as schools and clinics. These organizations would reduce the demands for the services provided by the organizations supported by state revenue. However, to prevent such organizations from getting out of control, the 1996 reform paper also makes it a formal requirement that all privately operated service organizations should be “hooked” to approved party-state agencies. While the exact meaning of “hooking” is ambiguous and varies from one case to another, it certainly means approval and some forms of control. It also gives the party-state agencies an important leverage even over the privately operated service organizations in its day to day operation.

This also helps us understand why it is so difficult to change the subordination of the service organizations to their administrative superiors. The issue becomes more complicated because state assets are at stake. There is an apparent contradiction in the 1996 reform paper. On the one hand, the service organizations should become legal persons responsible for their own behavior and having full operational autonomy. On the other hand, it still maintains that they should be monitored by their administrative superiors through such means as outlining the main direction of development and leadership appointment. They cannot be easily reconciled.

The authoritarian political system is a constraint in a broad sense. It does not necessarily prohibit giving the service organizations some autonomy, just as the authoritarian political system does not prevent China from decentralizing comprehensive powers to local governments (Goodman and Segal eds. 1994). However, this institutional feature is an important point to bear in mind, lest we mistake China’s service organizations as constituting a rise of the civil society.

In comparison, the other two institutions are more constraining at the operational level. One is the cadre management system, and the other the growing dependence of party-state agencies on the service organizations for revenue as a result of fiscal crisis at all levels of government in China.

The cadre management system is instrumental to CCP’s effective grip on political powers. Its most important principle is that the party should control all cadres. A corollary of it is that the CCP should have the power to transfer cadres from one organization to another. While this necessarily means that some controls should be exercised over the leading positions of the service organizations, it also makes it necessary that these service organizations and their leading cadres should be given bureaucratic ranks. If they are not, the system of the cross-sector cadre management and transfers of cadres would not work. It is the structural foundation of the widely criticized phenomenon of extending bureaucratic ranks to service organizations. And it helps explain why this problem has
been so intractable even its defects seem to be evident to all.

The existing cadre management system and the accompanying practice of conferring bureaucratic ranks to service organizations also explain why it is still necessary to exercise micro controls over even self-financed organizations. In the existing management framework such issues as the level of service organizations, the number of leading positions, and their internal structure all have externalities beyond the organizations in question and their immediate effect on state revenue. When an administrative agency creates a self-financed service organization at a certain rank, it is adding some positions to the cadre management system. For a cadre, a promotion in a service organization is the same as a promotion in an administrative agency under the unified cadre management system.

Hence, the structural and managerial homogenization discussed above only reflects the logic of a unified cadre management system. The need to exercise micro-controls over service organizations also has a deeper foundation in the cadre management system. It is unfortunate that many advocates for reform rarely recognize this fundamental institutional constraint. However, if these defects are only the symptoms of an underlying cause, any attempt to eliminate the symptoms without touching the cause is bound to fail.

Now we come to the third institution that operates to limit the reform of service organizations. The previous two institutions are about the external constraints on the reform of service organizations. They do not tell us about whether the party-state agencies want their subordinate organizations to become more autonomous. The third institution is related to the incentive and interests of the organizations concerned. Another difference is that while the former two institutions are consciously maintained by the ruling party, the third one has just evolved without anyone’s action.

Organizational theory offers competing views of the behavior of administrative agencies. First there is the view that government agencies are imperialistic, always seeking to take on new jurisdictions and to expand in powers (Tullock, 1965; Niskanen, 1971). This view is countered by a more refined view which sees government agencies as seeking for better control over limited jurisdictions rather than merely more jurisdictions (Wilson, 1989, 179-195).

Do the party-state agencies seek to get rid of the service organizations under their jurisdiction or do they seek to keep the service organizations under their control? There is no easy answer to this question. The fiscal crisis certainly has been a main incentive for the government to push more service organizations to become financially self-sufficient. From another perspective, the party-state agencies may not want to have many service organizations under them because this complicates their management tasks (Wei, 1993,
Therefore, one may hypothesize that in China the interests of the party-state agencies are in accord with the direction of the reform. The resistance to reform comes mainly from the service organizations which are afraid of losing protection from the state.

But this is too simplistic a view of the interests of the party-state agencies in their relationship with service organizations. While fiscal decline and crisis has been a pressure on the government, it may not be an issue for the specific agencies which directly manage the service organizations. Hence, these agencies do not directly feel the pressure of fiscal crisis. Meanwhile, they have many reasons for keeping the service organizations under their control. One is to help accommodate the surplus staff that a agency is required to cut. Very often, when not enough leading positions are available in a agency, the cadres are assigned to equivalent positions in the service organizations. This has long been an important function performed by the service organizations, and it partly explains why party-state agencies does not want to give up control over the service organizations.

A more important, and probably more enduring relationship between administrative agencies and their subordinate service organizations has emerged. This new relationship, paradoxically, also has its root in the fiscal crisis and the limited functional autonomy enjoyed by the service organizations in the reform era. Because administrative agencies are generally under-funded as a result of fiscal crisis, their control over the service organizations is a major mean of making up for the shortfall between budgetary revenue and expenditure. The administrative agencies in China normally operate under very tight budgets which often only covers the formal wages and basic operating expenses. An official in a medium-sized city in Guangdong Province stated that his bureau's annual administrative expenses were close to one million yuan, but the budgetary appropriation was only less than one-third of that. He has to secure the difference either from the revenue-generating activities of the bureau itself or from the service organizations under it.

The question of whether an agency is provided with adequate revenue is, however, a complicated issue. Even though an agency’s budget is not particularly tight, it certainly is not enough to cover the expenses such as luxurious limousines, expensive meals and generous bonuses that many Chinese bureaucrats are used to. In the example discussed above, the official we interviewed admitted that of the close to one million yuan administrative expenses, most were not for approved expenses.

The service organizations are the obvious objects the administrative agencies can turn to for the following two reasons. First, they can legally take part in revenue-earning activities and they are subject to less stringent financial control. Second, in some cases the service organizations can easily earn a lot of money by using the powers delegated to them by their administrative superiors. In this case the service organizations monopolize a particular business because it involves administrative powers. The Talent Exchange
Center, a service organization widely established under the Personnel bureau at the local level, is a case in point. It is empowered to keep the personal dossiers of individuals and cadres who are not employed in the state sector, and charge them for this service. In a city in Guangdong Province, this center is also given the power to handle applications for overseas visits, another extremely lucrative business. At the central level, the Examination Center, a service organization under the Ministry of Personnel, monopolizes the lucrative business of holding examinations for various professional and technical qualifications. In other cases, a service organization may not enjoy a monopoly, but its administrative superior may help it obtain more business. An example of this is the business of doing environmental impact assessment. The research institute attached to the environmental protection bureau in Guangzhou is only one of the many approved organizations to do the job, but due to its special relationship with the environmental protection bureau, it naturally enjoys unrivaled advantage in the competition for business.

In many places, especially in the coastal area, the service organizations have in fact become the “little treasury” (xiǎo jǐnkuì) of their administrative superiors (Zhang, 1996). Because financial controls over the service organizations are less stringent, some administrative agencies even intentionally pass some administrative powers to their subordinate service organization and keep the revenue raised there. The popularly criticized phenomenon of a lack of separation of administrative functions and service organizations in China, therefore, has gained a new foundation.

Because these service organizations owe their business and revenue to their administrative superiors, they remain dependent on the latter. But this is not all. Most important of all, the administrative agencies have de facto property rights over the service organizations under them. They control over who should be appointed to head the service organizations. As rich service organization often does not have complete control over its revenue. The Examination Center under the Ministry of Personnel, for example, is required to turn over the bulk of its revenue to the ministry. The personnel bureau in a Guangdong city where we conducted interview often lay its hand on the revenue of its rich service organizations. Its luxurious Audi car was purchased with money from the Talent Exchange Center. When the directors of the bureau treat their guests to expensive meals, they often ask their service organizations to come along and pay the bills.

Because of the specific incentive structure that has built into the relationship between the administrative agencies and service organizations, the objectives outlined in the 1996 reform paper are difficult to achieve. Not only are the service organizations which are afraid of losing state protection resistant to reform, the party-state agencies also have a strong interest in keeping some service organizations under their control. The evolving institution that has developed between the administrative agencies and service organizations has worked to the mutual interest of both parties.
CONCLUDING REMARKS

This paper begins with a question: Will China's service organizations evolve to become the type of nonprofit and nongovernmental organizations that have become increasingly popular in the West? We have argued that at present China's service organizations are very different from the nonprofit and nongovernmental organizations in the West. Nonprofit making is at the core of the definition of service organizations, but in the era of reform more service organizations have increasingly oriented to earning revenue instead of providing indispensable public and social services. China's service organizations are conceptually distinguished from the administrative agencies, but they are highly integrated in practice. Nongovernmental is obviously not the term for these organizations.

The 1996 reform paper outlines several objectives of reform, and seeks to make the service organizations more autonomous. They are expected to provide services to the whole society instead of providing support and service only to their administrative superiors. However, while the reform paper labors on the grand objectives, it provides very few about the course of action to be taken. This alone suggests that the achievement of these objectives is problematic.

Even if the reform is pursued earnestly, the result is likely to be constrained by the institutional constraints in which the service organizations and the reform have to operate. Apart from the authoritarian political system which sanctions against all autonomous organizations, the unified cadre management system requires not only homogenized management and structure, but also necessitates some detailed control of the service organizations. Unless these institutional constraints is relaxed, the reform is unlikely to make great strides.

However, a more important constraint on the reform stems from the new type of dependence of the party-state agencies on the service organizations. This emergent institution of mutual support provides a even stronger foundation for the continuation of the structural characteristics of the service organizations than the other two externally imposed forces.

As pointed out in the beginning of the article, because China's service organizations is such a vast, varied and complicated sector, the above analysis is surely not equally applicable to for all types of service organizations. Administrative subordination is not as serious a problem for a university under the State Education Commission as for a research institute under the State Planning Commission. Without claiming that all service organizations in China exhibit the features discussed here, we would like to emphasize that our analysis is relevant to a large number of service organizations. It should also be noted that the discussion above is analytical and speculative rather than empirical. The few
empirical examples cited above are just for illustrative purpose; they are certainly not enough for proving our arguments. While here we attempt to outline the main features, how different types of service organization evolve in the context of economic and social transformation should remain a question for empirical investigation.

ENDNOTES

1 Sometimes, a fourth category, social associations (shetuan), is identified. However, compared with the other three, this category is tiny in terms of the total number of organizations and staff. Moreover, social associations are relatively new organizations in China. They have only begun to blossom in recent years. See White (1993a).

2 Staff establishment refers to total employment, i.e. cadres + workers.


4 It is noted earlier that there are more than 13 million cadres in the service organizations in China. This is not inconsistent with the figure of the total employees given here, because cadres only comprises a portion of total staff establishment. The rest falls into the category of workers.

5 Considering the fact that at the central level, the staff establishment of the administrative organizations is only a tiny portion of that of the service organizations under the central government (1/40 according to one source), this argument is valid. Many civil servants (mainly in Beijing) complained that many of the resources for improving welfare were consumed by the staff from the service organizations. They said that if benefits were confined to the staff in the administrative organizations, their welfare would improve greatly.

6 Similarly, at the provincial level the provincial academy of social sciences is also directly subordinate to the provincial government. The provincial offices of the Academia Sinica, however, are not placed under the provincial governments in which they are located. They are under the vertical system.

7 It should be noted that our conception of xitong is different from Lieberthal and Oksenberg’s. For them, a xitong means either the functional departments stretching from Beijing to the local levels or the same offices located in different functional departments at the same level of government. Xitong is a loose but important concept in Chinese bureaucratic reality. Sometimes it refers to much broader clusters of departments and organizations, like the political and legal system, propaganda system, organization and personnel system. On this broader conception of system, see Lieberthal (1992) and Lee Hanrin (1992). Our focus is the relationship between the administrative organizations and the service organizations attached to them.

References:

Central Government Organization and Structure (Zhongyang zhengfu zuzhi jigou).


