



## Between local community and central state: Financing basic education in China

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### ABSTRACT

From the early 1980s, China underwent perhaps the world's largest and most comprehensive experiment of decentralization in education. There has been a shift from decentralization to some degree of recentralization, however, since the mid-1990s, particularly since the early 2000s. The purpose of this shift was to establish a stable and regularized financing mechanism for rural education. Using provincial-level data from between 1997 and 2005, this paper analyzes whether the shift worked as expected. It finds that by the end of 2005, there had been a substantial decrease in the rural–urban gap, the regional disparity, and the overall inequality in per student budgetary expenditure and total spending. Much of the decline occurred in the 2000s. Moreover, the rural–urban gap declined more rapidly than the regional disparity, and inequalities in spending on primary education declined much more rapidly than junior secondary education.

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### 1. Introduction

In the late 1970s, basic education was largely funded by central government in the majority of developing countries (Cummings and Riddell, 1994). Since then decentralization of financial responsibility, control and delivery has taken place to varying extents in many African, Asian and Latin American countries (Cuéllar-Marchelli, 2001; de Guzman, 2007; Kristiansen and Pratikno, 2006; Prawda, 1993; Rondinelli et al., 1984; Therkildsen, 2000).

The rationales, processes and consequences of decentralization have been extensively debated (McGinn, 1992; Lauglo, 1995). There have emerged competing accounts of why decentralization has become an attractive alternative to central financing and control. Some arguments emphasize the extreme financial constraints as being what compelled the central government to shift part of the financial burden to lower level governments and non-state sectors, while some others stress the merits of decentralization such as efficiency, quality, choice, and participation (Prawda, 1993).

Despite disagreements on the definition and interpretation of the key aspects of decentralization, a common starting point is that decentralization involves a shift of power and responsibility from central government to local governments, local communities, and the private sector. Much emphasis has been put on institutional changes that allow for a larger role of parents, schools, commu-

nities, civil society organizations, and local governments in financing and managing basic education. While this approach can offer valuable insights into the implementation of decentralization, in many cases it downplays or overlooks the role of central government in creating conditions for decentralization, and more importantly, the power of central government in reshaping the educational system in ways at odds with decentralization.

This article uses China as a case to highlight decentralization as a process embedded in the larger political structure, without claiming that the Chinese case can apply to other political and institutional settings. Since the early 1980s, China has been an integral part of the worldwide shift towards economic decentralization. Due to its tremendous scale, China underwent perhaps “the world's largest and most comprehensive experiment of decentralization in education” (Cheng, 1994, p. 799). In the case of basic education, the lowest levels of government – villages and townships – shouldered much of the financial and managerial responsibility. What is intriguing about China is that since the mid-1990s, particularly the early 2000s, the central government has begun to move away from such an excessive decentralization, not back to the traditional pattern of central control and financing, but towards some limited form of recentralization that makes governments at the county, the provincial and the central level play a larger role in funding basic education.

China's shift from decentralization to some degree of recentralization helps shed light on the debates about the rationales, processes and consequences of decentralization. It shows that the central government remains in the driver's seat even while undergoing the most comprehensive experiment of decentralization. Instead of being constrained and weakened by

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**Table 1**  
Different sources as a % of total spending on China's primary education: 1997–2005.

Year	Government sources		Non-government sources			Other sources
	Budgetary	Non-budgetary	Non-public school	Social donation	Tuition fees	
1997	53.4	23.0	1.4	9.4	9.2	3.7
1998	55.6	20.6	1.6	6.4	9.6	6.3
1999	59.1	18.5	1.7	4.4	9.3	7.0
2000	62.1	16.4	1.9	3.4	9.2	7.0
2001	67.2	13.2	2.0	2.8	8.4	6.5
2002	72.3	8.1	2.2	2.3	8.0	7.2
2003	73.5	7.1	2.7	1.6	8.2	7.0
2004	74.9	6.7	2.5	1.4	8.0	6.4
2005	76.0	6.2	2.7	1.3	7.5	6.3

Source: Author's calculation based on *China Educational Finance Statistical Yearbook: 1998–2006*.

decentralization, the central government is rather the driving force, controlling the pace and direction of decentralization and shaping the institutional parameters for the implementation of decentralization. The shift from decentralization to recentralization is not the result of a redistribution of power in favor of the central government, but the result of the central decision to establish a more stable and sustained financing mechanism for rural education. The central government has its own agenda for national development, which prevails and shapes the educational reform, whether in the form of decentralization or recentralization. This article will describe in detail China's shift from decentralization to some degree of recentralization in basic education and the rationale behind this shift. In addition, it will assess whether the shift produces the outcome expected by the central government—more equal distribution of educational resources between rural and urban areas and between the more developed coastal provinces and the underdeveloped inland provinces.

## 2. Decentralized educational financing

China's decentralization in education, which began in the early 1980s, was part of the larger economic and financial reform (World Bank, 1988, 1989). Prior to the reform, central government acted as the sole agent in collecting revenues and allocating resources. The reform fundamentally changed the central–local relationship by devolving financial responsibilities from the central government to the provincial governments, in the form of fiscal contracts. In return, the provincial governments were granted the right to retain most of the revenues. The provincial governments followed a similar pattern and the same process was replicated down the administrative hierarchy at sub-provincial levels that include prefectures, counties, townships and villages.

Decentralization has profoundly changed the structure of education administration and financing. In the case of basic education, China largely operated a 6–3–3 system of primary and secondary schools with some variations. As a result of the reform, villages were primarily responsible for the financing of primary schools, township governments for junior secondary schools and county governments for senior secondary schools. As state appropriation was only responsible for paying teachers on the government payroll, other expenditures had to be covered by a variety of locally generated incomes (Cheng, 1994).

According to Chinese official statistics, the sources of educational funds fall into one of two broad categories: government and non-government sources. Non-government sources include social donations and user-fees. Government sources can be divided into budgetary and non-budgetary sources. The budgetary source is essentially state appropriation. Non-budgetary sources include mainly *educational surcharges*, but also the spending of

state-owned enterprises on enterprise-operated schools, and tax breaks given to school-operated enterprises.<sup>1</sup>

Educational surcharges make up the overwhelming bulk of government non-budgetary sources. There are three types of educational surcharges. The first is urban educational surcharges (*chengshi jiaoyu fujiawei*), levied from product, business and value-added taxes. The rate was initially 1% in 1986, but increased to 2% in 1990 and 3% in 1992. The second is rural educational surcharges (*nongcun jiaoyu shiye fujiawei*), levied from farming households, and township and village enterprises. The third – local educational surcharges (*difang jiaoyu fujiawei*) – was collected by some local governments from 1995 from luxurious activities such as tourism and restaurants. It is a trivial source relative to the first two (Zhang, 1999).

Although educational surcharges are collected by local governments and are therefore classified by official statistics as government non-budgetary expenditures, they are essentially local community generated resources. For this reason, some researchers see them as non-state contributions in the same category as donations, school-generated incomes, and user-fees (Cheng, 1994). In poor areas it is often the case in the 1990s that farming households, through educational surcharges and other contributions, supported the operation of local schools. In some cases, local governments were so financially dependent on farming households for funding basic education that they overcharged educational surcharges and tuition fees, which became a significant source of “peasant burden” and social grievances.

China began to publish systematic data on educational financing from 1997. Based on the *China Educational Finance Statistical Yearbook*, I calculated the share of different sources for primary education from 1997 to 2005. Table 1 shows that in 1997, government budget made up about half of the total spending, non-budgetary government expenditure contributed nearly a quarter, followed by tuition fees and social donations, each of which contributed nearly 10%. It appears that government sources accounted for about three quarters of total spending on primary education in 1997. However, China's definition of government expenditure is broader than the international practice by including educational surcharges as part of government expenditures, which conceals the large role played by local communities in funding primary education (Zhang, 1999) (Table 2).

China's shift towards decentralization has global parallels. For developing countries facing severe financial constraints in the expansion of educational opportunities, decentralizing financial responsibilities and diversifying financial resources have become

<sup>1</sup> There were large variations across provinces/localities in terms of the funding pattern. For instance, donations were much more important in Guangdong than in other provinces. The importance of educational surcharges also varied considerably across provinces. See Cheng (1994, p. 802).

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