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A Fiscal Sociological Theory of Authoritarian Resilience: Developing Theory through China Case Studies

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Abstract

The "institutional turn" of comparative authoritarianism enriches our understanding of authoritarian politics, but its lack of institutional theory, tendency to focus on epiphenomena or exogenous force, and failure to address autocrats' dilemmas constitute weaknesses. Focusing on the taxation institution, this article builds an endogenous institutional explanation of authoritarian resilience. The author argues that while the taxation infrastructural power matters, it causes autocrats two dilemmas: the representation dilemma and the growth dilemma. Taking China as an ideal case, the author argues that two mechanisms, under-institutionalized taxation system and a half-tax state, help in resolving two dilemmas so far, but in the long term, these two mechanisms may counteract each other and weaken the authoritarian regime.

Keywords

authoritarian resilience, fiscal sociology, representation dilemma, growth dilemma

Over the past decade, the question of why some authoritarian regimes have the ability to sustain themselves while others fall has emerged as an important topic of comparative social science debate (Art 2012; Brancati 2014; Brownlee 2002; Levitsky and Way 2010). Comparative authoritarianism studies have taken an "institutional turn" to explain such differences (Pepinsky 2014). Research has examined various institutions as foundations of authoritarian resilience: democratic facades (e.g., legislatures, parties, and elections),[1] coercive and security organizations (Bellin 2004; Riley 2010; Way 2005), parties' selectoral systems (Gallagher and Hanson 2013), and information disclosure systems (King, Pan, and Roberts 2013; Lorentzen 2013; Stockman and Gallagher 2011). These institutional explanations of authoritarian resilience significantly enrich our understanding of authoritarian politics, but they have been criticized for lacking a coherent institutional theory (Art 2012), are exogenous explanations,[2] and neglect the autocrats' dilemma.[3] For example, Knutsen and

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Nygård (2015:657) suggest the democratic-looking institutions' explanation of regime durability is in fact falsifiable, proposing that other "regime characteristics are highly consequential for regime-survival prospects." Building on the existing literature, this article will try to explain authoritarian resilience in terms of the taxation institution: a vital state institution that has largely, to date, been ignored.

Scholars of comparative authoritarianism generally neglect taxation, and much past work conflates it with war as an engine of modern state-building in Western Europe (Dincecco 2011; Elias 1994; Ertman 1997; Kiser and Kane 2001; Kiser and Schneider 1994; Levi 1988; Mann 1993; Schumpeter [1918] 1991; Tilly 1990; Weber 1968).[4] Because an international war of significant scale has not been a threat for the majority of developing countries since World War II, the role of taxation has been crucial in shaping state-society relations in developing and transitional countries: Taxes rebuild the state as well as society (Brautigam, Fjeldstad, and Moore 2008; Martin, Mehrotra, and Prasad 2009). Levitsky and Way (2010) acknowledge taxation as one of two institutional foundations of organizational power that sustain authoritarian rule, and Smith (2007) and Slater (2010b; Slater and Fenner 2011) examine taxation as part of state administration, but few others have addressed its role. Yet some authoritarian states have indeed realized the importance of the taxation system for maintaining power. For example, the Central Committee of the Chinese Communist Party (CCP) describes the fiscal and taxation system as "the foundation and an important pillar of state governance . . . crucial for . . . long term stability" (CCP Central Committee 2013). Given its theoretical and political significance and the lack of work to date, why and how taxation matters for authoritarian resilience is in urgent need of further study. This article contributes to this topic through a case study of China and by developing a fiscal-sociological theory of authoritarian resilience.

China's tax state transition makes it ideal for adoption of such a fiscal sociological perspective. I argue that taxation's infrastructural power mechanism, discussed by Slater and Fenner (2011), is crucial for authoritarian resilience, but this mechanism is regime neutral, and questions remain as to whether it can resolve two taxation dilemmas: the growth dilemma and the representation dilemma (which will be defined in the next section). Within the context of a partial tax state transition, the CCP has resolved, or at least partially alleviated, these dilemmas through an under-institutionalized taxation system and a half-tax state that relies heavily on non-tax revenue, indirect taxes, and state-owned enterprises (SOEs). However, the under-institutionalized taxation system and half-tax state have generated some negative consequences (e.g., high inequality and clientelism) that threaten sustainable economic development and therefore authoritarian resilience.

TAXATION'S INFRASTRUCTURAL STATE-POWER MECHANISMS AND ITS LIMITATIONS

Authoritarian regime stability is an ordinal variable, which moves linearly in stages from authoritarian resilience (or durability), to authoritarian survival, to authoritarian instability and breakdown; the latter two may or may not lead to democratization. For authoritarian resilience, I use Gallagher and Hanson's (2013: 187) definition, which differs from authoritarian survival: "Survival is simply a matter of maintaining power over an extended period of time" (also see Levitsky and Way 2012:870). Resilient regimes, however, not only survive but also thrive and adapt while fostering the growth of national military and economic power. They remain the unchallenged authority during periods of significant social and economic change. Slater and Fenner (2011) define regime durability similarly, in relation to meeting, overcoming, avoiding, or resolving crises in a way that is decisively in the regime's

favor. Here, I use *authoritarian (regime) resilience* and *authoritarian (regime) durability* interchangeably.

How does taxation contribute to authoritarian resilience? Slater and Fenner (2011) and Smith (2007) attribute the power of taxation institutions to four "infrastructural power mechanisms."[5] First, tax systems extract revenue to support other government functions, including coercive power and public service provision, as well as co-opting supporters.[6] Second, tax systems register firm and individual information, which requires a coherent and capable bureaucracy and helps build the state's capacity to penetrate society. Third, tax institutions coerce rivals, which fourth, cultivate dependence.

Taxation's infrastructural power mechanisms explain the China case well. China has experienced three and a half decades of rapid economic growth and with it, rapid tax revenue growth. China's authoritarian government benefits from rapidly increasing tax revenue in many ways, including increased funding for repressive institutions and social welfare programs. With rapid tax revenue increases (around 20 percent in the early 2000s), the central government was able to abolish agriculture taxes in 2004, which significantly reduced tax riots in rural areas.[7] Moreover, the government spends huge sums, much of which come from tax revenue, on the provision of public goods, including social welfare programs and education (Shue and Wong 2007). These programs have helped the central government maintain stability and elicit political support (Dickson 2014; Lü 2014).[8] Expenditures on coercive institutions—for example, the military and domestic police—also increased rapidly. In addition, the government has been able to hire large numbers of Internet police to strengthen its censorship (King et al. 2013), which maintains stability. Greater government tax revenues help strengthen repressive institutions, increase Internet censorship, and provide local governments with the fiscal resources to bribe perceived "trouble makers" to sustain the regime (C-K. Lee and Zhang 2013). The taxation institution is thus fundamental when compared to repressive, co-optative institutions, including democratic-looking institutions and government transfers.[9]

The taxation institution is important for all types of state; hence, the infrastructural state-power mechanisms themselves are politically neutral—both democratic and authoritarian regimes are easier to sustain when they have higher taxation capacity. To study the aspects of the taxation institution that bolster authoritarianism alone, we need to examine two specific taxation dilemmas for authoritarian regimes: the representation dilemma and the growth dilemma. Only when an authoritarian regime can successfully resolve or alleviate these dilemmas will it achieve authoritarian resilience.

How can China's authoritarian government resolve the representation and growth dilemmas while also significantly improving its infrastructural power? As China transitions from a communist state based on a planned economy to a state more dependent on taxes, the state must engage with society on a deeper level to tax it. I argue that an under-institutionalized taxation system and a half-tax state, as adopted by China, resolve the two taxation dilemmas and maintain authoritarian resilience.

TAXATION DILEMMAS AND TWO MECHANISMS FOR AUTHORITARIAN RESILIENCE

To build a fiscal sociological theory of authoritarian resilience, we need to examine two dimensions of the taxation institution: the formal institutional arrangements and the practice of tax administration (including the informal side).[10] Different taxation institutions vary in several dimensions: domain state or tax state (Schumpeter [1918] 1991), degree of decentralization, level of rule of law, overall tax burden, degree of progressiveness, and many

other less important factors. Most studies of taxation systems focus on the legislation of tax categories (Ardanaz and Scartascini 2013; Steinmo 1993) and their assignment to different levels of government (i.e., intergovernmental fiscal relationships).[11] Some scholars even use intergovernmental fiscal relationships to study regime stability (Zhan 2009). Research also describes the important role non-tax revenue plays in developing and transitional countries (Turley 2006), including China (Wong 2009). However, little work has addressed tax *administration*, or the on-the-ground practice of taxation,[12] especially in the context of an explanatory variable for authoritarian resilience.[13] Here, I use Lieberman's (2003:50–52) definition of tax administration—"the registration of taxpayers, calculation of liabilities, and actual collection of taxes"—while focusing on potential leakages and the informal practices that lead to these leakages.[14]

This article will show that tax administration and types of tax state have significant effects on regime stability and authoritarian resilience, especially in relation to the two dilemmas noted earlier. The first dilemma concerns the relationship between representation and taxation, which I call the *representation dilemma*. Increasing infrastructural power typically weakens despotic power[15] or even leads to democratization. Although Slater and Fenner (2011) and Smith (2007) neglect this, Schumpeter ([1918] 1991) argued nearly a century ago that the transition from a feudal domain state to a tax state may lead to the emergence of a constitutional government.[16] Tilly (1990) and Mann (1993) both find that when Western European countries transitioned from feudal domain states to tax states, the state penetrated society to extract more fiscal and human resources. Eliciting cooperation from social actors, however, requires opening the state to social demands, so society also penetrated the state, which I label *representation through taxation*. Therefore, the state's infrastructural power increased while despotic power decreased. Tilly and Mann offer historical institutional explanations, but other scholars offer rational choice institutional explanations. For example, Levi (1988) provides the micro-foundation for the co-evolution of infrastructural power and despotic power by developing theories of "quasi-voluntary compliance," which argue that along with coercion, the government needs to reform to be more democratic and trustworthy to elicit citizens' quasi-voluntary compliance.[17] And Gehlbach (2008:61) defines representation through taxation as "bargaining between politicians and organized sectors over the provision of collective goods."

The representation dilemma is of special significance given the background of tax state transition currently happening in China. Schumpeter ([1918] 1991) suggests the importance of the taxation system in "the state's nature, form and fate" and that a transition from a domain state to a tax state provides a good opportunity for democratic transition. In spite of its theoretical importance, research in fiscal sociology rarely focuses on taxation and its impact on politics (Martin et al. 2009).[18] In examining this transition, I use Lieberman's (2003:43) definition of the tax state as "the aggregate of a set of relationships between the state executive and state bureaucracy on the one hand, and citizens or taxpayers on the other, manifest in a set of national tax policies and administrative practices."

China is undergoing a tax state transition. Under socialism, China's communist state[19] was similar to a domain state in that the ruler did not need to tax the ruled. For most years between 1959 and 1981, private enterprises paid about 1 percent of the total tax, and SOEs paid over 80 percent of total fiscal revenue (through taxes and profit remittance). During this time period, tax revenue rose from RMB16.467 to RMB54.748 billion (*China Tax Yearbook* 1993). China has thus been transitioning to a tax state since 1978. Privately held businesses now contribute two-thirds of GDP and about 60 percent of national tax revenue,[20] and the Chinese government taxes 20 percent of GDP as its tax revenue. Will China's tax state transition bring representation challenges to the CCP?

The second dilemma is the growth dilemma. A good taxation system that helps authoritarian resilience should not be predatory in nature (Acemoglu, Johnson, and Robinson 2002; Auerbach 1985; Levi 1988; North 1990; Olson 1993), that is, it should be able to meet the need for revenue increases in the short term without harming economic growth in the long run.[21] Economic growth as a measure of performance is a crucial component of an authoritarian government's legitimacy (Zhao 2001), and economic crisis could indeed be a major cause of any authoritarian regime failure.[22] A taxation system that contributes to authoritarian survival should enable the state to increase tax revenue while achieving sustainable economic growth and avoiding economic crises, tax riots, and of course, revolution.[23] As historians (e.g., Kuhn 2002) have noted, most Chinese dynasties experienced a period of expanded government and improvement, but this came with predatory, extractive capacities that led to economic stagnation and financial crisis, thus triggering rebellion and the subsequent breakdown of dynastic authoritarian rule.[24]

Neither Smith's (2007) and Slater and Fenner's (2011) nor other institutional explanations of authoritarian resilience address the dilemmas that taxation (or other institutions) present for authoritarian resilience.[25] Besides the four infrastructural power mechanisms proposed by Slater and Fenner (2011), the taxation system has two important mechanisms to resolve or alleviate taxation dilemmas. However, when enforced together, these mechanisms can counteract each other, forcing dictators to make tradeoffs in the long term.

The first mechanism is an under-institutionalized taxation system, which contributes to resolving the growth dilemma by reducing effective tax rates and therefore promoting economic growth. An under-institutionalized taxation system also weakens taxpayers' representation by driving them to act illegally in some cases to evade taxes, which makes them vulnerable before a strong authoritarian state.[26] Major taxpayers, especially private entrepreneurs, pursue pragmatic patron-client relationships with the state, seeking to be co-opted by the Party-state for protection rather than challenging it. This under-institutionalized taxation system also weakens the effectiveness of tax administration, reducing the effective tax rate and therefore contributing further to economic growth.

The second mechanism is a half-tax state with a high dependence on non-tax revenues, indirect taxes, and SOEs. This reduces citizens' perceived tax burden and the costs of tax collection as well as increasing government autonomy. This resolves the representation dilemma, but it increases economic inequality and weakens sustainable economic growth. As Figure 1 illustrates, each mechanism affects both dilemmas, although sometimes in different directions.

DATA AND RESEARCH DESIGN

To develop a "theoretical framework(s) that are contingent and detailed, yet also encompassing" (Morse 2012:163) with causal mechanisms for authoritarian resilience based on taxation institutions, I use a theory-guided case study.[27] This is a response to Morse's (2012:163) proposal "that studies of electoral authoritarianism need to start engaging in more midrange, case-based research."

China is an ideal case to study how taxation matters for authoritarian resilience. First, China exemplifies authoritarian resilience: The CCP has been in power for 66 years, and scholars regard it as an adaptive and flexible authoritarian party-state (Dimitrov 2013; Nathan 2003; Shambaugh 2008).[28] Second, China is transitioning from a communist state with extremely limited taxation[29] to a tax state that relies on taxing its citizens for most government expenditure,[30] which may have consequences for the regime's stability (Greene 2007; Schumpeter [1918] 1991). Third, international forces driving democratization

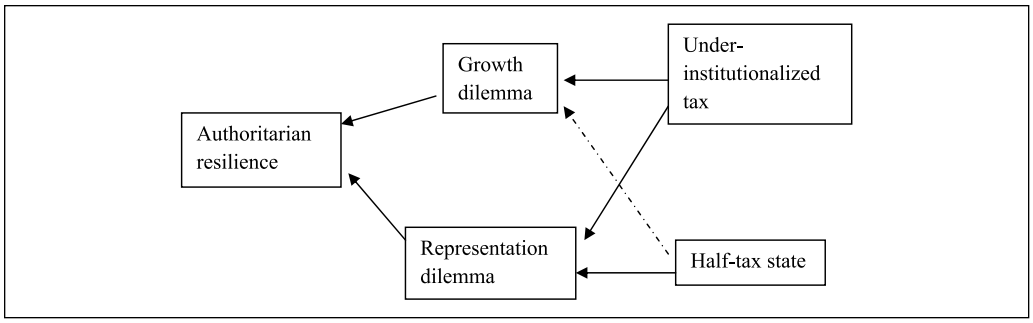

Figure 1. Dilemmas and mechanisms for how taxation matters for authoritarian resilience.
Note. Solid lines (on the right side) mean a positive effect in resolving the dilemma; the dashed line means a negative effect.

are limited, and domestic causes are more prominent. Fourth, many existing institutional explanations for authoritarian resilience, including elections and the legislature, do not apply here because elections in China are limited to self-governing villages, and legislatures have co-opted economic elites, driven by elites' fear of the authoritarian regime's predatory power (including predatory taxation, as I will demonstrate).

I rely on various data sources: official statistical data, secondary data, and my own fieldwork, which includes three sources—interviews, government and Local People's Congress (LPC) archives (published and unpublished), and media reports. From 2007 to 2014, I interviewed dozens of tax officers and other government officers, private entrepreneurs, trade association leaders, and tax scholars in eight counties in four provinces and provincial-level municipalities (Zhejiang, Shanxi, Hunan, and Chongqing) to collect data on the taxation system and related issues. I read the unpublished LPC archives from 1980 to 2011 and the Local Bureau of Taxation (LBT) archives from 2004 to 2012 of one county in Zhejiang province and the unpublished LBT archives from 2001 to 2010 of a county in Shanxi province as well as the Shanxi provincial LBT's journal, *Theory and Practice of Taxation* (*shuishou lilun yu shijian*).[31] Given that tax evasion is a sensitive topic, I used different sources to cross-validate the data to ensure the reliability and validity of the research. I also used some original survey work as part of this study.

Although the data come from eight counties that vary in level of economic development, geographic conditions, and industry structure, their tax administrations have many similarities. Therefore, I use the method of agreement, and the discussion based on these counties can be tentatively applied to China as a whole. Because most of China's taxes are collected directly from businesses, I focus on middle-class social actors, especially private entrepreneurs, who pay a large share of the overall tax take.

THE UNDER-INSTITUTIONALIZED TAXATION SYSTEM AND THE REPRESENTATION DILEMMA

Mann's (1993) and Schumpeter's ([1918] 1991) research predicts that the Chinese government's significantly improved taxation capacity, as it transitions from a communist state to a tax state,[32] will lead to decreased despotic power. Before 1978, the government directly controlled the means of production and did not require the cooperation of non-state actors to secure revenue sources. Since the early 2000s, the Chinese state has collected about 20 percent of GDP as tax revenues (see the next section for the composition of the Chinese government's fiscal revenue).

However, China's taxation system is still under-institutionalized.[33] The 1994 Tax Share Reform (TSR) improved the effectiveness and efficiency of tax administration significantly, and several rounds of taxation reforms since then have built on this initial success, further improving the autonomy and overall capacity of the tax administration.[34] However, China's taxation system still suffers from several weaknesses: unreasonably high nominal tax rates, tax officers' high level of discretionary power (leaving them open to corruption), and a tax target system that violates the rule of law.

First, China's tax legislating process is dominated by the bureaucracy. The State Council and its ministries—the Ministry of Finance and the State Administration of Taxation (SAT)—as opposed to a legislature, draft the tax laws. The National People's Congress standing committee delegated the power of taxation to the State Council in 1985.[35] Private entrepreneurs and interest groups thus have diminished political capital to lobby about tax policy-making. The central authority sets unreasonably high nominal tax rates: Value added tax (VAT) is 17 percent, and the corporation income tax rate is 33 percent.[36] Indeed, the high tax rates make it difficult for private entrepreneurs—most of whom are in low profit margin industries and face significant competition and monopolistic power from SOE-dominated industries—to make any net profit after taxes, if they indeed were to pay all their taxes. This leads many individuals to avoid or evade these taxes.

Second, tax officers have a high degree of discretionary power under the Centralized Administration System. The tax administration bureaucracy is organized based on three functional tasks: (1) tax declaration, (2) tax collection, and (3) tax inspection. In the early 2000s, the small taxation offices that were widespread in the 1990s were merged into larger ones, each with an assigned Tax Service Hall. Taxpayers were required to declare their taxes, have them approved by the tax officer, and then pay their taxes in the Tax Service Hall. As a method of enforcing compliance and checking that tax assessors were performing their job properly and not collecting bribes from individuals trying to avoid taxes, the tax inspection officers inspected taxpayers selectively. A Tax Inspection Team was set up, later superseded by the Tax Inspection Bureau, which became the most politically powerful subunit in the tax administration. Despite all these bureaucratization efforts, the tax system still grants tax officers substantial discretion.[37] A serious problem for the current tax administration system is that it does not distinguish between the calculation of liabilities and the actual collection of taxes; moreover, the calculation of liabilities lacks a necessary rules-based system to ensure proper compliance.

Third, like other components of local government, the tax administration system works as what Rong and colleagues (1998) call a "pressure-based system,"[38] in which higher government levels set tax targets for lower government levels. Tax officers thus collect taxes based on targets set by supervisors, not taxpayers' true tax liabilities (*yifa zhengshui, yingshou jinshou*). Individuals' inability to pay these taxes then leads tax officers to misreport their tax collection: The law enforcer becomes a lawbreaker.

Private enterprises, as well as other taxpayers, still have many opportunities to manipulate the assessment of tax liabilities and the collection of taxes and therefore significantly reduce the effective tax rate. Tax evasion is rampant. Nearly all my interviewees, both businessmen and government officers, stated that enterprises could not make money without evading taxes to varying degrees. A senior tax officer said that in his 30 years of tax administration in two counties in Hunan province, he came across only one enterprise in which he failed to identify any tax evasion behavior.[39] This may have been an exaggeration and cannot be taken completely at face value, but it contains an element of truth that cannot be denied: Companies bribe tax officers and build patron-clientelist connections with tax officers and government officials to evade taxes and realize other business benefits. Rampant tax evasion keeps the effective tax rate relatively low, which promotes economic growth without

formally challenging the state's despotic power; the system still provides adequate state revenue, albeit less than would otherwise be collected.[40] A recent challenge confronting the current tax ecosystem is that rapid tax revenue increases (relatively higher annual tax growth rate vs. nominal GDP growth rate) over the past two decades, associated with other factors, have slowed China's economic growth, thereby exacerbating the growth dilemma.

Tax evasion, should businesses be caught engaging in it, can lead to severe punitive damages, so businessmen need patrons within the Party-state to protect and represent them and their interests. There are many ways to "acquire" such patrons, including through joining the Local People's Congress (LPC) or the Local People's Political Consultant Conference (LPPCC) at different levels. After three decades of reform, private businesses have become a main source of local tax revenue in many regions of China.[41] Trading on their socioeconomic influence, some private entrepreneurs are becoming increasingly "politically active," joining the LPC, LPPCC, and the local party committee. As a result, in many regions—especially the wealthiest ones—private entrepreneur deputies have become the second largest group in LPCs after the Party and government cadres.[42] According to various sources, including interviews I conducted in six counties in Zhejiang and Shanxi provinces in 2010, about 30 percent of LPC deputies at the county level are private entrepreneurs.[43] A cursory look at LPCs' private entrepreneur deputies suggests there is a mechanism of "representation through taxation" at play (i.e., local governments' major taxpayers get "elected/selected" into local legislatures), but further examination of how these deputies are "elected/selected" and what they do within LPCs shows these deputies are more interested in seeking privileges for themselves rather than demanding institutional reforms for the public good.[44]

Tax evasion further weakens private entrepreneurs' bargaining power with the Party-state. Private entrepreneurs are almost uniformly tax evaders who can be severely punished by the government at any time, which undermines their ability to serve as representatives. Indeed, China's Criminal Law sets severe punishment for tax evasion (Articles 201 and 211),[45] including fines of up to five times the amount of evaded tax as well as up to seven years imprisonment. Under these circumstances, private entrepreneurs (who are almost certainly tax evaders and thus criminal in the eyes of the state) cannot demand representation or democracy for fear of being persecuted by the state.

To summarize, the representation dilemma (i.e., improved infrastructural power leads to weakened despotic power) is partially resolved or alleviated through an under-institutionalized taxation system that weakens taxpayers' (particularly private entrepreneurs') bargaining power with the government. Taxpayers make a decision, rationally or irrationally based on the current system, to build patron-client relationships to evade taxes and receive other benefits. These taxpayers are then dependent on the authoritarian state and cannot demand representation or become agents for change. A co-option by deterrence mechanism, rather than representation through taxation mechanism, comes into play.[46] Having said this, some larger taxpayers do have strong bargaining power because local governments compete with each other to attract investment by offering various privileges, such as tax breaks. This constitutes a form of representation through taxation (for taxable entities), but the fact remains that many local governments have developed a more corporatist-like system[47] in which high-ranking local leaders often develop personal patron-client relationships with major enterprises.[48] Here, tax evasion and co-option resolve the representation dilemma.

A HALF-TAX STATE

Over 20 percent of China's GDP is taxed, but China's transition from a communist state to a tax state is still in its early stages. Until recently, the Chinese state (especially the central

Table 1. Revenue Breakdown by Type of Taxes (Including Non-tax Revenue, Government Funds, and State-owned Asset Operation Income) in 2014 (Units: 0.1 Billion Yuan, Percent).

Items	Amount	Percentage of General Budgetary Income	Percentage of Total Tax Income	Percentage of Total Revenue Income
General budgetary income	152,217			65.96
Domestic consumption tax	10,542	6.93	8.44	4.57
Business tax	19,313	12.69	15.46	8.37
Company income tax	27,125	17.82	21.72	11.75
Individual income tax	8,618	5.66	6.90	3.73
Imported products VAT and consumption tax	12,517	8.22	10.02	5.42
Export tax return	−12,867	−8.45	−10.30	−5.58
Stamp tax	2,553	1.68	2.04	1.11
Vehicle sales tax	2,793	1.83	2.24	1.21
Contract tax	3,899	2.56	3.12	1.69
Land VAT	3,832	2.52	3.07	1.66
Tax on the use of arable land	2,097	1.38	1.68	.91
Urban and township land use tax	2,142	1.41	1.72	.93
Non-tax revenue	27,325	17.95		11.84
Government fund	42,330			18.34
State-owned asset operation income	2,560			1.11
Land transfer fee	33,657.73			14.59
Total revenue income	197,107			100.00

Note. VAT = value added tax.
Source. Ministry of Finance website.

government) relied heavily on SOEs for tax revenues, and local governments relied heavily on non-tax revenues. Because both are highly dependent on indirect taxes, this amounts to what I call a "half-tax state." Ma (2011) provides a good study of how relying on SOEs and "hidden taxes" has limited political change in China, or solved the representation dilemma.[49] Therefore, I provide only a brief review of this topic and instead focus more on how China's status as a half-tax state and its overdependence on indirect taxes increases inequality and aggravates the growth dilemma.

Table 1 illustrates the revenue breakdown in the half-tax state. Personal income tax comprised only 6.9 percent of all tax revenue in 2014, and it was paid by only about 2 percent of the population. Unlike most other taxes in China, the personal income tax was legislated by the NPC Standing Committee rather than the State Council. Moreover, the NPC Standing Committee asked people to express their opinions before it readjusted the tax exemption threshold, making it the single tax that reflects some form of representative policymaking. However, in spite of this being a pseudo-representative form of tax, the bulk of tax revenue still comes from SOEs[50] and indirect taxes at the national and local levels—VAT, sales tax, business tax, and enterprise tax.

Very few citizens pay their personal income taxes, but they ultimately pay heavy indirect taxes (hidden taxes) through their purchases. Because these taxes are hidden, they are not fully perceived as an additional tax burden. Scholars and journalists describe this as the

Table 2. Citizens' Perceptions of Tax Burden, 2014.

	Compared to Peer Group			Compared to Public Services Received		
Tax Burden	Frequency	Percentage	Percentage of 1–4	Frequency	Percentage	Percentage of 1–3
1. Too high	279	6.8	15.9	399	9.7	27.0
2. Fair	626	15.2	35.6	907	22.0	61.4
3. Too low	84	2.0	4.8	171	4.1	11.6
4. Hard to tell	767	18.6	43.7	NA	NA	
8. Do not know	2,297	55.6		2,581	62.5	
9. No answer	75	1.8		70	1.7	
N	4,128	100	100	4,128	100	100

Source. Public Service and Government Support Survey 2014, Research Center of Contemporary China of Peking University.

underdevelopment of citizens' "taxpayer's rights consciousness" (W. Li 2011), and they attribute this to the difficulty of developing a "political rights consciousness" in China, which naturally benefits authoritarian resilience. This view is also supported by survey data. A nationwide random sample survey conducted by the Research Center of Contemporary China of Peking University in 2014 showed that citizens have a low perception of their tax burden. Table 2 shows that citizens are generally not cognizant of the extent of their tax burden relative to peer groups or the public services they receive from the government in return for their taxes. Indeed, among respondents who reported their opinions, less than 10 percent said their tax burden was too high, and 61.4 percent believed that when compared to the public services they received, their overall tax burden was fair.

Government revenue from non-tax revenues collected from civilians also impairs political rights consciousness (except for some land-losing peasants). Land transfer fees alone comprise one-third to one-half of local government revenue in recent years. The large and unexpected rise in land transfer fees brings new challenges to the government's efforts to rationalize fiscal income and expenditure. However, land transfer fees and land-related taxes and fees are only part of the story of local government finance. An equally important element of financing local government's huge amount of infrastructural investment, and even commercial behaviors, is based on the Local Government Financing Platform.[51] Land finance was crucial for the CCP as it sought to sustain economic growth rates in the short term, and it helped local governments meet the gap between expenditure obligation and taxation capacity. Especially in East China, land revenue and land finance became the most important way to raise funds to sustain a government investment-led growth model (Whiting 2011; Zhou 2012).[52] This model has been effective in that China has sustained a national GDP growth rate above 8 percent since 2006—even during the 2008 financial crisis.[53]

This reliance on non-tax revenue gives local government more autonomy and in effect lessens the representation dilemma. However, relying too much on land for revenue is unsustainable[54] because of the (1) housing bubble and social instability it has generated,[55] and (2) land is an inherently limited resource and will inevitably continue to reduce in supply. The latter point will be expedited given that the Ministry of Land Resources has set a limit on urbanization of arable land.

Furthermore, high dependence on indirect taxes and fees also has some negative effects on authoritarian resilience. The Chinese taxation system is inefficient (Slemrod and Yitzhaki

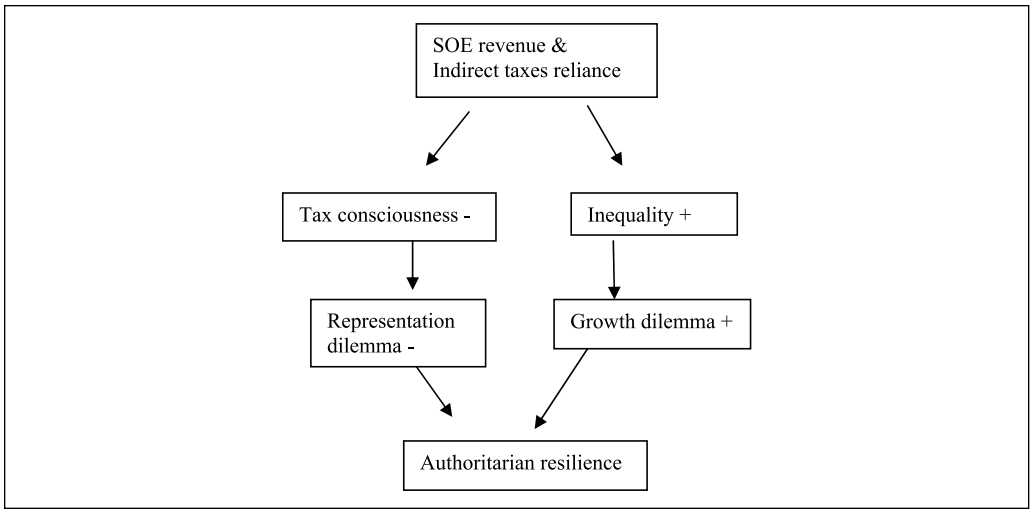

Figure 2. Half-tax state and overdependence on indirect taxes as a double-edged sword for authoritarian resilience.

2002) and regressive, thus undermining its redistributive function[56] and leading to increased inequality, which could potentially undermine the regime's stability. Reflecting the government's limited redistributive capacity (Benjamin et al. 2008; Gao 2010), China has become a highly unequal society, with a .474 official Gini coefficient in 2012.[57] Various unofficial estimates[58] describe this already relatively high coefficient as an underestimation. A high level of inequality hampers authoritarian resilience because it can generate social discontent, impair the regime's moral and political legitimacy, and block long-term sustainable economic growth.[59]

Dependence on SOEs improves state autonomy and resolves the representation dilemma, but it also impairs authoritarian resilience: SOEs are inefficient and corrupt,[60] and they rely on their monopoly status to extract rent rather than innovating to gain market share and increase revenues or reduce costs and create profits. Their privileged access to land and bank loans contributes further to their "profitability." Some liberal-leaning economists also describe SOEs as a major problem for China's sustainable economic growth because of their inefficiency and lack of innovation (Unirule Institute of Economics 2011). And SOEs with monopoly power and easily accessible financial and capital markets exacerbate inequality (J. Lee 2013; Xiaolu Wang 2013). Figure 2 illustrates this double-edged causal mechanism.

In summary, China is still a half-tax state that relies heavily on indirect taxes, taxes paid by SOEs, and various types of non-tax revenues. All of this improves the state's extractive capacity without demanding citizens' direct compliance. Due to this system, citizens do not challenge government autonomy, which alleviates the representation dilemma. The CCP has a strong incentive to keep a large SOE sector for both ideological and instrumental reasons. However, the regime faces a dilemma: Continuing as a half-tax state, characterized by high levels of inequality that limit the sustainability of economic growth, may exacerbate the growth dilemma. The Minister of Finance's recent announcement that China will seek to increase direct taxes as a share of government revenue and decrease local government's reliance on land transfer fees (by implementing a real estate tax) suggests the situation may change—and alter China's representation and growth dilemmas—but this is yet to be seen.[61]

CONCLUSIONS AND IMPLICATIONS

Many institutions that help dictators maintain their power come with a cost in their implementation. Taxation, for example, provides needed government revenue, but it tends to increase social representation, and its complicated relationship with economic growth can ultimately threaten the dictatorship or authoritarian resilience. As this article shows, taxation as an institution can strengthen or impair these mechanisms that sustain authoritarianism by resolving, alleviating, or exacerbating the dual taxation dilemmas.

China's specific case shows that taxation's infrastructural power mechanisms do indeed contribute to authoritarian resilience. And this essay has sought to delve deeper into the dual dilemmas—the growth and representation dilemmas—that authoritarians face in their rule to build a foundational fiscal-sociological theory of authoritarian resilience.

I have shown how the CCP alleviates the representation dilemma by under-institutionalizing the taxation system and relying heavily on non-tax revenues and indirect taxes, which weakens taxpayers' bargaining power, reduces their tax burden perception, and bolsters the state's autonomy. In this way, the authoritarian regime improves its infrastructural power without weakening its despotic power. However, these achievements are not without a cost: A half-tax state generates high inequality and is inefficient; consequently, it blocks sustainable economic growth and invokes the second dilemma, the growth dilemma. At the same time, an under-institutionalized taxation system generates patron-clientelist ties between government and businesses (i.e., corruption), making collaborative state-business relationships more difficult to build. According to Evans (1995), collaborative state-business relationships are crucial for industries to move up the value chain. As this article suggests, the negative effects (including inequality) of the current taxation system on sustainable economic growth are beginning to seep through the cracks of the current tax infrastructure.

In addition to addressing the autocrat's twin dilemmas, this article seeks to engage with and contribute to the overall scholarly effort to build an endogenous institutional explanation for authoritarian resilience. Indeed, Schumpeter ([1918] 1991:101) argues that taxation imbues both the "*symptomatic* significance" and "causal" aspects for major social political changes. And recently, Besley and Persson (2014) identified a complementarity (or two-way feedback system) between state capacity (for my purposes here, fiscal capacity is the most relevant of three state capacities) and economic development. There is thus an implied, although not necessarily significant without further study, reverse causality between authoritarian rule and taxation politics, which makes the postulated fiscal-sociological explanation of authoritarian resilience part of an endogenous institutional explanation. Future work should seek to clarify the direction of this causality to ensure its validity; here, I will try to elaborate from a theoretical perspective how this causality can be inferred from the current research available to us.

I have mainly focused on the taxation institution's causal importance for single-party's authoritarian resilience; I will now briefly elaborate on the implied reverse causality. The adaptive and powerful single-party CCP certainly has the political power and clout to reform the current taxation institution; it could improve its infrastructural power to better face various fiscal crises (e.g., those in the early 1990s[62]) and resolve or alleviate the twin taxation dilemmas. Under the tax state transition, since 1994, the CCP's centralized political power (especially its effective nomenklatura system)[63] has been crucial in instigating reform of the taxation system,[64] especially in rationalizing its administration and recentralizing taxation power, which have significantly improved the state's taxation capacity.[65] Although many scholars and the World Bank (Bruhn 2011:1) suggest that "lowering corporate tax rates can increase investment, reduce tax evasion by formal firms, promote the creation of formal

firms, and ultimately raise sales and GDP," such a maneuver would more likely reduce the CCP's social control over private entrepreneurs. Such an economic policy, which sounds good in principle, may simply be bad politics for the CCP. Indeed, for ideological and instrumental reasons, the CCP still prefers to develop SOEs to maintain socialism in its current form, characterized as single-party rule, and maintain China's position as a half-tax state. The CCP also appears hesitant to enact real estate taxes in China, possibly being afraid of the potentially destructive effects on economic and social grounds, and it further emphasizes and reiterates indirect taxes in its recent major VAT for Enterprise Income Tax reform (i.e., using indirect tax to replace direct tax).

However, this reverse causality does not necessarily mean an authoritarian ruler can manipulate or alter any taxation institution at will.[66] First, even the CCP's top political leaders should achieve a minimal consensus of tax reform among the ruling coalition (i.e., the politburo, its standing committee, and the powerful elders, as in the 1994 TSR case)—and to maintain stability, the provinces would need compensation for any tax reform that may be perceived as detrimental to local rule. The CCP would also likely need an economic tsar of sorts (e.g., Premier Zhu Rongji) to implement any tax reform. Zhu used a "divide and rule" strategy when bargaining with provincial leaders, making the provinces more likely to accept his propositions.

Second, the reform had many unintended consequences (e.g., the rapid economic growth generated much more tax revenue for the central government than for local governments, and huge amounts of land revenue and increases in local government debt collateralized), which function as quasi-parameters[67] that are hard to change, especially in the shorter term. Third, the key to successful tax reform may lie in placating local governments' vested interests—the central government cannot swallow the whole of the increased tax revenue cake but must share it with local governments. This sharing of tax revenue occurred in the past and led to greater acceptance of tax reforms (although some developed provinces hesitated to implement the reforms, and some of their leaders were punished severely for not following the party line). At the micro level, tax officers benefited from the rapid increase in tax revenue as they got higher bonuses (because of their revenue-related performance bonus) and more discretional power (and therefore more "personal" benefits). Therefore, the self-serving side of the bureaucracy also benefited from this reform.

Fourth, the option of (re)strengthening the CCP's penetration into the economic sector is not a feasible strategy. Marketization and the emergence of private sectors mean the party's penetration of the economy has been substantially weakened and its mobilization capacity is limited. Xu Wang (2003) also finds that the CCP's penetration of rural areas started to break in the late 1990s. Although the party is trying to penetrate both rural and urban society, it now faces a much more pluralized society. Even more important, if the CCP resorts to party penetration to mobilize revenue, its representation dilemma automatically becomes the growth dilemma. In an extreme case, the CCP could nationalize the private sectors (and foreign-invested enterprises), as it did in the 1950s, but the planned economy has proven to be a failed strategy. Having said this, the current reform goes only partway to true Reform with a capital R, and it reaches only a partial equilibrium of the two dilemmas.[68] Figure 3 illustrates this recursive relationship between party-state resilience and the taxation institution.

This complementarity between the single-party and the taxation institution is far from a virtuous circle or a panacea to the problem of sustainable authoritarianism, as the "development cluster" (Besley and Persson 2011) and the "effective state" (Dincecco 2015) both require representation. What will happen in the future then given that the taxation institution will be further changed? To answer this question, this article contributes to an emerging

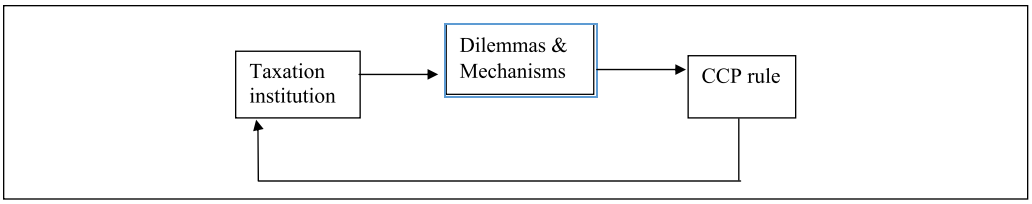

Figure 3. Endogenous causality between taxation and the CCP's authoritarian resilience.

literature on new fiscal sociology—also referred to as taxation politics—by taking taxation as the cause of political change and answering Schumpeter's neglected call (Martin et al. 2009). As Besley and Persson (2011) observe, the state needs to invest to build taxation capacity; the Chinese government built two separate and independent tax administrations that employ one million people.[69] Besley and Persson (2011, 2014) also argue that some countries have successfully created "development clusters," that is, a combination of high-level economic development, rule of law, democracy, and social welfare, while others have failed to do so. Specifically, they argue that taxation and legality are complementary in developed countries. Dincecco (2015) also finds that the evolution from the Old Regime, characterized by fiscal fragmentation and absolutist spending control, to an effective state (characterized by fiscal centralization and spending oversight by parliament) is crucial for long-term economic growth. As such, there is in fact no growth dilemma for taxation, even when taxes compose a high share of a country's GDP. However, in developing countries like China, legality and taxation capacity do not necessarily complement each other. The China case differs from a development cluster in several ways: There is no rule of law (as the under-institutionalized taxation system suggests), no democracy or powerful legislature (as this article has tried to explain), and a very limited and regressive social welfare program (Gao 2010).

As a contribution to fiscal sociology, this article joins the emerging literature on developing countries' taxation and provides a different trajectory of taxation and state-building, without war or indeed the threat of war. Looking beyond Western European countries, studies of taxation in transitional countries provide additional evidence about how taxation can reshape state and society. Easter (2008), for example, frames the question under a post-communist perspective by depicting tax collection as a process of state-(re)building that involves the redistribution of power resources between state and society as well as within the state itself. The legacies of communism matter. The post-communism cases differ from the classic state-building cases, in which weak state authorities tried to claim power resources from strong societal actors.[70] However, Easter's empirical study does not make this point explicitly, nor do Besley and Persson in their studies of development clusters, and Dincecco prefers to emphasize contingency and chance. This article contributes to comparisons of post-communist, as opposed to classic state-building, cases by examining China—a strong authoritarian state facing a weak market that recently emerged from the state[71] and a weak society that was totally transformed during decades of war, land reform, and the Cultural Revolution. These features mean that tax bargaining between state and society (and state-rebuilding) in contemporary China differs from that in Western Europe in the seventeenth and nineteenth centuries. The China case also differs from other developing countries, where states failed to improve taxation capacities (see Piracha and Moore 2016).

Again, the future of state-building and tax reforms is incredibly hard to predict, but we can draw several implications. Adjusting the taxation system requires reassigning expenditure obligations and taxation power between the central and local governments, empowering

the People's Congresses at different levels to strengthen the monitoring and institutionalization of tax administration and government spending (budgeting), and redefining the role of SOEs and direct taxes. But as the economy grows, will the two taxation dilemmas turn into a single dilemma? That is to say, will the tension between growth and representation increase, or will China initiate political reforms to achieve further economic growth? I find that unlike democratic states, authoritarian states like China can build taxation capacity only by forgoing developing the rule of law and relying more on indirect taxes and non-tax revenue, which help resolve the representation dilemma (at least over the short term). At the same time, to push the government toward more redistributive policies and more spending on social welfare programs requires a more representative government that responds to citizens' demands in a more socially moral and responsible way, as fiscal constitutionalism theories would suggest. Therefore, in the longer term, China may have to build a more rules-based taxation system and some form of political accountability mechanism by which a rule-based system could be implemented and administered,[72] in addition to its recent readjustment of the central-local fiscal relationships.

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NOTES

1. For legislatures, see Gandhi (2008); for parties, see Greene (2010), Levitsky and Way (2012), Magaloni (2006), and Magaloni and Kricheli (2010). For a comprehensive review of electoral institutions, see Gandhi and Lust-Okar (2009).
2. Pepinsky (2013) argues that these institutions are epiphenomena as opposed to causes, that is, the authoritarian rulers can manipulate the institutions to serve their interests, and institutions have no independent effect. See also Slater (2003, 2010a) for dictators' manipulation of formal institutions to strengthen personal power.
3. Many of the institutions used to explain authoritarian resilience are a double-edged sword for the dictator: For example, the democratic-looking legislative institutions function as co-optation and provide credible power-sharing among elites (see Magaloni 2006). However, if Olson (1982) is right, giving too much privilege to certain groups will lead to "distribution coalition(s)" that harm economic growth. Gandhi (2008) admits this and argues that the costs of sustaining a coalition could be high and become higher when the economy becomes more complex. Wright and Escriba-Folch (2012) call support coalitions for authoritarianism a "rent-delivery strategy," which resonates with this article's argument.
4. Slater (2010b) takes domestic conflict as the source of state-building in Southeast Asia, also with a focus on taxation.
5. Mann (1984) developed the concept of infrastructural power to refer to the state's capacity to penetrate civil society and use this penetration to enforce policy throughout its entire territory. A similar concept, state capacity, was developed by Skocpol (1985) and Migdal (1988), who listed four types of state capacity: penetration, regulation, extraction, and appropriation (of resources in determined ways).
6. Taxes and other revenues could be used for both institutional building and coalition building (Slater 2010a).

7. In central China, local governments overtaxed the peasants through various types of fees, fines, and surtaxes in the 1990s and generated serious tax riots (Bernstein and Lü 2003; Kennedy 2007; Thornton 2004).
8. However, although private transfer (public services provision) may elicit support, it may also lead to higher expectations and demand for private transfers. To be effective in eliciting support, private transfer needs to be selective and associated with a punishment/rewards system (Svolik 2012). Dictators cannot rely on people's love or their fear, which the under-institutionalized taxation system can generate (as I will discuss later).
9. Dincecco (2015) also regards an effective state as the institutional foundation for the European welfare state. For the China case, the Chinese government did not start to substantially improve its welfare system until the middle 2000s, when tax revenue increased rapidly.
10. Lieberman (2003:43–45) provides an analytic framework for studying tax institutions, defining the tax state as "the aggregate of a set of relationships between the state executive and state bureaucracy on the one hand, and citizens or taxpayers on the other, manifest in a set of national tax policies and administrative practices. . . . Taxation involves two main sets of tasks: the establishment of a set of tax policies that codify what the state is entitled to collect, and the implementation of those policies in the form of administration."
11. Fiscal decentralization, or fiscal federalism, is regarded as playing an important role in promoting China's economic growth (resolving the growth paradox), but because this topic is well studied and given space limitations, I will not systematically discuss it here. For debates on whether fiscal decentralization promotes economic growth in China, see Cai and Treisman (2006); Montinola, Qian, and Weingast (1995); Shen, Jin, and Zou (2012); and Xu (2010).
12. An exception is Whiting's (2001) study of private enterprise taxation, which was taken as a dependent variable influenced by local governments' dependence on the private sector for revenue rather than as an independent variable.
13. In terms of how agriculture taxation led to tax resistance and weakened authoritarian resilience in China, see Bernstein and Lü (2003); for how the CCP deals with tax resistance in rural China, see Takeuchi (2014).
14. That is, the gap between potential tax revenue and actual tax revenues, partially shown as tax evasion.
15. Again I borrow Mann's (1984:113) term, *despotic power* is "the range of actions which the state elite is empowered to make without routine consultation with civil society groups." Despotic power is thus negatively associated with representation.
16. A feudal domain state is a state in which rulers do not fund the state by tax but by their own land and the dues paid by their peasant serfs (Schumpeter [1918] 1991). In Lieberman's (2003) typology of the tax state, the Chinese state before 1978 was a communist state.
17. For empirical tests of this fiscal constitutional theory, see Timmons (2005, 2010). Acemoglu (Acemoglu 2010; Acemoglu, Johnson, and Robinson 2002) proposes the accountability paradox of a strong tax state, but he leaves the question of why concomitancy unanswered.
18. Martin, Mehrotra, and Prasad (2009:2) write, "We think that the field may be poised to rewrite conventional accounts of modernity itself by placing the social relations of taxation at the center of any historical or comparative account of social change." Another important edited volume on taxation politics is Brautigam, Fjeldstad, and Moore (2008).
19. Communist state is one of Lieberman's (2003:55) five types of tax state, under which "the state's role in the economy is so large that it virtually eliminates the private sphere of the economy. There is effectively no taxation in such cases as the state controls the means of production and need not gain cooperation from non-state actors in order to obtain resources."
20. Because the Chinese government relies heavily on indirect taxes, enterprises pay about 90 percent of taxes (individual income tax was 6.9 percent in 2014). Among the taxes paid by enterprises, domestic enterprises are estimated to pay 51 percent of the total tax revenue (state-owned enterprises [SOEs] pay 33 percent, and the rest is paid by foreign companies) (numbers from *SAT: Tax Monthly Report* [*Shuishou Tongji kuaibao*], percentages estimated by Yongjie Chen, a senior and experienced policy advisor for the central government on private economy). Because the central government-owned SOEs paid most SOE tax revenue, for most local governments, the private enterprises' tax share is much higher.

21. Acemoglu and colleagues (2002) find that in colonies where the colonizers built "extractive institutions," that is, predatory taxation institutions, the economies tended to stagnate or grow slowly. Even when these regions were much better developed at the beginning of colonization, they started lagging in growth due to colonizers' creation of "property rights institutions."
22. Economic slowdown does not necessarily lead to regime breakdown. Other institutions (e.g., coercive control of society and media) are also important to maintain power, although strengthening control requires fiscal revenue. I argue that economic slowdown is bad for authoritarian resilience but not necessarily bad for authoritarian survival. Some important studies on this topic include Smith (2007) on the strength of ruling party and Pepinsky (2009) on ruling coalitions' interests toward economic adjustment. However, for the China case, both academics and policymakers emphasize the importance of performance legitimacy, with economic growth as its core, for the CCP. The CCP national leaders even hesitate to have the economic growth rate lower than 6 percent; they enacted a 4 trillion RMB stimulation package in 2009 to sustain economic growth. Contemporary Russia is a good case to examine this issue.
23. This dilemma also exists in democracies, but it is not a fatal challenge since democracies have more checks on tax legislation and rely on procedure legitimacy rather than performance legitimacy.
24. Skocpol (1979) and Goldstone (1991) also take state financial (fiscal) crisis as a main cause of revolutions worldwide.
25. I do not call this a "taxation dilemma" for authoritarian "durability" because it generates and accumulates potential crises (land transfer fees and local government debt and inequality partially caused by high housing prices) that may harm the economy (and therefore the political system), which is different from Slater and Fenner's (2011) definition.
26. As I will discuss in more detail, formal taxes are only part of government revenue, along with enterprises' "tax burden," including various types of fees, fines, and "donations." All these could be regarded as a broad "taxation system" that shares the characteristic of under-institutionalization.
27. For why case study is good for revealing causal mechanisms, see George and Bennett (2005).
28. See C. Li (2012) for a counter argument. But recent developments in Chinese politics suggest that C. Li underestimated the CCP's adaptive capacity, as Xi Jinping is becoming a strong and powerful leader, factional politics have changed, and a comprehensive reform plan is being initiated and implemented.
29. The communist state took profit from SOEs directly rather than through taxation.
30. Under the communist state, "the state's role in the economy is so large that it virtually eliminates the private sphere of the economy," therefore there is "effectively no taxation" (see Lieberman 2003:55). This concept catches the Chinese state in the early 1980s well; in 2011, the Chinese government taxed 20 percent of GDP, which is close to a tax state.
31. To get valid information, I stayed in a guest house of a county tax bureau for two weeks, interviewing and chatting with tax officers and reading their documents.
32. According to Schumpeter ([1918] 1991), a tax state relies primarily on tax revenue for its expenditures.
33. As discussed earlier, this issue is badly understudied by academics. This section is based on the author's fieldwork (interviews and government archives) and in-depth media reports like: "A Brief Taxation History of a Tax Official," *The China News Weekly*, 2011 Vol. 1; and "How Powerful a Grass-roots Tax Official Is?" *The China News Weekly*, Vol. 3 (2011), and The *Tax Year Book of China* (various years). The first head and founder of NAT, Jin Xin (2008) provides some historical background of tax reform and his personal reflections, and Yu (2007) was also valuable. Cui (2015) calls China's tax administration "non-rule-based." A law scholar, Cui finds that China's tax administration is a relatively understudied black box and reveals that it has a high level of administrative decentralization, which in turn leads to "non-rule-based" tax collection, which is defined as "the tax liability is determined under incomplete information about the law." While I agree with some of Cui's findings, I try to add some empirical and conceptual nuances into the analysis. First, Cui argues that "decentralized tax administration fundamentally increases the costs of communicating the content of law, and alters the transactions costs for taxpayers to interact with officials in such a way that a large body of taxpayers may be engaged in a form of 'semi-compliant' behavior—heeding the preferences of local tax administrators, but in collective ignorance of the law" (p. 5). From the perspective of political economy, however, I focus on the power asymmetry between government and business rather than the transactional costs, which is more important for political economy analysis. Second, I find evidences

that goes beyond "non-rule-based" tax collection, and I propose an "under-institutionalized taxation system" that contains many elements neglected by Cui. Third, I discuss the efforts of tax administrative centralization while acknowledging the high level of decentralization (and incoherence). Fourth, I embed tax administration in the broader political institution, especially the "pressure-based system," to explain the persistence of the under-institutionalized taxation system and the non-rule-based tax collection, as well as emphasizing the importance of the centralization aspect of the taxation system neglected by Cui.

34. For a theoretical discussion of effective taxation system, see Kiser and Schneider (1994).
35. The 1994 tax reform did not get the approval of the Standing Committee of NPC, not to mention the NPC; rather, it was approved by the CCP Central Committee's Standing Committee. A media report shows that only 3 types of tax (out of 18) were approved by the NPC and its Standing Committee (http://news.xinhuanet.com/politics/2013-03/10/c_114969944.htm?prolongation=1).
36. A senior tax law professor suggested that at that time, given the limited capacity of tax collection and a narrow tax base, the SAT headquarters intentionally set the nominal tax rates high (author's interview, June 11, 2015).
37. For a theoretical explanation of the street bureau's discretionary power, see Lipsky (1980).
38. Under the political system, where nomenklatura still plays an important role, local government and its bureaus work under a "pressure-based system" (*yalixing tizhi*), which is defined as a system that "in order to achieve the economic 'catch-up' plan and meet the targets set by the supervisors, the county and township-level political organizations assign targets, which can be measured quantitatively, to lower level organizations and individuals who must meet reach their assigned targets in a given time. Cadre's ability to meet these targets will be awarded or punished both economically and politically" (Rong et al. 1998:28).
39. This exceptional company was a foreign supermarket chain (author's interview, June 13, 2010, Hunan). Interviewees were guaranteed anonymity.
40. Through promoting rapid economic growth, which enlarges the tax base, the CCP increased its tax revenue. At the same time, due to industrialization and economic growth, the informal economy also decreased (relatively) and enterprises grew, which made it easier for tax bureaus to collect taxes by reducing the transactional costs.
41. Nationwide, private enterprises (excluding joint stock companies that have both public and private investment) paid only 10.2 percent tax revenue from 2006 to 2010 (author's calculation, based on data provided by National Tax Administration (2011). But at the county and prefecture levels, especially in some coastal provinces, private enterprises pay more than one-third of total tax revenue. Many "major taxpayers" (*Nashui dahu*) are private enterprises.
42. Official statistics group private entrepreneurs with other "social groups," like workers, peasants, intellectuals, and cadres. The LPPCC has a category titled *economic group* (*Jingji jie*), but many private entrepreneurs have positions in other groups (e.g., technology, cadre). Precise numbers are not available.
43. I conducted my fieldwork in four counties and in one district of Taiyuan city, the capital of Shanxi province in 2010 (for more details, see Zhang 2017); Wei (2014) finds that in a county People's Congress (PC) in Jiangsu province, about 36 percent of Local People's Congress (LPC) deputies were private entrepreneurs.
44. Studies of LPCs have not achieved consensus on whether they are becoming more representative. Manion (2014) claims that LPCs are becoming more representative (therefore declining in despotic power), but Yan (2011) takes LPPCC as an effective co-optation instrument (following Gandhi's co-optation theory for authoritarian resilience), and Sun, Zhu, and Wu (2014) describe LPCs as an "organizational clientelism platform." The author (Zhang 2017) engages with this debate and supports the clientelism position: Many private entrepreneurs were motivated to become LPC deputies to build patron-clientelism ties that could protect them under a non-rule-of-law society (of which an under-institutionalized taxation system is a crucial part), to get better business opportunities, and to achieve a social reputation. Representing others was not an important motivation for these private entrepreneurs. And Ma and Lin (2015) find that LPCs have very limited, if any, budgetary power. This further supports my argument that the CCP still has strong despotic power.
45. The original item specified the amount to be RMB .1 million Yuan; in 2008, it was revised, and no specific amount was listed.

46. This resonates with Bellin's (2000) typology of strong dependence and strong fear.
47. This is similar to what Waterbury (1997) finds in other developing countries.
48. As a department-level (*si ju ji*) government officer said in an interview, in some regions, investors were enticed by local political leaders to invest with privileged policies. However, when that political leader leaves (is promoted, moves, or is removed), investors may face difficulties, because the successor may change the policies or become predatory. "They leave with tears" (author's interview, August 7, 2013, Xinjiang).
49. For a theoretical debate on how the dominant party's access to public finance, especially from SOEs, strengthens its power, see Greene (2010).
50. According to an estimation by Ma (2011), the SOEs' share of national tax revenue was 35 percent in 2007. Because SOEs have expanded rapidly in recent years, their share of national tax revenues should now be much higher.
51. Because the CCP relinquished control of banks in the late 1990s, banks began to demand stable backing to make loans to local governments, which led governments to use land to ensure their loans (Zhou 2012).
52. Local governments' increased reliance on land transfer fees increased land costs for enterprises. The resulting housing bubble added to labor costs.
53. China's 4 trillion RMB stimulus was crucial to maintaining its GDP in 2008.
54. In 2014, land revenue declined rapidly in many regions (see Zhang 2015).
55. For a study of how land transfer fees (and agriculture taxes) lead to social grievance and disputes and how these disputes are resolved without hurting authoritarian regime, see Zhang and Heurlin (2014). An important consequence of land-taking resistance is rapidly increasing land compensation. In some regions, the price of land compensation is very high and makes land transfer not as profitable as before. According to a recent report, expenditure on land compensation in 2013 was 2.1 trillion RMB Yuan, plus the land development and other related costs; total costs were equal to the land transfer fee, which was 3.9 trillion (http://house.nen.com.cn/fangchan/web/html/100312/2014722/1405994826729.shtml). This is another reason why land finance is unsustainable.
56. Individuals' income tax is also ineffective in redistribution because it is burdened by the middle class who rely on salary income. This is another possible characteristic of an under-institutionalized taxation system.
57. The National Bureau of Statistics (NBS) data show that China's Gini coefficient saw the fourth consecutive fall in 2012, after rising to .491 in 2008 from a low of .3706 in 1997.
58. The NBS data are regarded as highly underestimated, according to Xiaolu Wang and Woo (2011) who argue that "hidden household income[s]" in China is badly under-estimated; they suggested that "the Gini coefficient is probably much higher than the 0.47 to 0.50 calculated by different experts" (Xiaolu Wang and Woo 2011:22). According to the latest data released by the China Family Financial Investigation and Research Center, the Gini coefficient of the Chinese household income in 2010 was .61, much higher than the official data of .481 (http://www.sino-us.com/11/1211077639.html).
59. The relationship between inequality and economic growth is still debated. Some scholars find that indirect taxes may increase inequality but improve economic growth while direct taxes decrease inequality but block economic growth because of their incentive distortion effects (e.g., Liu and Martineze-Vazquez 2015). Some scholars find inequality has a positive effect on economic growth in the short term and a negative effect in the long term (e.g., Kula and Millimet 2010). Inequality may affect economic growth through production and consumption sides, so the effects could be mixed. Chinese policymakers and economists in official think tanks believe that high inequality limits domestic consumption and therefore blocks further economic growth (e.g., Jiang 2010; K. Li 2012).
60. In 2013, 31 high-level SOE managers and chairmen were charged with corruption (http://news.iyaxin.com/content/2014-02/20/content_4433492.htm); in the first four months of 2014 (to April 24), 19 high-level SOE managers and chairmen had been charged with corruption (http://news.xinhuanet.com/legal/2014-04/24/c_126425485.htm).
61. See http://www.mof.gov.cn/zhuantihuigu/cztz/mtbdljw/201311/t20131121_1014343.html, last accessed on August 12 2014.
62. In the early 1990s, the CCP faced fiscal crisis when two ratios (the tax/GDP ratio and the central tax/national tax ratio; see S. Wang and Hu 2001) were decreasing rapidly. The central government could not raise necessary tax revenue to cover its expenditures.

63. The CCP is a classic case of Svolik's (2012) ideal type of resilient single party, which has three common organizational features that sustain authoritarian rule: hierarchical assignment of service and benefits, political control over appointments, and selective recruitment and repression. Like the "pressure-based system" or cadre evaluation system, which the taxation system is embedded in, the CCP's institutional capacity was crucial to successfully recentralizing its taxation system and improving its effectiveness (see also Cai and Triesman 2006; Yang 2006; Zhan 2009).
64. In a comparative study of the Soviet Union (1985 to 1991) and China (1979 to 1994), Solnick (1996) argues that the CCP maintained its hierarchical authority. See Whiting (2001) and Zhan (2009) for discussions of recentralization of taxation power.
65. I follow Besley and Persson (2011) in addressing the epiphenomena problem by dividing institutional development into two stages: Initially, the ruler chooses whether to invest in building taxation capacity; then, having decided to invest, taxation institutions become important because of their inertia, and they set institutional constraints on the ruler.
66. See Pepinsky (2014) for the exogeneity problem in institutional explanations of authoritarian resilience.
67. On using quasi-parameters to explain endogenous institutional change, see Greif and Laitin (2004).
68. See Hellman (1998) for the partial reform equilibrium.
69. The official statistic is half a million. However, this includes only civil servants (*gongwuyuan*) and excludes public service unit employees (*shiyebian*). Various outlets, including a public talk by the head of NTS, have reported that there are "1 million tax officers." Moreover, this includes many contract workers, whose numbers are hard to estimate.
70. Therefore, we can make a "timing and sequence" (Pierson 2004) argument by comparing the transitional countries and the other two types, as mentioned earlier.
71. As Naughton (1995) puts it, growing out of the plan.
72. The Minister of Finance, Lou Jiwei (2013), admits that in the long run, rule of law and civil society are necessary for improving fiscal and taxation system.

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