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Abstract

A salient organizational phenomenon in the Chinese bureaucracy is collusion among local governments in response to policies and directives from higher authorities; local governments often form alliances to compromise the original intention behind state policies. There are thus significant and persistent deviations and goal displacement in policy implementation. This article develops an organizational analysis and theoretical explanation of this phenomenon. It argues as follows: Collusion among local governments, though informal, is generated and perpetuated by the institutional logic of the Chinese bureaucracy, results from organizational adaptation to its environment, and hence acquires legitimacy and becomes highly institutionalized. In particular, the institutional logic of the Chinese bureaucracy has generated three organizational paradoxes—uniformity in policy making and flexibility in implementation, incentive intensity and goal displacement, bureaucratic impersonality and the personalization of administrative ties—which provide legitimate bases for collusion among local governments. Bureaucratic collusion has been greatly exacerbated in recent years because of the unintended consequences of the centralization of authority and the enforcement of incentive mechanisms in the bureaucracy.

Keywords

bureaucracy, bureaucratic behavior, collusion, centralization, incentive design

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The Organizational Phenomenon and Research Issues

Local governments, at the lower levels of the Chinese bureaucracy and as the direct link between the state and society, occupy a strategic position in Chinese society. The relationship between local governments and the central government has been a main area of inquiry and a key to understanding China's ongoing transformation. Researchers have examined various aspects of the conditions and behaviors of local governments. Some have emphasized the role of local governments as a (more or less) autonomous authority actively promoting economic development under their jurisdiction (Oi, 1999; Walder, 1995); others have called attention to the fragmented authority in the Chinese bureaucracy and the active role of local authorities in their interactions with the state (Lieberthal and Lampton, 1992; Shirk, 1993; Shue, 1988). Since the mid-1990s, there has been an increasing centralization of resources and decision-making authority in Beijing. In the daily operations of the Chinese bureaucracy, a major responsibility of a local government (or agency) is to implement various policies and bureaucratic fiat from above. Recent studies published in Chinese have significantly enriched our knowledge in this area, providing both insight into and rich empirical evidence on bureaucratic phenomena (Wu, 2007; Zhang, 2000; Zhao, 2005, 2006b; Zhou Feizhou, 2006).

A salient organizational phenomenon in the Chinese bureaucracy is that officials in local governments have a tendency to form strategic alliances and develop coping strategies in ways that often sidetrack or sabotage state policies, or impose their own interpretation in the implementation process, leading to systematic deviation from the original intention behind these policies. This situation is vividly captured in a popular Chinese saying: "From above there are imposed policies, and from below there are evading strategies" (*shang you zhengce, xia you duice*). As an illustration, an official in a township government recalled his own experience in implementing family planning policies:

[In the family planning area,] there were inspection teams from family planning agencies at county, municipal, and provincial levels. When the provincial inspection team came, agencies at the municipal, county, and township governments would form an alliance in response; when the municipal government came for inspection, agencies at the county and township levels would form an alliance in response. When the provincial inspection team arrived in a county for an inspection, it did not notify the local government where it would go to inspect. But local

governments at different levels were all mobilized to deal with it. Before the inspection team had arrived, officials from the municipal government would notify their subordinate offices in advance: "Make sure that no problems arise in the inspection process." When the inspection team arrived at the county government, all township governments in the county were notified, and they were mobilized in response. As soon as the inspection team left for a village in a township, there would be phone calls made to that township government and village, with detailed information about the activities of the inspection team, including their vehicle license number, whereabouts, travel routes, etc. Usually the inspection team arrived at the target village before 8:00 in the morning. So, early in the morning, the village head would send out village cadres to guard all main roads leading to the village. As soon as they saw the inspection team coming, they would notify the village, and those babies that were born in violation of the family planning regulation were moved out of the village. (From fieldnote H2345)

Instances abound of strategic alliances among local governments in response to policies and inspections from the higher authorities, as frequently reported in the Chinese media. In one episode, the inspection team from the State Administration of Work Safety ordered the closure of small coal mines in a township for violating safety regulations, and the township government obliged. But the day after the inspection team left, these coal mines were reopened and in full operation. When this was reported in the media, officials from the township to the municipal government openly denied that the coal mines had been reopened (<http://gb.cri.cn/9083/2006/01/09/116@852672.htm>). In another instance, a county government distorted the state Sloping Land Conservation Program and diverted the special-purpose fund to benefit their officials. Several investigations by the higher authorities, even with the premier's direct intervention, were unsuccessful due to the effective resistance put up by the local governments (http://news.xinhuanet.com/lianzheng/2007-09/21/content_6764182.htm). There are other cases where local officials abused their power and bullied ordinary citizens in their jurisdiction. And they were able to cover up for each other to prevent such incidents from being openly revealed (Chen and Chun, 2004). Such behaviors may take different forms: In some instances, lower-level officials are involved in illicit activities and lobby their superiors for protection; in other cases, the superiors may ask their subordinates to cover up problems on their behalf so as to deal with inspections and reviews from the authorities above. More often than not, such behaviors involve both the local government and its

supervising agency on a continuous, interactive basis. Obviously, such strategic alliances among local governments, their coping strategies and behaviors are at odds with the original intention behind the policies or directives from the higher authorities; as a result, these activities are often hidden, informal, and coordinated through side channels (e.g., under-the-table arrangements, informal dealings). I use the term *collusion among local governments* to characterize this class of government practice. The practice of collusion, while ever present in the Chinese bureaucracy, has become especially prevalent in recent years, permeating wherever state policies reach; and it is stubbornly resilient, defying the central government's repeated efforts to rein it in.

Stable organizational behaviors are sustained by stable institutional foundations and reproduced through their interactions and resource exchanges with the organizational environment. Starting from this premise, I seek answers to this organizational phenomenon by developing an organizational analysis and theoretical explanation, drawing especially on insights from institutional theory in organizational sociology. The key arguments to be developed are as follows: In the Chinese bureaucracy, collusion among local governments has become an informal but highly institutionalized practice. Here "institutionalization" refers to the processes through which a specific organizational practice or form has been widely accepted in the organizational environment such that it is seen as appropriate, taken for granted, and hence legitimate. That is, such collusive behaviors are products of the institutional environment in which local governments are situated; hence they are justified and reinforced by the institutional logic in the Chinese bureaucracy. By *institutional logic*, I mean those institutional arrangements that generate and reproduce stable and predictable behavioral patterns. As a result, the institutional mechanisms in the organizational environment perpetuate and reinforce such organizational forms or practices (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). Indeed, the collusive phenomena described above share the characteristics of an institutionalized organizational practice: On one hand, these collusive behaviors have the effect of diverting or evading the original policies or directives; hence they are at odds with state policies and regulations. On the other hand, these behaviors are by no means secretive, isolated behaviors by individuals, groups, or agencies. More often than not, such behaviors take place in the open within the formal organizational structure; they are carried out through the formal authority of government agencies. And such behaviors have become "common knowledge" among subordinate and supervising agencies as well as policy makers in Beijing. The goal of this article is to explicate the institutional logic and develop theoretical explanations of the organizational practice of collusion among local governments.

Decision Making and Decision Implementation in Organizations: An Analytical Framework

In the economic literature, collusion refers to behaviors among large corporations in oligopolistic markets that aim at secret (or tacit) agreements using such noncompetitive strategies as price fixing or market partitioning to gain benefits above those from competitive prices. Such behaviors harm social welfare, hinder market competition, and violate government antitrust regulations; they are usually carried out in hidden, informal, and hence collusive forms (Tirole, 1988). In recent years, economic research has called attention to collusive behaviors within organizations. For example, an important source of collusive behavior is the distribution of information within an organization. The presence of asymmetric information makes the owner of the corporation (the principal) ineffective in controlling collusive behavior between managers (the supervisor) and workers (the agent). Tirole (1986, 1992) proposed a game theoretic model involving interactions among three actors (principal-supervisor-agent) to analyze collusive behaviors between the agent and the supervisor in response to the principal in a hierarchical context; there is a growing literature in this area (Laffont and Martimort, 1998; Laffont and Rochet, 1997; Vafai, 2005).

Building on Tirole's (1986) analytical concepts outlined above, I now provide a more precise delineation of the subject of this article. The collusion phenomenon in this article refers to cooperative behaviors between lower-level local government (or an agency) and its immediate supervising government (or agency), often in the form of various coping strategies to deal with policies, regulations, and inspections from the higher authorities, which is inconsistent with the original intentions behind the policies. That is, my analytical focus is on the relationship between local government (the agent), its immediate supervising agency (the supervisor), and higher-level government (the principal), especially collusive behaviors between governments of the first two levels in dealing with higher-level authorities. Here, the locations of the local government, immediate supervising government, and high-level government are relative. In the implementation of policies from the central government, provincial, municipal, and county governments all belong to the category of "local governments" in this analysis; but in instances of implementing directives from the provincial government, municipal and county governments are the "local governments." Similarly, in response to inspections from the county government, township governments and village committees become the "local governments." For the purpose of exposition, in this article I will illustrate my arguments mostly using the scenario in which local

governments (the supervising and subordinate governments at lower levels) collude in response to the central government and its policies. But the basic arguments developed here also apply to collusive behaviors among local governments (agencies) at other levels.

There are both similarities and important differences between collusion among local governments and that among large corporations as discussed in the economic literature. In terms of similarities between the two, first, in both government and business, such behaviors involve nonmarket transactions, and they tend to be informal and hidden; second, the structures of information and payoff among the principal, supervisor, and agent are similar in the collusion game among governments and among firms. It is not surprising, then, that similar mechanisms and environmental conditions cultivate parallel behaviors in these two areas. But it is also important to highlight the key differences between the two. First of all, collusion in the business world takes place among independent firms, whereas collusive behaviors among governments studied here often involve interactions among agencies within the same hierarchical structure, often further involving a direct, superior-subordinate authority relationship (e.g., between a county government and a subordinate township government, between the family planning bureau at the county level and the family planning office in the township government). Second, collusion among firms constantly faces the threat of government regulation and penalty; hence it tends to be secretive. But collusion among local governments often operates openly within the formal government structure. Therefore, there are significantly different enforcement mechanisms involved in these two areas.

My study is not the first to observe and examine the importance of informal behaviors in processes of policy implementation in China. Chinese sociologists have studied this phenomenon extensively and have developed the concept of *biantong*, which refers to the adaptive use of informal devices or improvised strategies, often based on social relations, to carry out bureaucratic tasks, in contrast to official procedures, official rhetoric, or formal authority. For example, Sun Liping and Guo Yuhua (2000) found that in the process of tax collection in villages, local officials used informal social relations rather than formal authority to persuade villagers. Ying Xing (2000) showed that local cadres adopted improvised strategies to deal with problems and conflicts at the local level, suspending or shelving formal procedures and directives from above. These studies emphasized the importance of informal, social relation-based strategies in policy implementation. Building on these arguments, this article aims to advance this line of research in several ways: First, I develop theoretical explanations based on organizational analysis, providing a perspective different from previous ones; second, I focus on collusion

within the Chinese bureaucracy, in contrast to the focus on the state-society interface in previous studies; third, while previous research emphasized the positive aspects of the improvisational behaviors in carrying out government tasks or in problem solving, this article focuses on more general patterns of collusion among governments, which includes both collusion between governments and individuals and groups (e.g., collusion between local officials and villagers in the area of family planning) and interactions among government agencies. In this analytical framework, improvised strategies are a special case of the general category of collusive behavior; that is, different situational definitions and logic are used in collusive behavior to deal with policies from above.

The premise of the proposed organizational analysis is that an organization is an organism with bounded rationality that evolves continuously in interactions with its environment. The traditional image portrays formal organizations as the product of rational design. In this view, an organization is a vehicle for individuals to pursue their goals. For instance, individuals of shared interests form political parties to pursue their political goals, establish administrative apparatuses for coordination and management in an arena, or form firms to realize innovation and gain profits or schools for the purpose of attaining educational goals. To effectively achieve organizational goals, the founders and members of an organization have developed formal organizational structures and, within them, various designs of operational flow, division of labor, information processing as well as incentive designs. However, a large number of studies in organization and management research have shown that changes in and the evolution of organizations do not always follow the blueprint of their rational design; instead, organizations are often constrained by processes and conditions in the larger environment. Indeed, a central theme in the literature of organizational sociology is the relationship between organizations and their environments. Organizations must exchange resources with their environments in order to survive and prosper. As such, the latter imposes constraints on, and hence shapes, the behaviors of organizations (Pfeffer and Salanick, 1978; Selznick, 1949). Often much of what an organization does reflects its strategies of coping with its environment. This recognition directs us to seek explanations of an organization's behavior in its relationship with the environment (Scott, 2003; Wilson, 1989). Moreover, the effectiveness of organizational design is always conditional on the specific context in which an organization is situated; by the same logic, theories of organizational design also have their specific scope conditions, beyond which these theories become inapplicable. This means that mindless adoption or imitation of organizational designs from other areas without a careful consideration of

the scope of applicability is likely to induce organizational behaviors that are at odds with the original intention of the design. For example, a hierarchical organization is likely to be effective for implementing administrative orders across levels, but such an organizational structure imposes serious constraints on an organization's capacity to adapt to the local environment or an environment that changes frequently. In brief, the bounded rationality of organizational behavior, the dependence of organizations on their environments, and the conditional nature of organizational design are the key themes of the proposed organizational analyses.

To be sure, collusion among organizations, including local governments, is by no means a phenomenon unique to China. Along with the increasing scale of formal organizations in contemporary societies (government agencies, corporations, schools, and NGOs), a salient, chronic problem has plagued formal organizations—the loose coupling, separation, tension, or even conflicts between decision making and decision implementation. Policies made at the top of an organization—their goals or intentions—are often diluted, distorted, sidetracked, or displaced in the process of implementation. To a great extent, deviation in the implementation process is an unavoidable cost of scale. In this vein, McAfee and McMillan (1995) called attention to “organizational diseconomies of scale” in the context of industrial organizations. The increase in the scale of formal organizations implies that the processes through which administrative directives or policies are implemented become lengthened accordingly, inevitably involving more and more intermediate steps and agents. Those involved in the implementation process are not merely “organizational men” who mechanically follow orders from above; rather, they are socialized human beings with feelings, judgments, and interests. And they bring their own cognitions, judgments, and interests into the implementation process.

On this basis, March (1988) developed an important proposition in the organization literature: *Implementation is the continuation of organizational decision making*. That is, the very implementation process will significantly affect and reshape the outcomes of the decisions made in the early phase. This line of argument calls for an integration of decision making and decision implementation into one analytical framework, and highlights the importance of the personnel and mechanisms involved in implementation processes. In this light, a decision made without full attention to the prospects of implementation is by no means effective decision making; in the same vein, research on organizational decision making that does not give serious attention to implementation processes suffers a serious flaw in research design.

Before I proceed, two further clarifications are in order. First, as suggested above, the category of “local governments” is a relative one, depending on one’s analytical focus in specific cases. In this article, my analytical focus is mainly on the lowest levels of the Chinese bureaucracy at the county, township, or even village/street levels. This is partly because my study is better informed by my fieldwork at these lower levels and partly because it is generally the case that the lower the administrative level, the less policy initiative one can take, and the more obligations one shoulders in policy implementation. Therefore, collusive behaviors are especially relevant and prevalent at the lower levels. Second, although it is often advisable to maintain a careful distinction between local governments and local officials who work in these governments, this is not the case in this study. From the institutional perspective that motivates this study, the very behaviors of local officials are *institutionalized practice* on the basis of the government organization. In this article, therefore, such a distinction is not meaningful and will not be maintained; instead, I use “local governments” and “local officials” interchangeably in my discussion below.

Organizational Paradoxes and the Institutional Logic of Collusion

From the perspective of organizational analysis, I argue that collusion among local governments can be explained by the incomparability and contradictions among the institutional environment, decision-making processes, and incentive designs in the Chinese bureaucracy. Ironically, collusion is often an unintended consequence of the “rational” design of government reform in recent years. The proposed organizational analysis leads me to highlight three organizational paradoxes in the Chinese bureaucracy: (a) the paradox of uniformity in policy making and flexibility in implementation, (b) the paradox of incentive intensity and goal displacement, and (c) the paradox of bureaucratic impersonality and the personalization of administrative ties. In this section, I organize my discussion and illustration around these three themes.

The Paradox of Uniformity in Policy Making and Flexibility in Implementation

To understand collusive behaviors in the Chinese bureaucracy, it is useful to first characterize the organizational environment in which local governments are situated. In the Chinese bureaucracy, governments or agencies at different

levels all belong to the same bureaucratic system. Weber (1946) pointed out that a main characteristic of bureaucratic organizations is the transmission of information and directives through formal authorities and written documents. As in other Weberian bureaucracies, in the Chinese bureaucracy higher authorities direct the work of their subordinate offices through policies or bureaucratic fiats; accordingly, a main component of activities in local governments is to respond to and implement policies and directives from above. A local government (e.g., a township government) and its immediate supervising government (e.g., the county government) have a direct administrative authority relationship, sending or receiving directives directly from or to each other. Other government apparatuses or agencies above the immediate authority link or agencies at lateral levels do not have a direct administrative relationship. As such, a local government (agency) at a particular level is mainly responsible to its immediate supervising government (agency). In line with the principal-supervisor-agent framework, we can treat the higher authorities beyond this immediate superior-subordinate administrative link as the principal. From the perspective of organization-environment interactions, policies and regulations from above and demands from local constituencies and lateral government agencies can be seen as the organizational environment in which a local government is situated and to which it must respond. Among the multitudes of environmental conditions, the most important one is the policies and regulations from the central government. Since the mid-1990s, along with the centralization of financial resources toward the central government, there has been a corresponding centralization of policy making in the Chinese bureaucracy. In this light, state policies have become an especially assertive aspect of the organizational environment for local governments.

One characteristic of this organizational environment is the uniformity of the state policies that local governments are required to implement within their jurisdiction. That is, the central government (its ministries or agencies) develops policies or administrative fiats that are intended to be applicable and implemented in all regions and localities or in the entire policy arena. For example, policies and regulations such as family planning, workplace safety, and environmental regulation are transmitted through a top-down process to different levels of the local governments or agencies, covering different areas and localities in the entire administrative jurisdiction. And local governments develop policy specifics and targets, make plans and procedures, and mobilize organizational resources for implementation further downstream. Subsequently, supervising governments/agencies enforce and review the effectiveness of the implementation by collecting relevant data, receiving reports

from subordinate agencies, or conducting direct inspection. Studies have shown that local governments spend a large amount of time and energy coping with the implementation of various policies and the subsequent inspections from the higher authorities (Zhao, 2006a).¹

Uniformity in policy making is by no means an incidental organizational practice. Rather, it is at the very core of the authoritarian state, reflecting and reinforcing the central authority through centralized decision-making processes. By definition, national policies must be made through a centralized process, and the content of such policies is necessarily uniform, disregarding variations across localities and areas. What is distinctive about the Chinese bureaucracy in recent years is both the growing scope of policy areas and the greater extent of centralization in resources and decision-making authority, as compared with other national governments or the Chinese government in the early years of reform. As the state expands its authority and centralizes resources in these areas, uniformity in policy making has become increasingly prevalent and imposing.

Yet, an unavoidable consequence of uniformity in policy making is that policies thus made do not fit each and every locality across administrative jurisdictions or policy areas; as such, they engender difficulties, tensions, and challenges that local officials have to deal with in the implementation process. For instance, the same state policy on family planning is applied to most regions in China, but because of local variations in childbearing desires, government resources, and organizational capacities, the feasibility and challenges of meeting these policy targets vary greatly across local governments. As another example, the policy on encouraging foreign investment is applied to all local governments in a particular jurisdiction (e.g., Guangdong province). But local conditions in economic development, manufacturing facilities, and other industrial conditions vary greatly; as a result, the feasibility of meeting policy targets also varies greatly across local areas.

These micro variations imply that accompanying the uniformity of state policies is the indispensable mechanism of *flexibility* in implementation. Here, flexibility refers to local adaptation that has been made in the implementation of state policies.² *Flexibility* is used here as a neutral term that includes those adaptive behaviors that lead to a better fit of policy goals and local conditions as well as those deviations from intended policy goals due to interest conflicts, political sabotage, or other circumstances. We can observe various types of flexibility in policy implementation in everyday life across localities and over time. Spatially, we find considerable variations across regions and arenas in the implementation of the same policy, and such differences are accepted by the supervising governments. Over time, we also observe

significant, temporal variations in the effectiveness of policy implementation in the same locality. For example, when the pressure for policy enforcement is high (e.g., the launch of the anti-piracy campaign), different localities may be actively involved in implementing a policy, producing a temporary situation in which there is a high uniformity across localities, but once the pressure is lifted or diverted, local differences reemerge, which is recognized as legitimate by the higher authorities. Such flexibility is also reflected in differences between symbolic compliance and actual implementation. Symbolically, different localities show a high level of uniformity in implementing state policies, but in the actual implementation, considerable flexibility is permitted.

Why is flexibility prevalent in policy implementation? To answer this question we need to consider the sources of flexibility in the Chinese bureaucracy. In terms of organizational design, we may distinguish three types of flexibility in implementation. The most obvious one is *flexibility by purposive design*—that is, the original policy making leaves room for flexible implementation. For example, a state policy may set the main parameters of policy targets but allow local governments to specify or adjust the details of implementation. And higher-level governments tend to either acquiesce in or explicitly encourage flexible local adaptation. This approach delegates the authority of interpretation and implementation to local governments and the supervising authority to their immediate superior agencies. The rationale is straightforward: The immediate superior agencies have better information about their subordinate agencies and the implementation processes, and they are in a better position to evaluate the performance of these agencies in implementation. Thus, this institutional practice provides the main source of legitimacy for both the supervising and subordinate governments to be flexible in adapting state policies to local conditions.

The second type of flexibility is what I label *flexibility of unintended design*, as in the form of “resource transfers” by the local governments across different policy arenas or different channels in order to get the job done. I single out this type of flexibility because of its pervasiveness in the daily operations of local governments. In their daily operations, local governments face multiple tasks and multiple goals that are themselves incongruent or even in conflict, which often gives rise to situations where government behavior is seen as inappropriate in one policy arena but may be reasonable and legitimate in view of another policy or regulation. In one instance, a township government was given the responsibility of implementing government “road construction” projects and the Sloping Land Conservation Program (SLCP) in villages.³ In one village, the implementation of the former incurred a large amount of collective debt due to the lack of government funds for that project.

As pressures from creditors mounted and threatened “social stability,” the township government acquiesced in the village’s transfer of government funds from another policy arena (in the SLCP area) to deal with this crisis (Zhou Xueguang, 2008). In view of the stipulations accompanying SLCP funds, which require that the funds be allocated to the designated arena, such a resource transfer violates policy regulations; but from the point of view of the local government, this transfer is necessary and entirely reasonable. More generally, many governmental behaviors that are in violation of some formal regulation may be seen as reasonable and commonsensical in the eyes of the local officials who are dealing with multiple, pressing demands with meager resources. In reality, to a great extent local governments in resource-stricken regions operate in this manner.

The third type is *flexibility by special interests*, which refers to situations where sound state policies are distorted in the implementation such that some group can take advantage of the policies and benefit accordingly, whereas policy makers are unable to impose effective supervision to curb such behaviors. As in the example discussed earlier, when implementing the SLCP program, officials in a county government pursued their self-interest by distorting the policy and directing resources to their own interest group, contrary to the intention behind the policy.

From a normative point of view, of the three ideal types of flexibility sketched above, the first is beneficial for social welfare in general, and is permitted and encouraged by policy makers. The second type is illicit from the point of view of the policy makers/regulators in a specific policy arena, but it is reasonable from the point of view of local governments and their immediate supervising agencies involved in the implementation process; such behaviors are generally beneficial in terms of social welfare. The third type of “flexibility” is detrimental to social welfare and policy goals, and is prohibited by governments of all levels.

Is it possible to develop an organizational design to distinguish between these three types of flexibilities such that “good” flexibility is encouraged whereas “bad” flexibility is eliminated? This is highly unlikely. We can illustrate this point using Williamson’s “selective intervention” argument, which was formalized by Baker et al. (2001). As Williamson (1985) argued, in an organizational context where both market and hierarchical mechanisms coexist, the principal cannot arbitrarily choose between market and hierarchical mechanisms to solve problems within the organization. This is because there are different incentives associated with different governance mechanisms such as hierarchies or markets. An organizational form or practice, once institutionalized, is likely to drive out other mechanisms that are incompatible

with its own. And arbitrary substitution of alternative mechanisms will generate internal tensions and conflicts, and incur higher transaction costs. This proposition can also be used to explain the dilemma of “selective intervention” in the choice of “good” flexibility versus “bad” flexibility. An organization with mechanisms for flexibility encourages employees to take the initiative and be active in problem solving and seeking local solutions. To accomplish this, it needs to consciously select and promote employees who behave this way, and design incentives to encourage such behaviors. Such practices are likely to become routinized for organizational retention. In contrast, temporary efforts in selective intervention to curtail “flexibility” are incompatible with the established behavioral patterns, shared norms, and incentive design. As a result, the strategy of “selective intervention” is unlikely to be effective. When the higher authorities acquiesce in the “flexible” response of their subordinate governments “here and now” in order to carry out the tasks they impose upon them, they also unwittingly give these subordinate governments a legitimate basis for the same flexibility “then and there” in the face of other pressing demands and challenges.

In the real world, moreover, these three types of flexibility are often intertwined, and it is difficult to disentangle them and treat them discriminately, for at least two reasons: First, even the pursuit of self-interest is likely to be disguised in the name of implementing state policies, and the cost of effective inspection and enforcement may be prohibitively high; second, the actual policy implementation processes are an open arena where multiple mechanisms/interests are involved. To continue the previous example, cadres in a village transferred funds from the SLCP project to make up for the lack of funds in the road construction project, an action that was quietly supported by the township government. In the process of the resource transfer, some cadres also diverted part of the funds to private use. When the higher authorities began to investigate, officials from the county and township governments tried to collude and cover things up. From the point of view of the county government, since the road construction project, which it advocated, made a contribution to the social welfare of the villagers in general, the transfer of funds to other arenas for this purpose was understandable if not laudable. From the township government’s point of view, the transfer of funds allowed the village to carry out a project advocated by the supervising government; such efforts should be encouraged. From the village cadres’ point of view, carrying out the road construction project and gaining private advantages are good for both collective and personal purposes. It is obvious that all three instances of “flexibility” are intertwined in this case. If the private use of the funds was seriously investigated and penalized, the entire road construction project

would have come to a halt; the tasks assigned by the supervising government would not have been carried out, and the village collective would have been paralyzed by the village cadres being removed from office.

Another important source of legitimacy derives from the shared cognition that arises from cooperative behavior among officials in supervising and subordinate governments. Ai Yun (2008) shows that, in the area of implementing family planning policies, governments at different levels play the double role of “inspectors” and “being inspected.” For example, when the bureau of family planning in the county government is inspected by regional and provincial bureaus, the officials in the local bureau are the recipients of the inspection; as such, they collude with the township governments and villages in response to the inspection from above. But when they turn around to inspect these same township governments and villages on their work in the same area, they play the role of “inspectors.” Often these two roles change overnight. Through this process, local officials acquire a double identity, and understand the rules of the game from both sides. Such experiences and identities provide shared cognition among local officials and hence a strong basis of legitimacy for collusion. More interestingly, in this process the relationship between the supervising and subordinating governments also undergoes a subtle transformation—from a formal, authority relationship to an informal, cooperative or collusive relationship; accordingly, the hierarchical structure is weakened and patronized.

Herein lies the organizational paradox between uniformity in policy making and flexibility in implementation: The more uniform the state policy and/or the greater the separation between policy making and implementation, the less the fit between the policy and local conditions, therefore the greater flexibility allowed in the implementation process. In a different light, we can also argue that the key source of flexibility is the lack of capacity or resources of policy makers to directly inspect and evaluate the effectiveness of policy implementation. Often the cost is too high (relative to the benefits) for policy makers to be directly and closely involved in enforcing policy implementation. Therefore, the very nature of policy uniformity foreshadows, intended or not, delegation, discretion, and flexibility in implementation. Indeed, one may argue that collusion and flexible implementation are the same type of behavior with different labels. When the higher authorities acquiesce in these behaviors, they are labeled flexible, even innovative, behaviors; when the higher authorities enforce their policies and do not tolerate such behaviors, they are labeled as deviant and are penalized. The organizational paradox suggests that uniformity in policy making inevitably gives rise to flexibility in implementation, thereby providing the very basis for legitimate

collusion and the institutionalization of collusive behavior. On this basis, I propose the following proposition to summarize the discussion above:

The more uniform state policy is, the more distant it is from local conditions, and the greater the extent and legitimacy of flexibility in the implementation process, the more likely is collusive behavior among local governments.

In the same vein, we can also see that

The more centralized the channel of resource distribution or the longer the chain of command for implementing state policies, then the greater the extent and legitimacy of flexibility the local government will exercise in the implementation process, and the greater the extent of collusion among local governments.

The Paradox between Incentive Intensity and Goal Displacement

Our preceding discussion highlights the role of flexibility in implementation in providing a legitimate basis for collusive behavior. In this section, I further argue that the increasing intensity of incentives in personnel management has ironically provided the impetus for collusion within the Chinese bureaucracy. An important component of government reform in recent years has been to increase incentive intensity for local officials' behaviors by strengthening performance evaluations and more concrete task measurements. However, often such incentive mechanisms fail to produce the desired behavior; at times, they induce behaviors that run counter to the intended organizational design. To put it succinctly, the very incompatibility between the incentive design and the reality of organizations gives rise to tensions and conflicts that exacerbate problems associated with interest articulation and collusive behavior. In this process, formal organizational goals are replaced by other goals pursued by local officials. I use the organizational paradox of incentive intensity and goal displacement to highlight this class of phenomena.

"Goal displacement" has long been discussed in the organization literature. In his classic study of the labor and socialist parties in Europe in the 1920s, Michels (1968) observed that, in organizational processes, political parties had a tendency to deviate from their original goals and pursue other goals that were different from or even opposite the original ones. He used the concept of "goal displacement" to describe this organizational phenomenon. Weber (1946) found similar bureaucratic phenomena: On one hand,

bureaucracies are characterized by clear lines of authority and rule following, which facilitate the pursuit of organizational goals; on the other hand, bureaucracies also have a tendency to strive to perpetuate themselves regardless of their officially designated goals.

Collusion among local governments discussed here inevitably results in goal displacement. That is, often local responses to state policies replace policy goals with other goals pursued by those active in the implementation process. As the example quoted at the beginning of this article shows, in the family planning area, when local governments responded to the inspection of policy implementation from higher authorities, they were concerned less about ensuring the actual implementation of the policies than about adopting coping strategies so as to conceal problems from the inspection team. Similarly, when safety-related accidents occurred, local governments tried hard to cover up the extent or even the existence of such accidents rather than investigate the causes and find solutions.

To a large extent, I argue, these bureaucratic behaviors are the unintended consequences of incentive mechanisms in the Chinese bureaucracy. My proposition here is that the incentive design within the Chinese bureaucracy has induced a strategic alliance among local governments, which provides another institutional basis for collusive behavior and leads to goal displacement. Since the 1990s, the Chinese government has adopted a series of administrative reforms; an important component aims to regulate officials' behavior, provide incentives to induce appropriate behavior, and deter distortion or ineffectiveness in the implementation process. These incentive designs have the following characteristics: First, many policies have specific, measurable targets and performance evaluation. For example, one county government decomposed the implementation of the family planning policy into a 1,000-point plan, ranging from meeting the fertility rate target (200 points), to the chief executive officer's direct involvement in the family planning area (130 points), to upward reporting of information and summaries of work (10 points), and so on. These measures direct the attention of the local officials to issues and areas intended by the policy makers. Second, the incentive design has adopted the so-called joint responsibility principle (*liandai zeren zhidu*): Once a problem is found, not only is the official directly responsible to be penalized, so too are the chief executive officer and the supervising officials. Third, incentive intensity has also increased greatly. For example, the so-called "one item veto" rule (*yipiao foujue*) in the family planning arena dictates that once there is a serious problem in this one area (e.g., the fertility rate does not meet the policy target), then all other accomplishment by the local government will be negated, and chief executive officials will be penalized regardless of their performance in other areas. Obviously, such an

incentive design aims to set policy priorities and enforce implementation by increasing the costs of deviation from policy intentions (incentive intensity) and by establishing measurement accuracy (concrete policy targets) and a clear specification of responsibility (the joint responsibility principle).

Yet, often these measures have had unintended consequences in the actual implementation process. The premise of an effective incentive design is that those who design such mechanisms have a deep understanding of the relationship between incentive mechanisms and organizational behaviors. A poor incentive design induces behaviors inconsistent with organizational goals. Kerr (1975) put it succinctly in his well-known statement on “the folly of rewarding A, while hoping for B.” In recent years, there have been extensive studies of incentives and motivation in social sciences research. For example, Milgrom and Roberts (1992) summarized a set of incentive principles in an economic analysis that shed light on the observed bureaucratic behaviors. The “incentive-intensity” principle states that the design of incentive intensity should take into consideration the relationship between an employee’s effort and output. For example, if the output level is less elastic to an employee’s effort (due to, say, task interdependence on other parts of the organization or unrealistic policy targets), increasing incentive intensity will induce the employee to distort his or her performance record to “meet” policy targets. Another principle of incentive design states that incentive intensity should be proportional to the accuracy of performance measurement. If an official’s performance is difficult to measure accurately and objectively, increasing incentive intensity would only induce him or her to strengthen his or her ties with those supervising officials who conduct evaluations on a subjective basis. I have previously shown that the promotion mechanisms in the Chinese bureaucracy provide strong incentives for local officials to pursue extrabudgetary resources and extract resources downward in their jurisdiction, even though these behaviors are explicitly prohibited by state policies in this area (Zhou Xueguang, 2005; see also Zhou Li’an, 2007). The same logic can also be extended to explain collusive behaviors among local governments. In this regard, a main contributing factor is that higher authorities often push for “administrative achievement” (*zhengji*) for career advancement and impose policy targets without due consideration of the costs and challenges in the implementation process. An official at the residential management office of a municipal government made the following observation:

In the past, a policy would undergo a certain process of experimentation and evaluation in selected localities before it was formally adopted.

But now our superiors are anxious to have “administrative achievement.” Often they would propose a new project and push for broad adoption even before the experiment had been completed. This resulted in a great disparity between the proposed policy and local circumstances in different areas. . . . We [local officials] have to face many challenges in our daily work, and the most challenging one is the unrealistic, unachievable goals our superiors impose on us. Nowadays, superiors just pat their forehead and make decisions arbitrarily. Sometimes they ask you to take down the moon for them in three days! They don’t care whether you’re able to do it or not. They give you an order, but they don’t give you a chance to reason with them. All that they’re concerned about is the outcome, and not the process by which you get it done. (From fieldnote G0515)

Facing unrealistic policy targets and strong incentive pressures, local officials develop coping strategies in the form of collusive behavior to “manufacture” records and statistics to meet policy targets or to transfer resources from one policy area to accomplish the impending policy tasks in another area. Such transfers of resources are in violation of government regulations, which induces further collusive behavior in order to cover up. It is not surprising then that the intensive incentives adopted in recent years have exacerbated organizational behaviors that run counter to official goals, leading to the phenomenon of goal displacement. At the height of the implementation of the family planning policy some years ago, a township official observed,

The family planning area is governed by the “one item veto” rule. If there are problems in this area, governments at township, district, and municipal levels will all be affected. But if we have done our work too well, that’s also not good. In a township, there are only two full-time staff members in charge of family planning; we are short of staff and have had to hire another twenty some temporary staff members to implement policies and deal with emergencies. These extra hands are not paid out of the government budget. Rather, we pay them from the fines we collect from people who have violated the policy. If our work were really good and there were no violations, you wouldn’t be able to impose fines, and so wouldn’t be able to afford to hire these extra hands. So, there’s always some natural point of equilibrium. We’ll find two or three violations each year, and the imposed fine of about RMB 200,000 to RMB 300,000 will support the extra hands we have hired to implement the family planning policy. (From fieldnote G0520)

At the same time, the “joint responsibility” policy induces the formation of strategic alliances of shared interests among local governments. Again take as an example the family planning arena. According to this policy, once a serious problem is revealed, the official in charge of this area and the chief executive official, as well as those in the supervising agency, will be penalized. This incentive mechanism, intended to induce local officials to take an active role in the enforcement of policy implementation, inadvertently induces collusive behaviors among officials. And this trend has accelerated in recent years. Along with the centralization of resources in the central government, local governments are often in serious debt, with meager resources to respond to the multitude of tasks and crises they must shoulder. Often resources intended for the implementation of a particular policy dwindle quickly as they travel through the various levels of the government, making policy implementation highly costly at the local level. In the month of the Beijing Olympic games, for example, the township government where I conducted my fieldwork had to receive dozens of inspection teams and had to accommodate the daily presence of more than a dozen members of the work teams sent by the county, municipal, and provincial governments. Facing these hard budget constraints, and in response to frequent inspections from higher authorities, local governments often shift their attention from policy implementation to coping with such inspections through collusion, which is less costly. That is, in the face of specific, clear policy targets, local officials tend to make up equally “specific, clear” accomplishments in response. Their immediate supervising agencies, which have better information about the challenges and the unrealistic demands that a policy imposes upon subordinate governments, acquiesce in such behavior. This highlights the organizational paradox that

When incentive mechanisms are inconsistent with organizational goals, the more intensified the incentive mechanisms are, the more likely the phenomenon of goal displacement, and the more serious the collusive behavior among local governments.

The Paradox of Impersonal Bureaucracy and the Personalization of Administrative Ties

A puzzle about the Chinese bureaucracy is that, along with the increasing bureaucratic formalization in terms of multiplying rules and regulations, and increasing personnel qualification in terms of education and professionalization, we observe an opposite trend of increasingly informal relations and personal ties among bureaucrats that permeate across authority lines and

offices. As Weber (1946) pointed out long ago, a salient characteristic of bureaucratic organizations is their impersonality. That is, officials within a bureaucratic structure tend to follow rules and discard personal emotion. A long-standing proposition in organization research is that formalization increases the role of formal authority and weakens the role of informal behaviors. That is, along with the formalization of the government organization, government activities tend to be routinized and operate on the basis of formal rules and procedures. In this sense, the trend in formalization should curb or constrain the extent and effectiveness of collusive behaviors among local governments. In real life in China, however, to a considerable extent internal government processes and interagency relationships operate through informal interpersonal and other social networks; officials of different government agencies spend a great amount of time and energy cultivating informal and particularistic ties with their superiors and colleagues in other agencies and other organizations. We observe a paradoxical phenomenon: On one hand, formal rules and regulations are developed and put in effect continuously; on the other hand, informal, particularistic ties are extended into and permeate work activities, in both scope and intensity, within and across government agencies.

How do we explain the coexistence of bureaucratic impersonality and the personalization of administrative ties in the Chinese bureaucracy? I submit that the very institutional logic of the Chinese bureaucracy has cultivated informal social relations among bureaucrats within and across agencies. In the present organizational environment of the Chinese bureaucracy, formalization processes present great uncertainty and risks to local bureaucrats who care about their career advancement, and the personalization of administrative ties is a main coping strategy by which bureaucrats respond to such environmental uncertainty. That is, under the distinctive circumstances to be discussed below, in the Chinese bureaucracy the formalization process itself provides an impetus for the personalization of administrative ties. And such informal but stable relationships provide an important institutional basis for collusive behaviors.

Students of organizations have long observed that members of an organization not only have formal relationships on the basis of authority positions but also cultivate informal relationships that may or may not coincide with the formal structure. Formal relationships among members of an organization are characterized by universalism, that is, their behaviors are based on rule-following, in accordance with the formal structure. In contrast, informal relations are characterized by particularism, that is, interactions among the members vary significantly depending on their social relations. Indeed, social relations outside of the organization (e.g., among friends, classmates, and

former colleagues) provide important bases for informal relations within. This can be seen as what Fei Xiaotong (1998) called “differential modes of association”—the traditional Chinese model of social relations—extended to the organizational context. Therefore, both formal and informal institutions coexist in an organization. At times, these two complement each other: Informal relations may help improve interpersonal contacts and reduce the stress of formal structures, and hence increase productivity. But these two may also be in tension with each other: Informal institutions may cultivate informal authorities that are at odds with the formal authority and undermine the effectiveness of the formal institution. The causes of informal relations vary with organizations and their environments, and their roles also vary across organizations. To explain and interpret this phenomenon thus requires substantial organizational analysis.

In the Chinese bureaucracy, along with the formalization process, bureaucrats of different levels increasingly face concrete policy targets from above, intensified incentive mechanisms, and competition with other bureaucrats for promotion. The prospects of their career advancement depend heavily on their on-the-job performance and achievements (Zhou Xueguang, 2005). At the same time, the salience of impersonal bureaucratic institutions increases the risks and uncertainty in policy implementation and in the evaluation of their performance. For example, in the past when there was a lack of specific policy targets, an official's performance appraisal depended critically on the subjective evaluation of the official's superiors, and one could gain advantages through lobbying. Nowadays when policy targets are clearly specified (e.g., the amount of agricultural taxes to be collected, the fertility rate to be achieved), there will be detrimental effects on an official's career advancement if he or she does not meet these policy targets. In response to such risks, local officials develop various coping strategies: First, they need to develop networks to expand their capacity to mobilize resources in order to achieve policy targets; second, they need to cultivate ties as a safety net in case serious problems arise in their work activities. These circumstances have accelerated the demand for social network ties and the need for cooperation and interdependence among officials along vertical authority lines as well as laterally across agencies. The personalization of administrative ties is a manifestation of these coping strategies. In the township government where I did my fieldwork, during important holidays (e.g., the Mid-Autumn Festival and the Spring Festival), officials in different offices spent much time preparing and sending presents to officials in their supervising offices. This is imperative, as they put it, for these are the very officials who would come and inspect their work in the future. If you do not treat them well, they would find fault with you the next time they come.

Collusive behaviors are usually rooted in rich, stable informal social relations. This is because collusion has to be carried out on the basis of “gentlemen’s agreements.” Unlike collusion among firms, collusion within the Chinese bureaucracy has stable bases of legitimacy, as we have seen in the preceding discussion. Therefore, the prevalence of informal social relations is caused less by the need for secrecy than by the need for resource mobilization across the boundaries of agencies and organizations. Let us consider the case of “illicit resource transfers” (*ziyuan nuoyong*), which are prevalent in the Chinese bureaucracy. As is widely reported in the Chinese media and research, local governments often adopt strategies to transfer resources across agencies, between policy arenas, or across governments and other organizations in response to emerging problems or crises. Such resource transfers are illicit because they violate the regulation tying a particular government fund in a particular area or for a specific purpose. For example, Wu Yi (2007) found that when a township government could not fulfill the policy target for the collection of agricultural taxes, the local officials bribed the agency in charge of taxation so that extra taxes collected by other township governments were “transferred” into the account under the name of this township government to meet its policy target. In another example, in the process of requisitioning farmland for public projects, when the compensation standards did not meet the expectations of the affected villagers and no agreement could be reached, local cadres found excuses to increase the compensation (e.g., by reporting the area of the land to be larger than it really was) so as to reach an amount of compensation that was acceptable to both sides. In other words, resources were transferred across different categories so as to carry out the tasks assigned from above.

Such “illicit resource transfers” have the following characteristics. First, they are widespread and ever present in the daily work of local governments struggling for resources. And, in many circumstances, this is an indispensable coping strategy for local governments to implement state policies. From the point of view of local governments, when the central government develops its policies or issues administrative fiats, it often does not take into consideration the costs and challenges in the implementation process. Or, when there are resources designated for implementation, they tend to dwindle as they travel down through levels of local governments and become inadequate when they reach the lower-level governments where the actual implementation takes place. As a result, local governments are forced to use illicit resource transfers to get the job done. Second, such resource transfers are made “illicit” largely due to the artificial demarcation of authority lines within the Chinese government administration. Along with the formalization process, the Chinese government has increasingly strengthened the vertical lines of authority,

especially in the ownership and allocation of resources. Resources allocated through these vertical lines of authority tend to be segmented and have stringent regulations targeting a specific policy area. When local governments engage in resource transfers in order to carry out designated tasks, they often do so in violation of the regulations, which induces informal, hidden—that is, collusive—behavior. In other words, the very process of policy implementation generates the demand for informal behaviors by local governments. Here the availability of resources is an important institutional condition. In a sense, the extent of informal cooperation among local governments (or agencies) is proportional to their dependency on extrabudgetary resources. In agencies where resources are abundant, we expect low demand or pressure for cultivating informal ties for external resources. Moreover, whether such resource transfers are “illicit” or not is largely arbitrary depending on the regulations made by different government agencies. That is, if local governments’ authority in resource allocation were increased, as happened in different periods in the history of the People’s Republic of China, then there would be no “illicit” resource transfer phenomenon, as such transfers across policy areas or agencies would be, by definition, normal and even rational. In other words, the very problem of the so-called illicit resource transfers is a consequence of vertical authority lines and the segmentation of resources across government agencies. That is, administrative centralization itself has induced the demand for resource transfers across policy areas and the need for collusive behavior.

If “illicit resource transfers” are an effective means for local governments to mobilize resources, then informal social ties are important vehicles for such mobilization. In this light, it is not difficult to understand why local officials spend an enormous amount of time and energy cultivating and maintaining social relations in order to facilitate the flow of resources. And there is a reciprocal relationship between informal social networks and collusive behavior: The implementation process generates the demand for informal ties and social relations, facilitating the need for cultivating social networks; in return, the prevalence of social networks reduces the cost of collusive behavior, and as a result increases returns to such behavior and accelerates it. Thus, we observe a vicious circle: On one hand, in order to avoid collusive behavior, the higher authorities centralize power, intensify incentive mechanisms, and promote bureaucratic formalization. On the other hand, such endeavors in fact induce and exacerbate collusive behavior: The more centralized the power, the stronger the incentive mechanism, the greater the pressure and stakes among local governments in their policy implementation, and the stronger the motivation for them to cultivate social networks to

mobilize and protect resources. We can summarize this discussion by the following proposition:

In the formalization of the Chinese bureaucracy, the stronger the institutional pressures are, the higher the uncertainty in policy implementation, the stronger the impetus for informal ties among administrative relationship, and the greater the tendency for collusion among local governments.

Rethinking Collusion among Local Governments in China

That collusion among local governments is a widespread and prevalent organizational phenomenon has been well recognized in Chinese society. In this article, I have developed an organizational analysis and proposed a theoretical explanation of this phenomenon. Although collusive behaviors are present within and across all types of organizations, these behaviors in China are especially cultivated by the institutional logic of the Chinese bureaucracy.

To highlight the distinctiveness of collusion discussed in this article, we can contrast what we have discussed with collusion among firms. In economic models, there are two important conditions for collusive behavior: First, collusion is beneficial to the participants, which induces firms to participate in side contracts; second, there are some enforcement mechanisms such that side contracts can be carried out. Much discussion in the economic literature focuses on the fragility of these mechanisms, which may lead to enforcement problems for side contracts. For example, the participants in collusion have an incentive to breach side contracts in order to gain additional profits, thereby undermining the enforcement of the collusive agreement. To repeat an often-cited example, for a long time OPEC members failed at enforcing an agreement on oil production quotas. In addition, because of the improvement in governmental regulatory apparatus, there is a corresponding increase in the cost of collusion as the probability of being caught increases.

Interestingly, as illustrated in the preceding discussion, both conditions have much weaker, if any, effects on collusion among local governments in China. As a particular type of monopolistic organization, governments have characteristics that are qualitatively different from other types of organizations. First, unlike industrial organizations, collusion takes place within the Chinese bureaucracy, on the basis of authority relationships among supervising-subordinating agencies, and reinforced by formal government

institutions.⁴ When the immediate supervising government “demands” its subordinate governments participate in collusion (e.g., by providing inflated statistics to create evidence of achievements in governance or to cover up bad decisions), it is impossible for the latter to refuse to participate. Similarly, when its subordinate agencies plead for collusion, the supervising government also has an incentive to participate, partly due to the penalty associated with the “shared responsibility” principle in performance evaluation, partly because of the informal social ties that permeate across the boundaries of bureaucratic offices, and partly because the immediate supervising agency is better informed about, and hence is more sympathetic to, the challenges lower-level governments face in implementing policies. Second, for local bureaucrats, the internal labor market for career advancement is both limited in scope and highly controlled by local authorities. For example, most local bureaucrats working at or within a county government or below will spend their entire career within that county, where the local officials are locked into and constrained by dense, overlapping social networks. This is in sharp contrast with collusion among firms (or in some abstract game theoretic models), where the participants can choose to “exit” or secretly violate side contracts. For local bureaucrats whose careers are trapped in the bureaucracy, there is no “exit” mechanism for them at all. Third, and more important, in the Chinese bureaucracy it is often difficult to distinguish collusive behaviors and reasonable flexibility in the actual process of policy implementation, with the latter having broad legitimacy. These conditions imply that there is a relatively low probability of failure, as well as a low cost when failure occurs, of collusion among local governments in China.

In this light, it is not difficult to understand why collusion has been a persistent organizational phenomenon despite the repeated efforts by the central government to combat it. Take the “cadre rotation” regulation as an example. Theoretically, the requirement of the periodic rotation of chief executive officials across local governments may weaken collusion on the basis of dense informal relationships among long-tenured government officials.⁵ However, as we noted above, the government is a highly organized internal labor market, and internal mobility cannot move beyond the existing organizational hierarchies. If an official refused to participate in collusion, he or she would not be able to escape the negative consequences by taking the “exit” option. In other words, in contrast to collusion among firms, collusion among local governments has strong, built-in enforcement mechanisms, an organizational practice that is highly institutionalized on the basis of organizational authority relationships. This recognition has important implications. Although we have emphasized the role of shared interests among officials in their

collusive behavior, such shared interests are not a necessary condition for collusion. Indeed, the interests involved in collusion may vary on different occasions and evolve over time, and collusive behaviors may vary across different government agencies, different policy areas, and different officials. And, as discussed before, the participants in collusive behavior may even play a double role as both the participants in collusion and the subjects (targets) of collusion by their subordinates. In other words, even if the participants do not share common interests, it is difficult and often impossible for them to break away from involvement in collusion. The very institutional logic in the Chinese bureaucracy, as embodied in the organizational paradoxes discussed above, has perpetuated and reinforced collusive behaviors.

In this article, I developed a theoretical explanation of collusion among local governments from the perspective of organizational analysis. My discussion shows that this organizational phenomenon cannot be attributed to the quality or ability of local officials or those involved in the implementation process. Rather, the production and reproduction of collusion among local governments largely result from the organizational design and institutional environment of the Chinese bureaucracy. This is a consequence of the increasing distance between policy-making and policy implementation in the present decision-making process. And to a large extent, it is also an unintended consequence of government reform in recent years, especially the increasing centralization of authority and intensification of incentive mechanisms. Among the multitude of issues discussed above, the key issue is the paradox of uniformity in policy-making and flexibility in policy implementation, which can be summarized by the following proposition:

The distance between policy making and policy implementation is proportional to the extent of the centralization of authority.

As decision-making authority and resources are increasingly centralized upward toward the central authorities, top-down decision making and subsequent resource allocation will depend on correspondingly longer administrative links and different levels of the bureaucracy to *flexibly* implement policy in order to adapt it to local conditions, thereby providing both the organizational basis and the institutional environment for collusive behavior. To put it succinctly, collusion among local governments is the very cost of centralization of authority and resources. The preceding discussion also reminds us that the effectiveness of any incentive mechanism and organizational structure is conditional. As a particular type of monopoly, government organizations have distinct mechanisms that are different from those of economic organizations. Successful government reform requires, as a premise, a better understanding

of the government as an organizational phenomenon and the development of sound theoretical explanations.

Throughout this article, I have examined the collusion phenomenon as “organizational failure” in the Chinese bureaucracy. As a final thought and a proposal for future research, I want to propose an alternative interpretation of the collusion phenomenon. As is shown in the preceding discussion, a large number of so-called collusive behaviors reflect local officials’ efforts to get jobs done through *flexible* implementation of state policies. Given the diverse economic, historical, and institutional conditions across localities, such behaviors can be reinterpreted as effective adaptive strategies under the bureaucratic protection of their immediate supervising agencies. Seen in this light, “collusion” (i.e., local flexibility) in implementation has strategic implications for understanding the coexistence of a symbolically strong state and effective governance at the local level. On one hand, we witness a symbolic state, where all major decisions have to be made by a centralized authority and reflected in uniformity in policy making; on the other hand, the adaptive mechanisms reflected in “collusion” allow effective local adaptation as a mechanism of remedying problems that plague centralized decision-making processes. In a sense, collusion may unwittingly act as a corrective and a countervailing force to the centralization of decision-making authority in China.

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Notes

1. To be sure, local governments are also responsible for an array of tasks such as economic development, employment, social welfare, and others within their jurisdiction, which requires them to exercise their initiative in addition to performing their role in the implementation of state policies. A general pattern is that in the reform era the higher the level of government, the more resources it possesses and the more authority it has in formulating policies within its own jurisdiction. At the lower levels of government (e.g., the township government), officials lack both resources and authority to take the initiative, and a much larger proportion of their tasks is related to the implementation of policies from above.
2. In the organization literature, flexibility is also embodied in concepts such as delegation or discretion. These two concepts have the connotation of intentional organizational design, whereas the concept of flexibility used in this article, as will be seen below, involves behaviors both by intentional design and as unintended consequences of organizational design.
3. Both projects have been developed and implemented by the central government since the early 2000s. The “road construction” (*cun cun tong*) projects provide partial funding for villages to build roads that connect the villages to main roads. The Sloping Land Conservation Program (*tui geng huan lin*) subsidizes peasants for reverting their cultivated fields to grassland and forests in an effort to combat overfarming and deforestation.
4. That is, the distinction between “supervising” and “managing,” as made in Tirole (1988), is mostly nonexistent for the superior agencies. The combination of these two roles in the same superior agency provides a further incentive for collusion between the supervising and subordinate agencies.
5. Tirole (1988) also derived a similar point about the length of social relations in cultivating collusion in hierarchies.

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Biography

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